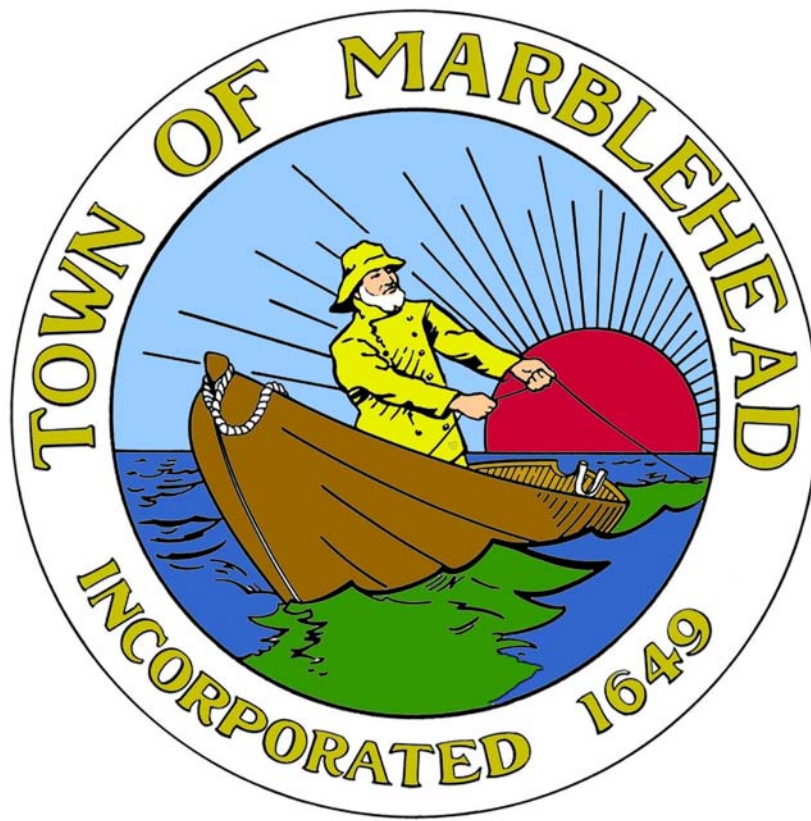


# TOWN OF MARBLEHEAD, MASSACHUSETTS



## COMPREHENSIVE ANNUAL FINANCIAL REPORT For the Fiscal Year Ended June 30, 2006 Prepared by Finance Department

# **TOWN OF MARBLEHEAD, MASSACHUSETTS**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**



Photo by Rob Kipp

**For the Fiscal Year Ended  
June 30, 2006**

On the Cover: *A view of Marblehead Harbor looking towards Abbott Hall.*

*A View of the Harbor full of Boats.*



*A view of Marblehead Harbor looking towards the Neck.*



*A Misty View of the Harbor.*



Photos by Rob Kipp

TOWN OF MARBLEHEAD, MASSACHUSETTS  
Comprehensive Annual Financial Report  
Year Ended June 30, 2006

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# *Introductory Section*



Photo by Rob Kipp

*Sunset over the Harbor*

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## ***Introductory Section***



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## ***TOWN OF MARBLEHEAD***

### ***FINANCIAL SERVICES***



John McGinn  
Finance Director  
781-631-1705

Mary Alley Building  
7 Widger Road  
Marblehead, MA 01945

#### **Letter of Transmittal**

October 19, 2006

Honorable Members of the Board of Selectmen and Citizens of  
the Town of Marblehead, Massachusetts:

It is with pleasure that the Comprehensive Annual Financial Report of the Town of Marblehead, Massachusetts, for the fiscal year ended June 30, 2006, is presented. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report also complies with the financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34.

In addition to the fund financial information traditionally presented in the Town's financial statements, this report now includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net assets of the Town including all capital assets (including infrastructure) and the Statement of Activities that shows the cost of providing government services.

The report is designed to be used by the elected and appointed officials of the Town and others who are concerned with its management and progress such as bond analysts, banking institutions and credit raters as well as residents and taxpayers of Marblehead.

This report consists of management's representations concerning the finances of the Town of Marblehead. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making those representations, management has established an internal control framework that is designed to both protect the assets of the Town from loss, theft or misuse and to allow for the compiling of sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Marblehead's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Marblehead for the fiscal year ended June 30,

2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion the Town of Marblehead's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Marblehead was part of a broader, federally-mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Marblehead's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The Town of Marblehead's MD&A can be found immediately following the report of the independent auditors.

This comprehensive annual financial report is presented in three sections:

1. The Introductory Section, which is unaudited, includes this letter of transmittal, the Town's organization chart, a list of principal executive officers, and the prior year certificate of achievement for excellence in financial reporting.
2. The Financial section, which includes the independent auditor's report on the financial statements, the MD&A, the basic financial statements, the general fund budget to actual schedule, and combining statements and schedules.
3. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

## **PROFILE OF THE TOWN**

The Town of Marblehead, originally incorporated in 1649, is a picturesque seacoast town steeped in history. In its early years fishing and the shoe industry were its two main sources of income. While Marblehead has been known through the years as the "Birthplace of the American Navy," in recent times the Town has also been known as one of the yachting capitals of the world. Pleasure boating is certainly a popular pastime of its residents. Visitors come from all over the world to view the original of the famous painting "The Spirit of '76" which is housed in Abbot Hall in the office of the Board of Selectmen, as well as to see the beautiful harbor crowded with sailing, fishing, lobster and pleasure boats. Another major attraction for visitors is the Town's historic district, the largest in the State, and the narrow crooked streets lined with Colonial and Victorian buildings, many of which have been placed on the National Register.

With a population of 20,482, Marblehead is located in the Greater Boston Area, 18 miles northeast of Boston, with a land area of 4.53 square miles. Marblehead is situated in eastern Massachusetts, bordered by Swampscott on the south, Salem on the southwest, and the Atlantic Ocean on the west, north, and east. Commuter rail service to North Station in Boston is convenient from the Salem or

Swampscott stations and Marblehead is a member of the Massachusetts Bay Transportation Authority which provides bus service to Swampscott, Lynn and Boston.

The Town operates under a Board of Selectmen/Open Town Meeting/Town Administrator form of government. The five-member Board of Selectmen, elected annually, makes policy decisions. The Town Administrator is responsible for carrying out the policies and direction of the Board of Selectmen and for managing the day-to-day operations of the Town.

#### THE REPORTING ENTITY AND ITS SERVICE

The financial reporting entity (the Town) of the primary government includes all funds and activities considered a part of the Town of Marblehead. The Marblehead Contributory Retirement System (the System) is blended within the Primary Government as a Pension Trust Fund within the Fiduciary Fund financial statements. Specifically excluded are the Marblehead Housing Authority and The North Shore Regional Vocational School District since they have substantial autonomy and separate governmental entity characteristics.

The Town provides a range of municipal services normally associated with municipal government including education, public safety (police, fire and emergency medical services), recreation and parks, street construction and maintenance, solid waste collection and disposal, library, cemetery, building inspection and general administrative services. The Town also operates municipal light, water and sewer utilities and harbor and waterfront services as enterprises.

#### FACTORS AFFECTING FINANCIAL CONDITION

The Town of Marblehead continues to reflect a strong economic condition. The median family income is significantly higher than state averages and the unemployment rate continues to be lower than the State average (3.6% vs. 4.9% for the state). The Town remains a very desirable community given its close proximity to Boston, and for its tourism, history and boating and the quality of services provided. The residential sales market has been very strong, reflecting the solid interest in the community.

Based in part on its unique geography, which encompasses 14.2 miles of coastline, the Town has been experiencing strong high-end residential waterfront real estate sales (\$2 to \$5.5 million range). The combination of new development and a strong real estate market has contributed to steady tax base growth and significant growth in residential property value. The tax base (current market valuation \$5.2 billion) has increased a significant 8% over fiscal 2005 and 18% over fiscal 2004 reflecting strong development and real estate appreciation. Per capita market value of over \$254,000 is also among the highest in the state. This increase in values demonstrates the continued desirability of the Town.

