

TOWN OF NATICK, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2006

TOWN OF NATICK, MASSACHUSETTS

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JUNE 30, 2006

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Natick, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Natick, Massachusetts, as of and for the fiscal year ended June 30, 2006 (except for the Natick Contributory Retirement System which is as of and for the year ended December 31, 2005), 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 Natick, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Morse Institute in Natick, a library component unit as listed in Note 1. Those cash basis financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in these financial statements is based solely on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 opinion.

In our opinion, based on our audit and the report of another auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Natick, Massachusetts, as of June 30, 2006 (except for the Natick Contributory Retirement System which is as of December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 13, the beginning net assets of the Governmental Activities and the Nonmajor Governmental Funds have been restated to reflect the current year presentation of the Morse Institute in Natick as a discretely presented component unit.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2006, on our consideration of the Town of Natick, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are 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 cursive script that reads "Bowers + Sullivan".

November 15, 2006, except for the Morse Institute in Natick which was audited by another auditor whose report was dated November 2, 2006.

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Natick, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Natick's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual components of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

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

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

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

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

The government-wide financial statements include not only the Town of Natick itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Natick is financially accountable and the Morse Institute in Natick for which the Town of Natick contributes a majority of funding for their annual operations. Although the Morse Institute in Natick is legally separate, the library Institute receives a significant portion of its annual operating budget from the Town and, therefore the financial information for this component unit is reported separately from the financial information presented for the primary government itself. Financial information for the retirement system *component unit* is reported separately within the fiduciary fund statements.

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

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

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

The Town of Natick adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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 enterprise funds to account for its water and sewer and golf activities.

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

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.

Financial Highlights. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town of Natick's governmental assets exceeded liabilities for governmental activities by \$80.0 million and the business-type activities by \$28.2 million at the close of the most recent fiscal year. Key components of the Town's activities are presented below.

Governmental Activities

	2006	2005
Assets:		
Current assets.....	\$ 38,681,962	\$ 50,407,743
Noncurrent assets (excluding capital).....	13,853,135	18,564,469
Capital assets not being depreciated.....	10,250,747	10,091,624
Capital assets, net of accumulated depreciation.....	80,301,773	80,516,555
Total assets.....	143,087,617	159,580,391
Liabilities:		
Current liabilities (excluding debt).....	4,236,320	5,010,221
Noncurrent liabilities (excluding debt).....	1,070,900	1,167,000
Current debt.....	8,791,621	21,049,262
Noncurrent debt.....	48,264,730	52,446,266
Total liabilities.....	62,363,571	79,672,749
Net Assets:		
Capital assets net of related debt.....	54,862,459	53,466,725
Restricted.....	922,743	2,965,057
Unrestricted.....	24,938,844	23,475,860
Total net assets.....	\$ 80,724,046	\$ 79,907,642

Governmental net assets of \$54.9 million (68%) reflects its investment in capital assets (e.g., land, land improvements, buildings, infrastructure, equipment and vehicles), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets 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 its 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 net assets \$923,000 (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net* assets \$24.9 million (31%) may be used to meet the government's ongoing obligations to citizens and creditors.

	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services.....	\$ 10,446,902	\$ 8,459,488
Operating grants and contributions.....	16,530,582	17,471,371
Capital grants and contributions.....	1,212,730	597,295
General revenues:		
Real estate and personal property taxes.....	60,948,473	58,885,443
Motor vehicle and other excise taxes.....	4,652,768	4,993,252
Nonrestricted grants.....	4,494,007	4,350,671
Unrestricted investment income.....	1,307,272	687,949
Other revenues.....	307,017	183,886
Total revenues.....	<u>99,899,751</u>	<u>95,629,355</u>
Expenses:		
General government.....	5,380,108	4,806,891
Public safety.....	16,223,145	14,909,651
Education.....	58,018,396	53,936,330
Public works.....	8,779,747	8,679,576
Human Services.....	1,317,185	1,396,345
Library.....	2,092,753	2,204,161
Culture and recreation.....	2,329,456	2,228,535
Interest.....	3,023,464	2,941,186
Total expenses.....	<u>97,164,254</u>	<u>91,102,675</u>
Excess before transfers.....	2,735,497	4,526,680
Transfers.....	(465,074)	(874,984)
Change in net assets.....	<u>\$ 2,270,423</u>	<u>\$ 3,651,696</u>

Governmental activities increased the Town's net assets by \$2.3 million in FY2006 as compared with an increase of \$3.7 million in FY2005. The key elements of change in the current fiscal year as compared to the prior fiscal year relates mainly to increases in expenses, primarily public safety and education, of approximately 7% while total revenues increased by only 4%. This slight decline from the prior year was not unanticipated as the Town planned on the utilization of prior year reserves during its annual budgetary process.

The following table compares actual expenses to related program revenues and indicates that approximately 71% of the overall operating budget is funded by general revenues.

	Primary Government Expenses	Program Revenues	Portion Funded by General Revenues	%
General government.....	\$ 5,380,108	\$ 2,777,290	\$ 2,602,818	48%
Public safety.....	16,223,145	2,794,439	13,428,706	83%
Education.....	58,018,396	17,735,784	40,282,612	69%
Public works.....	8,779,747	3,808,883	4,970,864	57%
Human services.....	1,317,185	392,217	924,968	70%
Library.....	2,092,753	-	2,092,753	100%
Culture and recreation.....	2,329,456	100,267	2,229,189	96%
Interest.....	3,023,464	581,334	2,442,130	81%
Total Governmental Activities.....	\$ 97,164,254	\$ 28,190,214	\$ 68,974,040	71%

Business-type Activities. Business-type activities increased the Town's net assets by \$954,000, accounting for approximately 36% of the growth in the government's net assets. The Water and Sewer Fund and the Golf Course Fund contributed approximately 56% and 44% of the business-type activities increase, respectively.

Water and Sewer Activities

Water and Sewer business-type activities assets exceeded liabilities by \$27.3 million at the close of fiscal year 2006. Capital assets net of related debt were \$19.0 million (69%) while unrestricted net assets were \$8.4 million (31%). There was an increase of \$746,000 in net assets compared to an increase of \$386,000 in the prior year.

	2006	2005
Assets:		
Current assets.....	\$ 12,587,870	\$ 13,366,995
Noncurrent assets (excluding capital).....	27,896	27,896
Capital assets not being depreciated.....	1,207,061	7,341,672
Capital assets, net of accumulated depreciation.....	27,169,633	21,230,775
Total assets.....	40,992,460	41,967,338
Liabilities:		
Current liabilities (excluding debt).....	285,932	754,493
Noncurrent liabilities (excluding debt).....	27,600	25,200
Current debt.....	1,248,735	1,255,673
Noncurrent debt.....	12,109,467	13,357,364
Total liabilities.....	13,671,734	15,392,730
Net Assets:		
Capital assets net of related debt.....	18,958,362	16,764,127
Unrestricted.....	8,362,364	9,810,481
Total net assets.....	\$ 27,320,726	\$ 26,574,608

	<u>2006</u>	<u>2005</u>
Program revenues:		
Charges for services.....	\$ 11,090,979	\$ 11,295,173
Capital grants and contributions.....	296,981	495,083
General Revenues:		
Unrestricted investment income.....	<u>166,467</u>	<u>171,256</u>
Total revenues.....	<u>11,554,427</u>	<u>11,961,512</u>
Expenses:		
Water and sewer.....	<u>10,808,309</u>	<u>11,990,393</u>
Excess (deficiency) before transfers.....	746,118	(28,881)
Transfers.....	-	414,984
Change in net assets.....	\$ <u><u>746,118</u></u>	\$ <u><u>386,103</u></u>

Golf Course Activities

Golf Course business-type activities assets exceeded liabilities by \$847,000 at the close of fiscal year 2006. Capital assets net of related debt were \$1.0 million while unrestricted net assets were (\$178,000). There was an increase of \$208,000 in net assets compared to an increase of \$162,000 in the prior year. Golf revenues increased approximately 5% over the prior year while related expenses increased approximately 3%. The general fund transferred \$430,000 to the Golf Fund during the year as compared to approximately \$460,000 in the prior year and the Golf fund also received transfers in from various capital projects funds in the amount of \$35,000.

