

TOWN OF SUDBURY, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

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

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.


We were unable to obtain audited financial statements supporting the Town's investment in the Wayland-Sudbury Septage Facility (the Facility) stated at \$714,000 at June 30, 2006, or its equity in the Facility's decrease in net assets of \$48,000, which is included in the change in net assets of governmental activities in the Statement of Activities; nor were we able to satisfy ourselves about the carrying value of the investment or the equity in its decrease in net assets by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Facility's financial statements been audited, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Sudbury, Massachusetts, as of June 30, 2006, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sudbury, Massachusetts, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison statement for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2006, on our consideration of the Town of Sudbury, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (located on pages 4 through 13) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

December 28, 2006

Management's Discussion and Analysis

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

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$87,158,115 (net assets). Of this amount, \$16,667,541 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$5,459,034.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$23,492,149, a decrease of \$459,456 in comparison with the prior year. Approximately \$17,324,000 represents unreserved fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$2,453,278 or 3.4 percent of total general fund expenditures.
- The Town's total bonded debt (gross) decreased by \$4,395,000 during the fiscal year; no new debt was issued.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

Government-wide financial statements

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

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

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

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

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

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

Governmental Funds

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

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

The Town maintains 306 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization and community preservation (special revenue), and school construction and public works facilities (capital projects) funds, each of which are considered to be major funds. Data from the other 301 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

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

The basic governmental funds financial statements and budgetary comparison statement can be found on pages 18-24 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its swimming pool and landfill activities, each of which are considered to be major funds.

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

Fiduciary funds

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

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-52 of this report.

Government-Wide Financial Analysis

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$87,158,115 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets.....	\$ 28,907,079	\$ 30,507,958	\$ 259,742	\$ 293,083	\$ 29,166,821	\$ 30,801,041
Noncurrent assets (excluding capital assets).....	24,789,228	26,123,167	-	-	24,789,228	26,123,167
Capital assets (net).....	82,915,457	78,833,365	927,197	825,000	83,842,654	79,658,365
Total assets.....	<u>136,611,764</u>	<u>135,464,490</u>	<u>1,186,939</u>	<u>1,118,083</u>	<u>137,798,703</u>	<u>136,582,573</u>
Liabilities						
Current liabilities (excluding debt).....	4,347,411	4,580,653	40,706	27,817	4,388,117	4,608,470
Noncurrent liabilities (excluding debt).....	911,592	778,470	-	-	911,592	778,470
Current debt.....	4,025,673	4,155,673	-	-	4,025,673	4,155,673
Noncurrent debt.....	41,315,206	45,340,879	-	-	41,315,206	45,340,879
Total liabilities.....	<u>50,599,882</u>	<u>54,855,675</u>	<u>40,706</u>	<u>27,817</u>	<u>50,640,588</u>	<u>54,883,492</u>
Net Assets						
Invested in capital assets (net of related debt).....	61,188,584	55,026,501	927,197	825,000	62,115,781	55,851,501
Restricted.....	8,374,793	10,149,495	-	-	8,374,793	10,149,495
Unrestricted.....	16,448,505	15,432,819	219,036	265,266	16,667,541	15,698,085
Total net assets.....	<u>\$ 86,011,882</u>	<u>\$ 80,608,815</u>	<u>\$ 1,146,233</u>	<u>\$ 1,090,266</u>	<u>\$ 87,158,115</u>	<u>\$ 81,699,081</u>

A significant portion of the Town's net assets (71.3%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (9.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (19.1% or \$16,667,541) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$16,448,505 may be used to support governmental activities and \$219,036 may be used to support business-type activities.

Changes in Net Assets

The Town's total net assets increased by \$5,459,034 during the current fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 4,053,119	\$ 3,692,198	\$ 721,544	\$ 685,646	\$ 4,774,663	\$ 4,377,844
Operating grants and contributions.....	10,993,718	10,402,448	-	-	10,993,718	10,402,448
Capital grants and contributions.....	1,928,350	1,178,729	-	-	1,928,350	1,178,729
<i>General Revenues:</i>						
Real estate, personal property taxes and tax liens.....	55,696,151	49,428,298	-	-	55,696,151	49,428,298
Motor vehicle and other excise taxes.....	2,898,295	3,133,558	-	-	2,898,295	3,133,558
Penalties and interest on taxes.....	338,103	253,752	-	-	338,103	253,752
Payments in lieu of taxes.....	65,409	70,688	-	-	65,409	70,688
Community preservation surcharges.....	1,243,198	1,099,476	-	-	1,243,198	1,099,476
Grants and contributions not restricted to specific programs.....	1,672,142	1,618,594	-	-	1,672,142	1,618,594
Unrestricted investment income.....	620,763	376,609	-	-	620,763	376,609
Loss on disposal of capital assets.....	-	(48,606)	-	-	-	(48,606)
Other.....	-	101,783	-	-	-	101,783
Total revenues.....	79,509,248	71,307,527	721,544	685,646	80,230,792	71,993,173
Expenses						
General government.....	3,033,860	3,072,582	-	-	3,033,860	3,072,582
Public safety.....	7,547,355	7,443,552	-	-	7,547,355	7,443,552
Education.....	54,524,814	49,159,945	-	-	54,524,814	49,159,945
Public works.....	4,070,174	4,070,244	-	-	4,070,174	4,070,244
Health and human services.....	751,824	755,562	-	-	751,824	755,562
Culture and recreation.....	1,942,628	2,330,661	-	-	1,942,628	2,330,661
Debt service - interest.....	2,242,108	1,979,109	-	-	2,242,108	1,979,109
Swimming pool.....	-	-	422,041	404,333	422,041	404,333
Landfill.....	-	-	236,954	242,350	236,954	242,350
Total expenses.....	74,112,763	68,811,655	658,995	646,683	74,771,758	69,458,338
Change in net assets before transfers.....	5,396,485	2,495,872	62,549	38,963	5,459,034	2,534,835
Transfers, net.....	6,582	5,899	(6,582)	(5,899)	-	-
Change in net assets.....	5,403,067	2,501,771	55,967	33,064	5,459,034	2,534,835
Net assets - beginning of year.....	80,608,815	78,107,044	1,090,266	1,057,202	81,699,081	79,164,246
Net assets - end of year.....	\$ 86,011,882	\$ 80,608,815	\$ 1,146,233	\$ 1,090,266	\$ 87,158,115	\$ 81,699,081

Governmental activities increased the Town's net assets by \$5,403,067. In the prior year, governmental activities increased the Town's net assets by \$2,501,771. The key elements of this change are as follows:

- Decrease in the Town's utilization of general fund reserves for spending in fiscal year 2006 (\$840,000)
- Increase in the change in net assets of the health insurance and workers' compensation trusts (\$787,000)
- Decrease in depreciation (\$413,000)
- Increase in real estate and personal property taxes of approximately \$6,000,000 resulting from the Town's override vote

Business-type activities increased the Town's net assets by \$55,967. In the prior year, business-type activities increased the Town's net assets by \$33,064.