On the Town's operating side, after experiencing decreases in state aid between FY03 and FY05, communities have seen modest increases since, a trend that is expected to continue. The Town is in the position of having to rely mainly on property taxes to cover the increasing cost of providing services. As the Town is not highly dependent on state aid, the Town has not, nor should it be as adversely affected as other communities in the state by fluctuations in state aid.

The Town of Marblehead has also enhanced its revenue flexibility by establishing totally self-sufficient enterprise funds for sewer, water, municipal light and harbor operations. All debt related to the enterprises is funded through user fees and each enterprise pays the Town for its share of general government services.

## FINANCIAL AND MANAGEMENT SYSTEMS

### BUDGETARY CONTROLS

The finance committee is responsible for reviewing departmental budget requests and submits to the Town Meeting an operating budget for the proposed expenditures and other financing uses for the next fiscal year. The budget, as enacted by the Town Meeting, also establishes that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special Town Meetings or at the next annual Town Meeting held prior to the end of the fiscal year. During the fiscal year the finance committee may transfer funds for extraordinary or unforeseen expenditures. The Town appropriated \$144,000 for this purpose in fiscal 2006 and transfers of \$96,841 were made. All unencumbered and unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device during the year for the General Fund and the Sewer, Water and Harbor Enterprise Funds. Although formal budgetary integration is not employed for Capital Projects Funds and Special Revenue Funds, effective budgetary control is alternatively achieved through provisions of the Massachusetts General Laws and the Town's by-laws.

Appropriations are authorized by the Town Meeting for line items within departments. Typical line items are salaries, expense and local travel. These are the legal levels of budgetary control (level at which expenditures may not exceed budget). However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final legal judgments may exceed the level of spending authorized by majority vote at a Town Meeting.

### DEBT ADMINISTRATION

Outstanding general obligation bonds and notes at June 30, 2006 totaled \$44,574,637 of which \$180,000 are harbor bonds which will be paid from enterprise revenues.

The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the Town's debt position to Town management, citizens and investors. These data for the Town at the end of the 2006 Fiscal Year were as follows:

	<u>Amount</u>	<u>Ration of Debt to Assessed Value</u>	<u>Debt per Capita</u>
Total General Obligation Debt	\$ 28,590,000	0.55%	\$1,398

The Town's bonds, last issued on August 15, 2004, were rated by the rating agency of Standard & Poor's at 'AA+' which is the same rating which they have carried since being upgraded on June 15, 2000. This rating was affirmed by Standard & Poor when the Town issued Bond Anticipation Notes in August of 2005 and August of 2006.

The debt section of the notes to financial statements and the statistical tables on long-term debt present more detailed information about the debt position of the Town.

## TREASURY MANAGEMENT

The Town utilizes a pooled cash concept in order to invest greater amounts of cash at favorable interest rates. The Town's investment of temporary idle cash excluding trust fund investments as of June 30, 2006, was in the Massachusetts Municipal Depository Trust (a depository for municipal subdivisions of the Commonwealth under the direction of the State Treasurer).

Investment income for the year ended June 30, 2006, is as follows:

General Fund.....	\$	470,735
Restricted and Enterprise Funds.....		238,535
Pension Trust Funds.....		8,473,568
Non-major Governmental Funds.....		316,805
Internal Service Funds.....		23,518
Private Purpose Trust funds.....		<u>126,477</u>
Total.....	\$	<u><u>9,649,638</u></u>

## PROPERTY TAX LIMITATIONS

Chapter 580 of the Massachusetts General Laws, Acts of 1980, known as "Proposition 2 1/2", limits the amount of revenue the Town can derive from property taxes. In any fiscal year the total property taxes assessed cannot exceed 2.5 percent of the full and fair cash valuation of the Town.

Maximum Fiscal 2006 Levy:

Full and Fair Cash Value of Property			Levy Ceiling
\$5,243,134,887	X	2.5%	\$131,078,372

However, the total property taxes levied in any fiscal year cannot exceed an amount equal to 102.5 percent of the total property taxes levied for the preceding year, except under the override and new growth provisions of the tax limitation legislation.

Fiscal 2006 Levy Limit:

Fiscal year 2005 Levy Limit.....	\$ 39,909,546
Less Debt and Capital Exclusions.....	<u>(4,735,482)</u>
Fiscal Year 2005 Base.....	35,174,064
Fiscal Year 2006 Maximum Increase.....	<u>102.50%</u>
Fiscal Year 2006 Levy Limit Base.....	36,053,416
Fiscal 2006:	
New Growth Factor.....	622,843
Permanent Overrides.....	2,730,167
Debt and Capital Exclusions.....	<u>4,801,584</u>
Fiscal 2006 Levy Limit.....	\$ <u>44,208,010</u>
Actual Fiscal 2006 Tax Levy.....	\$ <u><u>44,199,627</u></u>

RISK MANAGEMENT

The Town of Marblehead manages its risk through a combination of self-insured programs and premium-based coverage with commercial insurance carriers. Workers compensation and unemployment activities are self-insured while exposures to various risks of loss related to torts, theft of assets, damage to and destruction of assets, errors and omissions and natural disasters are covered through policies purchased from commercial carriers. Various control techniques, including employee accident prevention training, have been performed to minimize accident-related losses. The Town administers an insurance reserve fund to help offset the annual cost of its workers compensation program. Additional information on the Town of Marblehead's risk management activity can be found in the notes to the financial statements.

SIGNIFICANT EVENTS

NEW RECEIVABLE SOFTWARE FOR TAX COLLECTION

The Town determined in FY05 a need to replace and upgrade the software being used to account for all of its tax collection activity. Patriot Properties was chosen as the company whose receivable software would be used. Installation of the new software began in the spring of 2005 and was completed by the end of FY2006. This new tax receivables software is completely integrated with the Town's assessing software.

NEW OFFICIAL TOWN WEBSITE

The Board of Selectmen appointed a Website Committee to oversee and develop an official Town of Marblehead website. In FY05 the committee issued a Request for Proposal for the design of the website. The procurement process concluded in FY06, and a contract was awarded to CivicPlus, a firm specializing in municipal websites. The new Official Town website ([www.marblehead.org](http://www.marblehead.org)) was activated in January, 2006. The new site features separate pages for each of the Town's departments with full information concerning doing business with the Town of Marblehead. Residents are able to access various town forms, pay their property taxes on line, and access the latest information concerning various public meetings and town news. All of the funding for the design and implementation of the new website was donated.



## OPEN SPACE ACQUIRED

At the May 2005 Annual Town Meeting residents voted to acquire one of the few remaining pieces of available open space in the Town of Marblehead. The property referred to as the Robinson Farm is a 3.2 acre parcel of property. In June, 2005 voters, by a margin of 4,937 to 2,315, approved a \$2,025,000 override of Proposition 2 ½ to fund the acquisition of this property. In FY06 the Town successfully completed the purchase of this property. This property is now available for the passive recreational enjoyment of the Town's residents.

## TOWN RECEIVES FIRST INSTALLMENT OF SCHOOL CONSTRUCTION REIMBURSEMENT

In August, 2005 the Town received approximately \$21 million, or 75%, of the approved state reimbursement for the new High School that was completed in 2002. Also in FY06, the Massachusetts School Building Authority selected audit firms to conduct required audits of the two state reimbursable school projects undertaken by the Town in recent years (new High School and Middle School conversion projects). Both of these audits began in FY06, leading to full state reimbursement for these two projects in early FY07. The state reimbursement received for both these projects was used to retire Bond Anticipation Notes associated with each school project.

