

TOWN OF MASHPEE, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Independent Auditors' Report



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC
Corporate Place I, Suite 204 • 99 South Bedford Street
Burlington, Massachusetts 01803
P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Mashpee, Massachusetts

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Mashpee, Massachusetts, as of and for the fiscal 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 Mashpee, 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Mashpee, Massachusetts, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal 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 January 22, 2007 on our consideration of the Town of Mashpee, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Sullivan, T. J. & Company, LLC". The signature is written in a cursive, flowing style.

January 22, 2007

Management's Discussion and Analysis

As management of the Town of Mashpee, 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 \$98,834,248 (net assets). Of this amount, \$14,264,920 (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 \$2,276,845.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$20,457,678, an increase of \$5,175,679 in comparison with the prior year. Approximately \$18,465,000 represents unreserved fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$5,249,393, or 12.2 percent of total general fund expenditures.
- The Town's total long-term debt (gross) increased by \$6,043,554 during the fiscal year; \$8,750,541 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 kids' klub operation.

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 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 336 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) and community preservation (special revenue) funds, each of which are considered to be major funds. Data from the other 333 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 funds financial statements can be found on pages 18-22 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its kids klub operation, which is considered to be a major fund.

The basic proprietary funds financial statements can be found on pages 23-25 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 the government-wide financial statements.

The basic fiduciary funds financial statement can be found on page 26 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 27-48 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 \$98,834,248 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
Assets						
Current assets.....	\$ 23,066,244	\$ 22,933,314	\$ 9,226	\$ -	\$ 23,075,470	\$ 22,933,314
Noncurrent assets (excluding capital assets).....	18,240,748	16,706,631	-	-	18,240,748	16,706,631
Capital assets (net).....	98,138,084	93,252,819	-	-	98,138,084	93,252,819
Total assets.....	139,445,076	132,892,764	9,226	-	139,454,302	132,892,764
Liabilities						
Current liabilities (excluding debt).....	3,065,300	2,958,726	-	-	3,065,300	2,958,726
Noncurrent liabilities (excluding debt).....	1,784,285	1,651,365	-	-	1,784,285	1,651,365
Current debt.....	3,241,774	4,800,612	-	-	3,241,774	4,800,612
Noncurrent debt.....	32,528,695	26,924,658	-	-	32,528,695	26,924,658
Total liabilities.....	40,620,054	36,335,361	-	-	40,620,054	36,335,361
Net Assets						
Invested in capital assets (net of related debt).....	78,985,313	79,097,856	-	-	78,985,313	79,097,856
Restricted.....	5,584,015	5,160,236	-	-	5,584,015	5,160,236
Unrestricted.....	14,255,694	12,299,311	9,226	-	14,264,920	12,299,311
Total net assets.....	\$ 98,825,022	\$ 96,557,403	\$ 9,226	\$ -	\$ 98,834,248	\$ 96,557,403

* Fiscal year 2006 is the first year that the Town is reporting business-type activities

The largest portion of the Town's net assets (79.9%) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery, vehicles and equipment, infrastructure and construction in progress), 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 (5.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (14.4% or \$14,264,920) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$14,255,694 may be used to support governmental activities and \$9,226 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 \$2,276,845, compared to an increase of \$1,707,285 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
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 4,236,873	\$ 4,140,956	\$ 187,019	\$ -	\$ 4,423,892	\$ 4,140,956
Operating grants and contributions.....	8,037,346	7,357,329	-	-	8,037,346	7,357,329
Capital grants and contributions.....	1,211,101	961,996	-	-	1,211,101	961,996
<i>General Revenues:</i>						
Real estate and personal property taxes.....	30,013,997	28,585,107	-	-	30,013,997	28,585,107
Motor vehicle and other excise taxes.....	2,111,804	1,954,311	-	-	2,111,804	1,954,311
Tax liens.....	129,285	37,309	-	-	129,285	37,309
Penalties and interest on taxes.....	322,553	305,003	-	-	322,553	305,003
Community preservation surcharges.....	897,745	856,694	-	-	897,745	856,694
Grants and contributions not restricted to specific programs.....	1,400,795	1,178,968	-	-	1,400,795	1,178,968
Unrestricted investment income.....	406,835	271,056	-	-	406,835	271,056
Loss on disposal of capital assets.....	-	(571,711)	-	-	-	(571,711)
Total revenues.....	48,768,334	45,077,018	187,019	-	48,955,353	45,077,018
Expenses						
General government.....	4,264,823	3,716,169	-	-	4,264,823	3,716,169
Public safety.....	8,982,126	8,419,478	-	-	8,982,126	8,419,478
Education.....	26,370,500	24,194,709	-	-	26,370,500	24,194,709
Public works.....	3,057,507	3,461,040	-	-	3,057,507	3,461,040
Health and human services.....	1,243,263	1,040,939	-	-	1,243,263	1,040,939
Culture and recreation.....	941,866	986,328	-	-	941,866	986,328
Debt service - interest.....	1,630,630	1,551,070	-	-	1,630,630	1,551,070
Kids klub.....	-	-	187,793	-	187,793	-
Total expenses.....	46,490,715	43,369,733	187,793	-	46,678,508	43,369,733
Change in net assets before transfers.....	2,277,619	1,707,285	(774)	-	2,276,845	1,707,285
Transfers, net.....	(10,000)	-	10,000	-	-	-
Change in net assets.....	2,267,619	1,707,285	9,226	-	2,276,845	1,707,285
Net assets - beginning of year.....	96,557,403	94,850,118	-	-	96,557,403	94,850,118
Net assets - end of year.....	\$ 98,825,022	\$ 96,557,403	\$ 9,226	\$ -	\$ 98,834,248	\$ 96,557,403

* Fiscal year 2006 is the first year that the Town is reporting business-type activities

Governmental activities increased the Town's net assets by \$2,267,619, accounting for 99.6% of the total growth in net assets. In the prior year, governmental activities increased the Town's net assets by \$1,707,285. The key element of this change is a decrease in the loss on disposal of capital assets of approximately \$535,000.

