



BILL FRAHER, C.P.A.

TOWN OF MIDDLETON, MASSACHUSETTS

Basic Financial Statements, Required Supplementary
Information, and Supplementary Information

Year ended June 30, 2006
(Except for the Electric Enterprise Fund
which is December 31, 2005)

(With Independent Auditor's Report Thereon)

TOWN OF MIDDLETON, MASSACHUSETTS

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Independent Auditor's Report

The Board of Selectman
Town Of Middleton, Massachusetts:

I 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 Middleton, Massachusetts, as of and for the year ended June 30, 2006 (except for the Electric Enterprise Fund which is December 31, 2005), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Middleton's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my auditing 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, Massachusetts, as of June 30, 2006 (except for the Electric Enterprise Fund which is December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated April 12, 2007 on my consideration of the Town of Middleton's internal control structure over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my 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. This 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 my audit.



The Board of Selectmen
Town of Middleton, Massachusetts
Independent Auditor's Report

The Management's Discussion and Analysis on pages 5 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Middleton's basic financial statements. The combining financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bill Fraher, CPA
April 12, 2007



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Selectmen
Town of Middleton, Massachusetts

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, Massachusetts, as of and for the year ended June 30, 2006 (except for the Electric Enterprise Fund which is December 31, 2005), which collectively comprise the Town's basic financial statements as listed in the table of contents and have issued my report thereon dated April 12, 2007. I conducted my audit in accordance with generally accepted auditing standards 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the Town of Middleton, Massachusetts in a separate letter dated April 12, 2007.



The Board of Selectmen
Town of Middleton, Massachusetts
Report on Compliance and on Internal Control Over Financial Reporting

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I performed tests of the Town's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that I have reported to the management of the Town of Middleton, Massachusetts in a separate letter dated April 12, 2007.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the Town and Town, and state authorities and is not intended to be and should not be used by anyone other than these specified parties.

Bill Fraher, CPA
April 12, 2007

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2006**

Each year, we are required to present a Management's Discussion and Analysis (MD&A) with our annual financial report. The MD&A appears in the front of our financial report. It is intended to introduce our financial statements to users and help them assess whether our government's overall financial health has improved or deteriorated as a result of the past year's operations.

One required component of MD&A is to briefly describe the reasons for significant changes in our asset, liability, revenue and expenditure/expense account balances compared to last year.

Financial Highlights of Fiscal Year 2006 (July 1, 2005 - June 30, 2006)

Since this report is the fourth MD&A prepared by the Town of Middleton in compliance with GASB 34, the discussion and analysis will include typical comparisons to previous year operations.

- The assets of the Town of Middleton exceeded its liabilities at the close of the most recent fiscal year by \$56,243,115. (net assets) Of this amount, \$20,400,506 is considered unrestricted (unrestricted net assets). The unrestricted net assets of the Town's governmental activities are \$11,819,397 and may be used to meet the government's ongoing obligations to citizens and creditors. The unrestricted net assets of business-type activities are \$8,581,109 and may be used to meet the ongoing obligations of the Town's municipal light department.
- The increase of net assets from Fiscal Year 2006 is due to revenues exceeding expenses from ongoing operating activities. There were no significantly large items contributing to this increase.
- The total cost of all town services for Fiscal Year 2006 was \$31,893,504 with \$21,474,890 on governmental activities and an additional \$10,418,614 on business type activities consisting solely of the Electric Light Department.
- The increase over Fiscal Year 2005's total cost of services of \$29,457,735 is \$2,436,236 or 8.3%. This reflects demands of a rapidly growing community. Approximately 55% of this increase relates to the education category and reflects the increase in the cost of operating the Town's schools and the regional school assessment. An additional 40% relates to the increase in expenses for the Town's Electric Light Department, primarily relating to increased power costs.
- At June 30, 2006, the Town's governmental funds reported a combined ending fund balance of \$9,135,320 up from \$8,734,532 at the beginning of the year. A total of \$5,834,019 or 63.9% of this amount is considered unreserved at June 30, 2006.
- The Town's total bonded indebtedness is \$6,367,000. In addition, the Town has \$420,000 in landfill post-closure care costs. Long term liabilities decreased by \$914,800 from the previous year.
- The Town has additional overlapping debt of \$107,293 for its share of the North Shore Regional Vocational District and of \$730,174 for its share of the Masconomet Regional School District.

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2006**

Overview of the Financial Statements:

The discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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

The *statement of net assets* presents information on all of the Town's 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 of the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements have separate columns for government activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** – Activities reported here are for electric light department operations. User fees charged to the customers receiving services finance these services.

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 of Middleton, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Middleton, Massachusetts can be divided into three categories: government funds, proprietary funds and fiduciary funds.

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2006**

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

Proprietary funds. The Town of Middleton, Massachusetts maintains one proprietary fund type. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Middleton, Massachusetts uses enterprise funds to account for its Electric Light Department.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric Light Department operations and are considered to be a major fund of the Town of Middleton, Massachusetts.

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The government activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net assets. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the Governmental funds balance sheet- total fund balances to the statement of net assets.
- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities.

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2006**

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds use the same accounting basis and measurement focus.

Financial Analysis of the Government-wide Financial Statements

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. However, the net assets of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are not used to finance costs related to business-type activities. Revenues of the business-type activities are used to finance the operations of the Electric Enterprise Fund. The following table reflects the condensed net assets.

Net Assets June 30, 2006			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Current and other assets	\$21,427,329	\$11,216,221	\$32,643,550
Capital Assets	<u>\$31,963,645</u>	<u>\$7,665,866</u>	<u>\$39,629,511</u>
Total Assets	<u>\$53,390,974</u>	<u>\$18,882,087</u>	<u>\$72,273,061</u>
Current Liabilities	\$8,757,446	\$426,637	\$9,184,083
Long Term Liabilities	<u>\$6,387,000</u>	<u>\$458,863</u>	<u>\$6,845,863</u>
Total Liabilities	<u>\$15,144,446</u>	<u>\$885,500</u>	<u>\$16,029,946</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	\$25,624,645	\$7,265,866	\$32,890,511
Restricted for:			
Specific Purposes: Expendable	\$481,492	\$2,149,612	\$2,631,104
Specific Purposes: Nonexpendable	\$320,994	-	\$314,994
Unrestricted	<u>\$11,819,397</u>	<u>\$8,581,109</u>	<u>\$20,400,506</u>
Total Net Assets	<u>\$38,246,528</u>	<u>\$17,996,587</u>	<u>\$56,243,115</u>

Total assets of governmental activities increased from \$55,172,584 to \$56,243,115, mostly due operating revenues exceeding operating expenses. Capital assets of governmental activities (net) increased by \$19,771 due to depreciation being less than capital additions. Most assets and liabilities of business-type activities were consistent with the prior year, with a decrease in cash due to current year operating activities. The changes in net assets of governmental and business-type activities are discussed in the next section of this report.

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
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Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Net Assets. It reflects how the Town's net assets have changed during Fiscal Year 2006.