## NEW FIRE TRUCK

The Town took delivery of a new fire truck in June of 2006. Funding for this important piece of public safety equipment was provided by a debt exclusion override approved by the Town's voters in 2004. The new truck provides the Town with a state-of-the-art firefighting capability.

## EQUIPMENT PURCHASED

After several years of not being able to replace old and worn out rolling stock equipment for various Town departments, the Town purchased and took delivery of several new pieces of heavy equipment in FY06. The procurement of this equipment totaled approximately \$750,000 and included:

Park & Recreation, Tree Departments:	Pick-Up Truck Brush Chipper Stump Grinder W-4 Rear 6 Yd. Packer, Infield Machine, Turf Cat and Riding Mower
Highway Department:	Pick-Up Truck Front End Loader Sidewalk Tractor
Waste Department:	Recycle Collection Vehicle Backhoe/Loader
School Department:	School Bus Utility Truck with Plow

## AGREEMENTS REACHED WITH ALL TOWN BARGAINING UNITS

During FY06 the Town reached three-year agreements with each of its collective bargaining units. These agreements will provide stability over the next three fiscal years.

## EMPLOYEE / RETIREE HEALTH COVERAGE CHANGES

Facing the challenge of rising health care costs, which saw employee and retiree health coverage costs rise from 8.4% of the Town's budget in FY00 to a projected 16.3% of the budget in FY07, Town management and employees reached agreement in FY06 that provides incentives for higher participation in the managed care plan offered by the Town. This change, combined with plans for pro-active wellness programs, should lead to significant cost avoidance going forward.

## NO OVERRIDES NEEDED IN FY07 BUDGET PROCESS

For the first time since 1993, the Town did not have a proposition 2 ½ override referendum of any kind before its voters in 2006.

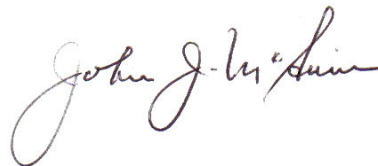
## AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Marblehead for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the second consecutive year that the Town submitted a CAFR to the GFOA. The Town was awarded this Certificate both years. In order to receive this prestigious award, a government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated staff of the Finance Department. I would like to express my appreciation to all members of the Town's Finance Department who assisted and contributed to its preparation. I would also like to thank the Board of Selectmen and Town Administrator, Anthony M. Sasso for their strong interest and support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

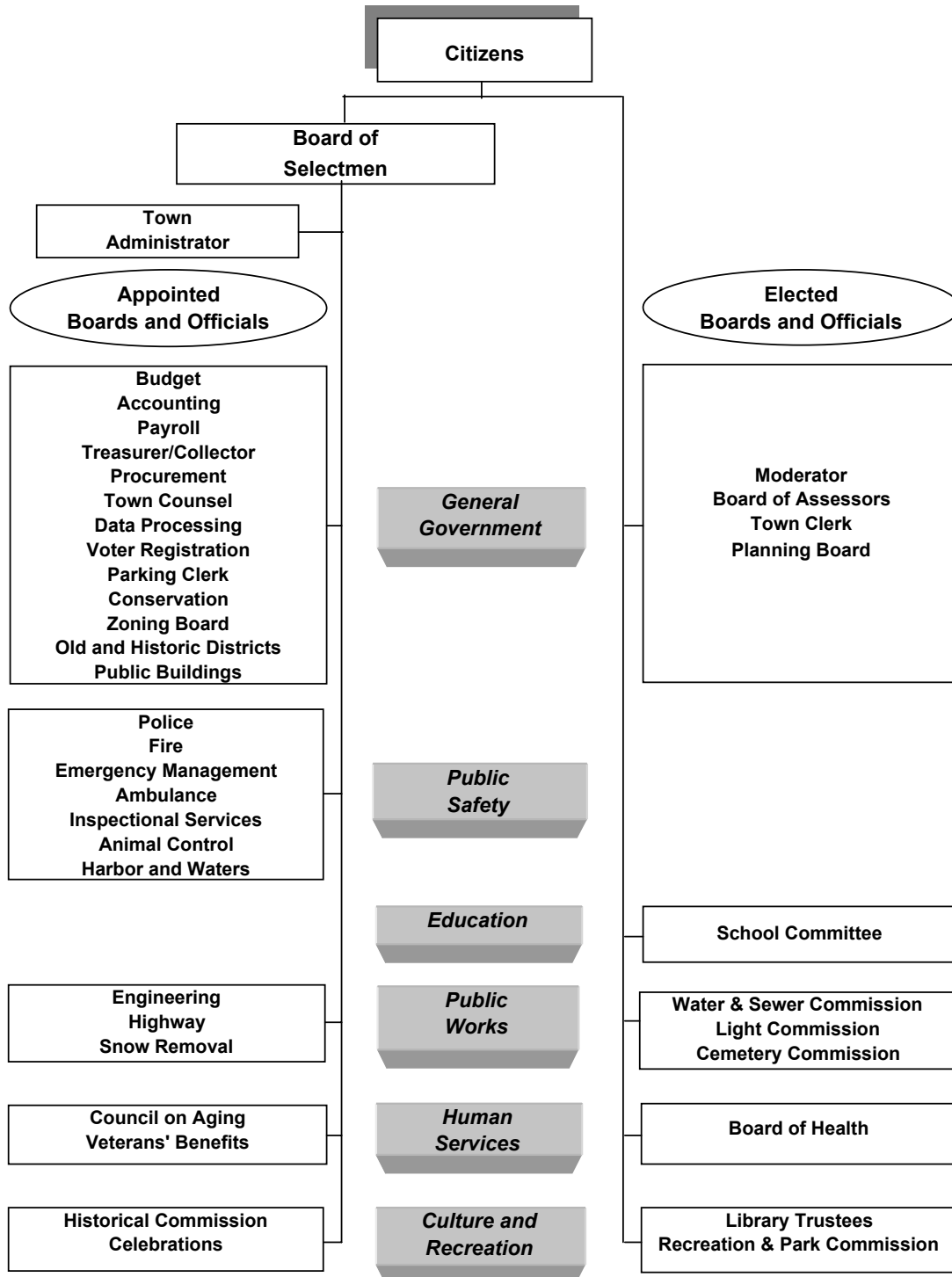
Respectfully submitted,

A handwritten signature in dark ink, appearing to read "John J. McGinn". The signature is fluid and cursive, with a large initial "J" and "M".

John McGinn  
Finance Director

# Town of Marblehead, Massachusetts

## Organization Chart



***Town of Marblehead, Massachusetts  
Principal Executive Officers***

<b><u>Title</u></b>	<b><u>Name</u></b>	<b><u>Manner of Selection</u></b>	<b><u>Term Expires</u></b>
Selectmen (Chairman)	Harry C. Christensen, Jr.	Elected	2007
Selectmen	Jackie Belf-Becker	Elected	2007
Selectmen	Judith R. Jacobi	Elected	2007
Selectmen	James E. Nye	Elected	2007
Selectmen	Jeffrey N. Shribman	Elected	2007
Town Administrator	Anthony M. Sasso	Appointed	2008
Finance Director/Accountant	John J. McGinn	Appointed	2008
Treasurer/Collector	Patricia K. Murray	Appointed	2007
Town Clerk	Thomas A. McNulty	Elected	2007

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Marblehead  
Massachusetts

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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# *Financial Section*



*A Shady View of the Harbor.*



## ***Financial Section***

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## Independent Auditors' Report

To the Honorable Board of Selectmen  
Marblehead, 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 Marblehead, Massachusetts, as of and for the fiscal year ended June 30, 2006 (except for the Marblehead Contributory Retirement System and the Marblehead Municipal Light Department which are as of and for the year ended December 31, 2005), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Marblehead, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marblehead Municipal Light Department, which reflects approximately 43% of the total assets and approximately 66% of the total revenues of the business-type activities, for the fiscal year ended December 31, 2005. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included in these financial statements is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, 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 Marblehead, Massachusetts, as of June 30, 2006 (except for the Marblehead Contributory Retirement System and the Marblehead Municipal Light Department which are as of and for the year ended December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2006, on our consideration of the Town of Marblehead, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund statements and schedules, as listed in the table of contents, are presented for the purpose of supplementary analysis and are not a required part of the financial statements of the Town of Marblehead, Massachusetts. Such supplementary information has been subjected to the auditing procedures

applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance-general fund-budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Powers + Sullivan".