Business-type activities increased the Town's net assets by \$9,226, accounting for 0.4% of the total growth in net assets. In the prior year, there were no business-type activities reported.

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 \$20,457,678, an increase of \$5,175,679 in comparison with the prior year. Approximately 82.0% of this total amount (\$16,776,000), represents undesignated fund balance. 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 (\$761,663)
- Title V septic loans (\$402,421)
- Perpetual permanent funds (\$45,052)
- Other specific purposes (\$783,227)
- Fund a portion of the fiscal year 2007 budget (\$1,689,506)

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 \$5,249,393, while total fund balance was \$7,700,562. 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 12.2% of total general fund expenditures, while total fund balance represents 17.9% of that same amount.

The balance of the Town's general fund increased \$1,411,156 during the current fiscal year. Although the Town recognized an approximate \$4,342,000 budgetary surplus (budget vs. actual activity), approximately \$2,622,000 of reserves was utilized for spending during fiscal year 2006.

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

The fund balance of the stabilization fund (special revenue) increased by \$90,487 during the current fiscal year. This is attributable to investment income earned by the fund during fiscal year 2006.

The fund balance of the community preservation fund (special revenue) increased by \$1,080,760 during the current fiscal year. This is primarily attributable to proceeds of bonds and notes of \$4,950,000.

Proprietary funds

The Town's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the kids klub enterprise fund at the end of the year amounted to \$9,226. The kids klub enterprise fund had an increase in net assets for the year of \$9,226. Other factors concerning the finances of the 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 \$42,964,852 was increased by \$347,654 (0.8%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Assessors revaluation.....	\$ 75,000	Undesignated fund balance
Buildings and grounds expense.....	59,641	Undesignated fund balance
Debt service interest.....	44,117	Transfers from various nonmajor governmental funds
Snow and ice.....	43,815	Undesignated fund balance
Engineering services.....	35,000	Transfer from waterways improvement fund
Administrative and legal expenses.....	25,000	Transfer from community preservation fund
Unpaid bills.....	12,743	Undesignated fund balance
Conservation expenditures.....	12,000	Transfer from cranberry reimbursement fund
Waterways improvement expenditures....	11,900	Transfer from waterways improvement fund
Fire and rescue salaries and wages.....	10,000	Undesignated fund balance
Accounting salaries and wages.....	9,150	Transfer from hotel/motel receipts reserved fund
Greenwood roadway expenses.....	5,000	Transfer from hotel/motel receipts reserved fund
Unpaid bills.....	<u>4,288</u>	Transfer from hotel/motel receipts reserved fund
Total increase.....	<u>\$ 347,654</u>	

During the fiscal year, general fund revenues and other financing sources exceeded budgetary estimates and expenditures were less, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$4,342,000.

Capital Asset and Debt Administration

Capital assets

The Town’s investment in capital assets for its governmental type activities at the end of the fiscal year totaled \$98,138,084 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery, vehicles and equipment, infrastructure and construction in progress. The total increase in the investment in capital assets for the current fiscal year totaled 5.2%.

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

- Acquisition of land (approximately \$5,001,000)
- Roadway improvements (approximately \$687,000)
- Parking lot reconstruction (approximately \$484,000)
- Purchase of public safety machinery, vehicles and equipment (approximately \$288,000)
- Purchase of public works machinery, vehicles and equipment (approximately \$283,000)
- Carpet and tile installation at schools (\$124,000)
- Purchase of education machinery, vehicles and equipment (approximately \$105,000)
- Completion of senior citizen center (\$23,000)

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

	<i>Governmental Activities</i>	
	2006	2005
Land.....	\$ 53,948,800	\$ 48,947,437
Buildings and improvements.....	41,083,533	39,551,098
Machinery, vehicles and equipment.....	1,894,038	1,856,462
Infrastructure.....	1,197,404	532,180
Construction in progress.....	14,309	2,365,642
Total capital assets.....	\$ 98,138,084	\$ 93,252,819

Additional information on the Town's capital assets can be found in Note 5 on pages 40-41 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt (gross) outstanding was \$35,881,322, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>	
	2006	2005
General obligation bonds.....	\$ 34,283,000	\$ 28,540,000
MWPAT notes.....	1,598,322	1,297,768
Total bonds and notes.....	\$ 35,881,322	\$ 29,837,768

The Town's gross bonded debt increased by \$6,043,554 during the current fiscal year, with new debt issuances totaling \$8,750,541.

The Town's bond rating from Standard & Poor's is AAA.

Additional information on the Town's long-term debt can be found in Note 9 on pages 43-46 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Town's fiscal year 2007 budget:

The most significant factor was, once again, the sharp increase in fixed costs, i.e. medical health insurance costs, insurance premiums, and retirement assessments. As a result of these increases, there were minimal increases elsewhere in the operating budgets and departments were asked to once again trim their budget requests. In the development of the fiscal year 2007 budget, the Town Manager looked to increase revenues and cut expenses, as much as feasible, while maintaining an acceptable level of service.

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, 16 Great Neck Road North, Mashpee, Massachusetts 02649.