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets.....	\$ 314,913	\$ 222,344
Capital assets not being depreciated.....	673,999	673,999
Capital assets, net of accumulated depreciation.....	<u>2,260,922</u>	<u>2,346,239</u>
Total assets.....	<u>3,249,834</u>	<u>3,242,582</u>
Liabilities:		
Current liabilities (excluding debt).....	27,612	43,094
Current debt.....	150,000	185,484
Noncurrent debt.....	<u>2,225,000</u>	<u>2,375,000</u>
Total liabilities.....	<u>2,402,612</u>	<u>2,603,578</u>
Net Assets:		
Capital assets net of related debt.....	1,024,915	459,754
Unrestricted.....	<u>(177,693)</u>	<u>179,250</u>
Total net assets.....	\$ <u><u>847,222</u></u>	\$ <u><u>639,004</u></u>

	2006	2005
Program revenues:		
Charges for services.....	\$ 541,828	\$ 553,993
General Revenues:		
Other revenues.....	40,111	-
Total revenues.....	581,939	553,993
Expenses:		
Golf.....	838,795	851,573
Excess (deficiency) before transfers.....	(256,856)	(297,580)
Transfers.....	465,074	460,000
Change in net assets.....	\$ 208,218	\$ 162,420

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

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$23.1 million, an increase of \$10.6 million. The increase mainly relates to the receipt of a capital grant from the Massachusetts School Building Authority (MSBA) in the amount of \$11,497,000 which represents the initial 75% funding of the Wilson School renovation project.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11.4 million, while total fund balance reached \$16.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12.3% of total general fund expenditures, while total fund balance represents 17.8% of that same amount.

The general fund balance decreased by (\$29,000) during FY2006. This is the result of management's objective to monitor the budgetary results during the year and to maintain the Town's financial position while utilizing virtually all available funds. General fund revenues exceeded budgetary estimates by approximately \$2.2 million (2.6%) which is reflected in the year-end results.

As noted above, the school construction projects fund received approximately \$11,497,000 in grant proceeds during FY 2006 related to the Wilson School renovation project. The initial 75% payment from the MSBA was used to pay down approximately \$12 million of school BANS. The school building project costs have been audited

by the MSBA and the Town expects to receive the final 25% payment upon approval of the audit by the MSBA Board during FY 2007.

General Fund Budgetary Highlights

Actual revenues exceeded budgetary estimates by \$2.2 million or 2.6%, while actual expenditures (including carryovers of \$5.1 million) were less than budgeted amounts by \$2.9 million or (3.1%). Differences between the original general fund budget and the final budget of \$3.7 million relates mainly to increases in public safety expenditures of \$484,000, educational expenditures of \$770,000, and public works expenditures of \$1,850,000.

Capital Asset and Debt Administration

In conjunction with the operating budget, the Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The Town's major capital projects have related to a \$28 million middle school expansion/renovation which has been completed at June 30, 2006, and a \$12 million project to expand and improve the Town's water treatment plant along with various related water and sewer projects.

Outstanding long-term debt for the governmental funds, as of June 30, 2006, totaled approximately \$53 million, of which \$29 million is the School construction portion, leaving a balance of \$24 million for municipal buildings and various other governmental projects.

The enterprise funds have approximately \$13.4 million in water and sewer debt and \$2.4 million in golf course construction debt.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Pension Trust Fund

The \$4.6 million increase in net assets of the Pension Trust Fund represents \$6.8 million of contributions to the trust, \$4.1 million of net investment gains, \$746,000 of other additions, (\$6,678,000) of deductions for benefits, and (\$385,000) of other deductions.

Requests for Information

This financial report is designed to provide a general overview of the Town of Natick's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Town Hall, 13 East Central Street, Natick, Massachusetts 01760.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<i>Primary Government</i>			<i>Component Unit</i>
	Governmental Activities	Business-type Activities	Total	Morse Institute (Cash Basis)
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 27,273,254	\$ 10,017,679	\$ 37,290,933	\$ 642,379
Investments.....	2,994,390	-	2,994,390	913,979
Receivables, net of allowance for uncollectibles:				
Real estate and personal property taxes.....	601,108	-	601,108	-
Tax and utility liens.....	1,014,575	67,872	1,082,447	-
Motor vehicle and other excise taxes.....	485,932	-	485,932	-
User fees.....	29,484	2,386,127	2,415,611	-
Departmental and other.....	33,253	-	33,253	-
Intergovernmental.....	6,660,431	-	6,660,431	-
Tax foreclosures.....	8,982	-	8,982	-
Internal balances.....	(419,447)	419,447	-	-
Inventory.....	-	11,658	11,658	-
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	13,853,135	27,896	13,881,031	-
Capital assets not being depreciated.....	10,250,747	1,881,060	12,131,807	-
Capital assets, net of accumulated depreciation.....	80,301,773	29,430,555	109,732,328	-
TOTAL ASSETS.....	143,087,617	44,242,294	187,329,911	1,556,358
LIABILITIES				
CURRENT:				
Warrants payable.....	434,297	113,339	547,636	-
Accrued payroll.....	380,746	17,368	398,114	-
Tax refunds payable.....	481,000	-	481,000	-
Accrued interest.....	881,217	171,037	1,052,254	-
Other liabilities.....	1,602,560	-	1,602,560	-
Compensated absences.....	368,500	11,800	380,300	-
Workers' compensation.....	88,000	-	88,000	-
Bonds and notes payable.....	8,791,621	1,398,735	10,190,356	-
NONCURRENT:				
Compensated absences.....	859,900	27,600	887,500	-
Workers' compensation.....	211,000	-	211,000	-
Bonds and notes payable.....	48,264,730	14,334,467	62,599,197	-
TOTAL LIABILITIES.....	62,363,571	16,074,346	78,437,917	-
NET ASSETS				
Invested in capital assets, net of related debt.....	54,862,459	19,983,277	74,845,736	-
Restricted for:				
Permanent funds:				
Expendable.....	21,529	-	21,529	-
Nonexpendable.....	13,758	-	13,758	508,384
Grants and gifts.....	887,456	-	887,456	243,941
Unrestricted.....	24,938,844	8,184,671	33,123,515	804,033
TOTAL NET ASSETS.....	\$ 80,724,046	\$ 28,167,948	\$ 108,891,994	\$ 1,556,358