October 19, 2006

## Management's Discussion and Analysis

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

### **Overview of the Financial Statements**

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental 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*.

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

***Proprietary funds.*** The Town maintains two types of propriety funds.

*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 sewer, water, harbor and light department activities.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for Town appropriations and employee contributions used to fund Workmen's Compensation Claims, Medical Claims and Medex claims to supplement Medicare. Because these services predominantly benefit the governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

## ***Government-wide Financial Analysis***

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. Overall net assets of the primary government increased by \$5.4 million during fiscal year 2006, this is an indication that the financial position of the Town has improved.

## ***Governmental Activities***

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the Governmental Activities, Marblehead's assets exceeded liabilities by \$77.4 million, at the close of FY2006.

	Governmental Activities	
	2006	2005
<b>Assets:</b>		
Current assets.....	\$ 38,237,234	\$ 38,059,699
Noncurrent assets (excluding capital).....	-	17,133,697
Capital assets, net of accumulated depreciation.....	89,531,365	90,402,994
Capital assets, not being depreciated.....	4,968,468	2,940,302
<b>Total assets.....</b>	<b>132,737,067</b>	<b>148,536,692</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	5,538,576	5,528,106
Noncurrent liabilities (excluding debt).....	1,746,576	1,852,846
Current debt.....	22,436,000	28,410,000
Noncurrent debt.....	25,585,000	39,980,274
<b>Total liabilities.....</b>	<b>55,306,152</b>	<b>75,771,226</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt.....	61,014,943	63,376,136
Restricted.....	8,514,978	8,369,340
Unrestricted.....	7,900,994	1,019,991
<b>Total net assets.....</b>	<b>\$ 77,430,915</b>	<b>\$ 72,765,467</b>

Governmental net assets of \$61 million (79%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, machinery, and equipment and infrastructure); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$8.5 million (11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$8.0 million (10%) may be used to meet the government's ongoing obligations to citizens and creditors.

There was a continued shift from noncurrent to current assets in fiscal year 2006 relating school capital grants from the Massachusetts School Building Authority (MSBA). In fiscal year 2006, the Town received \$21,275,637 in state reimbursements from the MSBA. This amount represented 75% of the eligible state reimbursement for the construction of the Town's new High School. These funds were used to retire Bond Anticipation Notes associated with the new High School project, which came due in August 2005. In addition, MSBA initiated audits of the two state reimbursable school building projects completed by the Town in recent years (new High School and Conversion of the old High School to a Middle School). These audits are required to verify the eligibility of all costs associated with both these projects as prescribed by MSBA regulations. Since the remaining state reimbursement of approximately \$18 million associated with both these projects, is anticipated to be received by the Town in fiscal year 2007, this amount was reclassified as a current receivable in fiscal year 2006.



	Governmental Activities	
	2006	2005
<b>Program revenues:</b>		
Charges for services.....	\$ 4,018,055	\$ 3,885,636
Operating grants and contributions.....	13,534,764	11,965,143
<b>General revenues:</b>		
Real estate and personal property taxes.....	44,052,622	39,608,751
Motor vehicle and other excise taxes.....	3,033,965	3,008,370
Nonrestricted grants.....	1,254,124	1,120,708
Unrestricted investment income.....	811,058	369,109
Other revenues.....	195,574	146,868
<b>Total revenues.....</b>	<b>66,900,162</b>	<b>60,104,585</b>
<b>Expenses:</b>		
General government.....	3,270,652	3,391,116
Public safety.....	7,980,128	7,787,203
Education.....	41,023,533	38,303,976
Public works.....	4,879,129	4,903,611
Human services.....	1,084,279	826,827
Culture and recreation.....	2,438,794	2,427,894
Interest.....	2,214,597	1,847,413
<b>Total expenses.....</b>	<b>62,891,112</b>	<b>59,488,040</b>
<b>Excess before transfers.....</b>	<b>4,009,050</b>	<b>616,545</b>
<b>Transfers.....</b>	<b>656,398</b>	<b>688,377</b>
<b>Change in net assets.....</b>	<b>\$ 4,665,448</b>	<b>\$ 1,304,922</b>

The ending deficit balance in the combined internal service funds was \$196,305. This marks significant improvement from the combined deficit in these funds at the end of fiscal 2005, when the deficit balance totaled \$1.9 million. There were three factors contributing to this improvement. First, the Town appropriated an additional \$574,000 in its fiscal year 2006 budget to reduce these deficits; second, the Town substantially raised health insurance rates for its employees and retirees to reflect more accurately recent and projected medical claims for the Town; and third, incompliance with requirements of recent changes in state law, the balance of the cash portion of the fiscal year 2006 deficit was raised and funded when the fiscal year 2006 tax rate was set. The remaining deficit at the end of fiscal year 2006 is associated with incurred but not yet reported claims (IBNR). In accordance with Massachusetts General Law Chapter 32B, sections 3A, as amended by Chapter 61 of the Acts of 2005, municipalities have the opportunity to amortize this portion of the deficit over a period not to exceed three years beginning in fiscal year 2007.

## Business-type Activities

For the Town's business-type activities, assets exceeded liabilities by \$42.5 million at the close of FY2006.

	Business-type Activities	
	2006	2005
<b>Assets:</b>		
Current assets.....	\$ 13,579,225	\$ 12,961,548
Capital assets, net of accumulated depreciation.....	28,529,942	28,395,856
Capital assets, not being depreciated.....	2,237,246	2,237,246
<b>Total assets.....</b>	<b>44,346,413</b>	<b>43,594,650</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	1,562,419	1,377,617
Noncurrent liabilities (excluding debt).....	121,386	98,188
Current debt.....	45,000	155,000
Noncurrent debt.....	135,000	180,000
<b>Total liabilities.....</b>	<b>1,863,805</b>	<b>1,810,805</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt.....	31,576,803	31,295,883
Unrestricted.....	10,905,805	10,487,962
<b>Total net assets.....</b>	<b>\$ 42,482,608</b>	<b>\$ 41,783,845</b>

Business-type net assets of \$31.6 million (74%) represent investments in capital assets net of related debt. The remaining \$10.9 million (26%) is available to be used for the ongoing operation of the Town's Water, Sewer, Harbor and Municipal Light activities. There was an increase of \$699 thousand in net assets reported in connection with the Water, Sewer, Municipal Light and Harbor activities.

The Sewer Enterprise Fund's net assets totaled \$10.7 million at year end; a decrease of \$88,293 from the prior year. This balance is approximately 3.6 times the annual operating expenses and has remained consistent over the past several years. Revenues in this fund consist primarily of charges for sewer services and the largest portion of the Fund's expenditures (66%) relate to the annual assessment paid to the South Essex Sewerage District.

The Water Enterprise Fund's net assets totaled \$10.2 million at year end; an increase of \$396,436 from the prior year. This balance is approximately 4.3 times the annual operating expenses and has remained consistent over the past several years. Revenues in this fund consist primarily of charges for water service and proximately 58% of the operating expenses consist of assessments paid to the Massachusetts Water Resource Authority.

The Harbor Enterprise Fund's net assets increased by \$119,820 and totaled \$3.8 million at year end. Revenues in this fund consist of a combination of charges for services and boat excise taxes assessed.