Changes in Net Assets June 30, 2006			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Revenues:			
Charges For Services	\$1,756,402	\$10,265,816	\$12,022,218
Operating Grants & Contributions	\$2,108,233	-	\$2,108,233
Capital Grants & Contributions	\$1,295,063	-	1,295,063
General Revenues:			
Property Taxes	\$14,899,595	-	\$14,899,595
Excise Taxes	\$1,286,799	-	\$1,286,799
Other	<u>\$1,078,941</u>	<u>\$273,186</u>	<u>\$1,352,127</u>
Total Revenues	<u>\$22,425,033</u>	<u>\$10,539,002</u>	<u>\$32,964,035</u>
Expenses:			
General Government	\$1,534,091	-	\$1,534,091
Public Safety	\$2,796,079	-	\$2,796,079
Education	\$14,025,990	-	\$14,025,990
Public Works	\$2,034,456	-	\$2,034,456
Health & Human Services	\$402,266	-	\$402,266
Culture & Recreation	\$429,632	-	\$429,632
Interest on Debt	\$252,376	-	\$252,376
Electric Light Business Activities	-	<u>\$10,418,614</u>	<u>\$10,418,614</u>
Total Expenses	<u>\$21,474,890</u>	<u>\$10,418,614</u>	<u>\$31,893,504</u>
Changes in Net Assets Before Transfers	\$950,143	\$120,388	\$1,070,531
Transfers	<u>\$117,000</u>	<u>(\$117,000)</u>	
Total Changes in Net Assets	\$1,067,143	\$3,388	\$1,070,531
Net Assets July 1, 2005	<u>\$37,179,385</u>	<u>\$17,993,199</u>	<u>\$55,172,584</u>
Net Assets June 30, 2006	<u>\$38,246,528</u>	<u>\$17,996,587</u>	<u>\$55,243,115</u>

The net assets of the Town of Middleton increased by \$1,070,531 which was due to revenue exceeding expenses. The net assets of the governmental activities increased by \$1,067,143 or 2.79% and the net assets of the business-type activities increased by \$3,388 or .02%. The reason for the change in governmental activities and the total change in business-type activities is due to actual revenues exceeding expenses from ongoing operations. There were no other significant changes from the prior year.

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2006**

Government Activities

In Fiscal Year 2006, property taxes and vehicle excise taxes accounted for 72.1% (66.4% and 5.7% respectively) of the revenues shown in the "Changes in Net Assets" chart.

Business-type Activities

Electric rates are structured to cover all costs related to the activity. The revenues of the Electric Enterprise Fund exceeded expenses by \$3,388. This is a significant reduction from the prior year due to increased power costs.

Financial Analysis of the Town's Funds

General Fund – The year-end fund balances of the general fund were \$39,952 less than the prior year's fund balances. The Town appropriates money from what the Massachusetts Department of Revenue calls the "free cash account" [roughly defined as the undesignated (unrestricted) fund balance with year end adjustments for receivables and some payables]. In accordance with Massachusetts General Law Chapter 59, Section 23, the Director of the State Bureau of Accounts certifies the amount of free cash available for appropriation as of the beginning of each fiscal year. Below are the last four years of Middleton's free cash as certified by the State Bureau of Accounts:

<u>Fiscal Year</u>	<u>Free Cash Certification</u>
2002	\$1,542,252
2003	\$1,684,767
2004	\$1,834,395
2005	\$2,192,138
2006	\$1,702,539

For the past twenty years, this account has only funded less than 3% of the Town's Operating Budget. This appropriation typically represented the sum of money unspent from the previous fiscal year's operating budget through the use of conservative spending policies at year end. This year additional free cash was used to fund equipment replacement and building improvements within the Town's Capital Improvement Budget. \$280,000 of free cash was also appropriated to the Town's Stabilization Fund for future capital budget needs.

Proprietary Funds.

Electric Enterprise Funds. The Town of Middleton, Massachusetts' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Electric Enterprise Fund at year end were \$8,581,109, while total net assets were \$17,996,587. The total increase in net assets was \$3,388.

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2006**

Capital Asset and Debt Administration

Capital Assets. The Town of Middleton, Massachusetts' investments in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$39,629,511 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles. On the governmental side, net capital assets increased by \$19,771 while net capital assets increased on the business-type activity side (electric light department) by \$459,057.

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

• Renovations to town and school buildings:	\$230,471
• Land and Land Improvements	\$270,394
• New Ambulance	\$147,953
• Replacement of Police Car	\$27,302
• Road Reconstruction	\$187,945
• New Dump Truck	\$99,403

**Capital Assets at June 30, 2006
(Net of Depreciation)**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets Not Being Depreciated	<u>3,936,604</u>	<u>327,323</u>	<u>\$4,263,927</u>
Assets Being Depreciated:			
Land Improvements	1,109,967	-	\$1,109,967
Buildings	6,005,152	237,312	\$6,242,464
Infrastructure	18,052,558	5,974,496	\$24,027,054
Equipment	<u>2,859,364</u>	<u>1,126,735</u>	<u>\$3,986,099</u>
Total Assets Being Depreciated	<u>28,027,041</u>	<u>7,338,543</u>	<u>\$35,365,584</u>

Debt

The Town of Middleton had \$5,967,000 in bonds outstanding for governmental activities on June 30, 2006, a decrease from the prior year of \$784,800. An additional \$400,000 in bonds was outstanding for the business-type activities of the Electric Light Department, a decrease of \$110,000 from the previous year.

**Town of Middleton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2006**

The Town's bond rating by Moody's Investor Services is Aa3.

Outstanding Long-Term Obligations at June 30, 2006

Governmental Activities:

General Obligation Bonds Payable	\$5,967,000
Landfill Post Closure Care Costs	<u>\$420,000</u>
Total Governmental Activities	\$6,387,000

Business-type Activities (December 31, 2003)

General Obligation Bonds Payable	<u>\$400,000</u>
Total Long-Term Obligations*	<u>\$6,787,000</u>

* Not including overlapping debt of Masconomet and North Shore Vocational School Districts for Middleton's per pupil proportional share.

Fiscal Year 2006 Budget

An initiative state statute, commonly known as "Proposition 2 ½", limits the amount of property taxes that Town can assess in any one year. In general, the Town's property tax levy may increase by 2 ½ percent over the prior year's tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by "Proposition 2 ½", it is necessary to obtain the approval of a majority of the voters at an election.

Property tax growth represents a combination of the 2.5% annual increase allowed in the levy under Proposition 2-1/2 and new growth. Unused levy capacity for fiscal year 2006 was certified by the State Bureau of Accounts at \$644,321, an increase of \$243,729 from the previous year. Unused levy capacity is 4.63% less than the statutory taxing limit of \$14,565,849. New growth was certified at a record high \$69,663,680 in property valuation adding \$709,872 to Middleton's property taxing capacity under the law. Total real and personal property valuation for Fiscal Year 2006 equaled \$1,525,996,929.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Net Assets

June 30, 2006

(Business-Type Activities December 31, 2005)

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 9,340,532	7,581,395	16,921,927
Investments	693,415	1,395,589	2,089,004
Receivables (net of allowance for uncollectibles)	1,700,922	334,358	2,035,280
Due from commonwealth	1,981,398	-	1,981,398
Other assets	-	1,904,879	1,904,879
Property taxes billed in advance	7,711,062	-	7,711,062
Capital assets:			
Assets not being depreciated	3,936,604	327,323	4,263,927
Assets being depreciated, net	28,027,041	7,338,543	35,365,584
Total assets	\$ 53,390,974	18,882,087	72,273,061
<u>Liabilities</u>			
Warrants and accounts payable	\$ 156,597	255,382	411,979
Other accrued liabilities	424,819	82,483	507,302
Accrued interest payable	52,802	4,963	57,765
Notes payable	372,000	-	372,000
Unearned revenue	7,711,062	-	7,711,062
Other Liabilities	40,166	88,809	128,975
Long-term liabilities:			
Due within one year:			
Landfill postclosure care costs	20,000	-	20,000
Bonds payable	649,800	105,000	754,800
Due in more than one year:			
Deferred charges	-	53,863	53,863
Landfill postclosure care costs	400,000	-	400,000
Bonds payable	5,317,200	295,000	5,612,200
Total liabilities	15,144,446	885,500	16,029,946
<u>Net Assets</u>			
Invested in capital assets, net of related debt	25,624,645	7,265,866	32,890,511
Restricted for:			
Specific purposes - expendable	481,492	2,149,612	2,631,104
Specific purposes - nonexpendable	320,994	-	320,994
Unrestricted	11,819,397	8,581,109	20,400,506
Total net assets	\$ 38,246,528	17,996,587	56,243,115