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

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:					
<i>Governmental Activities:</i>					
General government.....	\$ 5,380,108	\$ 1,876,740	\$ 900,550	\$ -	\$ (2,602,818)
Public safety.....	16,223,145	2,473,115	321,324	-	(13,428,706)
Education.....	58,018,396	3,310,358	14,425,426	-	(40,282,612)
Public works.....	8,779,747	2,596,153	-	1,212,730	(4,970,864)
Human services.....	1,317,185	186,536	205,681	-	(924,968)
Library.....	2,092,753	-	-	-	(2,092,753)
Culture and recreation.....	2,329,456	4,000	96,267	-	(2,229,189)
Interest.....	3,023,464	-	581,334	-	(2,442,130)
Total Governmental Activities.....	<u>97,164,254</u>	<u>10,446,902</u>	<u>16,530,582</u>	<u>1,212,730</u>	(68,974,040)
<i>Business-Type Activities:</i>					
Water and Sewer.....	10,808,309	11,090,979	-	296,981	579,651
Golf.....	838,795	541,828	-	-	(296,967)
Total Business-Type Activities.....	<u>11,647,104</u>	<u>11,632,807</u>	<u>-</u>	<u>296,981</u>	282,684
Total Primary Government.....	<u>\$ 108,811,358</u>	<u>\$ 22,079,709</u>	<u>\$ 16,530,582</u>	<u>\$ 1,509,711</u>	\$ (68,691,356)
Component Unit:					
Mosre Institute (Cash Basis).....	<u>\$ 522,679</u>	<u>\$ 76,603</u>	<u>\$ 456,943</u>	<u>\$ -</u>	\$ 10,867

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Morse Institute (Cash Basis)
Changes in net assets:				
Net (expense) revenue from previous page.....	\$ (68,974,040)	\$ 282,684	\$ (68,691,356)	\$ 10,867
<i>General revenues:</i>				
Real estate and personal property taxes, net of tax refunds payable.....	60,628,311	-	60,628,311	-
Tax liens.....	320,162	-	320,162	-
Motor vehicle and other excise taxes.....	3,909,440	-	3,909,440	-
Hotel/motel tax.....	743,328	-	743,328	-
Penalties and interest on taxes.....	288,460	-	288,460	-
Payments in lieu of taxes.....	18,557	-	18,557	-
Grants and contributions not restricted to specific programs.....	4,494,007	-	4,494,007	-
Unrestricted investment income.....	1,307,272	166,467	1,473,739	91,472
Miscellaneous.....	-	40,111	40,111	-
<i>Transfers, net</i>	(465,074)	465,074	-	-
Total general revenues and transfers.....	71,244,463	671,652	71,916,115	91,472
Change in net assets.....	2,270,423	954,336	3,224,759	102,339
<i>Net Assets:</i>				
Beginning of year, as restated.....	78,453,623	27,213,612	105,667,235	1,454,019
End of year.....	\$ 80,724,046	\$ 28,167,948	\$ 108,891,994	\$ 1,556,358

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

ASSETS	General	School Construction Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 19,410,517	\$ -	\$ 7,862,737	\$ 27,273,254
Investments.....	-	-	2,994,390	2,994,390
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	601,108	-	-	601,108
Tax liens.....	1,014,575	-	-	1,014,575
Motor vehicle and other excise taxes.....	485,932	-	-	485,932
User fees.....	29,484	-	-	29,484
Departmental and other.....	33,253	-	-	33,253
Intergovernmental.....	18,732,869	-	1,780,697	20,513,566
Tax foreclosures.....	8,982	-	-	8,982
TOTAL ASSETS.....	\$ 40,316,720	\$ -	\$ 12,637,824	\$ 52,954,544
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 382,657	\$ -	\$ 51,640	\$ 434,297
Accrued payroll.....	334,546	-	46,200	380,746
Tax refunds payable.....	481,000	-	-	481,000
Accrued interest on short-term debt.....	37,955	-	-	37,955
Other liabilities.....	1,602,560	-	-	1,602,560
Deferred revenues.....	20,579,415	-	1,557,181	22,136,596
Due to other funds.....	419,447	-	-	419,447
Notes payable.....	-	2,603,085	1,807,000	4,410,085
TOTAL LIABILITIES.....	23,837,580	2,603,085	3,462,021	29,902,686
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	5,072,219	-	-	5,072,219
Perpetual permanent funds.....	-	-	13,758	13,758
Unreserved:				
Undesignated, reported in:				
General fund.....	11,406,921	-	-	11,406,921
Special revenue funds.....	-	-	9,882,950	9,882,950
Capital projects funds.....	-	(2,603,085)	(742,434)	(3,345,519)
Permanent funds.....	-	-	21,529	21,529
TOTAL FUND BALANCES.....	16,479,140	(2,603,085)	9,175,803	23,051,858
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 40,316,720	\$ -	\$ 12,637,824	\$ 52,954,544

See notes to basic financial statements.

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

JUNE 30, 2006

Total governmental fund balances.....		\$ 23,051,858
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		90,552,520
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		22,136,596
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(843,262)
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.....	(52,646,266)	
Workers' compensation.....	(299,000)	
Compensated absences.....	(1,228,400)	
Net effect of reporting long-term liabilities.....		(54,173,666)
Net assets of governmental activities.....		\$ 80,724,046

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2006

	General	School Construction Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 60,718,174	\$ -	\$ -	\$ 60,718,174
Tax liens.....	321,785	-	-	321,785
Motor vehicle and other excise taxes.....	4,116,758	-	-	4,116,758
Hotel/motel tax.....	743,328	-	-	743,328
Charges for services.....	-	-	1,353	1,353
Trash disposal.....	1,075,057	-	-	1,075,057
Penalties and interest on taxes.....	240,114	-	-	240,114
Payments in lieu of taxes.....	18,557	-	-	18,557
Licenses and permits.....	1,718,787	-	-	1,718,787
Fines and forfeitures.....	316,375	-	-	316,375
Intergovernmental.....	18,180,450	11,496,915	3,186,249	32,863,614
Departmental and other.....	2,719,708	-	5,501,660	8,221,368
Contributions.....	-	-	885,497	885,497
Investment income.....	1,104,715	-	215,421	1,320,136
TOTAL REVENUES.....	91,273,808	11,496,915	9,790,180	112,560,903
EXPENDITURES:				
Current:				
General government.....	3,314,374	-	369,900	3,684,274
Public safety.....	10,470,962	-	1,246,068	11,717,030
Education.....	38,194,719	26,524	4,766,961	42,988,204
Public works.....	6,616,846	-	1,433,122	8,049,968
Human services.....	875,958	-	96,307	972,265
Library.....	1,693,149	-	19,804	1,712,953
Culture and recreation.....	568,002	-	1,088,752	1,656,754
Pension benefits-Town.....	4,751,725	-	-	4,751,725
Pension benefits-Teachers.....	7,396,359	-	-	7,396,359
Property and liability insurance.....	385,427	-	-	385,427
Employee benefits.....	9,547,766	-	-	9,547,766
State and county charges.....	1,366,218	-	-	1,366,218
Debt service:				
Principal.....	4,401,262	-	-	4,401,262
Interest.....	3,083,090	-	-	3,083,090
TOTAL EXPENDITURES.....	92,665,857	26,524	9,020,914	101,713,295
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,392,049)	11,470,391	769,266	10,847,608
OTHER FINANCING SOURCES (USES):				
Issuance of bonds and notes.....	-	-	200,000	200,000
Premium from issuance of bonds and notes.....	13,795	4,832	-	18,627
Transfers in.....	2,225,500	-	794,184	3,019,684
Transfers out.....	(876,000)	(15,359)	(2,593,399)	(3,484,758)
TOTAL OTHER FINANCING SOURCES (USES).....	1,363,295	(10,527)	(1,599,215)	(246,447)
NET CHANGE IN FUND BALANCES.....	(28,754)	11,459,864	(829,949)	10,601,161
FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED.....	16,507,894	(14,062,949)	10,005,752	12,450,697
FUND BALANCES AT END OF YEAR.....	\$ 16,479,140	\$ (2,603,085)	\$ 9,175,803	\$ 23,051,858