Basic Financial Statements

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STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents.....	\$ 11,174,115	\$ 9,226	\$ 11,183,341
Restricted cash and cash equivalents.....	2,593,003	-	2,593,003
Investments.....	5,193,157	-	5,193,157
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	727,707	-	727,707
Tax liens.....	360,777	-	360,777
Motor vehicle and other excise taxes.....	276,320	-	276,320
Community preservation surcharges.....	28,304	-	28,304
Special assessments.....	12,553	-	12,553
Departmental and other.....	280,568	-	280,568
Intergovernmental.....	1,734,759	-	1,734,759
Loans.....	40,242	-	40,242
Tax foreclosures.....	644,739	-	644,739
Total current assets.....	23,066,244	9,226	23,075,470
Noncurrent assets:			
Restricted investments.....	2,759,610	-	2,759,610
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	14,145	-	14,145
Special assessments.....	1,065,522	-	1,065,522
Intergovernmental.....	14,039,292	-	14,039,292
Loans.....	362,179	-	362,179
Capital assets not being depreciated.....	53,963,109	-	53,963,109
Capital assets, net of accumulated depreciation.....	44,174,975	-	44,174,975
Total noncurrent assets.....	116,378,832	-	116,378,832
Total assets.....	139,445,076	9,226	139,454,302
LIABILITIES			
Current liabilities:			
Warrants payable.....	770,038	-	770,038
Accrued payroll.....	954,153	-	954,153
Tax refunds payable.....	132,253	-	132,253
Other liabilities.....	276,001	-	276,001
Abandoned property.....	7,573	-	7,573
Liabilities due depositors.....	29,428	-	29,428
Accrued interest.....	636,274	-	636,274
Capital lease obligations.....	100,875	-	100,875
Landfill closure.....	25,000	-	25,000
Compensated absences.....	133,705	-	133,705
Short-term notes payable.....	85,272	-	85,272
Long-term bonds and notes payable.....	3,156,502	-	3,156,502
Total current liabilities.....	6,307,074	-	6,307,074
Noncurrent liabilities:			
Capital lease obligations.....	59,041	-	59,041
Landfill closure.....	521,900	-	521,900
Compensated absences.....	1,203,344	-	1,203,344
Long-term bonds and notes payable.....	32,528,695	-	32,528,695
Total noncurrent liabilities.....	34,312,980	-	34,312,980
Total liabilities.....	40,620,054	-	40,620,054
NET ASSETS			
Invested in capital assets, net of related debt.....	78,985,313	-	78,985,313
Restricted for:			
Loans.....	402,421	-	402,421
Community preservation.....	4,328,291	-	4,328,291
Permanent funds:			
Expendable.....	25,024	-	25,024
Nonexpendable.....	45,052	-	45,052
Other specific purposes.....	783,227	-	783,227
Unrestricted.....	14,255,694	9,226	14,264,920
Total net assets.....	\$ 98,825,022	\$ 9,226	\$ 98,834,248

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	
Primary government:					
Governmental activities:					
General government.....	\$ 4,264,823	\$ 690,848	\$ 1,219,417	\$ 851,270	\$ (1,503,288)
Public safety.....	8,982,126	1,440,312	187,750	34,362	(7,319,702)
Education.....	26,370,500	656,071	5,568,017	-	(20,146,412)
Public works.....	3,057,507	912,533	21,862	325,469	(1,797,643)
Health and human services.....	1,243,263	119,022	411,189	-	(713,052)
Culture and recreation.....	941,866	418,087	20,534	-	(503,245)
Debt service - interest.....	1,630,630	-	608,577	-	(1,022,053)
Total governmental activities.....	<u>46,490,715</u>	<u>4,236,873</u>	<u>8,037,346</u>	<u>1,211,101</u>	<u>(33,005,395)</u>
Business-type activities:					
Kids klub.....	187,793	187,019	-	-	(774)
Total primary government.....	<u>\$ 46,678,508</u>	<u>\$ 4,423,892</u>	<u>\$ 8,037,346</u>	<u>\$ 1,211,101</u>	<u>(33,006,169)</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
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (33,005,395)	\$ (774)	\$ (33,006,169)
<i>General revenues:</i>			
Real estate and personal property taxes.....	30,013,997	-	30,013,997
Motor vehicle and other excise taxes.....	2,111,804	-	2,111,804
Tax liens.....	129,285	-	129,285
Penalties and interest on taxes.....	322,553	-	322,553
Community preservation surcharges.....	897,745	-	897,745
Grants and contributions not restricted to specific programs.....	1,400,795	-	1,400,795
Unrestricted investment income.....	406,835	-	406,835
Transfers, net	(10,000)	10,000	-
Total general revenues and transfers.....	35,273,014	10,000	35,283,014
Change in net assets.....	2,267,619	9,226	2,276,845
Net assets - beginning of year.....	96,557,403	-	96,557,403
Net assets - end of year.....	\$ 98,825,022	\$ 9,226	\$ 98,834,248

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

ASSETS	General	Stabilization	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 7,712,614	\$ 77,134	\$ -	\$ 3,384,367	\$ 11,174,115
Investments.....	2,123,389	2,727,799	-	341,969	5,193,157
Receivables, net of allowance for uncollectible amounts:					
Real estate and personal property taxes.....	727,707	-	-	-	727,707
Real estate tax deferrals.....	14,145	-	-	-	14,145
Tax liens.....	354,752	-	-	6,025	360,777
Motor vehicle and other excise taxes.....	276,320	-	-	-	276,320
Community preservation surcharges.....	-	-	28,304	-	28,304
Special assessments.....	-	-	-	1,078,075	1,078,075
Departmental and other.....	-	-	-	280,568	280,568
Intergovernmental.....	15,188,539	-	-	585,512	15,774,051
Loans.....	-	-	-	402,421	402,421
Tax foreclosures.....	644,739	-	-	-	644,739
Restricted assets:					
Cash and cash equivalents.....	-	-	1,540,377	1,052,626	2,593,003
Investments.....	-	-	2,759,610	-	2,759,610
TOTAL ASSETS.....	\$ 27,042,205	\$ 2,804,933	\$ 4,328,291	\$ 7,131,563	\$ 41,306,992
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 770,038	\$ -	\$ -	\$ -	\$ 770,038
Accrued payroll.....	954,153	-	-	-	954,153
Tax refunds payable.....	132,253	-	-	-	132,253
Other liabilities.....	276,001	-	-	-	276,001
Abandoned property.....	7,573	-	-	-	7,573
Liabilities due depositors.....	-	-	-	29,428	29,428
Deferred revenue.....	16,983,406	-	28,304	1,364,667	18,376,377
Accrued short-term interest.....	218,219	-	-	-	218,219
Short-term notes payable.....	-	-	-	85,272	85,272
TOTAL LIABILITIES.....	19,341,643	-	28,304	1,479,367	20,849,314
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations.....	761,663	-	-	-	761,663
Loans.....	-	-	-	402,421	402,421
Perpetual permanent funds.....	-	-	-	45,052	45,052
Other specific purposes.....	-	-	-	783,227	783,227
Unreserved:					
Designated for subsequent year's expenditures.....	1,689,506	-	-	-	1,689,506
Undesignated, reported in:					
General fund.....	5,249,393	-	-	-	5,249,393
Special revenue funds.....	-	2,804,933	4,299,987	3,071,216	10,176,136
Capital projects funds.....	-	-	-	1,325,256	1,325,256
Permanent funds.....	-	-	-	25,024	25,024
TOTAL FUND BALANCES.....	7,700,562	2,804,933	4,299,987	5,652,196	20,457,678
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 27,042,205	\$ 2,804,933	\$ 4,328,291	\$ 7,131,563	\$ 41,306,992