Fund Financial Statement Analysis

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

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$23,492,149, a decrease of \$459,456 in comparison with the prior year. 65.3% of this total amount, or \$15,337,224, represents undesignated fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders (\$991,728)
- Employee benefits (\$3,984,025)
- Perpetual permanent funds (\$926,755)
- Other specific purposes (\$266,055)
- Fund a portion of the fiscal year 2007 budget (\$1,986,362)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$2,453,278, while total fund balance was \$9,415,393. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 3.4% of total general fund expenditures, while total fund balance represents 13.1% of that same amount.

The fund balance of the Town's general fund increased \$1,549,362 during the current fiscal year. This is primarily attributable to the following:

- Unbudgeted collections of revenue (\$2,174,312)
- Net increase of self-insurance activities reported in the general fund for GAAP (\$1,069,175)
- Conservative spending against budgeted appropriations (positive variance of \$986,092)
- Use of unreserved fund balance (\$2,777,098)

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

The fund balance of the stabilization fund (special revenue) increased by \$42,129 during the current fiscal year. This is attributable to investment income earned by the fund.

The fund balance of the community preservation fund (special revenue) decreased by \$1,608,811 during the current fiscal year. This is primarily attributable to purchases of land of approximately \$2,641,000 that were previously funded by long-term bond proceeds.

The fund balance of the school construction fund (capital project) decreased by \$9,438 during the current fiscal year. This is attributable to expenditures on school construction projects that were previously funded by long-term bond proceeds.

The fund balance of the public works facilities fund (capital project) decreased by \$86,912 during the current fiscal year. This is attributable to expenditures on the public works facilities that were previously funded by long-term bond proceeds.

Proprietary funds

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

Unrestricted net assets of the swimming pool and landfill enterprise funds at the end of the year amounted to \$96,638 and \$122,398, respectively. The swimming pool and landfill enterprise funds had increases in net assets for the year of \$1,246 and \$54,721, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town’s business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$69,883,086 was increased by \$163,421 (0.2%) during the fiscal year. The following table summarizes the increase.

Purpose of Increase	Amount	Funding Source
Town-wide operations and reserve fund.....	\$ 81,646	Overlay / Abatement surplus
Fire department capital budget.....	54,100	Transfer from nonmajor governmental funds
Department of Public Works' operating budget.....	<u>27,675</u>	Transfer from nonmajor governmental funds
Total increase.....	<u>\$ 163,421</u>	

During the year, general fund revenues exceeded budgetary estimates and expenditures were less, resulting in an actual increase in fund balance that exceeded the final amended budget amount by \$3,160,404. Of this amount, \$991,728 is reserved for encumbrances and continuing appropriations as of June 30, 2006.

Capital Asset and Debt Administration

Capital assets

The Town’s investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$83,842,654 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$4,184,289, or 5.2% (a 5.1% increase for governmental activities and a 0.1% increase for business-type activities).

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

- Purchases of land (\$2,641,000)
- Purchases of vehicles (\$1,169,000)
- Cutting Turf playing field (\$1,000,000)
- Various building improvements (\$923,000)
- Various roadway and other infrastructure improvements (\$445,000)

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Land.....	\$ 25,331,102	\$ 22,689,708	\$ 192,500	\$ 192,500	\$ 25,523,602	\$ 22,882,208
Construction in progress.....	812,368	793,270	-	-	812,368	793,270
Land improvements.....	1,113,825	25,808	-	-	1,113,825	25,808
Buildings and improvements.....	51,645,913	52,328,061	603,750	632,500	52,249,663	52,960,561
Machinery and equipment.....	786,947	803,182	-	-	786,947	803,182
Vehicles.....	1,755,939	1,114,610	130,947	-	1,886,886	1,114,610
Infrastructure.....	1,469,363	1,078,726	-	-	1,469,363	1,078,726
Total capital assets.....	\$ 82,915,457	\$ 78,833,365	\$ 927,197	\$ 825,000	\$ 83,842,654	\$ 79,658,365

Additional information on the Town’s capital assets can be found in Note 5 on pages 44-45 of this report.

Long-Term Debt

At the end of the current fiscal year, the total gross bonded debt outstanding was \$46,305,000, which is backed by the full faith and credit of the Town and consists entirely of general obligation bonds.

The Town’s total gross bonded debt decreased by \$4,395,000 (8.7%) during the current fiscal year, with no new debt issuances.

The Town has an AAA bond rating from Standard & Poor’s.

State statutes limit the amount of general obligation debt the Town may issue to 5% of its total assessed valuation. The current debt limit is \$211,576,566, which is significantly in excess of the Town’s outstanding debt.

Additional information on the Town’s long-term debt can be found in Note 9 on pages 47-50 of this report.

Economic Factors and Next Year’s Budgets and Rates

The development of the fiscal year 2007 general fund operating budget benefited from favorable increases in two of the three major revenues for the Town, local receipts and free cash, from fiscal year 2006. State aid, our only other significant revenue source, was also projected to increase moderately from fiscal year 2006 levels. Property tax remains the primary local-source revenue for the Town. Property taxes in Massachusetts municipalities are limited to a levy growth of 2 ½% plus a factor for new construction, unless the voters at an election approve an increase for operating expenses or debt service for a specific project. Due to favorable projections in non-tax revenues, the Town was able to submit a balanced budget that did not require a 2 ½ override.

With approval of the budget, fiscal year 2007 projections for general fund revenues increased by \$3.7 million, as follows:

- Property taxes, up 10.3% including new growth;
- State aid and local receipts, up 11.9%;
- Free cash from the prior year, up a significant 84.4% or \$675,000 over fiscal year 2006.

Capital needs for the Town continues to be an area of concern. The fiscal year 2007 capital spending plan included a modest \$12,095 increase over fiscal year 2006. With a variety of old equipment and needed building improvements still stacking up under the weight of meager increases for other operating expenses, the Town may need to ask for future capital exclusion funding or override dollars earmarked for infrastructure in order to protect against the further erosion of public assets and continue meeting the needs of the Community as a whole. Annual debt service for Town of Sudbury debt continues to decline as we pay off the bonds issued for expansion of the Sudbury Public Schools. This decline in excluded debt will provide room in the Town's tax levy for other much-needed building improvement projects. The timing of these new significant projects will allow the Town to upgrade their facilities without having to increase the debt-related component of the tax rate during fiscal year 2008 and beyond.

The permanent increase to the levy limit in fiscal year 2006 allowed more flexibility for the Town during the fiscal year 2007 budget cycle. However, the budget outlook for fiscal year 2008 and beyond remains guarded as operating expenses, in particular in the areas of utilities, fuel, supplies and health insurance costs, continue to rise year-to-year at a much greater pace than the Town's aggregate revenues and receipts. A particular cautionary footnote for Sudbury and other communities is the uncertainty of State Aid from year-to-year. Whereas fiscal year 2007 showed a bump up in this area, recent indications suggest just the opposite going forward as the State's own budget difficulties remain closely tied to how much and where local aid is distributed. Free Cash for the Town is also expected to steadily decline in future years as certain non-recurring receipts continue to dwindle.