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**

FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds.....		\$ 10,601,161
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	3,979,181	
Depreciation expense.....	<u>(4,034,840)</u>	
Net effect of reporting capital assets.....		(55,659)
<p>In the Statement of Activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>		
		8,247
<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>		
		(12,629,114)
<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 effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(200,000)	
Debt service principal payments.....	<u>4,401,262</u>	
Net effect of reporting long-term debt.....		4,201,262
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in workers' compensation accrual.....	269,000	
Net change in compensated absences accrual.....	(184,100)	
Net change in accrued interest on long-term debt.....	<u>59,626</u>	
Net effect of recording long-term liabilities		<u>144,526</u>
Change in net assets of governmental activities.....		<u>\$ 2,270,423</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Golf Course	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 9,714,424	\$ 303,255	\$ 10,017,679
Receivables, net of allowance for uncollectibles:			
Water and sewer fees.....	2,386,127	-	2,386,127
Utility liens.....	67,872	-	67,872
Internal balances.....	419,447	-	419,447
Inventory.....	-	11,658	11,658
Total current assets.....	12,587,870	314,913	12,902,783
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	27,896	-	27,896
Capital assets not being depreciated.....	1,207,061	673,999	1,881,060
Capital assets, net of accumulated depreciation.....	27,169,633	2,260,922	29,430,555
Total noncurrent assets.....	28,404,590	2,934,921	31,339,511
TOTAL ASSETS.....	40,992,460	3,249,834	44,242,294
LIABILITIES			
CURRENT:			
Warrants payable.....	108,951	4,388	113,339
Accrued payroll.....	17,368	-	17,368
Accrued interest.....	147,813	23,224	171,037
Compensated absences.....	11,800	-	11,800
Bonds and notes payable.....	1,248,735	150,000	1,398,735
Total current liabilities.....	1,534,667	177,612	1,712,279
NONCURRENT:			
Compensated absences.....	27,600	-	27,600
Bonds and notes payable.....	12,109,467	2,225,000	14,334,467
Total noncurrent liabilities.....	12,137,067	2,225,000	14,362,067
TOTAL LIABILITIES.....	13,671,734	2,402,612	16,074,346
NET ASSETS			
Invested in capital assets, net of related debt.....	18,958,362	1,024,915	19,983,277
Unrestricted.....	8,362,364	(177,693)	8,184,671
TOTAL NET ASSETS.....	\$ 27,320,726	\$ 847,222	\$ 28,167,948

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services	\$ 11,090,979	\$ 541,828	\$ 11,632,807
Other	-	40,111	40,111
TOTAL OPERATING REVENUES	11,090,979	581,939	11,672,918
OPERATING EXPENSES:			
Cost of services and administration	4,582,517	603,726	5,186,243
MWRA Assessment.....	3,895,604	-	3,895,604
Repairs and maintenance.....	751,614	10,761	762,375
Depreciation.....	1,023,559	107,067	1,130,626
TOTAL OPERATING EXPENSES	10,253,294	721,554	10,974,848
OPERATING INCOME (LOSS).....	837,685	(139,615)	698,070
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	166,467	-	166,467
Intergovernmental.....	296,981	-	296,981
Interest expense.....	(555,015)	(117,241)	(672,256)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(91,567)	(117,241)	(208,808)
INCOME (LOSS) BEFORE TRANSFERS.....	746,118	(256,856)	489,262
TRANSFERS:			
Transfers in.....	-	465,074	465,074
CHANGE IN NET ASSETS.....	746,118	208,218	954,336
NET ASSETS AT BEGINNING OF YEAR.....	26,574,608	639,004	27,213,612
NET ASSETS AT END OF YEAR.....	\$ 27,320,726	\$ 847,222	\$ 28,167,948

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Golf Course	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Receipts from customers and users.....	\$ 11,323,982	\$ 581,939	\$ 11,905,921
Payments to vendors.....	(8,216,530)	(515,498)	(8,732,028)
Payments to employees.....	(1,396,967)	(118,932)	(1,515,899)
NET CASH FROM OPERATING ACTIVITIES.....	1,710,485	(52,491)	1,657,994
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Transfers in.....	-	465,074	465,074
Intergovernmental revenue.....	198,236	-	198,236
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	198,236	465,074	663,310
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Proceeds from the issuance of bonds and notes.....	260,235	-	260,235
Acquisition and construction of capital assets.....	(827,806)	(21,752)	(849,558)
Principal payments on bonds and notes.....	(1,254,835)	(150,000)	(1,404,835)
Principal payments on capital lease obligations.....	-	(35,482)	(35,482)
Interest expense.....	(538,669)	(118,491)	(657,160)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(2,361,075)	(325,725)	(2,686,800)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Investment income.....	166,467	-	166,467
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(285,887)	86,858	(199,029)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,000,311	216,397	10,216,708
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9,714,424	\$ 303,255	\$ 10,017,679
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ 837,685	\$ (139,615)	\$ 698,070
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	1,023,559	107,067	1,130,626
Changes in assets and liabilities:			
Water and sewer fees.....	261,419	-	261,419
Utility liens.....	(28,416)	-	(28,416)
Inventory.....	-	(5,711)	(5,711)
Warrants payable.....	(374,030)	(14,232)	(388,262)
Accrued payroll.....	(13,132)	-	(13,132)
Accrued compensated absences.....	3,400	-	3,400
Total adjustments.....	872,800	87,124	959,924
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,710,485	\$ (52,491)	\$ 1,657,994

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 889,710	\$ 381,900	\$ 490,848
Investments.....	69,793,609	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	2,384,530	-	-
TOTAL ASSETS.....	73,067,849	381,900	490,848
LIABILITIES			
Warrants payable.....	1,796	-	4,597
Liabilities due depositors.....	-	-	486,251
TOTAL LIABILITIES.....	1,796	-	490,848
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 73,066,053	\$ 381,900	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 4,841,775	\$ -
Employee.....	2,007,611	-
Private donations.....	-	137,005
Total contributions.....	6,849,386	137,005
Net investment income (loss):		
Net change in fair value of investments.....	3,007,807	-
Interest and dividends.....	1,493,351	8,196
Total investment income (loss).....	4,501,158	8,196
Less: investment expense.....	(430,181)	-
Net investment income (loss).....	4,070,977	8,196
Intergovernmental.....	127,711	-
Transfers from other systems.....	617,994	-
TOTAL ADDITIONS.....	11,666,068	145,201
DEDUCTIONS:		
Administration.....	227,156	-
Transfers to other systems.....	157,959	-
Retirement benefits and refunds.....	6,678,425	-
Educational scholarships.....	-	7,170
TOTAL DEDUCTIONS.....	7,063,540	7,170
CHANGE IN NET ASSETS.....	4,602,528	138,031
NET ASSETS AT BEGINNING OF YEAR.....	68,463,525	243,869
NET ASSETS AT END OF YEAR.....	\$ 73,066,053	\$ 381,900

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town is a municipal corporation governed by an elected Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. 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 significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units.

Blended Component Units – Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The following component unit is blended within the primary government:

In the Fiduciary Funds:

- (1) The Natick Contributory Retirement System (the System) was established to provide retirement benefits to Town employees, the Town Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), two members elected by the System's participants, one member appointed by the System's four other Board members, and one member appointed by the Town's Board of Selectmen. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Discretely Presented Component Units – Discretely presented component units are entities that are legally separate from the Town, but are financially accountable to the Town, or whose relationships with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. The Town has included the Morse Institute in Natick as a Discretely Presented Component Unit because it is fiscally dependant on the Town and because the nature and significance of its relationship with the Town is such that exclusion would cause the Town's financial statements to be misleading or incomplete.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 13 East Central Street, Natick, MA 01760.

Complete financial statements of the Morse Institute in Natick, audited by auditors other than Powers & Sullivan, can be obtained directly from the Institute by contacting the Director at 14 East Central Street, Natick, Massachusetts 01760.