See notes to basic financial statements.

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

	General	Stabilization	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Real estate and personal property taxes.....	\$ 30,499,095	\$ -	\$ -	\$ -	\$ 30,499,095
Motor vehicle and other excise taxes.....	2,104,549	-	-	-	2,104,549
Tax liens.....	40,164	-	-	-	40,164
Community preservation surcharges.....	-	-	910,898	-	910,898
Charges for services.....	205,396	-	-	1,408,305	1,613,701
Trash disposal.....	564,058	-	-	-	564,058
Intergovernmental.....	7,748,398	-	851,270	2,419,792	11,019,460
Special assessments.....	-	-	-	347,894	347,894
Penalties and interest on taxes.....	315,833	-	-	6,720	322,553
Licenses, permits and fees.....	882,609	-	14,766	646,151	1,543,526
Fines and forfeitures.....	53,277	-	-	-	53,277
Departmental.....	-	-	-	142,531	142,531
Contributions and gifts.....	-	-	459,738	45,698	505,436
Investment income.....	406,835	90,487	83,078	16,457	596,857
TOTAL REVENUES.....	42,820,214	90,487	2,319,750	5,033,548	50,263,999
EXPENDITURES					
Current:					
General government.....	2,482,249	-	5,412,897	367,602	8,262,748
Public safety.....	6,574,586	-	-	368,678	6,943,264
Education.....	18,384,495	-	-	2,738,359	21,122,854
Public works.....	2,676,142	-	-	1,215,524	3,891,666
Health and human services.....	489,112	-	-	523,052	1,012,164
Culture and recreation.....	525,897	-	-	313,964	839,861
Pension benefits.....	2,278,849	-	-	-	2,278,849
Employee benefits.....	4,048,532	-	-	-	4,048,532
Property and liability insurance.....	453,759	-	-	-	453,759
State and county charges.....	647,594	-	-	-	647,594
Debt service:					
Principal.....	2,706,987	-	-	-	2,706,987
Interest.....	1,647,752	-	-	-	1,647,752
TOTAL EXPENDITURES.....	42,915,954	-	5,412,897	5,527,179	53,856,030
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(95,740)	90,487	(3,093,147)	(493,631)	(3,592,031)
OTHER FINANCING SOURCES (USES)					
Transfers in.....	1,539,727	-	-	60,000	1,599,727
Proceeds of bonds and notes.....	-	-	4,950,000	3,800,541	8,750,541
Premium from issuance of bonds and notes.....	27,169	-	-	-	27,169
Transfers out.....	(60,000)	-	(776,093)	(773,634)	(1,609,727)
TOTAL OTHER FINANCING SOURCES (USES).....	1,506,896	-	4,173,907	3,086,907	8,767,710
NET CHANGE IN FUND BALANCES.....	1,411,156	90,487	1,080,760	2,593,276	5,175,679
FUND BALANCES AT BEGINNING OF YEAR.....	6,289,406	2,714,446	3,219,227	3,058,920	15,281,999
FUND BALANCES AT END OF YEAR.....	\$ 7,700,562	\$ 2,804,933	\$ 4,299,987	\$ 5,652,196	\$ 20,457,678

See notes to basic financial statements.