Management continued to take steps to protect the Town's financial health in fiscal year 2007 and beyond. Sudbury's comprehensive budget policies and practices earned the Town top-honors in fiscal year 2007 by being awarded the National Government Finance Officers Association's "Distinguished Budget Award". The financial policies require us to avoid making short-term decisions that solve the problems only for today but jeopardize the future. Such actions that have been avoided include using our Stabilization Fund, designated for Emergency Reserves, to cover operating costs, further postponing funds for capital and building maintenance, or "raiding" trust fund balances. These types of actions could be tremendously harmful to the Town over the long-run. The Board of Selectmen continues working on strategies to increase our tax base by working on alternatives to provide wastewater treatment in the downtown area. This has been identified as the major inhibitor for any growth of our commercial sector.

Finally, elected and appointed officials remain committed to using a forecasting model we developed to project long-range costs as well as adhering to long-term financial principles for decision-making. We believe this approach will serve the Town well in managing our way out of the current financial difficulties and any future ones. The model allows us to focus not just on the balance between revenues and expenditures in the current year but also on those of future years because it isolates the primary drivers of future costs. As part of this forward-thinking, Sudbury's management has successfully identified several key revenue-enhancing & cost-savings measures that have positively impacted the financial results for the Town in fiscal year 2007 and thereafter. The Town remains committed to these efforts as outlined in Sudbury's C.A.R.E. program (Cost Avoidance and Revenue Enhancement) and others like it.

The key to maintaining our excellent financial condition and retaining our hard won AAA credit rating from Standard & Poor's is to continue to make decisions with multi-year sustainability in mind, and to respect the voters of the Town as to the service levels and property tax overrides they approve.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 288 Old Sudbury Road, Sudbury, Massachusetts 01776.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 10,580,022	\$ 259,742	\$ 10,839,764
Restricted cash and cash equivalents.....	6,620,303	-	6,620,303
Investments.....	8,453,148	-	8,453,148
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	571,244	-	571,244
Tax liens.....	467,304	-	467,304
Motor vehicle and other excise taxes.....	113,555	-	113,555
Community preservation surcharges.....	11,460	-	11,460
Intergovernmental.....	2,000,352	-	2,000,352
Tax foreclosures.....	36,195	-	36,195
Working capital deposit.....	53,496	-	53,496
Total current assets.....	<u>28,907,079</u>	<u>259,742</u>	<u>29,166,821</u>
Noncurrent assets:			
Restricted investments.....	1,376,698	-	1,376,698
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	542,530	-	542,530
Intergovernmental.....	22,156,000	-	22,156,000
Investment in joint venture.....	714,000	-	714,000
Capital assets not being depreciated.....	26,143,470	192,500	26,335,970
Capital assets, net of accumulated depreciation.....	<u>56,771,987</u>	<u>734,697</u>	<u>57,506,684</u>
Total noncurrent assets.....	<u>107,704,685</u>	<u>927,197</u>	<u>108,631,882</u>
Total assets.....	<u>136,611,764</u>	<u>1,186,939</u>	<u>137,798,703</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	280,972	30,819	311,791
Accrued payroll.....	2,164,394	9,887	2,174,281
Tax refunds payable.....	85,358	-	85,358
Other liabilities.....	569,029	-	569,029
Abandoned property.....	254	-	254
Accrued interest.....	178,741	-	178,741
Accrued health claims payable.....	789,132	-	789,132
Capital lease obligations.....	161,798	-	161,798
Workers' compensation claims.....	59,250	-	59,250
Compensated absences.....	58,483	-	58,483
Long-term bonds and notes payable.....	<u>4,025,673</u>	<u>-</u>	<u>4,025,673</u>
Total current liabilities.....	<u>8,373,084</u>	<u>40,706</u>	<u>8,413,790</u>
Noncurrent liabilities:			
Capital lease obligations.....	357,196	-	357,196
Workers' compensation claims.....	28,050	-	28,050
Compensated absences.....	526,346	-	526,346
Long-term bonds and notes payable.....	<u>41,315,206</u>	<u>-</u>	<u>41,315,206</u>
Total noncurrent liabilities.....	<u>42,226,798</u>	<u>-</u>	<u>42,226,798</u>
Total liabilities.....	<u>50,599,882</u>	<u>40,706</u>	<u>50,640,588</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	61,188,584	927,197	62,115,781
Restricted for:			
Investment in joint venture.....	714,000	-	714,000
Community preservation.....	6,168,565	-	6,168,565
Permanent funds:			
Expendable.....	299,418	-	299,418
Nonexpendable.....	926,755	-	926,755
Other specific purposes.....	266,055	-	266,055
Unrestricted.....	<u>16,448,505</u>	<u>219,036</u>	<u>16,667,541</u>
Total net assets.....	<u>\$ 86,011,882</u>	<u>\$ 1,146,233</u>	<u>\$ 87,158,115</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 3,033,860	\$ 1,210,513	\$ 194,574	\$ -	\$ (1,628,773)
Public safety.....	7,547,355	353,473	262,749	-	(6,931,133)
Education.....	54,524,814	1,098,293	9,263,814	-	(44,162,707)
Public works.....	4,070,174	428,416	84,553	814,178	(2,743,027)
Health and human services.....	751,824	19,232	30,328	-	(702,264)
Culture and recreation.....	1,942,628	943,192	246,494	1,114,172	361,230
Debt service - interest.....	2,242,108	-	911,206	-	(1,330,902)
Total governmental activities...	<u>74,112,763</u>	<u>4,053,119</u>	<u>10,993,718</u>	<u>1,928,350</u>	<u>(57,137,576)</u>
Business-type activities:					
Swimming pool.....	422,041	421,076	-	-	(965)
Landfill.....	236,954	300,468	-	-	63,514
Total business-type activities...	<u>658,995</u>	<u>721,544</u>	<u>-</u>	<u>-</u>	<u>62,549</u>
Total primary government.....	<u>\$ 74,771,758</u>	<u>\$ 4,774,663</u>	<u>\$ 10,993,718</u>	<u>\$ 1,928,350</u>	<u>\$ (57,075,027)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (57,137,576)	\$ 62,549	\$ (57,075,027)
<i>General revenues:</i>			
Real estate, personal property taxes and tax liens..	55,696,151	-	55,696,151
Motor vehicle and other excise taxes.....	2,898,295	-	2,898,295
Penalties and interest on taxes.....	338,103	-	338,103
Payments in lieu of taxes.....	65,409	-	65,409
Community preservation surcharges.....	1,243,198	-	1,243,198
Grants and contributions not restricted to specific programs.....	1,672,142	-	1,672,142
Unrestricted investment income.....	620,763	-	620,763
<i>Transfers, net</i>	6,582	(6,582)	-
Total general revenues and transfers.....	62,540,643	(6,582)	62,534,061
Change in net assets.....	5,403,067	55,967	5,459,034
Net assets - beginning of year.....	80,608,815	1,090,266	81,699,081
Net assets - end of year.....	\$ 86,011,882	\$ 1,146,233	\$ 87,158,115