Joint Ventures

The Town has entered into a 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 is the Town's joint venture, the address where the joint venture financial statements are available, its purpose, and the fiscal year 2006 assessment.

The South Middlesex Regional Vocational Technical High School is comprised of the towns of Framingham, Ashland, Holliston, Hopkinton and Natick. The Town of Natick appoints two of the sixteen School Committee members. The Town paid \$1,067,784 in FY06 for its share of an operating and capital assessment based on the percentage of Natick students attending the school. Audited financial statements can be obtained by contacting the school at 750 Winter Street, Framingham, MA 01702.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

Major funds must be reported if the following criteria are met:

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

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

Fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

- 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 particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

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

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

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 that are required to be accounted for in another fund.

The *school construction projects fund* is used to account for financial resources to expand and upgrade the Wilson and Kennedy Middle Schools.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

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

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

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

The following proprietary funds are reported:

The *water and sewer enterprise fund* is used to account for the water and sewer activities.

The *golf enterprise fund* is used to account for the golf course activities.

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

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and 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.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are 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 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. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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

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

Motor Vehicle and Other Excise Taxes

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

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

Trash

The "Flat Trash Fee" was discontinued effective July 1, 2003 (Fiscal Year 2004) and has been replaced with a "Pay As You Throw" (PAYT) program. This program requires the purchase of special Natick PAYT designation trash bags.

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

Water and Sewer Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

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

Intergovernmental

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

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

F. Inventories***Government-Wide and Fund Financial Statements***

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

Inventories of the golf enterprise fund are stated at the lower of cost or market. Cost for materials and supplies inventories are determined by the weighted average method.

G. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

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

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 being depreciated are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-30
Buildings.....	20-40
Infrastructure.....	10-50
Equipment.....	5-10
Vehicles.....	5-15

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.

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

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.

J. Deferred Revenue

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

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

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

Net assets have been "restricted for" the following:

"Permanent funds - expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings.

"Permanent funds - nonexpendable" represents the endowment portion of donor restricted trusts.

"Grants and gifts" represents amounts held for school grants and other grants and gift funds.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

"Perpetual permanent funds" represents amounts held in trust for which only investment earnings may be expended.

L. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

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

Governmental Fund Financial Statements

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

M. Investment Income

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

Investment income from proprietary funds is voluntarily assigned and transferred to the general fund.

N. 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.

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

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50% to 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 \$2,668,000. There were 463 participants eligible to receive benefits at June 30, 2006.

P. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2006 within the Capital Projects Fund. These deficits will be funded by available funds, grants, and bond proceeds during fiscal year 2007.

Q. 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.

R. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and cash equivalents." The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial risk.

At fiscal year-end, the carrying amount of the primary government's deposits totaled \$39,253,511 and the bank balance totaled \$45,493,291. Of the bank balance, \$800,329 was covered by Federal Depository Insurance, \$3,289,740 was covered by Depositors Insurance Fund, \$17,534,531 was collateralized and \$23,868,691 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2005, the carrying amount of the Retirement System's deposits totaled \$34,557 and the bank balance of \$63,638 was covered by Federal Depository Insurance.

Investments

As of June 30, 2006, the Town had the following investments and maturities

Investment Type	<u>Fair Value</u>	<u>Maturity 1-5 Years</u>	<u>Rating</u>
<u>Debt Securities</u>			
Federal Home Loan Securities.....	\$ 2,994,390	\$ <u>2,994,390</u>	AAA
Total Debt Securities.....	2,994,390	\$ <u><u>2,994,390</u></u>	
<u>Other Investments</u>			
MMDT.....	<u>1,089,830</u>		
Total Investments.....	\$ <u><u>4,084,220</u></u>		

As of December 31, 2005, the Retirement System had the following investments:

Investment Type	<u>Fair Value</u>
<u>Other Investments</u>	
Money Market Mutual Funds.....	\$ 855,153
Equity Securities.....	6,554,822
Pooled Real Estate Funds.....	49,895,116
International Equity Mutual Funds.....	10,457,030
Alternative Investments (Real Estate).....	<u>2,886,641</u>
Total Investments.....	\$ <u><u>70,648,762</u></u>

Custodial Credit Risk – Investments

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

Of the Town’s total investments of \$4,084,220 there was custodial credit risk exposure of \$2,994,390 which is equal to the investments in Federal Home Loan securities because the related securities are uninsured, unregistered and held by the counterparty.

The Town does not have an investment policy for custodial credit risk.

The Retirement System’s investments are not subjected to custodial credit risk as all of the securities are insured or registered, and held by its agents in the name of the Town of Natick.

Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Retirement System’s policy states that the average duration of the fixed income portfolio shall be maintained within a range of plus/minus 15% of the duration of the fixed income benchmark designated in the “Manager Specific Guidelines”. These specific guidelines may be obtained by contacting the Retirement System directly.

Credit Risk

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

The Retirement System has a policy that requires that no fixed income assets may be invested in below investment grade securities.

Concentration of Credit Risk

The Town does not have a formal policy that limits the amount the Town may invest in any one issuer.

The System’s policy states that the concentration per equity issuer and fixed income issuer cannot exceed 5% of the portfolio market value at the time of purchase. Investments in United States Treasuries, United States Agencies and cash or cash-equivalents are exempt from this policy. In addition, with the exception of United States Treasuries or United States Agencies, any investment may not represent more than 5% of the outstanding shares of any single issuer.

NOTE 3 - RECEIVABLES

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
	<u> </u>	<u> </u>	<u> </u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 757,208	\$ (156,100)	\$ 601,108
Tax liens.....	1,014,575	-	1,014,575
Motor vehicle and other excise taxes.....	731,712	(245,780)	485,932
User fees.....	29,484	-	29,484
Departmental and other.....	33,253	-	33,253
Intergovernmental.....	<u>20,513,566</u>	<u>-</u>	<u>20,513,566</u>
 Total.....	 <u>\$ 23,079,798</u>	 <u>\$ (401,880)</u>	 <u>\$ 22,677,918</u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water and sewer fees.....	\$ 2,386,127	\$ -	\$ 2,386,127
Utility liens.....	67,872	-	67,872
Intergovernmental.....	27,896	-	27,896
Total.....	<u>\$ 2,481,895</u>	<u>\$ -</u>	<u>\$ 2,481,895</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivables and other asset types:</u>			
Real estate and personal property taxes.....	\$ 343,104	\$ -	\$ 343,104
Tax foreclosures.....	8,982	-	8,982
Tax liens.....	1,014,575	-	1,014,575
Motor vehicle and other excise taxes.....	485,932	-	485,932
User fees.....	29,484	-	29,484
Departmental and other.....	33,253	-	33,253
Intergovernmental.....	18,664,085	1,557,181	20,221,266
Total.....	<u>\$ 20,579,415</u>	<u>\$ 1,557,181</u>	<u>\$ 22,136,596</u>