**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 18).....	\$	20,457,678
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		98,138,084
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		18,376,377
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(418,055)
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, net of unamortized premiums and deferred losses on refundings.....		(35,685,197)
Capital lease obligations.....		(159,916)
Landfill closure.....		(546,900)
Compensated absences.....		<u>(1,337,049)</u>
Net assets of governmental activities (page 15).....	\$	<u><u>98,825,022</u></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 19).....	\$	5,175,679
<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.....		7,098,472
Depreciation.....		(2,176,482)
<p>In the statement of activities, the loss on the disposal of capital assets is reported, whereas in the governmental funds the loss on the disposal of capital assets is not reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the loss on the disposal of capital assets.....</p>		
		(36,725)
<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>		
		(1,522,834)
<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.....		(8,750,541)
Bond maturities.....		2,706,987
Amortization of bond premiums.....		126,396
Amortization of deferred losses on refundings.....		(147,041)
Capital lease proceeds.....		(337,158)
Capital lease maturities.....		177,242
<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>		
		37,767
<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.....		18,500
Compensated absences.....		(102,643)
Changes in net assets of governmental activities (page 17).....		\$ <u>2,267,619</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)
REVENUES				
Real estate and personal property taxes.....	\$ 29,487,516	\$ 29,487,516	\$ 30,621,643	\$ 1,134,127
Motor vehicle and other excise taxes.....	1,840,896	1,840,896	2,104,549	263,653
Tax liens.....	-	-	40,164	40,164
Charges for services.....	200,700	200,700	205,396	4,696
Trash disposal.....	312,000	312,000	564,058	252,058
Intergovernmental	6,535,109	6,535,109	6,778,019	242,910
Penalties and interest on taxes.....	135,000	135,000	315,833	180,833
Licenses, permits and fees.....	493,000	493,000	882,609	389,609
Fines and forfeitures.....	39,800	39,800	53,277	13,477
Investment income.....	110,000	110,000	406,835	296,835
TOTAL REVENUES.....	39,154,021	39,154,021	41,972,383	2,818,362
EXPENDITURES				
Current:				
General government.....	3,127,703	3,262,532	2,482,249	780,283
Public safety.....	6,684,646	6,791,046	6,574,586	216,460
Education.....	18,530,682	18,530,682	18,384,495	146,187
Public works.....	2,876,867	2,925,682	2,676,142	249,540
Health and human services.....	498,490	505,544	489,112	16,432
Culture and recreation.....	534,674	534,674	525,897	8,777
Pension benefits.....	1,370,000	1,370,000	1,363,382	6,618
Employee benefits.....	4,091,030	4,097,469	4,048,532	48,937
Property and liability insurance.....	457,214	457,214	453,759	3,455
State and county charges.....	618,970	618,970	647,594	(28,624)
Debt service:				
Principal.....	2,706,985	2,696,757	2,696,757	-
Interest.....	1,407,591	1,461,936	1,416,642	45,294
TOTAL EXPENDITURES.....	42,904,852	43,252,506	41,759,147	1,493,359
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,750,831)	(4,098,485)	213,236	4,311,721
OTHER FINANCING SOURCES (USES)				
Transfers in.....	1,390,135	1,536,590	1,539,727	3,137
Premium from issuance of bonds and notes.....	-	-	27,169	27,169
Transfers out.....	(60,000)	(60,000)	(60,000)	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,330,135	1,476,590	1,506,896	30,306
NET CHANGE IN FUND BALANCE.....	(2,420,696)	(2,621,895)	1,720,132	4,342,027
FUND BALANCE AT BEGINNING OF YEAR.....	6,108,106	6,108,106	6,108,106	-
FUND BALANCE AT END OF YEAR.....	\$ 3,687,410	\$ 3,486,211	\$ 7,828,238	\$ 4,342,027

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2006

		Business-Type Activities - Enterprise Fund
		<u>Kids Klub</u>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$	<u>9,226</u>
 NET ASSETS		
Unrestricted.....	\$	<u><u>9,226</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		Business-Type Activities - Enterprise Fund
		<u>Kids Klub</u>
OPERATING REVENUES		
Charges for services.....	\$	<u>187,019</u>
OPERATING EXPENSES		
Cost of service and administration.....		<u>187,793</u>
OPERATING INCOME (LOSS).....		<u>(774)</u>
TRANSFERS		
Transfers in.....		<u>10,000</u>
CHANGE IN NET ASSETS.....		9,226
NET ASSETS AT BEGINNING OF YEAR.....		<u>-</u>
NET ASSETS AT END OF YEAR.....	\$	<u><u>9,226</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		Business-Type Activities - Enterprise Fund
		<u>Kids Klub</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$	187,019
Payments to vendors.....		<u>(187,793)</u>
NET CASH FROM OPERATING ACTIVITIES.....		<u>(774)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in.....		<u>10,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....		9,226
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....		<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$	<u><u>9,226</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss).....	\$	<u><u>(774)</u></u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents.....	\$ <u>602,128</u>
LIABILITIES	
Liabilities due depositors.....	\$ <u>602,128</u>

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 Mashpee, 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 one joint venture 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 following table identifies the Town's joint venture and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2006 Assessment</u>
Cape Cod Regional Technical High School	To provide vocational educational services	351 Pleasant Lake Avenue Harwich, MA 02645	\$ 450,868

The Cape Cod Regional Technical High School (School) is governed by a 21 member school committee consisting of two representatives (appointed by the Board of Selectmen) from the Town. The Town is indirectly liable for the School's debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the School at the address identified above.

C. *Government-Wide and Fund Financial Statements*

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement 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 fund, 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 and landfill closure costs 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/or 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 on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Property exempt from the surcharge consists of the first \$100,000 of all residential property and also property owned by low income or seniors with a low or moderate income as defined by Massachusetts Department of Revenue (DOR) guidelines. Disbursements from this fund must originate from the Community Preservation Committee and be approved by Town Meeting. This fund was adopted by the Town under the Community Preservation Act effective July 1, 2005, and in effect replaces the landbank fund, which was reported as a major fund in prior fiscal years.

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.

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

The following major proprietary fund is reported:

The *kids klub fund* is used to account for the toddler and pre-school activities of the leisure services department.

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 type is reported:

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist mainly of planning board and other escrow deposits. Agency funds do not present the results of operations or have a measurement focus.

E. Cash and Investments

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 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 November 1st, February 1st, May 1st and August 1st 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 of the levy.

Real estate tax liens are processed approximately six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

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 1st, November 1st, February 1st and May 1st 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

Special Assessments

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

Departmental and Other

Departmental and other receivables represent amounts due from ambulance fees and other various departmental activities. These receivables are recorded when the service has been provided or the applicable agreement has been entered into.

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.

Loans

The Town administers various loan programs to residents that provide assistance to comply with Title V (related to septic systems) requirements. Loans are recorded as receivables upon issuance.

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
- Departmental and other

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
- Tax liens
- Community preservation surcharges
- Special assessments
- Loans

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, buildings and improvements, machinery, vehicles and equipment, and infrastructure, are reported in the governmental activities column of the government-wide financial statements. Pursuant to GASB Statement No. 34, the Town is eligible to defer, until fiscal year 2007, the requirement to record and depreciate its governmental funds infrastructure assets (i.e. roads, sidewalks, etc.) acquired before the effective implementation date. Therefore, infrastructure acquired prior to July 1, 2002 has not been reported.