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2006

(Business-Type Activities Year Ended December 31, 2005)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental activities:							
General government	\$ 1,534,091	70,997	109,686	-	(1,353,408)	-	(1,353,408)
Public safety	2,796,079	814,505	63,389	-	(1,918,185)	-	(1,918,185)
Education	14,025,990	466,237	1,858,224	364,944	(11,336,585)	-	(11,336,585)
Public works	2,034,456	331,579	31,834	95,871	(1,575,172)	-	(1,575,172)
Human services	402,266	68,457	34,760	-	(299,049)	-	(299,049)
Recreation and culture	429,632	4,627	10,340	717,016	302,351	-	302,351
Interest on debt service	252,376	-	-	117,232	(135,144)	-	(135,144)
Total governmental activities	21,474,890	1,756,402	2,108,233	1,295,063	(16,315,192)	-	(16,315,192)
Business-type activities:							
Electric Light	10,418,614	10,265,816	-	-	-	(152,798)	(152,798)
Total business-type activities	10,418,614	10,265,816	-	-	-	(152,798)	(152,798)
Total government	\$ 31,893,504	12,022,218	2,108,233	1,295,063	(16,315,192)	(152,798)	(16,467,990)
General revenues:							
Property taxes					\$ 14,899,595	-	14,899,595
Excise taxes					1,286,799	-	1,286,799
Payments in lieu of taxes					114,802	-	114,802
Intergovernmental					537,774	-	537,774
Unrestricted investment earnings					343,887	273,186	617,073
Miscellaneous					82,478	-	82,478
Transfers					117,000	(117,000)	-
Total general revenues					17,382,335	156,186	17,538,521
Changes in net assets					1,067,143	3,388	1,070,531
Net assets - beginning of year					37,179,385	17,993,199	55,172,584
Net assets - end of year					\$ 38,246,528	17,996,587	56,243,115

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS**Balance Sheet - Governmental Funds**

June 30, 2006

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 5,386,118	3,954,414	9,340,532
Investments	-	693,415	693,415
Receivables:			
Property taxes	563,458	65,106	628,564
Tax liens and foreclosures	1,015,241	-	1,015,241
Motor vehicle excise	266,210	-	266,210
Departmental	-	298,105	298,105
Less: allowance for abatements	(507,198)	-	(507,198)
Due from other governments	1,981,173	225	1,981,398
Property taxes billed in advance	7,711,062	-	7,711,062
 Total assets	 \$ <u>16,416,064</u>	 \$ <u>5,011,265</u>	 \$ <u>21,427,329</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants and accounts payable	\$ 140,485	16,112	156,597
Other accrued liabilities	424,819	-	424,819
Notes payable	-	372,000	372,000
Deferred revenue	10,935,216	363,211	11,298,427
Other liabilities	28,452	11,714	40,166
 Total liabilities	 <u>11,528,972</u>	 <u>763,037</u>	 <u>12,292,009</u>
Fund balances:			
Reserved for:			
Encumbrances and continued appropriations	1,131,110	72,330	1,203,440
Other specific purposes	375	802,486	802,861
Subsequent year expenditures	1,295,000	-	1,295,000
Unreserved, reported in:			
General fund	2,460,607	-	2,460,607
Special revenue funds	-	3,235,801	3,235,801
Capital projects funds	-	137,611	137,611
 Total fund balances	 <u>4,887,092</u>	 <u>4,248,228</u>	 <u>9,135,320</u>
 Total liabilities and fund balances	 \$ <u>16,416,064</u>	 <u>5,011,265</u>	 <u>21,427,329</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS**Statement of Revenues, Expenditures and Changes in Fund Balances****Governmental Funds****For the Year Ended June 30, 2006**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:			
Property taxes	\$ 14,793,380	118,582	14,911,962
Excise taxes	1,283,073	-	1,283,073
Payments in lieu of taxes	114,802	-	114,802
Departmental charges for services	246,988	1,120,904	1,367,892
Licenses and permits	402,827	-	402,827
Intergovernmental	2,361,333	1,264,345	3,625,678
Fines	46,802	-	46,802
Investment income	273,193	70,696	343,889
Other	81,366	11,750	93,116
Total revenues	<u>19,603,764</u>	<u>2,586,277</u>	<u>22,190,041</u>
Expenditures:			
Current:			
General government	958,634	119,493	1,078,127
Public safety	2,343,195	17,282	2,360,477
Education	11,937,224	930,481	12,867,705
Public works	1,083,317	171,203	1,254,520
Human services	302,964	71,428	374,392
Recreation and culture	346,081	11,530	357,611
Intergovernmental	228,409	-	228,409
Employee benefits	1,239,780	-	1,239,780
Other	107,942	-	107,942
Debt service	933,191	103,985	1,037,176
Capital outlay	669,179	330,935	1,000,114
Total expenditures	<u>20,149,916</u>	<u>1,756,337</u>	<u>21,906,253</u>
Excess (deficiency) of revenues over expenditures	(546,152)	829,940	283,788
Other financing sources (uses):			
Operating transfers in	710,200	255,000	965,200
Operating transfers out	<u>(200,000)</u>	<u>(648,200)</u>	<u>(848,200)</u>
Total other financing sources (uses)	<u>510,200</u>	<u>(393,200)</u>	<u>117,000</u>
Net changes in fund balances	(35,952)	436,740	400,788
Fund balance, beginning of year	<u>4,923,044</u>	<u>3,811,488</u>	<u>8,734,532</u>
Fund balance, end of year	\$ <u><u>4,887,092</u></u>	<u><u>4,248,228</u></u>	<u><u>9,135,320</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Reconciliation of the Governmental Fund Balance Sheet

To the Statement of Net Assets

Year Ended June 30, 2006

Total fund balances - governmental funds **\$ 9,135,320**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land and land improvements	5,237,144	
Infrastructure assets	25,280,320	
Buildings and building improvements	9,178,996	
Other capital assets	7,383,100	
Accumulated depreciation	<u>(15,115,915)</u>	
Total Capital Assets		31,963,645

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred or are not recognized in funds. 3,587,365

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds. These liabilities consist of:

Accrued interest on bonds	(52,802)	
Bonds payable	(5,967,000)	
Landfill postclosure care costs	<u>(420,000)</u>	
Total long-term liabilities		<u>(6,439,802)</u>

Net assets of governmental activities **\$ 38,246,528**

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Reconciliation of the Governmental Funds - Statement of Revenues,
Expenditures and Changes in Fund Balances To the Statement of Activities
Year Ended June 30, 2006

Net changes in fund balances - governmental funds **\$ 400,788**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, these amounts are
recorded as capital assets and depreciated over their
estimated useful lives. This is the amount by which depreciation
is more than capital outlays and net retirements for the year.