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

ASSETS	<u>General</u>	<u>Stabilization</u>	<u>Community Preservation</u>
Cash and cash equivalents.....	\$ 6,010,175	\$ 68,596	\$ -
Investments.....	6,923,753	1,529,395	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	571,244	-	-
Real estate tax deferrals.....	542,530	-	-
Tax liens.....	454,499	-	12,805
Motor vehicle and other excise taxes.....	113,555	-	-
Community preservation surcharges.....	-	-	11,460
Intergovernmental.....	24,133,000	-	-
Tax foreclosures.....	36,195	-	-
Working capital deposit.....	53,496	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	6,146,701
Investments.....	-	-	-
TOTAL ASSETS.....	<u>\$ 38,838,447</u>	<u>\$ 1,597,991</u>	<u>\$ 6,170,966</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 240,534	\$ -	\$ -
Accrued payroll.....	2,162,859	-	1,535
Tax refunds payable.....	85,358	-	-
Other liabilities.....	568,163	-	866
Abandoned property.....	254	-	-
Deferred revenue.....	25,489,454	-	24,265
Accrued health claims payable.....	789,132	-	-
Workers' compensation claims.....	87,300	-	-
TOTAL LIABILITIES.....	<u>29,423,054</u>	<u>-</u>	<u>26,666</u>
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	991,728	-	-
Employee benefits.....	3,984,025	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	1,986,362	-	-
Undesignated, reported in:			
General fund.....	2,453,278	-	-
Special revenue funds.....	-	1,597,991	6,144,300
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	<u>9,415,393</u>	<u>1,597,991</u>	<u>6,144,300</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 38,838,447</u>	<u>\$ 1,597,991</u>	<u>\$ 6,170,966</u>

See notes to basic financial statements.

	School Construction	Public Works Facilities	Nonmajor Governmental Funds	Total Governmental Funds
\$	-	\$ -	\$ 4,501,251	\$ 10,580,022
	-	-	-	8,453,148
	-	-	-	571,244
	-	-	-	542,530
	-	-	-	467,304
	-	-	-	113,555
	-	-	-	11,460
	-	-	23,352	24,156,352
	-	-	-	36,195
	-	-	-	53,496
	347,469	85,513	40,620	6,620,303
	-	-	1,376,698	1,376,698
\$	<u>347,469</u>	<u>85,513</u>	<u>5,941,921</u>	<u>52,982,307</u>
\$	-	\$ -	\$ 40,438	\$ 280,972
	-	-	-	2,164,394
	-	-	-	85,358
	-	-	-	569,029
	-	-	-	254
	-	-	-	25,513,719
	-	-	-	789,132
	-	-	-	87,300
	-	-	40,438	29,490,158
	-	-	-	991,728
	-	-	-	3,984,025
	-	-	926,755	926,755
	-	-	266,055	266,055
	-	-	-	1,986,362
	-	-	-	2,453,278
	-	-	4,174,326	11,916,617
	347,469	85,513	234,929	667,911
	-	-	299,418	299,418
	347,469	85,513	5,901,483	23,492,149
\$	<u>347,469</u>	<u>85,513</u>	<u>5,941,921</u>	<u>52,982,307</u>

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

	General	Stabilization
REVENUES		
Real estate and personal property taxes.....	\$ 55,331,010	\$ -
Motor vehicle and other excise taxes.....	2,965,914	-
Tax liens.....	506,697	-
Payments in lieu of taxes.....	65,409	-
Community preservation surcharges.....	-	-
Charges for services.....	-	-
Intergovernmental	11,956,532	-
Penalties and interest on taxes.....	338,103	-
Licenses, permits and fees.....	930,259	-
Fines and forfeitures.....	167,833	-
Departmental.....	188,173	-
Contributions.....	-	-
Investment income.....	620,763	42,129
	<u>73,070,693</u>	<u>42,129</u>
TOTAL REVENUES.....		
EXPENDITURES		
Current:		
General government.....	2,459,513	-
Public safety.....	5,747,803	-
Education.....	42,073,179	-
Public works.....	3,249,681	-
Health and human services.....	532,049	-
Culture and recreation.....	978,460	-
Pension benefits.....	5,665,164	-
Employee benefits.....	5,363,527	-
Property and liability insurance.....	164,957	-
State and county charges.....	167,557	-
Debt service:		
Principal.....	3,861,500	-
Interest.....	1,679,487	-
	<u>71,942,877</u>	<u>-</u>
TOTAL EXPENDITURES.....		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	<u>1,127,816</u>	<u>42,129</u>
OTHER FINANCING SOURCES (USES)		
Transfers in.....	458,757	-
Transfers out.....	(37,211)	-
	<u>421,546</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES).....		
NET CHANGE IN FUND BALANCES.....	1,549,362	42,129
FUND BALANCES AT BEGINNING OF YEAR.....	<u>7,866,031</u>	<u>1,555,862</u>
FUND BALANCES AT END OF YEAR.....	<u>\$ 9,415,393</u>	<u>\$ 1,597,991</u>

See notes to basic financial statements.

<u>Community Preservation</u>	<u>School Construction</u>	<u>Public Works Facilities</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 55,331,010
-	-	-	-	2,965,914
-	-	-	-	506,697
-	-	-	-	65,409
1,235,095	-	-	-	1,235,095
-	-	-	329,177	329,177
1,105,972	-	-	2,813,862	15,876,366
-	-	-	-	338,103
-	-	-	2,516,528	3,446,787
-	-	-	5,909	173,742
-	-	-	81,734	269,907
-	-	-	134,088	134,088
222,219	-	-	57,913	943,024
<u>2,563,286</u>	<u>-</u>	<u>-</u>	<u>5,939,211</u>	<u>81,615,319</u>
-	-	-	303,987	2,763,500
-	-	-	600,941	6,348,744
-	9,438	-	3,082,519	45,165,136
-	-	86,912	916,539	4,253,132
-	-	-	45,182	577,231
3,320,824	-	-	920,865	5,220,149
-	-	-	-	5,665,164
-	-	-	-	5,363,527
-	-	-	-	164,957
-	-	-	-	167,557
533,500	-	-	-	4,395,000
317,773	-	-	-	1,997,260
<u>4,172,097</u>	<u>9,438</u>	<u>86,912</u>	<u>5,870,033</u>	<u>82,081,357</u>
<u>(1,608,811)</u>	<u>(9,438)</u>	<u>(86,912)</u>	<u>69,178</u>	<u>(466,038)</u>
-	-	-	25,000	483,757
-	-	-	(439,964)	(477,175)
-	-	-	(414,964)	6,582
(1,608,811)	(9,438)	(86,912)	(345,786)	(459,456)
<u>7,753,111</u>	<u>356,907</u>	<u>172,425</u>	<u>6,247,269</u>	<u>23,951,605</u>
<u>\$ 6,144,300</u>	<u>\$ 347,469</u>	<u>\$ 85,513</u>	<u>\$ 5,901,483</u>	<u>\$ 23,492,149</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Total governmental fund balances (page 19).....	\$	23,492,149
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		82,915,457
The equity interest in the assets of the governmental joint venture is not reported in the governmental funds.....		714,000
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		25,513,719
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(178,741)
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.....		(45,340,879)
Capital lease obligations.....		(518,994)
Compensated absences.....		(584,829)
Net assets of governmental activities (page 15).....	\$	<u><u>86,011,882</u></u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 21).....	\$	(459,456)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		6,351,679
Depreciation.....		(2,189,990)
<p>In the statement of activities, the <i>gain</i> or <i>loss</i> on the disposal of capital assets is reported, whereas in the governmental funds the disposal is not reported. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets disposed.....</p>		
		(79,597)
<p>The investment in joint venture accounts for the equity interest in the Wayland-Sudbury Septage Facility. Since a majority of the equity interest is invested in capital assets, the investment in joint venture is only reported in the statement of net assets. This represents the net change in the investment in joint venture.....</p>		
		(48,000)
<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>		
		(2,106,072)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond maturities.....		4,395,000
Amortization of deferred losses on refundings.....		(239,327)
Capital lease obligations.....		(340,143)
Capital lease maturities.....		169,461
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		(5,521)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. This amount represents the net change:</p>		
Compensated absences.....		(44,967)
		(44,967)
Changes in net assets of governmental activities (page 17).....	\$	5,403,067