The Municipal Light Enterprise Fund's net assets totaled \$17.7 million at year end, an increase of \$270,800. The majority of the revenue in this fund consists of charges for services and 93% of the expenditures relate to operational costs.

		Business-type Activities	
		2006	2005
<b>Program revenues:</b>			
Charges for services - Water.....	\$	3,084,796	\$ 2,985,712
Charges for services - Sewer.....		3,254,460	3,897,788
Charges for services - Electric.....		13,845,358	11,350,011
Charges for services - Harbor.....		743,085	755,014
Operating grants.....		3,473	25,000
<b>General revenues:</b>			
Unrestricted investment income.....		238,535	104,009
<b>Total revenues.....</b>		<b>21,169,707</b>	<b>19,117,534</b>
<b>Expenses:</b>			
Water.....		2,575,458	2,408,244
Sewer.....		3,274,040	3,489,015
Electric.....		13,344,444	10,941,345
Harbor.....		620,604	455,038
<b>Total expenses.....</b>		<b>19,814,546</b>	<b>17,293,642</b>
<b>Excess before transfers.....</b>		<b>1,355,161</b>	<b>1,823,892</b>
<b>Transfers.....</b>		<b>(656,398)</b>	<b>(688,377)</b>
<b>Change in net assets.....</b>	\$	<b>698,763</b>	\$ <b>1,135,515</b>

### ***Financial Analysis of the Government's Funds***

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$11.2 million, a decrease of \$2.2 million from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4.9 million, while total fund balance was \$5.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8.2% of total general fund expenditures, while total fund balance represents 8.8% of that same amount.

The fund balance of the general fund increased by \$1.5 million. The Town budgeted to use approximately \$719,000 of prior year's fund balance to balance the fiscal year 2006 budget. Actual revenues came in approximately \$1.1 million over budget primarily due to conservative budget estimates. Expenditures came in approximately \$730 thousand under budget. Most notably, the public safety, public works and culture and recreation salary line items were significantly less than budgeted. Also, the state and county charges were less than expected.

The School Construction Grant fund reported \$21,275,837 in grant revenue from the Massachusetts School Building Authority (MSBA) in FY 2006. The Town elected to paydown a portion of its long-term school notes that matured in FY 2006 with this revenue. The remaining \$15,984,637 of long-term notes were paid by issuing current refunding notes of the same amount. These notes were paid down in FY 2007 with the addition of MSBA grant revenue.

### ***General Fund Budgetary Highlights***

The majority of the changes between the original and final budget resulted from authorized reserve fund transfers and year end transfers between department appropriations authorized under the provisions of the Municipal Relief Act and have not resulted in a net change in the overall general fund budget. Additional appropriations from were authorized to fund departmental shortfalls of approximately \$1,900.

### ***Capital Asset and Debt Administration***

**Capital assets.** In conjunction with the operating budget, each department annually submits a proposed capital budget to the Capital Planning Committee. The Capital Planning Committee is responsible for reviewing the proposed capital budgets and reporting to the annual Town Meeting.

The major capital asset activity of the governmental activities during the year consisted of the acquisition of land of \$2 million, the purchase of several new pieces of heavy equipment for various Town departments in the amount of \$1.3 million and upgrades to infrastructure of \$500 thousand.

Capital additions of the Business-type activities consisted of upgrades to infrastructure and purchases of new equipment in the Sewer and Water activities of \$365 thousand and \$373 thousand, respectively; purchase of equipment in the Harbor activities of approximately \$16 thousand; and Municipal Light upgrades to plant and equipment of approximately \$1.2 million.

**Debt administration.** Outstanding long-term debt of the general government, as of June 30, 2006, totaled \$44.4 million, of which \$41.8 million is related to school projects, \$2.5 million is for drain projects and \$40 thousand is for a fire truck. The enterprise funds have only \$180 thousand in outstanding debt which is all related to the harbor enterprise fund.

Please refer to the notes 5, 8 and 9 of the basic financial statements for further discussion of the Town's major capital and debt activity.

### ***Requests for Information***

This financial report is designed to provide a general overview of the Town of Marblehead's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Mary Alley Building, 7 Widger Road, Marblehead, Massachusetts 01945.

## ***Basic Financial Statements***

# STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
CURRENT:			
Cash and cash equivalents.....	\$ 18,118,355	\$ 7,081,038	\$ 25,199,393
Investments.....	896,752	-	896,752
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	423,777	-	423,777
Real estate tax deferrals.....	333,508	-	333,508
Tax liens.....	95,572	-	95,572
Motor vehicle and other excise taxes.....	181,851	12,327	194,178
User fees.....	-	2,828,807	2,828,807
Departmental and other.....	102,658	-	102,658
Special assessments.....	-	1,277	1,277
Intergovernmental.....	18,881,692	-	18,881,692
Tax foreclosures.....	7,081	-	7,081
Internal balances.....	(2,507,500)	1,508,142	(999,358)
Inventory.....	-	75,690	75,690
Investment in joint venture.....	-	989,615	989,615
Working capital deposit.....	1,703,488	-	1,703,488
Other assets.....	-	1,082,329	1,082,329
Total current assets.....	38,237,234	13,579,225	51,816,459
NONCURRENT:			
Capital assets, net of accumulated depreciation.....	89,531,365	28,529,942	118,061,307
Capital assets, not being depreciated.....	4,968,468	2,237,246	7,205,714
Total noncurrent assets.....	94,499,833	30,767,188	125,267,021
TOTAL ASSETS.....	132,737,067	44,346,413	177,083,480
<b>LIABILITIES</b>			
CURRENT:			
Warrants payable.....	1,950,150	1,251,468	3,201,618
Accrued liabilities.....	865,668	-	865,668
Tax refunds payable.....	49,052	-	49,052
Accrued interest.....	960,875	1,825	962,700
Payroll withholdings.....	339,409	-	339,409
Due to Agency Fund.....	78,900	-	78,900
Other liabilities.....	49,309	205,265	254,574
Customer deposits payable.....	79,727	27,864	107,591
Capital lease obligations.....	25,557	-	25,557
Compensated absences.....	804,597	75,997	880,594
Workers' compensation.....	98,141	-	98,141
Unamortized premium on bonds and notes payable.....	237,191	-	237,191
Bonds and notes payable.....	22,436,000	45,000	22,481,000
Total current liabilities.....	27,974,576	1,607,419	29,581,995
NONCURRENT:			
Capital lease obligations.....	21,318	-	21,318
Compensated absences.....	309,584	121,386	430,970
Workers' compensation.....	382,688	-	382,688
Unamortized premium on bonds and notes payable.....	1,032,986	-	1,032,986
Bonds and notes payable.....	25,585,000	135,000	25,720,000
Total noncurrent liabilities.....	27,331,576	256,386	27,587,962
TOTAL LIABILITIES.....	55,306,152	1,863,805	57,169,957
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	61,014,943	31,576,803	92,591,746
Restricted for:			
Permanent funds:			
Expendable.....	1,243,096	-	1,243,096
Nonexpendable.....	3,218,824	-	3,218,824
Other purposes:			
Gifts and grants.....	3,294,881	-	3,294,881
Other.....	758,177	-	758,177
Unrestricted.....	7,900,994	10,905,805	18,806,799
TOTAL NET ASSETS.....	\$ 77,430,915	\$ 42,482,608	\$ 119,913,523

See notes to basic financial statements.

# STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2006

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 3,270,652	\$ 356,898	\$ 230,761	\$ -	\$ (2,682,993)
Public safety.....	7,980,128	1,072,931	198,117	-	(6,709,080)
Education.....	41,023,533	1,185,631	11,405,148	-	(28,432,754)
Public works.....	4,879,129	745,750	349,349	-	(3,784,030)
Human services.....	1,084,279	230,010	208,706	-	(645,563)
Culture and recreation.....	2,438,794	426,835	180,142	-	(1,831,817)
Interest.....	2,214,597	-	962,541	-	(1,252,056)
Total Governmental Activities.....	62,891,112	4,018,055	13,534,764	-	(45,338,293)
<i>Business-Type Activities:</i>					
Water.....	2,575,458	3,084,796	-	-	509,338
Sewer.....	3,274,040	3,254,460	-	-	(19,580)
Electric Light.....	13,344,444	13,845,358	-	-	500,914
Harbor.....	620,604	743,085	3,473	-	125,954
Total Business-Type Activities.....	19,814,546	20,927,699	3,473	-	1,116,626
Total Primary Government.....	\$ 82,705,658	\$ 24,945,754	\$ 13,538,237	\$ -	\$ (44,221,667)

See notes to basic financial statements.

(Continued)

# STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net assets:</b>			
Net (expense) revenue from previous page.....	\$ <u>(45,338,293)</u>	\$ <u>1,116,626</u>	\$ <u>(44,221,667)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	44,052,622	-	44,052,622
Motor vehicle and other excise taxes.....	3,033,965	-	3,033,965
Penalties and interest on taxes.....	134,274	-	134,274
Grants and contributions not restricted to specific programs.....	1,254,124	-	1,254,124
Unrestricted investment income.....	811,058	238,535	1,049,593
Miscellaneous.....	61,300	-	61,300
<i>Transfers, net</i> .....	<u>656,398</u>	<u>(656,398)</u>	<u>-</u>
Total general revenues and transfers.....	<u>50,003,741</u>	<u>(417,863)</u>	<u>49,585,878</u>
Change in net assets.....	4,665,448	698,763	5,364,211
<i>Net Assets:</i>			
Beginning of year.....	<u>72,765,467</u>	<u>41,783,845</u>	<u>114,549,312</u>
End of year.....	\$ <u><u>77,430,915</u></u>	\$ <u><u>42,482,608</u></u>	\$ <u><u>119,913,523</u></u>

(Concluded)



**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2006

	General	School Construction Grant	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 8,800,345	\$ -	\$ 9,016,695	\$ 17,817,040
Investments.....	-	-	896,752	896,752
Receivables, net of uncollectibles:				
Property taxes.....	423,777	-	-	423,777
Real estate tax deferrals.....	333,508	-	-	333,508
Tax liens.....	95,572	-	-	95,572
Motor vehicle and other excise taxes.....	181,851	-	-	181,851
Departmental and other.....	20,218	-	29,678	49,896
Intergovernmental.....	62,687	15,984,637	2,834,368	18,881,692
Working capital deposit.....	-	-	15,000	15,000
Tax foreclosures.....	7,081	-	-	7,081
<b>TOTAL ASSETS.....</b>	<b>\$ 9,925,039</b>	<b>\$ 15,984,637</b>	<b>\$ 12,792,493</b>	<b>\$ 38,702,169</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 662,369	\$ -	\$ 395,408	\$ 1,057,777
Accrued payroll and amounts withheld.....	339,409	-	-	339,409
Accrued interest on short-term debt.....	125,311	-	-	125,311
Due to agency funds.....	78,900	-	-	78,900
Due to Municipal Light Fund.....	2,507,500	-	-	2,507,500
Liabilities due depositors.....	79,727	-	-	79,727
Other liabilities.....	49,309	-	-	49,309
Deferred revenues.....	798,245	15,984,637	2,801,011	19,583,893
Tax refunds payable.....	49,052	-	-	49,052
Notes payable.....	-	-	3,626,363	3,626,363
<b>TOTAL LIABILITIES.....</b>	<b>4,689,822</b>	<b>15,984,637</b>	<b>6,822,782</b>	<b>27,497,241</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances and continuing appropriations.....	329,471	-	-	329,471
Perpetual permanent funds.....	-	-	3,218,824	3,218,824
Unreserved:				
Designated for subsequent year's expenditures:				
General fund.....	1,979,269	-	-	1,979,269
Undesignated, reported in:				
General fund.....	2,926,477	-	-	2,926,477
Special revenue funds.....	-	-	4,956,638	4,956,638
Capital projects funds.....	-	-	(3,448,847)	(3,448,847)
Permanent funds.....	-	-	1,243,096	1,243,096
<b>TOTAL FUND BALANCES.....</b>	<b>5,235,217</b>	<b>-</b>	<b>5,969,711</b>	<b>11,204,928</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 9,925,039</b>	<b>\$ 15,984,637</b>	<b>\$ 12,792,493</b>	<b>\$ 38,702,169</b>

See notes to basic financial statements.

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

JUNE 30, 2006

Total governmental fund balances.....	\$ 11,204,928
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	94,499,833
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	19,583,893
Internal service funds are used by management to account for health insurance and workers' compensation activities.	
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....	(196,305)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(835,564)
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.....	(44,394,637)
Capital lease payable.....	(46,875)
Unamortized premium on bonds and notes payable.....	(1,270,177)
Compensated absences.....	(1,114,181)
Net effect of reporting long-term liabilities.....	<u>(46,825,870)</u>
Net assets of governmental activities.....	<u>\$ 77,430,915</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

	General	School Construction Grant	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Real estate and personal property taxes.....	\$ 43,703,685	\$ -	\$ -	\$ 43,703,685
Motor vehicle and other excise taxes.....	3,026,225	-	-	3,026,225
Penalties and interest on taxes.....	134,274	-	-	134,274
Charges for services.....	716,897	-	1,604,267	2,321,164
Licenses and permits.....	867,875	-	-	867,875
Fines and forfeitures.....	185,369	-	200	185,569
Intergovernmental.....	10,522,700	21,275,637	3,058,139	34,856,476
Departmental and other.....	-	-	339,638	339,638
Contributions.....	32,000	-	351,178	383,178
Investment income.....	470,735	-	316,805	787,540
Miscellaneous.....	110,626	-	245,938	356,564
<b>TOTAL REVENUES.....</b>	<b>59,770,386</b>	<b>21,275,637</b>	<b>5,916,165</b>	<b>86,962,188</b>
<b>EXPENDITURES:</b>				
Current:				
General government.....	1,880,829	-	2,064,578	3,945,407
Public safety.....	5,601,388	-	654,281	6,255,669
Education.....	22,975,466	-	4,351,300	27,326,766
Public works.....	3,773,068	-	1,257,571	5,030,639
Human services.....	389,559	-	409,031	798,590
Culture and recreation.....	1,507,407	-	499,870	2,007,277
Pension benefits.....	6,728,821	-	-	6,728,821
Property and liability insurance.....	334,103	-	-	334,103
Employee benefits.....	8,884,059	-	-	8,884,059
State and county charges.....	2,217,767	-	-	2,217,767
Debt service:				
Principal.....	2,720,000	21,275,637	-	23,995,637
Interest.....	2,585,246	-	-	2,585,246
<b>TOTAL EXPENDITURES.....</b>	<b>59,597,713</b>	<b>21,275,637</b>	<b>9,236,631</b>	<b>90,109,981</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>172,673</b>	<b>-</b>	<b>(3,320,466)</b>	<b>(3,147,793)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of refunding bonds.....	-	15,984,637	-	15,984,637
Premium from issuance of refunding debt.....	-	-	197,483	197,483
Payments of current refunded debt.....	-	(15,984,637)	-	(15,984,637)
Capital lease financing.....	46,875	-	-	46,875
Transfers in.....	1,344,033	-	953,956	2,297,989
Transfers out.....	(39,074)	-	(1,602,517)	(1,641,591)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,351,834</b>	<b>-</b>	<b>(451,078)</b>	<b>900,756</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>1,524,507</b>	<b>-</b>	<b>(3,771,544)</b>	<b>(2,247,037)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>3,710,710</b>	<b>-</b>	<b>9,741,255</b>	<b>13,451,965</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 5,235,217</b>	<b>\$ -</b>	<b>\$ 5,969,711</b>	<b>\$ 11,204,928</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds.....	\$	(2,247,037)
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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.