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. Construction period interest is not capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 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>
Buildings and improvements.....	20-40
Machinery, vehicles and equipment.....	3-15
Infrastructure.....	40

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 are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Loans" represents outstanding septic loans receivable.

"Community preservation" represents amounts restricted for open space, historic resource 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.

“Loans” represents outstanding septic loans receivable.

“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 statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources 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).

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 upon employee retirements and resignations.

*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 75% 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 \$652,000. There were approximately 80 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 to the original budget subsequent to the approval of the annual budget require Special Town Meeting approval.

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 \$42,964,852 in appropriations and other amounts to be raised. During fiscal year 2006, supplemental appropriations totaling \$347,654 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. Budgetary – GAAP Reconciliation

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.....	\$ 41,972,383	\$ 41,759,147
<u>Adjustments</u>		
Net change in recording 60-day receipts.....	(104,811)	-
Net change in recording tax refunds payable.....	(17,737)	-
To record activity for MWPAT subsidies.....	54,912	54,912
To record net activity for MTRS on-behalf payments.....	915,467	915,467
Net change in recording short-term interest accrual.....	-	186,428
	<u> </u>	<u> </u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>42,820,214</u>	\$ <u>42,915,954</u>

C. Excess of Expenditures over Appropriations

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

D. Fund Deficits

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

Fund	Amount	Funding Source
Senior citizen building capital projects fund.....	\$ 1,488,559	Issuance of long-term debt
Seabrook Village capital projects fund.....	145,664	Issuance of long-term debt
Algonguin Avenue capital projects fund.....	139,885	Issuance of long-term debt
Cranbery Ridge Road capital projects fund.....	17,508	Issuance of long-term debt
Title I grant special revenue fund.....	15,831	State grant
Sewer Facilities capital projects fund.....	14,309	Issuance of long-term debt
Fire station capital projects fund.....	12,986	Available funds
Harbor Ridge Road capital projects fund.....	11,711	Issuance of long-term debt
Police officer duty special revenue fund.....	9,479	Charges for services
Project Adjust grant special revenue fund.....	8,790	State grant
Title IIA grant special revenue fund.....	4,983	State grant
Byrne grant special revenue fund.....	583	Federal grant

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).

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 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 and to collateralize an additional portion of their deposits. As of June 30, 2006, \$9,361,814 of the Town's bank balance of \$15,293,523 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
<u>Debt Securities:</u>				
U.S. Treasuries.....	\$ 2,049,984	\$ -	\$ 1,178,403	\$ 871,581
U.S. Agencies.....	3,382,192	666,331	1,701,299	1,014,562
Money market mutual funds.....	236,434	236,434	-	-
Total debt securities.....	5,668,610	\$ 902,765	\$ 2,879,702	\$ 1,886,143
<u>Other Investments:</u>				
External investment pools.....	43			
Equity securities.....	2,520,591			
Total other investments.....	2,520,634			
Total investments.....	\$ 8,189,244			

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, the Town was not exposed to custodial credit risk.

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 Town’s debt securities were unrated by 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.....	\$ 940,438	\$ (212,731)	\$ 727,707
Real estate tax deferrals.....	14,145	-	14,145
Tax liens.....	360,777	-	360,777
Motor vehicle and other excise taxes.....	529,436	(253,116)	276,320
Community preservation surcharges.....	28,304	-	28,304
Special assessments.....	1,078,075	-	1,078,075
Departmental and other.....	1,264,891	(984,323)	280,568
Intergovernmental.....	15,774,051	-	15,774,051
Loans.....	402,421	-	402,421
	<u>\$ 20,392,538</u>	<u>\$ (1,450,170)</u>	<u>\$ 18,942,368</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	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 504,911	\$ -	\$ 504,911
Real estate tax deferrals.....	14,145	-	14,145
Tax liens.....	354,752	6,025 (b)	360,777
Motor vehicle and other excise taxes.....	276,320	-	276,320
Community preservation surcharges.....	-	28,304 (a)	28,304
Special assessments.....	-	1,078,075 (b)	1,078,075
Departmental and other.....	-	280,567 (b)	280,567
Intergovernmental (state school construction).....	15,028,000	-	15,028,000
Intergovernmental (other state and federal).....	160,539	-	160,539
Tax foreclosures.....	644,739	-	644,739
Total.....	<u>\$ 16,983,406</u>	<u>\$ 1,392,971</u>	<u>\$ 18,376,377</u>

(a) Community preservation fund (major fund)

(b) Nonmajor governmental funds

The Commonwealth has approved school construction assistance. 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, \$1,628,186 of such assistance was received. Approximately \$17,807,000 will be received in future fiscal years. Of this amount, approximately \$2,779,000 represents reimbursement of long-term interest costs, and approximately \$15,028,000 represents reimbursement of approved construction costs. Accordingly, a \$15,028,000 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, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 48,947,437	\$ 5,001,363	\$ -	\$ 53,948,800
Construction in progress.....	2,365,642	14,309	(2,365,642)	14,309
Total capital assets not being depreciated.....	<u>51,313,079</u>	<u>5,015,672</u>	<u>(2,365,642)</u>	<u>53,963,109</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	59,025,721	3,030,848	-	62,056,569
Machinery, vehicles and equipment.....	5,085,483	730,919	(155,130)	5,661,272
Infrastructure.....	544,660	686,675	-	1,231,335
Total capital assets being depreciated.....	<u>64,655,864</u>	<u>4,448,442</u>	<u>(155,130)</u>	<u>68,949,176</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(19,474,623)	(1,498,413)	-	(20,973,036)
Machinery, vehicles and equipment.....	(3,229,021)	(656,618)	118,405	(3,767,234)
Infrastructure.....	(12,480)	(21,451)	-	(33,931)
Total accumulated depreciation.....	<u>(22,716,124)</u>	<u>(2,176,482)</u>	<u>118,405</u>	<u>(24,774,201)</u>
Total capital assets being depreciated, net.....	<u>41,939,740</u>	<u>2,271,960</u>	<u>(36,725)</u>	<u>44,174,975</u>
Total governmental activities capital assets, net.....	<u>\$ 93,252,819</u>	<u>\$ 7,287,632</u>	<u>\$ (2,402,367)</u>	<u>\$ 98,138,084</u>