(373,437)

Bond proceeds provide financial resources and bond payments
are recorded as expenditures in governmental funds, while
these are recorded as increases or decreases to long-term
liabilities in the statement of net assets. This is the amount
by which debt repayments exceed bond proceeds
and deferred refunding amortization for the year.

601,454

Landfill postclosure care costs are recorded as expenditures in
governmental funds while these are recorded as decreases
to long-term liabilities in the statement of net assets.

20,000

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenue in the funds.

418,338

Changes in net assets of governmental activities **\$ 1,067,143**

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance To Final Budget Favorable (Unfavorable)
Resources (inflows):				
Property taxes	\$ 14,675,378	14,675,378	14,825,305	149,927
Excise taxes	1,108,369	1,108,369	1,283,073	174,704
Payments in lieu of taxes	100,000	100,000	114,802	14,802
Departmental charges for services	230,000	230,000	246,988	16,988
Licenses and permits	323,000	323,000	402,827	79,827
Intergovernmental	1,960,441	1,960,441	1,963,404	2,963
Fines	44,000	44,000	46,802	2,802
Investment income	100,000	100,000	273,193	173,193
Other	-	-	81,366	81,366
Transfers from other funds	710,200	710,200	710,200	-
Total resources	19,251,388	19,251,388	19,947,960	696,572
Charges to appropriations (outflows):				
General government	1,067,693	991,942	958,797	33,145
Public safety	2,729,864	2,755,039	2,752,540	2,499
Education	11,968,069	11,968,069	11,847,309	120,760
Public works	1,378,675	1,401,675	1,354,411	47,264
Human services	305,472	321,548	314,948	6,600
Recreation and culture	357,274	368,774	350,301	18,473
Debt service	816,162	816,162	933,191	(117,029)
Intergovernmental	228,579	228,579	228,409	170
Employee benefits	855,500	855,500	854,754	746
Insurance	115,000	115,000	107,942	7,058
Transfers to other funds	200,000	200,000	200,000	-
Total charges to appropriations	20,022,288	20,022,288	19,902,602	119,686
Excess (deficiency) of resources over charges to appropriations	(770,900)	(770,900)	45,358	816,258
Fund balance allocation	770,900	770,900		
Excess (deficiency) of resources over charges to appropriations and fund balance allocation	\$ -	-		

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS**Statement of Net Assets - Proprietary Fund**

December 31, 2005

**Electric
Enterprise Fund****Assets****Current assets:**

Cash and cash equivalents - unrestricted	\$	7,498,912
Cash and cash equivalents - restricted		82,483
Investments		1,395,589
User charges receivable, net		334,358
Unbilled revenue		826,212
Inventory		178,216
Prepaid expenses		884,931
Other current assets		15,520

Total current assets 11,216,221

Noncurrent assets:

Capital assets, net		<u>7,665,866</u>
---------------------	--	------------------

Total noncurrent assets 7,665,866

Total assets \$ 18,882,087

Liabilities**Current Liabilities:**

Accounts payable	\$	255,382
Accrued interest payable		4,963
Customer deposits		82,483
Current portion of bonds payable		105,000
Other current liabilities		88,809

Total current liabilities 536,637

Noncurrent liabilities:

Bonds payable, net of current portion		295,000
Deferred charges		<u>53,863</u>

Total noncurrent liabilities 348,863

Total liabilities 885,500

Net Assets

Invested in capital assets, net of related debt		7,265,866
Restricted		2,149,612
Unrestricted		<u>8,581,109</u>

Total net assets \$ 17,996,587

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS**Statement of Revenues, Expenses and Changes in Fund Net Assets****Proprietary Funds****For the Year Ended December 31, 2005**

	<u>Electric Enterprise Fund</u>
Operating revenues:	
Charges for services	\$ 10,095,663
Other operating revenues	<u>170,153</u>
Total operating revenues	<u>10,265,816</u>
Operating expenditures:	
Purchased power and production	8,547,108
Other operating expenses	1,448,764
Depreciation	<u>410,468</u>
Total operating expenditures	<u>10,406,340</u>
Operating income	<u>(140,524)</u>
Nonoperating revenues (expenses):	
Interest income	273,186
Interest expense	(9,925)
Payment in lieu of taxes	(117,000)
Other nonoperating items	<u>(2,349)</u>
Total nonoperating revenues (expenses)	<u>143,912</u>
Changes in net assets	3,388
Net assets, beginning of year	<u>17,993,199</u>
Net assets, end of year	\$ <u><u>17,996,587</u></u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON ELECTRIC LIGHT DEPARTMENT**Statement of Cash Flows****Year Ended December 31, 2005****Cash flows from operating activities:**

Cash received from customers	\$ 10,296,209
Cash paid to suppliers and employees	(10,807,045)
Payment in lieu of taxes (operating transfer)	<u>(117,000)</u>

Net cash provided by operating activities (627,836)

Cash flows from investing activities:

Interest on deposits and investments	273,186
Purchase and sales of investments (net)	<u>(1,158,093)</u>

Net cash provided by capital and related financing activities: (884,907)

Cash flows from capital and related financing activities:

Capital expenditures	(869,271)
Interest paid	(11,025)
Net borrowing (repayments)	<u>(110,000)</u>

Net cash provided by capital and related financing activities: (990,296)

Net increase in cash and cash equivalents (2,503,039)

Cash and cash equivalents, beginning of year 10,084,434

Cash and cash equivalents, end of year \$ 7,581,395

Reconciliation of operating income to net cash provided**By operating activities:**

Operating income (loss)	\$ (140,524)
Depreciation, bad debts & reserve	410,468
Payment in lieu of taxes (operating transfer)	(117,000)
Decrease in accounts receivable	20,301
Decrease in inventory	4,207
(Increase) in prepaid expenses	(452,909)
(Decrease) in accounts payable	(346,739)
Other, net	<u>(5,640)</u>

Net cash provided by operating activities \$ (627,836)

The notes to the financial statements are an integral part of this statement.

TOWN OF MIDDLETON, MASSACHUSETTS

Statement of Net Assets

Fiduciary Funds

June 30, 2006

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and cash equivalents	\$ <u>375,423</u>
Total assets	<u>375,423</u>
<u>Liabilities</u>	
Other liabilities	<u>375,423</u>
Total liabilities	<u>375,423</u>
<u>Net Assets</u>	
Unrestricted	<u>-</u>
Total net assets	\$ <u><u>-</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 1. Reporting Entity and Significant Accounting Policies

A. Introduction

The Town of Middleton was incorporated as a town in 1728 under the statutes of the Commonwealth of Massachusetts. The Town operates with a selectmen-open Town meeting form of government and an elected five member Board of Selectmen. The Town provides general municipal services including public safety, education, public works, health, culture and recreation. Electric service is provided on a enterprise basis. This report includes the fund types to account for these activities.

B. Financial Reporting Entity

Accounting principles generally accepted in the United States of America ("GAAP") require that the financial statements present the Town (the primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. In determining the financial reporting entity, the Town considered all potential component units and found that none exist.

Joint Ventures:

The Town is a participant in the Masconomet Regional School District (the District). The District was created as a separate political subdivision of the Commonwealth of Massachusetts to provide education to students in grades seven through twelve, from the Towns of Middleton, Topsfield and Boxford. The District is governed by a thirteen member board composed of the School Committees of member Towns. The Town's total assessment for fiscal year 2006 was \$5,150,850, which represents approximately 30% of the District's operating budget. A copy of the District's financial statement is available from the District Superintendent's Office.