NOTE 4 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,091,624	\$ -	\$ -	\$ 10,091,624
Construction in progress.....	-	159,123		159,123
Total capital assets not being depreciated.....	<u>10,091,624</u>	<u>159,123</u>	<u>-</u>	<u>10,250,747</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,890,678	153,103	-	2,043,781
Buildings.....	92,294,993	92,584	-	92,387,577
Infrastructure.....	34,470,107	1,121,943	-	35,592,050
Equipment.....	5,530,423	707,652	-	6,238,075
Vehicles.....	<u>5,416,144</u>	<u>1,744,776</u>	<u>-</u>	<u>7,160,920</u>
Total capital assets being depreciated.....	<u>139,602,345</u>	<u>3,820,058</u>	<u>-</u>	<u>143,422,403</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(1,121,881)	(72,316)	-	(1,194,197)
Buildings.....	(29,041,080)	(2,188,249)	-	(31,229,329)
Infrastructure.....	(21,226,721)	(832,102)	-	(22,058,823)
Equipment.....	(3,419,539)	(553,132)	-	(3,972,671)
Vehicles.....	<u>(4,276,569)</u>	<u>(389,041)</u>	<u>-</u>	<u>(4,665,610)</u>
Total accumulated depreciation.....	<u>(59,085,790)</u>	<u>(4,034,840)</u>	<u>-</u>	<u>(63,120,630)</u>
Total capital assets being depreciated, net.....	<u>80,516,555</u>	<u>(214,782)</u>	<u>-</u>	<u>80,301,773</u>
Total governmental activities capital assets, net.....	<u>\$ 90,608,179</u>	<u>\$ (55,659)</u>	<u>\$ -</u>	<u>\$ 90,552,520</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water & Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 379,255	\$ -	\$ -	\$ 379,255
Construction in Progress.....	6,962,417	827,806	(6,962,417)	827,806
Total capital assets not being depreciated.....	7,341,672	827,806	(6,962,417)	1,207,061
<u>Capital assets being depreciated:</u>				
Infrastructure.....	37,389,285	6,962,417	-	44,351,702
Equipment.....	929,269	-	-	929,269
Vehicles.....	857,898	-	-	857,898
Total capital assets being depreciated.....	39,176,452	6,962,417	-	46,138,869
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	(16,831,388)	(883,806)	-	(17,715,194)
Equipment.....	(476,273)	(64,688)	-	(540,961)
Vehicles.....	(638,016)	(75,065)	-	(713,081)
Total accumulated depreciation.....	(17,945,677)	(1,023,559)	-	(18,969,236)
Total capital assets being depreciated, net.....	21,230,775	5,938,858	-	27,169,633
Total water and sewer activities capital assets, net.....	\$ 28,572,447	\$ 6,766,664	\$ (6,962,417)	\$ 28,376,694
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 673,999	\$ -	\$ -	\$ 673,999
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,647,119	-	-	2,647,119
Equipment.....	105,728	21,750	-	127,478
Total capital assets being depreciated.....	2,752,847	21,750	-	2,774,597
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(300,879)	(96,192)	-	(397,071)
Equipment.....	(105,729)	(10,875)	-	(116,604)
Total accumulated depreciation.....	(406,608)	(107,067)	-	(513,675)
Total capital assets being depreciated, net.....	2,346,239	(85,317)	-	2,260,922
Total golf course activities capital assets, net.....	\$ 3,020,238	\$ (85,317)	\$ -	\$ 2,934,921

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

Governmental Activities:

General government.....	\$ 212,930
Public safety.....	589,234
Education.....	1,676,384
Public works.....	1,171,058
Human services.....	13,290
Library.....	321,836
Culture and recreation.....	<u>50,108</u>

Total depreciation expense - governmental activities..... \$ 4,034,840

Business-Type Activities:

Water and sewer.....	\$ 1,023,559
Golf.....	<u>107,067</u>

Total depreciation expense - business-type activities..... \$ 1,130,626

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and payables between funds at June 30, 2006, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water and Sewer Fund	General Fund	\$ <u>419,447</u>

The amount due to the water and sewer funds by the general fund relates to over allocations of retirement benefits in previous fiscal years.

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

Transfers Out:	Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Golf Enterprise Fund	
General Fund.....	\$ -	\$ 446,000	\$ 430,000	\$ 876,000 (1)
Stabilization Fund.....	775,000	-	-	775,000 (2)
Nonmajor Governmental Funds.....	1,450,500	348,184	19,715	1,818,399 (2)
School Construction Projects Fund.....		-	15,359	15,359 (3)
Total.....	<u>\$ 2,225,500</u>	<u>\$ 794,184</u>	<u>\$ 465,074</u>	<u>\$ 3,484,758</u>

(1) Represents budgeted transfers to capital projects to paydown BANs in the amount of \$446,000 and to the Golf Course for debt service.

(2) Represents budgeted transfers from Stabilization in the amount of \$775,000, from Receipts Reserved in the amount of \$1,450,500, from Gifts to a capital project fund, and other transfers between capital project funds.

(3) Represents budgeted transfers between capital project funds.

NOTE 6 - 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 or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANS and SANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds. Details related to the short-term debt activity for the fiscal year ended June 30, 2006, is as follows:

Type	Purpose	Interest Rate (%)	Due Date	Balance at June 30, 2005	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2006
BAN	Street lights.....	2.15	07/01/05	\$ 235,000	\$ -	\$ 235,000	\$ -
BAN	I-net equipment.....	2.15	07/01/05	140,000	-	140,000	-
BAN	Equipment.....	1.98	11/01/05	860,000	-	860,000	-
BAN	School remodeling.....	1.98	11/01/05	635,000	-	635,000	-
BAN	Boiler replacement.....	1.98	11/01/05	75,400	-	75,400	-
BAN	Asbestos removal.....	1.98	11/01/05	2,600	-	2,600	-
BAN	Wilson middle school construction.....	3.75	04/28/06	14,700,000	-	14,700,000	-
BAN	School remodeling and equipment.....	3.75	04/26/06	-	506,840	506,840	-
BAN	Equipment.....	3.75	04/26/06	-	863,000	863,000	-
BAN	Boiler replacement.....	3.75	04/26/06	-	62,160	62,160	-
BAN	Wilson middle school construction.....	4.25	11/01/06	-	2,603,085	-	2,603,085
BAN	Equipment.....	4.25	11/01/06	-	993,000	-	993,000
BAN	School remodeling and equipment.....	4.25	11/01/06	-	506,840	-	506,840
BAN	Boiler replacement.....	4.25	11/01/06	-	62,160	-	62,160
BAN	Street lights and I-net equipment.....	3.45	07/05/06	-	245,000	-	245,000
Total.....				\$ 16,648,000	\$ 5,842,085	\$ 18,080,000	\$ 4,410,085

The Wilson school BANs were paid down with the proceeds of the final grant payment from the Massachusetts School Building Authority in November of 2006. The remaining BANs were re-financed on a long term basis in October of 2006 through the issuance of General Obligation Bonds with an interest rate of 3.997%.

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law 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." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

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

Bonds and Notes Payable Schedule – Governmental Funds

	Interest Rate (%)	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
Land acquisition.....	4.91 - 5.69	\$ 50,000	\$ -	\$ 50,000	\$ -
School construction.....	4.69 - 5.63	31,558,000	-	2,081,000	29,477,000
Tank removal.....	4.91 - 5.64	440,000	-	45,000	395,000
Library.....	4.69 - 5.63	5,180,000	-	500,000	4,680,000
Landfill.....	4.69 - 4.91	4,115,000	-	285,000	3,830,000
Municipal complex.....	4.69 - 5.63	12,990,000	-	1,000,000	11,990,000
Landfill.....	5.28 - 5.63	310,000	-	55,000	255,000
Fire truck.....	4.94	280,000	-	140,000	140,000
Septic (MWPAT).....	5.33	115,080	-	7,684	107,396
Water treatment (MWPAT).....	0.00	232,326	-	27,451	204,875
Refunding debt of 2004.....	2.95	1,375,000	-	175,000	1,200,000
Road construction.....	4.16	110,000	-	30,000	80,000
Septic Program - MWPAT Title V.....	0.00	92,122	-	5,127	86,995
Septic Program - MWPAT Title V.....	0.00	-	200,000	-	200,000
Totals.....		\$ 56,847,528	\$ 200,000	\$ 4,401,262	\$ 52,646,266