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

Governmental Activities:

General government.....	\$	149,337
Public safety.....		425,589
Education.....		1,296,449
Public works.....		204,046
Health and human services.....		28,080
Culture and recreation.....		72,981

Total depreciation expense - governmental activities..... \$ 2,176,482

NOTE 6 - CAPITAL LEASES

The Town has entered into certain capital lease agreements for vehicles under which the vehicles will become the property of the Town when all of the lease requirements are met. The agreements also contain early purchase options which would allow the Town to purchase the vehicles before the end of the lease terms.

The following schedule presents future minimum lease payments as of June 30, 2006:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2007.....	\$ 107,811
2008.....	62,495
Total minimum lease payments.....	170,306
Less: amounts representing interest.....	(10,390)
Present value of minimum lease payments..	\$ <u>159,916</u>

Vehicles and related accumulated amortization under capital lease are as follows:

<u>Asset:</u>	<u>Governmental</u> <u>Activities</u>
Machinery and equipment.....	\$ 337,158
Less: accumulated amortization.....	(177,242)
Total.....	\$ <u>159,916</u>

Amortization of leased vehicles under capital assets is included with depreciation expense.

NOTE 7 - INTERFUND TRANSFERS

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

Transfers Out:	Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Kids Klub Enterprise Fund	
General Fund.....	\$ -	\$ 60,000	\$ -	\$ 60,000 (1)
Community Preservation Fund.....	776,093	-	-	776,093 (2)
Nonmajor Governmental Funds.....	763,634	-	10,000	773,634 (3)
	<u>\$ 1,539,727</u>	<u>\$ 60,000</u>	<u>\$ 10,000</u>	<u>\$ 1,609,727</u>

(1) Represents budgeted transfers from the general fund to nonmajor governmental funds

(2) Represents budgeted transfers to fund debt service principal and interest

(3) Represents budgeted transfers to the general fund from ambulance receipts (\$375,278), street betterment (\$126,739), waterway receipts (\$105,250), hotel/motel receipts (\$68,438), cemetery receipts (\$20,000), conservation (\$14,386), shellfish receipts (\$10,000), AFCEE cranberry reimbursement (\$12,000) and senior citizen building (\$28,406) funds; budgeted transfer to the kids klub enterprise fund from leisure services (\$10,000); and transfer to the general fund from CDF grant fund (\$3,137).

NOTE 8 - 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 for short-term borrowings are accounted for in the general fund.

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 June 30, 2005	Increases	Decreases	Balance at June 30, 2006
BAN	Attaquin road land purchase.....	9/1/05	9/22/06	3.50%	\$ -	\$ 1,320,000	\$ (1,320,000)	\$ -
BAN	Municipal purpose.....	9/22/05	9/22/06	3.75%	-	2,104,272	(2,019,000)	85,272
GAN	Attaquin Park, Main St, Collins Ln.....	11/3/05	9/22/06	3.50%	-	1,450,000	(1,450,000)	-
GAN	Cranberry Ridge and Harbor Ridge.....	6/28/06	9/22/06	3.95%	-	104,000	(104,000)	-
GAN	Mashpee Place Land Purchase.....	12/1/05	9/22/06	4.25%	-	3,500,000	(3,500,000)	-
BAN	Algonquin Avenue.....	9/22/04	9/22/05	2.60%	263,388	-	(263,388)	-
BAN	Seabrook Village.....	9/22/04	9/22/05	2.60%	340,884	-	(340,884)	-
GAN	Senior center addition.....	11/19/04	9/22/05	2.25%	1,500,000	-	(1,500,000)	-
Total.....					\$ 2,104,272	\$ 8,478,272	\$ (10,497,272)	\$ 85,272

Subsequent Event

On September 15, 2006, the Town issued general obligation bonds totaling \$8,810,000. Of this amount, \$8,393,000 of the bond proceeds were used to retire the Attaquin road land purchase BAN (\$1,320,000), all GANS except the senior center addition (\$5,054,000) and a portion of the municipal purpose BAN (\$2,019,000) that were outstanding at June 30, 2006. Accordingly, the \$8,393,000 has been recorded as a long-term debt obligation at June 30, 2006.

NOTE 9 - LONG-TERM OBLIGATIONS

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".

During fiscal year 2004, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2006, \$16,091,000 of bonds outstanding from this advance refunding is considered defeased.

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	Issued	Redeemed	Outstanding at June 30, 2006
Town Hall Renovation.....	5.20%	\$ 300,000	\$ -	\$ (100,000)	\$ 200,000
Various Roads.....	5.00%	220,000	-	(40,000)	180,000
Fire Station.....	5.00%	1,015,000	-	(170,000)	845,000
Land Acquisition.....	5.00%	1,910,000	-	(330,000)	1,580,000
Mashpee High School.....	5.30%	4,290,000	-	(1,430,000)	2,860,000
Landfill Capping (MWPAT).....	4.90%	665,600	-	(41,300)	624,300
Landfill Capping (MWPAT).....	5.30%	71,341	-	(4,050)	67,291
Septic Repair (MWPAT).....	5.00%	166,204	-	(10,402)	155,802
Sewer Facilities (MWPAT).....	4.90%	24,623	-	(1,235)	23,388
Septic Repair (MWPAT).....	0.00%	170,000	-	-	170,000
Land Acquisition.....	3.90%	3,635,000	-	(230,000)	3,405,000
Public Way.....	3.90%	65,000	-	(15,000)	50,000
Fire Equipment.....	3.90%	550,000	-	(50,000)	500,000
Cemetery.....	3.90%	130,000	-	(130,000)	-
Refunding Bonds (Series A).....	3.60%	16,040,000	-	(20,000)	16,020,000
Refunding Bonds (Series B).....	2.60%	385,000	-	(135,000)	250,000
Septic System Repairs (MWPAT).....	2.60%	200,000	-	-	200,000
Septic Replacement (MWPAT).....	0.00%	-	357,541	-	357,541
Municipal Purpose.....	4.50%	-	8,393,000	-	8,393,000
Sub-total.....		29,837,768	8,750,541	(2,706,987)	35,881,322
Unamortized premium.....		1,327,156	-	(126,396)	1,200,760
Deferred loss on refundings.....		(1,543,926)	-	147,041	(1,396,885)
Total governmental funds, net.....		\$ 29,620,998	\$ 8,750,541	\$ (2,686,342)	\$ 35,685,197