The Town is also a participant in the North Shore Regional Vocational School District (the District). The District was created as a separate political subdivision of the Commonwealth of Massachusetts to provide education to students in grades nine through twelve, from the Towns of Middleton and fifteen other surrounding communities. The District is governed by a sixteen member School Committee composed of one appointed representative from each Town. The Town's assessment for fiscal year 2006 was \$249,364, which represents approximately 4% of the District's operating budget. A copy of the District's financial statement is available from the District Superintendent's Office.

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 1. Reporting Entity and Significant Accounting Policies (continued)

C. Financial Statement Presentation

The financial condition and results of operations of the Town's funds are presented as of and for the year ended June 30, 2006 (except for the Electric Enterprise Fund which is December 31, 2005). The accounting policies of the Town conform to GAAP.

D. Government-wide and Fund Financial Statements

The Town's basic financial statements include both government-wide (i.e., the net assets and the statement of activities) and fund financial statements. The government-wide financial statements report information on all the non-fiduciary activities of the Town. For the most part, the effect of interfund activities has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. GAAP requires that major individual governmental funds and major individual enterprise funds be reported as separate columns in the fund financial statements. The Town's general fund and electric light enterprise fund are reported as major funds. The Town reports the following fund financial statements:

Governmental Funds

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

Other Governmental Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 1. Reporting Entity and Significant Accounting Policies (continued)

D. Government-wide and Fund Financial Statements

Proprietary Funds

Electric Enterprise Fund - This fund is used to account for the Town's electric light operations.

Fiduciary Funds

Agency Funds - These funds are used to report resources held by the Town in a purely custodial capacity (assets equal liabilities).

E. Measurement Focus and Basis of Accounting

The government-wide, propriety, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and propriety fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Town considers revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes and interest associated with the current fiscal year are considered to be susceptible to accrual. Expenditures generally are recorded when a liability is incurred; as under accrual accounting, however, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

All governmental and business-type activities and enterprise funds of the Town follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Liabilities, and Net Assets or Equity

a. Deposits and Investments

State Statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. The Town, with certain restrictions, can also purchase obligations of US Government or its agencies, repurchase agreements, money market funds and units of the Massachusetts Municipal Depository Trust (MMDT). The MMDT is an investment pool established by the State Treasurer that operates in accordance with appropriate state laws and regulations.

In addition, certain other governmental funds have other investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

The Town pools cash to facilitate the management of cash. Each fund presents its pro rata share of the combined cash account as cash and cash equivalents in the accompanying basic financial statements. The Town has defined cash and cash equivalents to include cash on hand, demand deposits, cash with fiscal agent and deposits with the MMDT. Investments are reported at fair value.

b. Property Taxes

The Town is responsible for assessing and collecting property taxes in accordance with enabling state laws. Property taxes are determined, each year, on the full and fair cash value of taxable properties as of January 1st. The tax levy is divided into two billings and is payable on a quarterly basis. The first billing is an estimate of the current year's levy based on the prior year's taxes. 50% is due on August 1st and 50% is due on November 1st. The second billing reflects adjustments to the current year's actual levy with 50% due on February 1st and 50% due on May 1st. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid.

Property taxes levied are recorded as receivable in the fiscal year billed. As of June 30, 2006, the Town has billed for the first two quarterly installments of the fiscal year 2007 real estate bills. The amount of this billing that is outstanding is included in the receivable on the statement of net assets and is shown as subsequent year levy on the

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Liabilities, and Net Assets or Equity (continued)

b. Property Taxes (continued)

governmental funds balance sheet. As these revenues are not available until fiscal year 2007, the total amount is included in deferred (unearned) revenue on both statements.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2 1/2% of the value of all taxable property in the Town. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2 %, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a Town-wide referendum vote.

c. Inventory

Inventory is valued at cost using the average cost method in proprietary funds. Inventory in governmental funds is not material and the purchase method is used in these funds.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. General infrastructure assets acquired prior to July 1, 2002 consist of the roadways and curbing assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are defined by the Town as assets with a initial, individual cost of more than \$10,000 and an estimated life in excess of three years. Such assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 30
Buildings	40
Building improvements	7 - 20
Vehicles and equipment	3 - 10
Infrastructure	30 - 100

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Liabilities, and Net Assets or Equity (continued)

e. Compensated Absences

The liability for compensated absences, which represents accumulated vacation and vested sick leave absences, is not material and is therefore not reported in the accompanying financial statements.

f. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs (if material) are deferred and amortized over the life of the bonds. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuance's are reported as other financing sources or uses. Issuance costs are reported as debt service expenditures.

g. Fund Balances - Governmental Funds

In the fund financial statements, the fund balance of the governmental funds is divided into reserved and unreserved portions. Reservations of fund balance are required if resources are not available for spending or spending is legally restricted. The Town allocates fund balance as follows:

Reserved for Expenditures - This portion of fund balance is the amount Town Meeting has approved to fund the subsequent year's (fiscal year 2007) appropriations. This amount of fund balance is no longer available for appropriation.

Reserved for Encumbrances and Continued Appropriations - This portion of fund balance represents the amount of unexpended appropriations carried forward to fiscal year 2007 for contracts that are still outstanding or for continuing special articles related to projects that have not been completed.

Reserved for Other Specific Purposes - This portion of fund balance that is permanently restricted by trust agreements or state statute for Permanent Fund expenditures.

Unreserved Fund Balances (Undesignated) - In the general fund, this represents the amount available for appropriation. In the other governmental funds, this represents the excess or deficit of assets over liabilities and reserved fund balance.

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 1. Reporting Entity and Significant Accounting Policies (continued)

h. Use of Estimates

In preparing the Town's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Budgetary Information

Under the Town's by-laws, budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review. The Selectmen and the Finance Committee have until April, when the Town meeting is held, to make their recommendations regarding department requests. After approval of the budget at the annual Town meeting, the tax recapitulation sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval. This process should generally be completed by November so the actual tax bills can be mailed by January 1, due and payable by the taxpayer on February 1.

The Town must establish its tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures, state and county assessments, and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenues and transfers projected to be received by the Town, including available funds.

The final Town budget as presented in the Budgetary Comparison Schedule - General Fund was developed as follows:

	<u>General Fund</u>
Charges to appropriations and transfers out	<u>\$20,022,288</u>
To be funded as follows:	
Budgeted revenue	\$18,541,188
Transfers from other funds	710,200
Allocation of surplus	<u>770,900</u>
Total funding (resources)	<u>\$20,022,288</u>

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 2. Budgetary Information (continued)

The Town's General Fund budget is prepared on a basis other than GAAP. The "actual" results column of the Budgetary Comparison Schedule - General Fund is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP bases are:

- a. Property tax revenues are recorded when the cash is received as opposed to when susceptible to accrual (GAAP);
- b. Encumbrances and continuing appropriations are recorded as expenditures (budgetary) as opposed to a reservation of fund balance (GAAP); and
- c. On behalf payment for state teacher's retirement system is recognized for GAAP only.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2006:

	<u>General Fund</u>
Excess (deficiency) of resources over charges to appropriations:	\$45,358
Adjustments:	
Record Revenues on a Modified Accrual Basis	(\$31,925)
On Behalf Payments, Net (Gross of \$397,929)	-
Adjustment for Encumbrances and Continuing Appropriation Articles	<u>(\$49,385)</u>
Net changes in fund balances - GAAP Basis	<u>(\$35,952)</u>

Within the adopted budget a sum is allocated to provide funding for extraordinary or unforeseen expenditures. The Finance Committee can authorize transfers from this reserve fund. Any other modifications to the budget would require action by Town Meeting.