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 54,840,170	\$ 54,840,170	\$ 55,234,129	\$ 393,959
Motor vehicle and other excise taxes.....	2,665,000	2,665,000	2,965,914	300,914
Tax liens.....	-	-	506,697	506,697
Payments in lieu of taxes.....	52,000	52,000	65,409	13,409
Intergovernmental.....	8,115,390	8,115,390	8,119,771	4,381
Penalties and interest on taxes.....	120,000	120,000	338,103	218,103
Licenses, permits and fees.....	715,092	715,092	930,259	215,167
Fines and forfeitures.....	75,000	75,000	167,833	92,833
Departmental.....	73,000	73,000	188,173	115,173
Investment income.....	155,000	155,000	468,676	313,676
TOTAL REVENUES.....	66,810,652	66,810,652	68,984,964	2,174,312
EXPENDITURES				
Current:				
General government.....	2,768,506	2,601,539	2,468,783	132,756
Public safety.....	5,786,453	5,848,521	5,747,803	100,718
Education.....	42,485,686	42,485,686	42,073,179	412,507
Public works.....	3,010,132	3,245,269	3,249,681	(4,412)
Health and human services.....	542,450	542,962	532,049	10,913
Culture and recreation.....	1,010,838	996,498	978,460	18,038
Pension benefits.....	1,883,021	1,835,214	1,828,403	6,811
Employee benefits.....	6,259,164	6,306,667	6,271,345	35,322
Property and liability insurance.....	164,736	174,840	164,957	9,883
State and county charges.....	232,756	232,756	167,557	65,199
Debt service:				
Principal.....	3,861,500	3,861,500	3,861,500	-
Interest.....	1,877,844	1,877,844	1,679,487	198,357
TOTAL EXPENDITURES.....	69,883,086	70,009,296	69,023,204	986,092
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,072,434)	(3,198,644)	(38,240)	3,160,404
OTHER FINANCING SOURCES (USES)				
Transfers in.....	376,982	458,757	458,757	-
Transfers out.....	-	(37,211)	(37,211)	-
TOTAL OTHER FINANCING SOURCES (USES).....	376,982	421,546	421,546	-
NET CHANGE IN FUND BALANCE.....	(2,695,452)	(2,777,098)	383,306	3,160,404
FUND BALANCE AT BEGINNING OF YEAR.....	4,771,853	4,771,853	4,771,853	-
FUND BALANCE AT END OF YEAR.....	\$ 2,076,401	\$ 1,994,755	\$ 5,155,159	\$ 3,160,404

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-Type Activities - Enterprise Funds		
ASSETS	Swimming Pool	Landfill	Total
Current assets:			
Cash and cash equivalents.....	\$ 110,133	\$ 149,609	\$ 259,742
Noncurrent assets:			
Capital assets not being depreciated.....	-	192,500	192,500
Capital assets, net of accumulated depreciation.....	603,750	130,947	734,697
Total noncurrent assets.....	603,750	323,447	927,197
Total assets.....	713,883	473,056	1,186,939
LIABILITIES			
Current liabilities:			
Warrants payable.....	7,485	23,334	30,819
Accrued payroll.....	6,010	3,877	9,887
Total current liabilities.....	13,495	27,211	40,706
NET ASSETS			
Invested in capital assets, net of related debt.....	603,750	323,447	927,197
Unrestricted.....	96,638	122,398	219,036
Total net assets.....	\$ 700,388	\$ 445,845	\$ 1,146,233

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	Swimming Pool	Landfill	Total
OPERATING REVENUES			
Charges for services.....	\$ 421,076	\$ 300,468	\$ 721,544
OPERATING EXPENSES			
Cost of service and administration.....	365,031	186,974	552,005
Repairs and maintenance.....	28,260	44,287	72,547
Depreciation.....	28,750	5,693	34,443
 TOTAL OPERATING EXPENSES.....	 422,041	 236,954	 658,995
 OPERATING INCOME (LOSS).....	 (965)	 63,514	 62,549
TRANSFERS			
Transfers in.....	2,211	10,000	12,211
Transfers out.....	-	(18,793)	(18,793)
 TOTAL TRANSFERS.....	 2,211	 (8,793)	 (6,582)
 CHANGE IN NET ASSETS.....	 1,246	 54,721	 55,967
 NET ASSETS AT BEGINNING OF YEAR.....	 699,142	 391,124	 1,090,266
 NET ASSETS AT END OF YEAR.....	 \$ 700,388	 \$ 445,845	 \$ 1,146,233

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Swimming Pool</u>	<u>Landfill</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 421,076	\$ 300,468	\$ 721,544
Payments to vendors.....	(181,282)	(122,187)	(303,469)
Payments to employees.....	(211,004)	(97,190)	(308,194)
NET CASH FROM OPERATING ACTIVITIES.....	<u>28,790</u>	<u>81,091</u>	<u>109,881</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in.....	2,211	10,000	12,211
Transfers out.....	-	(18,793)	(18,793)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>2,211</u>	<u>(8,793)</u>	<u>(6,582)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets.....	<u> </u>	<u>(136,640)</u>	<u>(136,640)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	31,001	(64,342)	(33,341)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>79,132</u>	<u>213,951</u>	<u>293,083</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 110,133</u>	<u>\$ 149,609</u>	<u>\$ 259,742</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ (965)	\$ 63,514	\$ 62,549
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	28,750	5,693	34,443
Changes in assets and liabilities:			
Warrants payable.....	142	11,425	11,567
Accrued payroll.....	863	459	1,322
Total adjustments.....	<u>29,755</u>	<u>17,577</u>	<u>47,332</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 28,790</u>	<u>\$ 81,091</u>	<u>\$ 109,881</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

ASSETS	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ 88,745	\$ 1,272,333
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	<u>-</u>	<u>197,853</u>
Total assets.....	<u>88,745</u>	<u>1,470,186</u>
 LIABILITIES		
Warrants payable.....	-	1,389
Liabilities due depositors.....	<u>-</u>	<u>1,468,797</u>
Total liabilities.....	<u>-</u>	<u>1,470,186</u>
 NET ASSETS		
Held in trust for other purposes.....	<u>\$ 88,745</u>	<u>\$ -</u>

See notes to basic financial statements.