During fiscal year 2006, the Town issued \$357,541 of MWPAT notes for septic system replacements. Also, as discussed in Note 8, the Town issued \$8,810,000 of general obligation bonds on September 15, 2006. Of this amount, \$8,393,000 was used to retire BANs and GANs outstanding for land acquisition, senior center construction, roadway projects and library planning. Accordingly, \$8,393,000 has been recorded as a long-term debt obligation at June 30, 2006.

Debt service requirements (gross) 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.....	\$ 3,177,147	\$ 1,323,413	\$ 4,500,560
2008.....	3,160,491	1,318,236	4,478,727
2009.....	3,074,035	1,177,195	4,251,230
2010.....	3,029,989	1,033,741	4,063,730
2011.....	3,016,939	892,604	3,909,543
2012.....	2,998,466	784,462	3,782,928
2013.....	2,855,766	643,399	3,499,165
2014.....	2,860,366	519,960	3,380,326
2015.....	2,682,223	384,255	3,066,478
2016.....	2,675,823	263,245	2,939,068
2017.....	2,126,922	196,791	2,323,713
2018.....	709,522	166,000	875,522
2019.....	710,722	136,638	847,360
2020.....	651,722	109,857	761,579
2021.....	615,989	99,210	715,199
2022.....	589,000	62,738	651,738
2023.....	384,000	46,247	430,247
2024.....	290,500	30,300	320,800
2025.....	263,200	16,600	279,800
2026.....	8,500	5,300	13,800
Total.....	\$ <u>35,881,322</u>	\$ <u>9,210,191</u>	\$ <u>45,091,513</u>

The Town receives subsidy assistance for 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 \$55,000. Future subsidies total approximately \$525,000. The amount of MWPAT bonds outstanding at June 30, 2006, totaled \$1,598,322.

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:

Purpose	Amount
Land acquisition.....	\$ 5,658,000 *
Library construction.....	3,500,000
Regional septage.....	3,250,000
Senior citizens addition.....	1,415,000 *
Road projects.....	1,200,000 *
Great Oak/ Abigail.....	593,200
Sewer facilities plan.....	390,831
Landfill capping.....	365,400
Mashpee River dredge.....	275,000
Sewer system repair.....	170,000
Library planning.....	120,000 *
Peck land.....	67,000
Fire station renovation.....	30
Total.....	<u>\$ 17,004,461</u>

* Debt issued on September 15, 2006 (see Note 8)

Changes in Long-Term Liabilities

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

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion
Bonds and notes payable, gross.....	\$ 29,837,768	\$ 8,750,541	\$ (2,706,987)	\$ 35,881,322	\$ 3,177,147
Unamortized premium.....	1,327,156	-	(126,396)	1,200,760	126,396
Deferred loss on refundings.....	(1,543,926)	-	147,041	(1,396,885)	(147,041)
Bonds and notes payable, net.....	29,620,998	8,750,541	(2,686,342)	35,685,197	3,156,502
Capital lease obligation.....	-	337,158	(177,242)	159,916	100,875
Landfill closure.....	565,400	-	(18,500)	546,900	25,000
Compensated absences.....	1,234,406	102,643	-	1,337,049	133,705
Total.....	<u>\$ 31,420,804</u>	<u>\$ 9,190,342</u>	<u>\$ (2,882,084)</u>	<u>\$ 37,729,062</u>	<u>\$ 3,416,082</u>

These long-term liabilities are generally liquidated by the general fund. The community preservation major fund transfers amounts to the general fund to pay for its share of debt service expenditures.

NOTE 10 - LANDFILL CLOSURE AND POSTCLOSURE 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 1998 and, accordingly, was subsequently capped and funded via long-term debt. The Town has reflected \$546,900 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 11 - 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.

Health Insurance

The Town participates in a health insurance risk pool administered by the Cape Cod Municipal Health Group (Group). The Group offers a variety of premium based plans to its members with each participating governmental unit charged a premium for coverage based on rates established by the Group. The Town is obligated to pay the Group its required premiums and, in the event the Group is terminated, its proportionate share of a deficit, should one exist.

Workers' Compensation

The Town participates in a premium-based workers' compensation policy for all employees.

NOTE 12 - PENSION PLAN

Plan Description - The Town contributes to the Barnstable County Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Barnstable 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 \$915,467 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 Barnstable 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 99 Willow Street, Yarmouthport, Massachusetts, 02675.

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 \$1,363,382, \$1,332,587 and \$1,114,327, respectively, which equaled its required contribution for each fiscal year.

NOTE 13 - COMMITMENTS

The Town has entered into, or is planning to enter into, contracts totaling approximately \$17,000,000 for projects relating to land acquisition, library construction, regional septage and sewer improvements, an addition to the senior center and infrastructure. These projects will be funded through the issuance of long-term debt.

NOTE 14 - 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. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2006, these programs are still 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 15 - 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 beginning net assets or beginning fund balances.

NOTE 16 - 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.

These pronouncements will be implemented by the required year of implementation.