Capital outlay.....	4,500,085	
Depreciation expense.....	<u>(3,343,548)</u>	
Net effect of reporting capital assets.....		1,156,537

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..... (20,085,544)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Capital lease financing.....	(46,875)	
Premiums from issuance of debt.....	(197,483)	
Debt service principal payments.....	<u>23,995,637</u>	
Net effect of reporting long-term debt.....		23,751,279

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(31,675)	
Amortization of bond premiums.....	685,106	
Net change in accrued interest on long-term debt.....	<u>(296,777)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		356,654

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities.....		<u>1,733,559</u>
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Change in net assets of governmental activities.....	\$	<u><u>4,665,448</u></u>
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See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2006

	Business-type Activities - Enterprise Funds					
	Sewer	Water	Harbor	Municipal Light (as of December 31, 2005)	Total	Governmental Activities - Internal Service Funds
<b>ASSETS</b>						
<b>CURRENT:</b>						
Cash and cash equivalents.....	\$ 1,643,914	\$ 1,979,782	\$ 536,582	\$ 2,920,760	\$ 7,081,038	\$ 301,315
Receivables, net of allowance for uncollectibles:						
Boat Excise.....	-	-	12,327	-	12,327	-
User fees.....	787,298	587,592	2,659	1,451,258	2,828,807	-
Departmental and other.....	-	-	-	-	-	52,762
Special assessments.....	1,277	-	-	-	1,277	-
Due from other funds.....	-	-	-	1,508,142	1,508,142	291,569
Inventory.....	-	-	-	75,690	75,690	-
Investment in joint venture.....	989,615	-	-	-	989,615	-
Working capital deposit.....	-	-	-	-	-	1,688,488
Other assets.....	-	-	-	1,082,329	1,082,329	-
Total current assets.....	3,422,104	2,567,374	551,568	7,038,179	13,579,225	2,334,134
<b>NONCURRENT:</b>						
Capital assets, net of accumulated depreciation..	7,243,858	7,683,519	1,766,458	11,836,107	28,529,942	-
Capital assets, not being depreciated.....	115,466	49,427	2,020,257	52,096	2,237,246	-
Total noncurrent assets.....	7,359,324	7,732,946	3,786,715	11,888,203	30,767,188	-
<b>TOTAL ASSETS.....</b>	<b>10,781,428</b>	<b>10,300,320</b>	<b>4,338,283</b>	<b>18,926,382</b>	<b>44,346,413</b>	<b>2,334,134</b>
<b>LIABILITIES</b>						
<b>CURRENT:</b>						
Warrants payable.....	31,412	39,873	107,356	1,072,827	1,251,468	892,373
Accrued liabilities.....	-	-	-	-	-	865,668
Accrued interest.....	-	-	1,825	-	1,825	-
Compensated absences.....	31,243	27,929	16,825	-	75,997	-
Other liabilities.....	9,000	5,170	191,095	-	205,265	-
Customer deposits payable.....	-	645	500	26,719	27,864	-
Workers' compensation.....	-	-	-	-	-	98,141
Due to other funds.....	-	-	-	-	-	291,569
Bonds and notes payable.....	-	-	45,000	-	45,000	-
Total current liabilities.....	71,655	73,617	362,601	1,099,546	1,607,419	2,147,751
<b>NONCURRENT:</b>						
Compensated absences.....	16,904	20,614	439	83,429	121,386	-
Workers' compensation.....	-	-	-	-	-	382,688
Bonds and notes payable.....	-	-	135,000	-	135,000	-
Total noncurrent liabilities.....	16,904	20,614	135,439	83,429	256,386	382,688
<b>TOTAL LIABILITIES.....</b>	<b>88,559</b>	<b>94,231</b>	<b>498,040</b>	<b>1,182,975</b>	<b>1,863,805</b>	<b>2,530,439</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt.....	7,359,324	7,732,946	3,606,715	11,888,203	30,587,188	-
Unrestricted.....	3,333,545	2,473,143	233,528	5,855,204	11,895,420	(196,305)
<b>TOTAL NET ASSETS.....</b>	<b>\$ 10,692,869</b>	<b>\$ 10,206,089</b>	<b>\$ 3,840,243</b>	<b>\$ 17,743,407</b>	<b>\$ 42,482,608</b>	<b>\$ (196,305)</b>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2006

Business-type Activities - Enterprise Funds						
	Sewer	Water	Harbor	Municipal Light (as of December 31, 2005)	Total	Governmental Activities - Internal Service Funds
<b>OPERATING REVENUES:</b>						
Boat excise.....	\$ -	\$ -	\$ 134,780	\$ -	\$ 134,780	\$ -
Charges for services .....	3,245,010	3,082,090	608,195	13,845,358	20,780,653	11,547,207
Licenses and permits.....	9,450	-	-	-	9,450	-
Miscellaneous.....	-	2,706	110	-	2,816	87,759
<b>TOTAL OPERATING REVENUES .....</b>	<b>3,254,460</b>	<b>3,084,796</b>	<b>743,085</b>	<b>13,845,358</b>	<b>20,927,699</b>	<b>11,634,966</b>
<b>OPERATING EXPENSES:</b>						
Cost of services and administration .....	-	-	-	-	-	9,924,925
Personal services.....	471,622	468,887	246,108	644,149	1,830,766	-
Other.....	329,665	317,599	266,580	11,723,723	12,637,567	-
Operating assessments.....	2,111,042	1,525,030	-	-	3,636,072	-
Depreciation.....	281,582	313,470	91,938	976,572	1,663,562	-
<b>TOTAL OPERATING EXPENSES .....</b>	<b>3,193,911</b>	<b>2,624,986</b>	<b>604,626</b>	<b>13,344,444</b>	<b>19,767,967</b>	<b>9,924,925</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>60,549</b>	<b>459,810</b>	<b>138,459</b>	<b>500,914</b>	<b>1,159,732</b>	<b>1,710,041</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>						
Investment income.....	48,157	71,545	18,947	99,886	238,535	23,518
Interest expense.....	-	-	(15,978)	-	(15,978)	-
Capital outlay.....	(80,129)	49,528	-	-	(30,601)	-
Intergovernmental assessments.....	-	-	3,473	-	3,473	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(31,972)</b>	<b>121,073</b>	<b>6,442</b>	<b>99,886</b>	<b>195,429</b>	<b>23,518</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>28,577</b>	<b>580,883</b>	<b>144,901</b>	<b>600,800</b>	<b>1,355,161</b>	<b>1,733,559</b>
<b>TRANSFERS:</b>						
Transfers out.....	(116,870)	(184,447)	(25,081)	(330,000)	(656,398)	-
<b>CHANGE IN NET ASSETS.....</b>	<b>(88,293)</b>	<b>396,436</b>	<b>119,820</b>	<b>270,800</b>	<b>698,763</b>	<b>1,733,559</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>10,781,162</b>	<b>9,809,653</b>	<b>3,720,423</b>	<b>17,472,607</b>	<b>41,783,845</b>	<b>(1,929,864)</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 10,692,869</b>	<b>\$ 10,206,089</b>	<b>\$ 3,840,243</b>	<b>\$ 17,743,407</b>	<b>\$ 42,482,608</b>	<b>\$ (196,305)</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds					
	Sewer	Water	Harbor	Municipal Light (as of December 31, 2005)	Total	Governmental Activities - Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers and users.....	\$ 3,592,889	\$ 3,329,074	\$ 746,159	\$ 13,461,418	\$ 21,129,540	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	11,414,986
Payments to vendors.....	(2,425,680)	(1,833,865)	(167,547)	(12,331,517)	(16,758,609)	(9,983,242)
Payments to employees.....	(471,721)	(455,730)	(243,898)	(631,393)	(1,802,742)	-
NET CASH FROM OPERATING ACTIVITIES.....	695,488	1,039,479	334,714	498,508	2,568,189	1,431,744
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers out.....	(116,870)	(184,447)	(25,081)	(330,000)	(656,398)	-
Advances from other funds.....	-	-	3,700	-	3,700	(1,567,650)
Advances to other funds.....	-	-	-	276,619	276,619	-
Intergovernmental revenue.....	-	-	3,473	-	3,473	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(116,870)	(184,447)	(17,908)	(53,381)	(372,606)	(1,567,650)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition and construction of capital assets.....	(365,139)	(372,815)	(16,063)	(1,186,599)	(1,940,616)	-
Principal payments on bonds and notes.....	-	-	(155,000)	-	(155,000)	-
Interest expense.....	-	-	(15,978)	-	(15,978)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(365,139)	(372,815)	(187,041)	(1,186,599)	(2,111,594)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Investment income.....	48,157	71,545	18,947	99,886	238,535	23,518
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	261,636	553,762	148,712	(641,586)	322,524	(112,388)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,382,278	1,426,020	387,870	3,562,346	6,758,514	413,703
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 1,643,914	\$ 1,979,782	\$ 536,582	\$ 2,920,760	\$ 7,081,038	\$ 301,315
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b>						
Operating income (loss).....	\$ 60,549	\$ 459,810	\$ 138,459	\$ 500,914	\$ 1,159,732	\$ 1,710,041
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	281,582	313,470	91,938	976,572	1,663,562	-
Changes in assets and liabilities:						
Boat Excise.....	-	-	(1,102)	-	(1,102)	-
User fees.....	338,429	244,278	4,176	(566,667)	20,216	-
Departmental and other.....	-	-	-	-	-	99,120
Inventory.....	-	-	-	(19,020)	(19,020)	-
Investment in joint venture.....	8,166	-	-	-	8,166	-
Working capital deposit.....	-	-	-	-	-	(319,100)
Other assets.....	-	-	-	(471,365)	(471,365)	-
Warrants payable.....	(2,139)	3,594	96,829	92,662	190,946	39,923
Accrued liabilities.....	-	-	-	-	-	(93,758)
Liabilities due depositors.....	-	-	-	(4,305)	(4,305)	-
Other liabilities.....	9,000	5,170	2,204	-	16,374	-
Accrued compensated absences.....	(99)	13,157	2,210	(10,283)	4,985	-
Workers' compensation.....	-	-	-	-	-	(4,482)
Total adjustments.....	634,939	579,669	196,255	(2,406)	1,408,457	(278,297)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 695,488	\$ 1,039,479	\$ 334,714	\$ 498,508	\$ 2,568,189	\$ 1,431,744