Note 3. Deposits and Investments

Cash Deposits

Custodial risk on cash deposits is the risk that in the event of a depository failure, the Town will not be able to recover the value of its deposits or collateral securities that are in the

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 3. Deposits and Investments (continued)

Cash Deposits (continued)

possession of the depository. The Town does not have a formal policy on custodial risk. At June 30, 2006, the Town's carrying amount of deposits was \$18,631,288 and the bank balance was \$19,931,600. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit. Of the bank balances, \$6,353,632 was covered by Federal Deposit Insurance Corporation or other state insurance. The remaining \$13,577,968 was not insured nor collateralized and therefore exposed to custodial risk. The difference between deposits at June 30, 2006 and amounts per the financial statements is due solely to the presentation of the Electric Enterprise Fund as of December 31, 2005.

Investments

At June 30, 2006, the Town's investment balances were as follows:

<u>Type of Investment</u>	<u>Fair Value</u>
U.S. Government securities	519,492
Fixed income securities - mutual funds	192,720
Equity securities	225,627
Equity securities - mutual funds	<u>248,541</u>
Total (category 1)	<u>1,186,380</u>
Pooled Investments:	
Certificates of deposit	857,217
Mutual funds	654,422
MMDT	<u>271,938</u>
Total (not categorized)	<u>1,783,577</u>
Total investments	<u>2,969,957</u>

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. At June 30, 2006, the Town does not have exposure to nor an investment policy covering custodial credit risk.

Town of Middleton, Massachusetts

**Notes to the Financial Statements
June 30, 2006**

Note 3. Deposits and Investments (continued)

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town does not have an investment policy covering interest rate risk. The US government securities investments have the following maturities: \$102,221 between one and two years and \$417,271 between two and five years. Certificates of deposit have the following maturities: \$763,497 less than one year and \$93,720 between one and two years. All other investments have maturities less than one year.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The US government and agency securities investments are rated Aaa by Moody's Investor Services and AAA by Standard and Poor's and are not considered to have credit risk. Money market funds, certificates of deposit mutual funds and MMDT are not rated as to credit risk. The Town does not have an investment policy which would limit its investment choices as to credit risk.

Concentration of credit risk – The Town does not have an investment policy which limits the amount that can be invested in any one issuer or security. Excluding US federal agency securities, and MMDT, there are no securities or issuers which represent more than 5% of the total investments of the governmental funds or governmental activities.

The composition of the Town's bank recorded deposits and investments fluctuates depending primarily on the time of real estate receipts, proceeds from borrowings, collection of state and federal receipts and capital outlays throughout the year.

The difference between investments at June 30, 2006 as noted above and investments per the financial statements is due solely to the presentation of the Electric Enterprise Fund as of December 31, 2005.

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2006 (December 31, 2005 for business-type activities) was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$3,666,210	40,277	-	3,706,487
Construction in progress	=	<u>230,117</u>	=	<u>230,117</u>
Total capital assets not being depreciated	<u>3,666,210</u>	<u>270,394</u>	=	<u>3,936,604</u>
Capital assets being depreciated:				
Land improvements	1,570,934	-	40,277	1,530,657
Buildings and improvements	9,329,653	151,288	301,945	9,178,996
Equipment	6,282,056	870,927	-	7,152,983
Infrastructure	<u>25,191,608</u>	<u>100,712</u>	<u>12,000</u>	<u>25,280,320</u>
Total capital assets being depreciated	<u>42,374,251</u>	<u>1,122,927</u>	<u>354,222</u>	<u>43,142,956</u>
Less accumulated depreciation for:				
Land improvements	-371,397	-49,293	-	-420,690
Buildings and improvements	-2,930,157	-243,687	-	-3,173,844
Equipment	-3,807,690	-485,929	-	-4,293,619
Infrastructure	<u>-6,633,121</u>	<u>-594,641</u>	=	<u>-7,227,762</u>
Total accumulated depreciation	<u>-13,742,365</u>	<u>-1,373,550</u>	=	<u>-15,115,915</u>
Capital assets being depreciated, net	<u>28,631,886</u>	<u>-250,623</u>	=	<u>28,027,041</u>
Total governmental activities capital assets, net	<u>\$32,298,096</u>	<u>19,771</u>	=	<u>31,963,645</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>
General government	\$46,544
Public safety	275,623
Education	286,187
Public works	714,912
Human services	2,500
Recreation and culture	<u>47,784</u>
Total governmental activities depreciation expense	<u>\$1,373,550</u>

Town of Middleton, Massachusetts

Notes to the Financial Statements

June 30, 2006

Note 4. Capital Assets (continued)

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Capital assets not being depreciated:				
Land and land improvements	<u>\$327,323</u>	=	=	<u>327,323</u>
Total capital assets not being depreciated	<u>327,323</u>	=	=	<u>327,323</u>
Capital assets being depreciated:				
Buildings and improvements	887,294	-	-	887,294
Equipment	1,406,309	251,377	31,000	1,626,686
Infrastructure	<u>11,388,664</u>	<u>618,146</u>	<u>30,000</u>	<u>11,976,810</u>
Total capital assets being depreciated	<u>13,682,267</u>	<u>869,523</u>	<u>61,000</u>	<u>14,490,790</u>
Less accumulated depreciation for:				
Buildings and improvements	-623,363	-26,619	-	-649,982
Equipment	-489,654	-41,297	-31,000	-499,951
Infrastructure	<u>-5,689,764</u>	<u>-342,550</u>	<u>-30,000</u>	<u>-6,002,314</u>
Total accumulated depreciation	<u>-6,802,781</u>	<u>-410,466</u>	<u>-61,000</u>	<u>-7,152,247</u>
Capital assets being depreciated, net	<u>6,879,486</u>	<u>459,057</u>	=	<u>7,338,543</u>
Total capital assets, net	<u>\$7,206,809</u>	<u>459,057</u>	=	<u>7,665,866</u>

Depreciation expense was charged to functions as follows:

Business-type Activities

Electric	<u>410,466</u>
Total business-type activities depreciation expense	<u>\$410,466</u>

Note 5. Long-term Obligations

The following is a summary of the changes in the Town's long-term obligation for the year ended June 30, 2006 (December 31, 2005 for business-type activities):

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Amount Due Within One Year
Governmental activities:					
Landfill postclosure care costs	\$440,000	-	20,000	\$420,000	\$20,000
Bonds payable	<u>6,751,800</u>	=	<u>784,800</u>	<u>5,967,000</u>	<u>649,800</u>
	<u>\$7,191,800</u>	=	<u>804,800</u>	<u>\$6,387,000</u>	<u>\$669,800</u>
Business-type activities:					
Bonds payable	<u>\$510,000</u>	=	<u>110,000</u>	<u>\$400,000</u>	<u>\$105,000</u>
	<u>\$510,000</u>	=	<u>110,000</u>	<u>\$400,000</u>	<u>\$105,000</u>

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 6. Short-term Debt

Subject to state laws, the Town is authorized to issue general obligation debt on a temporary basis. The following classes of short-term loans can be issued:

Tax anticipation notes (TANs) - This debt is issued to provide funding for operations during lean periods in a fiscal cycle. They are repaid from subsequent collections of taxes or other revenues.

Bond anticipation notes (BANs) - This debt is issued to provide initial funding for capital projects. They are redeemed from the proceeds from the sale of the bonds.

Grant anticipation notes (GANs) - This debt is issued to provide funding for projects in anticipation of reimbursement from federal or state grants. They are repaid from subsequent distributions from the federal or state agency.