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

Year	Principal	Interest	Total
2007.....	\$ 4,381,536	\$ 2,435,740	\$ 6,817,276
2008.....	4,421,814	2,253,542	6,675,356
2009.....	4,217,238	2,062,840	6,280,078
2010.....	4,192,960	1,868,646	6,061,606
2011.....	4,148,901	1,672,516	5,821,417
2012.....	4,149,818	1,476,560	5,626,378
2013.....	4,139,296	1,278,670	5,417,966
2014.....	4,078,837	1,079,535	5,158,372
2015.....	3,873,827	883,123	4,756,950
2016.....	3,393,699	690,043	4,083,742
2017.....	3,393,699	515,940	3,909,639
2018.....	2,438,699	357,106	2,795,805
2019.....	1,522,699	255,076	1,777,775
2020.....	1,397,699	179,291	1,576,990
2021.....	1,220,102	115,558	1,335,660
2022.....	560,221	74,232	634,453
2023.....	560,221	49,950	610,171
2024.....	555,000	24,976	579,976
Totals.....	\$ <u>52,646,266</u>	\$ <u>17,273,344</u>	\$ <u>69,919,610</u>

Bonds and Notes Payable Schedule – Enterprise Funds

	Interest Rate (%)	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
Water.....	4.69 - 5.63	\$ 5,360,280	\$ -	\$ 608,580	\$ 4,751,700
Sewer.....	4.69 - 5.14	2,226,720	-	180,420	2,046,300
Sewer (MWRA).....	0.00	408,220	-	102,630	305,590
Glof course.....	4.94	2,525,000	-	150,000	2,375,000
Water refunding debt	2.95	1,205,000	-	165,000	1,040,000
MWPAT.....	4.43	<u>5,412,817</u>	<u>-</u>	<u>198,205</u>	<u>5,214,612</u>
Totals.....		\$ <u>17,138,037</u>	\$ <u>-</u>	\$ <u>1,404,835</u>	\$ <u>15,733,202</u>

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

Year	Principal	Interest	Total
2007.....	\$ 1,398,735	\$ 699,271	\$ 2,098,006
2008.....	1,364,306	648,503	2,012,809
2009.....	1,357,117	592,956	1,950,073
2010.....	1,352,971	538,378	1,891,349
2011.....	1,281,395	483,405	1,764,800
2012.....	1,183,421	428,474	1,611,895
2013.....	843,984	373,937	1,217,921
2014.....	718,333	336,340	1,054,673
2015.....	680,940	312,764	993,704
2016.....	684,000	270,005	954,005
2017.....	694,000	234,430	928,430
2018.....	699,000	197,664	896,664
2019.....	700,000	161,913	861,913
2020.....	635,000	128,072	763,072
2021.....	560,000	97,847	657,847
2022.....	510,000	70,801	580,801
2023.....	345,000	44,875	389,875
2024.....	360,000	27,250	387,250
2025.....	365,000	9,125	374,125
Totals.....	\$ <u>15,733,202</u>	\$ <u>5,656,010</u>	\$ <u>21,389,212</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan. The loan portion is payable in five equal annual installments. At June 30, 2006, the outstanding principal amount of these loans totaled \$305,590.

The Town is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$79,427 and interest costs for \$1,344,410. Net MWPAT loan repayments, including interest, are scheduled to be \$6,907,552. The principal subsidies are guaranteed, and therefore intergovernmental receivables have been reported in the water and sewer enterprise fund and in the nonmajor governmental funds in the amounts of \$27,896 and \$51,531, respectively. Since the Town is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The fiscal year 2006 principal and interest subsidies totaled \$6,551 and \$116,047, respectively.

The Town has been approved to receive school construction assistance through the Massachusetts School Building Authority (MSBA). The MSBA provides resources for eligible construction costs and related debt interest and borrowing costs. The Town has been approved for a grant equal to 59% of allowable costs. During fiscal year 2006 the Town received approximately \$11,497,000 in MSBA grant funding, equal to 75% of the expected total grant, which was used to pay down the Town's temporary borrowing related to the Wilson Middle School construction project. In addition, along with the 25% balance of the Wilson Project the anticipated future reimbursement for the contract assistance projects of approximately \$14,744,000 has been recorded as an intergovernmental receivable and deferred revenue in the General Fund in the fund based financial statements.

The deferred revenue for the entire grant has been recognized as revenue in the conversion to the government-wide financial statements in prior fiscal years.

Advance Refunding and Defeased Bonds

In prior fiscal years, 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, \$2,170,000 of the bonds refunded remain outstanding and are considered defeased.

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
School construction.....	\$ 15,585,000
Various municipal purposes.....	2,995,497
Various capital equipment.....	175,000
Sewer.....	1,415,150
Water.....	<u>12,150,000</u>
Total.....	<u>\$ 32,320,647</u>

Changes in Long-term Liabilities

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

GOVERNMENTAL ACTIVITIES:

	Balance at June 30, 2005	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance at June 30, 2006	Current Portion
Long-Term Bonds and Notes.....	\$ 56,847,528	\$ 200,000	\$ (4,401,262)	\$ -	\$ 52,646,266	\$ 4,381,536
Workers' Compensation.....	568,000	-	-	(269,000)	299,000	88,000
Compensated Absences.....	1,044,300	-	-	184,100	1,228,400	368,500
Total.....	<u>\$ 58,459,828</u>	<u>\$ 200,000</u>	<u>\$ (4,401,262)</u>	<u>\$ (84,900)</u>	<u>\$ 54,173,666</u>	<u>\$ 4,838,036</u>

BUSINESS-TYPE ACTIVITIES:

	Balance at June 30, 2005	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance at June 30, 2006	Current Portion
Long-Term Bonds and Notes.....	\$ 17,138,037	\$ -	\$ (1,404,835)	\$ -	\$ 15,733,202	\$ 1,398,735
Capital Lease Obligations.....	35,484	-	-	(35,484)	-	-
Compensated Absences.....	36,000	-	-	3,400	39,400	11,800
Total.....	<u>\$ 17,209,521</u>	<u>\$ -</u>	<u>\$ (1,404,835)</u>	<u>\$ (32,084)</u>	<u>\$ 15,772,602</u>	<u>\$ 1,410,535</u>

NOTE 8 - RISK FINANCING

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

The Town provides health insurance to its employees through its participation in the West Suburban Health Group (the Group), a non-profit trust comprised of eleven towns, one school district and two educational collaboratives. The Town recognizes the cost of providing health insurance by recording its share (depending on the plan, contribution rates range from 50% to 90%) of insurance premiums paid to the Group in the General Fund in the fiscal year paid. The purpose of the Group is to pay medical claims of its members' employees and their covered dependents.

Prior years' workers' compensation claims, previously self funded, are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type.

Changes in the reported liability since July 1, 2004, are as follows:

Workers' Compensation

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2005.....	\$ 824,000	\$ (235,376)	\$ (20,624)	\$ 568,000
Fiscal Year 2006.....	568,000	(180,121)	(88,879)	299,000

NOTE 9 - PENSION PLAN

Plan Description - The Town contributes to the System, a single-employer defined benefit pension plan administered by the Natick Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, 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 approximately \$7,390,000 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 increase 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 approved by the Natick Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 13 East Central Street, Natick, MA 01760.

At December 31, 2005, the System's membership consists of the following:

Active members.....	594
Inactive members.....	63
Retirees and beneficiaries currently receiving benefits.....	369
Total.....	1,026

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. Administrative expenses are funded through investment earnings. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town contributions to the System for the fiscal years ended June 30, 2006, 2005, and 2004 were \$4,763,423, \$4,413,704, and \$4,230,821, respectively, which equaled its required contribution for each fiscal year. At June 30, 2006, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2006, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8% investment rate of return and projected salary increases of 5.5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2006, was 19 years with payments increasing at 4.5% per year.