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

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private donations.....	\$ 825
Net investment income:	
Interest.....	<u>3,327</u>
TOTAL ADDITIONS.....	4,152
DEDUCTIONS	
Scholarships awarded.....	<u>4,379</u>
CHANGE IN NET ASSETS.....	(227)
NET ASSETS AT BEGINNING OF YEAR.....	<u>88,972</u>
NET ASSETS AT END OF YEAR.....	<u><u>\$ 88,745</u></u>

See notes to basic financial statements.

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

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

B. Reporting Entity

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

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

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

Joint Ventures

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

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

Wayland-Sudbury Septage Disposal Facility (Facility)

The Town is a participant in a joint venture with the Town of Wayland for the operation of a septage disposal facility. The Towns of Sudbury and Wayland each appoint five members of the Operational Review Committee who oversee the operations. Each town has a 50 percent interest in the venture. The Town of Sudbury is the custodian of the Facility's cash and investments, which is reported in the Agency Fund. As of June 30, 2006, the Town's unaudited equity interest (departure from GAAP) in the operation of the Facility totaled \$714,000 and is reported in governmental activities.

Lincoln Sudbury Regional High School District (LSRHSD)

The LSRHSD is governed by a six member school district committee consisting of three elected representatives of the Town. The Town is indirectly liable for the LSRHSD debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2006, the Town's assessment totaled \$17,053,098. Separate financial statements may be obtained by writing to the Treasurer of the LSRHSD at 390 Lincoln Road, Sudbury, MA 01776.

Minuteman Regional High School (MRHS)

The MRHS is governed by a seventeen member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the MRHS debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2006, the Town's assessment totaled \$304,640. Separate financial statements may be obtained by writing to the Treasurer of the MRHS at 758 Marrett Road, Lexington, MA 02421-7313.

C. Government-Wide and Fund Financial StatementsGovernment-Wide Financial Statements

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

Fund Financial Statements

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

D. Measurement Focus, Basis of Accounting and Basis of PresentationGovernment-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and capital reserves. Use of this fund is subject to Town Meeting approval.

The *community preservation fund* is a special revenue fund used to account for the 3% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Property exempt from the surcharge consists of the first \$100,000 of all residential property and also property owned by low-income residents or seniors with low or moderate income as defined by Massachusetts Department of Revenue (DOR) guidelines. Disbursements from this fund must originate from the Community Preservation Committee and be approved by Town Meeting.

The *school construction fund* is a capital projects fund used to account for financial resources to expand and upgrade school facilities.

The *public works facilities fund* is a capital projects fund used to account for financial resources to construct a new public works facility.

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

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

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

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

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

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

The following major proprietary funds are reported:

The *swimming pool enterprise fund* is used to account for recreational swimming pool activities.

The *landfill enterprise fund* is used to account for landfill activities.

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

The following fiduciary fund types are reported:

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

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

E. Cash and Investments

Government-Wide and Fund Financial Statements

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Real Estate Tax Deferrals, 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 approximately one-year after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle and Other Excise Taxes

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

Community Preservation Surcharges

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

Departmental and Other

Departmental and other receivables represent amounts due vendors related to police details and the septage facility and are recorded as receivables in the fiscal year accrued.

Intergovernmental

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

G. Allowance for Uncollectible Accounts

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

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other

As of June 30, 2006, the allowance for uncollectible amounts for departmental and other receivables is immaterial and therefore not reported.

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

- Real estate taxes and real estate tax deferrals
- Tax liens
- Community preservation surcharges

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

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

I. Restricted Assets

Government-Wide and Fund Financial Statements

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

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements. Pursuant to GASB Statement No. 34, the Town is eligible to defer, until fiscal year 2007, the requirement to record and depreciate its governmental funds infrastructure assets acquired before the effective implementation date. Therefore, infrastructure acquired prior to July 1, 2003 has not been recorded.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$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) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	30
Buildings and improvements.....	20 - 40
Machinery and equipment.....	5 - 20
Vehicles.....	4 - 20
Infrastructure.....	30

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

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Deferred Revenue

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

N. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Investment in joint venture" represents the Town's equity interest in the operation of the Facility.

"Community preservation" represents amounts restricted for affordable housing, open space and historic purposes.

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been "reserved for" the following:

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

"Employee benefits" represents amounts accumulated for self-insurance activities.

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

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

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2007 operating budget.

O. Long-term DebtGovernment-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Investment Income

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

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

Q. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

R. Post Retirement BenefitsGovernment-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's 50% 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 \$700,000. There were approximately 250 participants eligible to receive benefits at June 30, 2006.

S. Use of Estimates

Government-Wide and Fund Financial Statements

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

T. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

Increases to the original budget subsequent to Annual Town Meeting require Special Town Meeting approval.

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2006 approved budget for the general fund authorized \$69,883,086 in appropriations and other amounts to be raised. During fiscal year 2006, supplemental appropriations totaling \$163,421 were authorized.

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

B. Reconciliation of Budgetary and GAAP Results

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

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis as reported on the statement of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 68,984,964	\$ 69,023,204
<u>Perspective difference:</u>		
Activity of health insurance and workers' compensation trusts recorded in the general fund for GAAP purposes.....	152,087	(917,088)
<u>Adjustments</u>		
Net change in recording 60-day receipts.....	(19,103)	-
Net change in recording tax refunds payable.....	115,984	-
To record activity for MTRS on-behalf payments.....	<u>3,836,761</u>	<u>3,836,761</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 73,070,693</u>	<u>\$ 71,942,877</u>

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2006, expenditures exceeded appropriations for public works (snow and ice removal). This over-expenditure will be funded by taxes during fiscal year 2007.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy for custodial credit risk is to rely on FDIC and DIF insurance coverage. As of June 30, 2006, \$5,138,532 of the Town's bank balance of \$28,982,713 was uninsured, uncollateralized and exposed to custodial credit risk.