Short-term debt activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Bond anticipation notes:				
Property purchase	<u>\$427,000</u>	<u>372,000</u>	<u>427,000</u>	<u>372,000</u>
	<u>\$427,000</u>	<u>372,000</u>	<u>427,000</u>	<u>372,000</u>

Note 7. Bonds Payable

The Town's indebtedness consists of general obligation serial notes issued between fiscal years 1980 and 2005 for funding various special projects. All bond issues must be approved by Town meeting. The outstanding governmental activities bonds were issued for a variety of capital purposes, the largest portion related to school construction. The outstanding business-type activities bonds were issued for an electric substation. The bonds bear interest from 2.0% to 5.5% and are due in various annual installments ranging through 2022.

The annual debt service requirements of the Town's outstanding indebtedness at June 30, 2006 (December 31, 2005 for business-type activities) are as follows:

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 7. Bonds Payable (continued)

<u>Fiscal Year</u>	Governmental Activities <u>Principal</u>	Governmental Activities <u>Interest</u>	Business-type Activities <u>Principal</u>	Business-type Activities <u>Interest</u>	Total <u>Principal</u>	Total <u>Interest</u>
2007	\$649,800	202,575	\$105,000	\$8,875	754,800	211,450
2008	654,800	182,873	105,000	6,644	759,800	189,517
2009	664,800	161,407	95,000	4,156	759,800	165,563
2010	679,800	138,680	95,000	1,425	774,800	140,105
2011	684,800	114,315	-	-	684,800	114,315
2012 - 2016	2,569,000	220,918	-	-	2,569,000	220,918
2017 - 2021	49,000	9,875	-	-	49,000	9,875
2022	<u>15,000</u>	<u>635</u>	-	-	<u>15,000</u>	<u>635</u>
Totals	<u>\$5,967,000</u>	<u>1,031,278</u>	<u>400,000</u>	<u>21,100</u>	<u>6,367,000</u>	<u>1,052,378</u>

Of the total governmental activities debt service requirements of \$6,998,278 the Town is scheduled to receive \$3,274,501 as reimbursement from the Commonwealth of Massachusetts School Building Assistance Program. The amount of this reimbursement applicable to principal (\$1,981,173) has been accrued in these financial statements (this accrual is deferred in the fund based statements).

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt, which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2006, the Town may issue approximately \$73,445,863 of additional general obligation debt under the normal debt limit. The Town has \$1,801,742 of debt outstanding at June 30, 2006 that is exempt from the debt limit. At June 30, 2006, the Town also has authorized and unissued debt of \$6,151,052 for septic, water and library construction.

In addition to the Town's outstanding debt, the Town is assessed its share of debt from other governmental entities (known as overlapping debt). For the Masconomet Regional School District, the Town's share of the Regional School's \$2,433,914 debt at June 30, 2006 (net of state reimbursements) is 30% or \$730,174. For the North Shore Regional Vocational School District, the Town's share of the Regional School's \$2,120,000 debt at June 30, 2006 (based on current assessment percentages) is 5.061% or \$107,293.

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 8. Inter-fund Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. For the year ended June 30, 2006, the general fund transferred \$200,000 to the stabilization fund and received transfers of \$398,000 from ambulance revolving, \$100,000 from FEMA reserve, \$10,000 from revolving funds, \$23,500 from other special revenue funds, \$12,000 from permanent funds, \$49,700 from the stabilization fund and \$117,000 from the electric enterprise fund. The transfers to the general fund are recurring transfers from special funds set aside to help fund the Town's operating budget. In addition, the Community Preservation fund transferred \$55,000 to the capital projects fund to pay down a note payable on a property purchase.

Note 9. Pension Plans

Description of Plans

Town employees participate in two cost sharing, multiple employer defined benefit plans. The systems are funded by contributions from participants, employer contributions and/or state appropriations. These systems are the Essex Regional Retirement System, which covers most non-teaching employees of the Town and the Massachusetts Teachers Retirement System, which covers most teaching employees.

Essex Regional Retirement System:

Eligibility and Vesting - Employees of the Town who are employed on a basis which anticipates work at an annual rate to exceed 1040 hours are eligible to participate in the System. Employees are eligible immediately after the date of employment. For participants who were employed by the Town prior to January 1, 1978, benefits become vested after 20

Or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who were hired subsequent to December 31, 1977 become vested after 20 or more years of creditable service or after 10 or more years of creditable service and if they have reached the age of 55.

Contributions - Employees contribute 5% of regular compensation if employed prior to January 1, 1975; 7% if first employed from January 1, 1975 to December 31, 1983; 8% of the first \$30,000 and 10% thereafter if first employed on or after January 1, 1984; and 9% of the first \$30,000 and 11% thereafter if first employed on or after January 1, 1997. Employee

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 9. Pension Plans (continued)

contributions may be returned to the participants upon leaving Town employment prior to retirement, within certain age and length of employment restrictions, as prescribed by the Massachusetts General Laws.

Retirement Benefits - The amount of normal monthly retirement benefit is equal to a percentage of the participant's average monthly compensation, determined based on age at retirement, the maximum being 2.5% at age 65, and based on the higher of the participant's (1) highest three consecutive years of compensation or (2) last three calendar years of employment preceding retirement whether or not such years are consecutive, multiplied by years of service, up to a maximum of 80% of the average monthly compensation as computed above or \$30,000 in annual compensation for participants who first became employed after January 1, 1979. Any cost-of-living adjustments granted since 1981 and any increase in other benefits imposed by state law after that year are borne by the Commonwealth of Massachusetts.

Other - Provisions exist in the plan for cost of living adjustments and disability benefits.

Town Contributions Required and Made - The Town is assessed annually for their share of system. The Town was assessed and paid \$495,590 in 2004, \$540,467 in 2005 and \$579,692 in 2006. These amounts represent approximately 4% of system wide employer assessments for these years.

Trend Information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's annual financial report. A copy of this report is available from the System.

Massachusetts Teachers Retirement System

Eligibility and Vesting - Teaching employees of the Town who are employed on a basis which anticipates work at an annual rate to exceed 1000 hours are required to participate in the System. For participants who were employed by the Town prior to January 1, 1978, benefits become vested after 20 or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who were hired subsequent to December 31, 1977 become vested after 20 or more years of creditable service or after 10 or more years of creditable service and if they have reached the age of 55.

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 9. Pension Plans (continued)

Massachusetts Teachers Retirement System (continued)

Contributions - Employees contribute 5% of regular compensation if employed prior to January 1, 1975; 7% if first employed from January 1, 1975 to December 31, 1983; and 8% if first employed on or after January 1, 1984. Employee contributions may be returned to the participants upon leaving Town employment prior to retirement, within certain age and length of employment restrictions, as prescribed by the Massachusetts General Laws.

Other - Provisions exist in the plan for cost of living adjustments and disability benefits.

Town Contributions Required and Made - The Town is not required to contribute to this plan. State appropriations are made annually to fund system costs. For the fiscal year ended June 30, 2006, the state's contribution to this plan on behalf of the Town was \$397,929. In the fund based and entity wide statements, this on-behalf payment has been recorded as intergovernmental revenue and employee benefit expenditure in the general fund.

Trend Information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's annual financial report. A copy of this report is available from the system.

Note 10. Post-Retirement Benefits

In addition to the pension benefits described in Note 6, the Town provides for certain health care benefits in accordance with Massachusetts General Law Chapter 32B, to employees who retire in accordance with predetermined years of service and under various age requirements. These benefits are provided through the Town's group plans and/or Medicare at a 60/40 coverage rate. For the fiscal year ended June 30, 2006, the Town contributed approximately \$163,901 towards post-retirement health care benefits for approximately 46 individuals.