**Schedule of Funding Progress
(Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/06	\$ 79,234,306	\$ 118,903,286	\$ 39,668,980	66.6%	\$ 24,814,583	159.9%
01/01/04	70,246,877	109,024,236	38,777,359	64.4%	22,170,379	174.9%
01/01/02	68,985,592	100,572,515	31,586,923	68.6%	22,056,144	143.2%
01/01/00	64,669,153	89,688,360	25,019,207	72.1%	18,611,143	134.4%
01/01/99	63,402,638	86,939,398	23,536,760	72.9%	17,641,644	133.4%
01/01/97	46,435,956	62,827,480	16,391,524	73.9%	16,025,601	102.3%

Noncontributory Retirement Allowance - The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2006 totaled approximately \$157,000.

NOTE 10 - COMMITMENTS

The Town's major capital projects have been the construction of the new Wilson school, which began construction during fiscal year 2002, and the expansion of the Town's water treatment plant. At June 30, 2006 the school project has been completed. The waste water treatment plant construction has begun and the total cost is

expected to be approximately \$12 million. Various other water, sewer and municipal projects are on-going and are being funded with long term debt.

NOTE 11 – CONTINGENCIES

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 it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending, including a pending court case involving a labor relations matter recently brought forth by certain current and former patrol officers and supervisors. With regards to the labor relations matter, the plaintiffs seek payment of statutory overtime alleged to be due under the Fair Labor Standards Act of 1938. The discovery phase of the labor relations matter has been completed and a hearing is scheduled for April 2007. The Town is aggressively defending the case and is unable to evaluate the likelihood of any unfavorable outcome or to estimate the amount or range of potential loss associated with this matter.

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

NOTE 12 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

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

GASB issued Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement has not impacted the basic financial statements.

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

GASB issued Statement # 47, *Accounting for Termination Benefits*. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. This statement has not impacted the basic financial statements.

GASB issued Statement # 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which is required to be implemented in fiscal year 2008. Management has elected to implement this statement early. This statement has not impacted the basic financial statements.

Other Future GASB Pronouncements:

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

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

NOTE 13 – RESTATEMENT OF NET ASSETS

The beginning net assets of the Governmental Activities and the Nonmajor Governmental Funds have been restated in the amounts of \$1,454,019 and \$1,445,772, respectively, to reflect the current year presentation of the Morse Institute in Natick as a discretely presented component unit. The amounts had previously been included with other Permanent Funds of the Town.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 60,119,690	\$ 60,119,690	\$ 60,119,690
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	4,400,000	4,400,000	4,400,000
Hotel/motel tax.....	-	690,000	690,000	690,000
Trash disposal.....	-	1,100,000	1,100,000	1,100,000
Penalties and interest on taxes.....	-	350,000	350,000	350,000
Payments in lieu of taxes.....	-	30,000	30,000	30,000
Licenses and permits.....	-	1,325,000	1,325,000	1,325,000
Fines and forfeitures.....	-	275,000	275,000	275,000
Intergovernmental.....	-	10,662,520	10,662,520	10,662,520
Departmental and other.....	-	1,930,000	1,930,000	1,930,000
Investment income.....	-	950,000	950,000	950,000
TOTAL REVENUES.....	-	81,832,210	81,832,210	81,832,210
EXPENDITURES:				
Current:				
General government.....	727,681	4,273,251	5,000,932	5,188,493
Public safety.....	458,408	10,813,325	11,271,733	11,756,253
Education.....	1,980,241	37,007,140	38,987,381	39,757,278
Public works.....	1,263,659	6,578,546	7,842,205	9,691,619
Human services.....	36,977	947,614	984,591	1,005,345
Library.....	7,984	1,687,853	1,695,837	1,704,202
Culture and recreation.....	-	537,886	537,886	573,886
Pension benefits.....	-	4,770,844	4,770,844	4,770,844
Property and liability insurance.....	10,000	415,000	425,000	425,000
Employee benefits.....	140,257	10,139,942	10,280,199	10,463,978
State and county charges.....	-	1,366,218	1,366,218	1,366,218
Debt service:				
Principal.....	-	4,358,183	4,358,183	4,358,183
Interest.....	-	3,041,085	3,041,085	3,224,836
TOTAL EXPENDITURES.....	4,625,207	85,936,887	90,562,094	94,286,135
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(4,625,207)	(4,104,677)	(8,729,884)	(12,453,925)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	-	-	-
Transfers in.....	-	-	2,225,500	2,225,500
Transfers out.....	-	-	(876,000)	(876,000)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	1,349,500	1,349,500
NET CHANGE IN FUND BALANCE.....	(4,625,207)	(4,104,677)	(7,380,384)	(11,104,425)
BUDGETARY FUND BALANCE, Beginning of year.....	18,455,457	18,455,457	18,455,457	18,455,457
BUDGETARY FUND BALANCE, End of year.....	\$ 13,830,250	\$ 14,350,780	\$ 11,075,073	\$ 7,351,032

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$	60,854,398	\$ -	\$ 734,708
	321,785	-	321,785
	4,116,758	-	(283,242)
	743,328	-	53,328
	1,075,057	-	(24,943)
	240,114	-	(109,886)
	18,557	-	(11,443)
	1,718,787	-	393,787
	316,375	-	41,375
	10,776,984	-	114,464
	2,719,708	-	789,708
	<u>1,104,715</u>	<u>-</u>	<u>154,715</u>
	<u>84,006,566</u>	<u>-</u>	<u>2,174,356</u>
	3,903,460	769,567	515,466
	10,684,055	334,795	737,403
	37,262,230	1,501,753	993,295
	7,291,460	2,308,966	91,193
	875,958	26,489	102,898
	1,693,149	699	10,354
	568,002	-	5,884
	4,757,725	-	13,119
	385,427	-	39,573
	9,952,904	129,950	381,124
	1,366,218	-	-
	4,358,183	-	-
	<u>3,189,257</u>	<u>-</u>	<u>35,579</u>
	<u>86,288,028</u>	<u>5,072,219</u>	<u>2,925,888</u>
	<u>(2,281,462)</u>	<u>(5,072,219)</u>	<u>5,100,244</u>
	13,795	-	13,795
	2,225,500	-	-
	<u>(876,000)</u>	<u>-</u>	<u>-</u>
	<u>1,363,295</u>	<u>-</u>	<u>13,795</u>
	(918,167)	(5,072,219)	5,114,039
	<u>18,455,457</u>	<u>-</u>	<u>-</u>
\$	<u><u>17,537,290</u></u>	\$ <u><u>(5,072,219)</u></u>	\$ <u><u>5,114,039</u></u>

NOTE A - BUDGETARY BASIS OF ACCOUNTING

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. 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. The Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Special Town Meeting approval via a special article.

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 legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Town Meeting.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2006 approved budget authorized approximately \$91,438,000 in appropriations and other amounts to be raised. During fiscal year 2006, Town Meeting also approved supplemental appropriations totaling approximately \$3,724,000.

The Town Comptroller's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the Town's accounting system.

B. Budgetary - GAAP Reconciliation

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

Net change in fund balance - budgetary basis.....	\$ (918,167)
<u>Basis of accounting differences:</u>	
Net change in revenues in recording 60 day receipts.....	(143,224)
Net change in revenues in recording tax refunds payable.....	7,000
Net change in other GAAP versus bugetary accruals.....	1,958,126
Net change in expenditures for accrued Special Education reimbursements.....	(932,489)
Increase in revenues due to on-behalf payments.....	7,390,359
Increase in expenditures due to on-behalf payments.....	<u>(7,390,359)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (28,754)</u>