Investments Summary

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

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 - 5
<u>Debt Securities:</u>			
U.S. Treasuries.....	\$ 962,848	\$ 187,645	\$ 775,203
U.S. Agencies.....	8,065,120	6,590,202	1,474,918
Corporate bonds.....	388,028	388,028	-
Money market mutual funds.....	302,451	302,451	-
Total debt securities.....	<u>9,718,447</u>	<u>\$ 7,468,326</u>	<u>\$ 2,250,121</u>
<u>Other Investments:</u>			
External investment pools.....	1,434,482		
Equity mutual funds.....	<u>413,850</u>		
Total other investments.....	<u>1,848,332</u>		
Total investments.....	<u>\$ 11,566,779</u>		

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town's policy for interest rate risk of debt securities is to follow the municipal finance laws of the Commonwealth, which requires (with the exception of certain trust funds) the Town to limit investments to U.S. backed securities with a maturity of one year or less.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2006, \$10,132,297 of the Town's investments of \$11,566,779 was uninsured, not registered in the name of the Town, held by counterparty and exposed to custodial credit risk, as follows:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Treasuries.....	\$ 962,848
U.S. Agencies.....	8,065,120
Corporate bonds.....	388,028
Money market mutual funds.....	302,451
Equity mutual funds.....	413,850
Total.....	<u>\$ 10,132,297</u>

Investments - Credit Risk of Debt Securities

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings *</u>	
		<u>AAA</u>	<u>Unrated</u>
Corporate bonds.....	\$ 388,028	\$ 388,028	\$ -
Money market mutual funds.....	<u>302,451</u>	<u>-</u>	<u>302,451</u>
Total.....	<u>\$ 690,479</u>	<u>\$ 388,028</u>	<u>\$ 302,451</u>

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

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The Town does not have a policy for foreign currency risk. As of June 30, 2006, the Town was not exposed to foreign currency risk.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town’s investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2006, the Town was not exposed to concentration of credit risk.

NOTE 4 - ACCOUNTS RECEIVABLE

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 638,424	\$ (67,180)	\$ 571,244
Real estate tax deferrals.....	542,530	-	542,530
Tax liens.....	467,304	-	467,304
Motor vehicle and other excise taxes.....	137,197	(23,642)	113,555
Community preservation surcharges.....	11,460	-	11,460
Departmental and other.....	197,853	-	197,853
Intergovernmental.....	24,156,352	-	24,156,352
	<u>\$ 26,151,120</u>	<u>\$ (90,822)</u>	<u>\$ 26,060,298</u>

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

	General Fund	Community Preservation Fund	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 209,675	\$ -	\$ 209,675
Real estate tax deferrals.....	542,530	-	542,530
Tax liens.....	454,499	12,805	467,304
Motor vehicle and other excise taxes.....	113,555	-	113,555
Community preservation surcharges.....	-	11,460	11,460
Intergovernmental (state school construction).....	24,133,000	-	24,133,000
Tax foreclosures.....	36,195	-	36,195
Total.....	<u>\$ 25,489,454</u>	<u>\$ 24,265</u>	<u>\$ 25,513,719</u>

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2006, approximately \$2,816,000 of such assistance was received. Approximately \$37,267,000 will be received in future fiscal years. Of this amount, approximately \$13,134,000 represents reimbursement of long-term interest costs, and approximately \$24,133,000 represents reimbursement of approved construction costs. Accordingly, a \$24,133,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 22,689,708	\$ 2,641,394	\$ -	\$ 25,331,102
Construction in progress.....	793,270	19,098	-	812,368
Total capital assets not being depreciated.....	<u>23,482,978</u>	<u>2,660,492</u>	<u>-</u>	<u>26,143,470</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	401,395	1,120,698	-	1,522,093
Buildings and improvements.....	65,328,567	922,724	-	66,251,291
Machinery and equipment.....	4,199,383	170,711	(25,251)	4,344,843
Vehicles.....	3,526,801	1,032,498	(243,153)	4,316,146
Infrastructure.....	1,173,003	444,556	-	1,617,559
Total capital assets being depreciated.....	<u>74,629,149</u>	<u>3,691,187</u>	<u>(268,404)</u>	<u>78,051,932</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(375,587)	(32,681)	-	(408,268)
Buildings and improvements.....	(13,000,506)	(1,604,872)	-	(14,605,378)
Machinery and equipment.....	(3,396,201)	(186,946)	25,251	(3,557,896)
Vehicles.....	(2,412,191)	(311,572)	163,556	(2,560,207)
Infrastructure.....	(94,277)	(53,919)	-	(148,196)
Total accumulated depreciation.....	<u>(19,278,762)</u>	<u>(2,189,990)</u>	<u>188,807</u>	<u>(21,279,945)</u>
Total capital assets being depreciated, net.....	<u>55,350,387</u>	<u>1,501,197</u>	<u>(79,597)</u>	<u>56,771,987</u>
Total governmental activities capital assets, net.....	<u>\$ 78,833,365</u>	<u>\$ 4,161,689</u>	<u>\$ (79,597)</u>	<u>\$ 82,915,457</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 192,500	\$ -	\$ -	\$ 192,500
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	1,150,000	-	-	1,150,000
Machinery and equipment.....	143,638	-	(94,638)	49,000
Vehicles.....	-	136,640	-	136,640
Total capital assets being depreciated.....	<u>1,293,638</u>	<u>136,640</u>	<u>(94,638)</u>	<u>1,335,640</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(517,500)	(28,750)	-	(546,250)
Machinery and equipment.....	(143,638)	-	94,638	(49,000)
Vehicles.....	-	(5,693)	-	(5,693)
Total accumulated depreciation.....	<u>(661,138)</u>	<u>(34,443)</u>	<u>94,638</u>	<u>(600,943)</u>
Total capital assets being depreciated, net.....	<u>632,500</u>	<u>102,197</u>	<u>-</u>	<u>734,697</u>
Total business-type activities capital assets, net.....	<u>\$ 825,000</u>	<u>\$ 102,197</u>	<u>\$ -</u>	<u>\$ 927,197</u>

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

Governmental Activities:

General government.....	\$ 45,360
Public safety.....	218,353
Education.....	1,311,964
Public works.....	479,593
Health and human services.....	6,078
Culture and recreation.....	<u>128,642</u>
Total depreciation expense - governmental activities.....	<u>\$ 2,189,990</u>

Business-Type Activities:

Swimming pool.....	\$ 28,750
Landfill.....	<u>5,693</u>
Total depreciation expense - business-type activities.....	<u>\$ 34,443</u>

NOTE 6 - CAPITAL LEASES

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

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

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2007.....	\$ 185,313
2008.....	185,311
2009.....	125,953
2010.....	<u>73,793</u>
 Total minimum lease payments.....	 570,370
 Less: amounts representing interest.....	 <u>(51,376)</u>
 Present value of minimum lease payments.....	 \$ <u><u>518,994</u></u>

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

	<u>Governmental</u> <u>Activities</u>
Vehicles.....	\$ 844,264
Less: accumulated amortization.....	<u>(325,270)</u>
 Total.....	 \$ <u><u>518,994</u></u>

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

NOTE 7 - INTERFUND TRANSFERS

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

<u>Transfers Out:</u>	<u>Transfers In:</u>				<u>Total</u>
	<u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Swimming</u> <u>Pool</u> <u>Enterprise</u> <u>Fund</u>	<u>Landfill</u> <u>Enterprise</u> <u>Fund</u>	
General Fund.....	\$ -	\$ 25,000	\$ 2,211	\$ 10,000	\$ 37,211 (1)
Nonmajor Governmental Funds.....	439,964	-	-	-	439,964 (2)
Landfill Enterprise Fund.....	<u>18,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,793 (3)</u>
	<u>\$ 458,757</u>	<u>\$ 25,000</u>	<u>\$ 2,211</u>	<u>\$ 10,000</u>	<u>\$ 495,968</u>