Note 11. Commitments

This footnote relates to the electric light enterprise fund and is as of December 31, 2005.

The Electric Light Department (Department) is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

Town of Middleton, Massachusetts

Notes to the Financial Statements June 30, 2006

Note 11. Commitments (continued)

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other utilities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other Utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should any Project Participant fail to make payment when due, other Projects Participants may be required to increase (step-up) their payments and correspondingly their Participants' share of Project Capability to an additional amount not to exceed 25% of their original Participants' share of Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate bonds for each of its eight Projects, which are payable from, and secured solely by, the revenues derived from the Project to which such issue relates plus available funds pledged under the Amended and Restated General Bond Resolution with respect to the bonds of that project. The MMWEC revenues derived from each Project is used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by subsidiaries of FPL Energy Wyman IV, a subsidiary of FPL Energy and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) the majority owner and subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. In November, 2005, the Nuclear Regulatory Commission (NRC) renewed the operating licenses for Millstone Unit 2 and Unit 3 nuclear units for an additional twenty years. The license for Unit 2 was extended to July 31, 2035; the license for Unit 3 was extended to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by FPL Energy

Town of Middleton, Massachusetts

**Notes to the Financial Statements
June 30, 2006**

Note 11. Commitments (continued)

Seabrook, LLC, the majority owner and indirect subsidiary of FPL Group, Inc. In December, 2005, the NRC issued an amendment to the operating license that extends the expiration date from October, 2026 to March, 2030, to recapture the period from 1986 to 1990 during which time Seabrook Station had an operating license, but did not operate. FPLE has stated its intention to request an extension of Seabrook Station operating license beyond March, 2030.

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. The Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. In July, 2005, Congress extended the Price-Anderson Act through the end of 2025.

The Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions, the outcome of which, in the opinion of MMWEC management, will not have a material effect on the financial position of MMWEC.

As of December 31, 2005, total capital expenditures associated amounted to \$1,521,643,000, of which \$36,994,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects included Power Supply System Revenue Bonds \$784,995,000, of which \$18,940,000 is associated with the Department's share of Project Capability. As of December 31, 2005, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is \$978,397,000, of which \$23,962,000 is anticipated to be billed to the Department in future years.

The estimated aggregate amount of the Department's required payments under the PSAs and PPAs, exclusive of Reserve and Contingency Fund billings, to MMWEC at December 31, 2005 and estimated for future years is shown below.

Town of Middleton, Massachusetts

**Notes to the Financial Statements
June 30, 2006**

Note 11. Commitments (continued)

		<u>ANNUAL COSTS</u>
For years ended December 31,	2006	\$ 2,508,000
	2007	\$ 2,478,000
	2008	\$ 2,413,000
	2009	\$ 2,176,000
	2010	\$ 1,970,000
	2011 - 2015	\$ 9,453,000
	2016 - 2019	\$ 2,964,000
	TOTAL	<u>\$ 23,962,000</u>

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were \$4,007,000 and \$3,978,000 for the years ended December 31, 2005 and 2004, respectively.

Note 12. Risk Management

Lawsuits may be pending or threatened against the Town, which arise from the ordinary course of operations, including actions commenced and claims asserted against it for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. The Town's attorney estimates that potential claims against the Town, not covered by insurance, resulting from such litigation, would not materially affect the general-purpose financial statements.

The Town receives some financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and may be subject to audit. Any disallowed expenditures resulting from such audits become a liability of the Town.

TOWN OF MIDDLETON, MASSACHUSETTS

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2006

	<u>Special Revenue</u>				
	<u>Water Fund</u>	<u>Other</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
<u>Assets</u>					
Cash and cash equivalents	\$ 418,630	2,917,102	509,611	109,071	3,954,414
Investments	-	-	-	693,415	693,415
Receivables:	-	-	-	-	-
Property taxes	-	65,106	-	-	65,106
Departmental	-	298,105	-	-	298,105
Due from other governments	-	225	-	-	225
	<u>-</u>	<u>225</u>	<u>-</u>	<u>-</u>	<u>225</u>
Total assets	\$ <u>418,630</u>	<u>3,280,538</u>	<u>509,611</u>	<u>802,486</u>	<u>5,011,265</u>
<u>Liabilities and Fund Balances</u>					
<u>Liabilities:</u>					
Warrants and accounts payable	\$ -	16,112	-	-	16,112
Notes payable	-	-	372,000	-	372,000
Deferred revenue	-	363,211	-	-	363,211
Other	11,714	-	-	-	11,714
	<u>11,714</u>	<u>379,323</u>	<u>372,000</u>	<u>-</u>	<u>763,037</u>
Total liabilities	<u>11,714</u>	<u>379,323</u>	<u>372,000</u>	<u>-</u>	<u>763,037</u>
<u>Fund Balances:</u>					
Reserved for:					
Encumbrances and continued appropriations	72,330	-	-	-	72,330
Other specific purposes	-	-	-	802,486	802,486
Unreserved	334,586	2,901,215	137,611	-	3,373,412
	<u>334,586</u>	<u>2,901,215</u>	<u>137,611</u>	<u>-</u>	<u>3,373,412</u>
Total fund balances	<u>406,916</u>	<u>2,901,215</u>	<u>137,611</u>	<u>802,486</u>	<u>4,248,228</u>
Total liabilities and fund balances	\$ <u>418,630</u>	<u>3,280,538</u>	<u>509,611</u>	<u>802,486</u>	<u>5,011,265</u>

TOWN OF MIDDLETON, MASSACHUSETTS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2006

	<u>Special Revenue</u>				
	<u>Water Fund</u>	<u>Other</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues:					
Property taxes	\$ -	118,582	-	-	118,582
Departmental charges for services	191,934	805,530	-	4,050	1,001,514
Intergovernmental	18,044	648,675	717,016	-	1,383,735
Investment income	-	23,566	11,258	35,872	70,696
Other	-	11,750	-	-	11,750
Total revenues	<u>209,978</u>	<u>1,608,103</u>	<u>728,274</u>	<u>39,922</u>	<u>2,586,277</u>
Expenditures:					
Current:					
General government	-	116,643	-	2,850	119,493
Public safety	-	17,282	-	-	17,282
Education	-	930,481	-	-	930,481
Public works	169,886	1,317	-	-	171,203
Human services	-	71,428	-	-	71,428
Recreation and culture	-	2,421	-	9,109	11,530
Debt service	103,985	-	-	-	103,985
Capital Outlay	-	95,871	235,064	-	330,935
Total expenditures	<u>273,871</u>	<u>1,235,443</u>	<u>235,064</u>	<u>11,959</u>	<u>1,756,337</u>
Excess (deficiency) of revenues over expenditures	(63,893)	372,660	493,210	27,963	829,940
Other financing sources (uses):					
Operating transfers in	-	200,000	55,000	-	255,000
Operating transfers out	-	(636,200)	-	(12,000)	(648,200)
Net changes in fund balances	(63,893)	(63,540)	548,210	15,963	436,740
Fund balance, beginning of year	<u>470,809</u>	<u>2,964,755</u>	<u>(410,599)</u>	<u>786,523</u>	<u>3,811,488</u>
Fund balance, end of year	<u>\$ 406,916</u>	<u>2,901,215</u>	<u>137,611</u>	<u>802,486</u>	<u>4,248,228</u>