(1) Represents budgeted transfers to fund the police station study capital project (\$25,000), swimming pool enterprise (\$2,211) and landfill enterprise (\$10,000) funds

- (2) Represents budgeted transfers from the ambulance receipts special revenue (\$210,189), DPW mining revolving special revenue (\$100,000), Feeley restrooms capital project (\$42,000), insurance recovery special revenue (\$27,675), retirement trust special revenue (\$25,000), library expansion capital project (\$15,974), Meachen Meggs capital project (\$11,126), traffic light capital project (\$5,000), fire headquarters capital project (\$2,000) and fire station repairs capital project (\$1,000) funds to fund the fiscal year 2006 operating budget
- (3) Represents budgeted indirect cost transfer

NOTE 8 - SHORT-TERM FINANCING

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

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

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

The Town did not issue or retire any short-term debt during fiscal year 2006 nor was there any short-term debt outstanding at June 30, 2006.

NOTE 9 - LONG-TERM OBLIGATIONS

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

During fiscal year 2005, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2006, \$16,525,000 of bonds outstanding from this advance refunding are considered defeased.

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

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2005	Additions	Reductions	Outstanding at June 30, 2006
Municipal Purpose.....	4.74	\$ 1,305,000	\$ -	\$ (655,000)	\$ 650,000
Land Acquisition.....	4.63	1,760,000	-	(440,000)	1,320,000
School Construction.....	5.00	2,003,856	-	(338,348)	1,665,508
School Construction.....	5.00	5,636,144	-	(951,652)	4,684,492
School Construction.....	4.44	8,361,000	-	(553,000)	7,808,000
Municipal Purpose.....	4.00	130,000	-	(25,000)	105,000
Municipal Purpose.....	4.00	87,000	-	(15,000)	72,000
Municipal Purpose.....	3.75	75,000	-	(75,000)	-
Municipal Purpose.....	4.00	120,000	-	(20,000)	100,000
Municipal Purpose.....	3.75	12,000	-	(12,000)	-
Land Acquisition Refunding.....	3.50	685,000	-	(120,000)	565,000
School & Public Works Construction...	2.89	4,200,000	-	(525,000)	3,675,000
Land Acquisition.....	4.18	5,260,000	-	(380,000)	4,880,000
School Construction Refunding.....	3.81	13,400,000	-	-	13,400,000
Land Acquisition Refunding.....	3.60	4,350,000	-	-	4,350,000
Municipal Purpose.....	3.93	3,315,000	-	(285,000)	3,030,000
Sub-total.....		50,700,000	-	(4,395,000)	46,305,000
Deferred loss on refundings.....		(1,203,448)	-	239,327	(964,121)
Total governmental funds (net).....		\$ 49,496,552	\$ -	\$ (4,155,673)	\$ 45,340,879

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

Fiscal Year	Principal	Interest	Total
2007....	\$ 4,265,000	\$ 1,856,395	\$ 6,121,395
2008....	3,585,000	1,680,449	5,265,449
2009....	3,500,000	1,537,133	5,037,133
2010....	3,540,000	1,396,039	4,936,039
2011....	3,585,000	1,254,000	4,839,000
2012....	3,420,000	1,106,738	4,526,738
2013....	3,305,000	980,863	4,285,863
2014....	2,755,000	857,663	3,612,663
2015....	2,680,000	752,679	3,432,679
2016....	2,565,000	647,842	3,212,842
2017....	2,490,000	545,664	3,035,664
2018....	2,470,000	442,652	2,912,652
2019....	2,230,000	343,822	2,573,822
2020....	2,310,000	253,646	2,563,646
2021....	2,380,000	125,396	2,505,396
2022....	365,000	54,584	419,584
2023....	365,000	38,458	403,458
2024....	365,000	22,050	387,050
2025....	130,000	5,526	135,526
Total...	\$ <u>46,305,000</u>	\$ <u>13,901,599</u>	\$ <u>60,206,599</u>

Authorized and Unissued Debt

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

Purpose	Amount
Septic System.....	\$ 200,000
Public Works Facility.....	3,800
Wastewater Feasibility Study.....	90,000
Dickson Land.....	6,500
Libby Land.....	30,000
Capital Equipment/Renovation.....	13,500
Total.....	\$ <u>343,800</u>

Changes in Long-Term Liabilities

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

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion
Governmental Activities:					
Bonds and notes payable (net).....	\$ 49,496,552	\$ -	\$ (4,155,673)	\$ 45,340,879	\$ 4,025,673
Capital lease obligations.....	348,312	340,143	(169,461)	518,994	161,798
Workers' compensation claims.....	74,484	60,872	(48,056)	87,300	59,250
Compensated absences.....	539,862	44,967	-	584,829	58,483
Total.....	<u>\$ 50,459,210</u>	<u>\$ 445,982</u>	<u>\$ (4,373,190)</u>	<u>\$ 46,532,002</u>	<u>\$ 4,305,204</u>

Except for bonds issued for the community preservation fund, long-term liabilities are generally liquidated by the general fund. Long-term debt issued for the community preservation fund is liquidated by the community preservation fund.

NOTE 10 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

The Town is self-insured for its health insurance, workers' compensation (excluding public safety employees injured on duty), and municipal building insurance activities. These activities are accounted for in the general fund, where revenues are recorded when earned and expenses are recorded when incurred.

A. Health Insurance

The estimated "Incurred But Not Reported (IBNR)" claims are based on a two month claims paid average. The liability at June 30, 2006 totaled \$789,132. Changes in the reported liability since July 1, 2004, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2005.....	\$ 713,000	\$ 5,399,876	\$ (5,373,208)	\$ 739,668
Fiscal year 2006.....	739,668	6,251,207	(6,201,743)	789,132

B. Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The Town has recorded a liability of \$87,300 at June 30, 2006, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2004, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2005.....	\$ 57,000	\$ 71,592	\$ (54,108)	\$ 74,484
Fiscal year 2006.....	74,484	60,872	(48,056)	87,300

NOTE 11 - PENSION PLAN

Plan Description – The Town contributes to the Middlesex Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts' Teachers Retirement System (MTRS), to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$3,836,761 for the fiscal year ended June 30, 2006, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Middlesex Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 25 Linnell Circle, Billerica, Massachusetts 01865.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Chapter 32 of MGL governs the contributions of plan members. The Town's contributions to the System for the fiscal years ended June 30, 2006, 2005, and 2004 were \$1,828,403, \$1,726,606, and \$1,583,994, respectively, which equaled its required contribution for each fiscal year.

NOTE 12 - CONTINGENCIES

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

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2006, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 13 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

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

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

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

NOTE 14 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

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

These pronouncements will be implemented by their respective due dates.