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 936,444	\$ 3,136,492	\$ 13,841
Investments - external investment pool.....	73,731,061	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	-	175	-
Intergovernmental.....	318,093	-	-
Due from other funds.....	-	-	78,900
Capital assets, net of accumulated depreciation.....	-	22,026	-
Capital assets, not being depreciated.....	-	2,045	-
<b>TOTAL ASSETS</b> .....	<u>74,985,598</u>	<u>3,160,738</u>	<u>92,741</u>
<b>LIABILITIES</b>			
Warrants payable.....	-	8,834	-
Liabilities due depositors.....	-	-	92,741
Other Liabilities.....	-	175	-
<b>TOTAL LIABILITIES</b> .....	<u>-</u>	<u>9,009</u>	<u>92,741</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes.....	<u>\$ 74,985,598</u>	<u>\$ 3,151,729</u>	<u>\$ -</u>

See notes to basic financial statements.



**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2006

	Pension Trust Fund (as of December 31, 2005)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 2,179,064	\$ -
Plan members.....	1,224,292	-
Private donations.....	-	13,550
	<hr/>	<hr/>
Total contributions.....	3,403,356	13,550
Net investment income (loss):		
Net change in fair value of investments.....	4,275,601	-
Investment income.....	4,197,967	126,477
	<hr/>	<hr/>
Net investment income (loss).....	8,473,568	126,477
	<hr/>	<hr/>
Intergovernmental.....	240,640	-
Transfers from other systems.....	291,235	-
	<hr/>	<hr/>
TOTAL ADDITIONS.....	12,408,799	140,027
	<hr/>	<hr/>
<b>DEDUCTIONS:</b>		
Administration.....	492,467	24,180
Depreciation.....	-	2,782
Transfers to other systems.....	85,225	-
Retirement benefits and refunds.....	5,317,752	-
Educational scholarships.....	-	8,850
	<hr/>	<hr/>
TOTAL DEDUCTIONS.....	5,895,444	35,812
	<hr/>	<hr/>
CHANGE IN NET ASSETS.....	6,513,355	104,215
NET ASSETS AT BEGINNING OF YEAR.....	68,472,243	3,047,514
	<hr/>	<hr/>
NET ASSETS AT END OF YEAR.....	\$ 74,985,598	\$ 3,151,729
	<hr/>	<hr/>

See notes to basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying summary of the Town of Marblehead's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements. The financial statements and notes are representations of the Town's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principals (GAAP), as applicable to governments, and have been consistently applied in the preparation of the financial statements. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Reporting Entity**

The Town of Marblehead is a municipal corporation that is governed by an elected five member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the Town is considered to be financially accountable. Component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. Specifically excluded from the Town's financial statements because they are autonomous entities or agencies are the Marblehead Housing Authority and North Shore Regional Vocational School District.

Blended component units are entities which are legally separate from the Town, but are so related to the Town that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The Marblehead Contributory Retirement System (the System) is blended within the Primary Government as a Pension Trust Fund within the Fiduciary Fund financial statements. The System is governed by a five member board comprised of the Town's Finance Director (ex-officio), two elected members and one member appointed by the Board of Selectmen and one member appointed by the Board members. The System is a legally separate entity, but the nature and significance of its relationship with the Town warrants inclusion in the basic financial statements. The system is presented using the accrual basis of accounting. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System at 7 Widger Road, Marblehead, MA 01945.

The Town presents the financial position of the Marblehead Municipal Light Plant (MMLP) and the results of its operations on a calendar year basis as an Enterprise Fund in the Proprietary Fund Financial Statements. The MMLP maintains a separate set of books and records on a calendar year basis, and issues yearly financial statements presented in accordance with the Uniform System of Accounts for Light Companies, as prescribed by the Massachusetts Department of Telecommunications and Energy. The MMLP's financial statements for the year ended December 31, 2005, were audited by other independent public accountants. A copy of the report can be obtained by contacting the MMLP at 80 Commercial Street, Marblehead, MA 01945.

The Town is a member of the South Essex Sewerage District (the District), a joint venture with the Cities of Salem, Peabody and Beverly and the Towns of Marblehead and Danvers, for the operation of a septage disposal facility. The members share in overseeing the operations of the District. Each member is responsible for its proportionate share of the operational costs of the District, which are paid in the form of assessments. As of June 30, 2006, the Town's equity interest in the operations of the District is \$989,615, which is recorded in the sewer enterprise fund. Complete financial statements can be obtained directly from their administrative offices located at 50 Fort Avenue, Salem, MA 01970.

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

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

### *Fund Financial Statements*

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

#### *Major Fund Criteria*

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

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

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

Internal service funds and fiduciary funds are reported by fund type.

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

### *Government-Wide Financial Statements*

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

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

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

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

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

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

#### *Fund Financial Statements*

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

Property taxes, excise taxes, departmental and governmental revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become 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 *School Construction Grant Fund* is used to account for financial resources received from the MSBA that is dedicated to pay down school construction debt.

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

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or for major capital projects) that are legally restricted to expenditures for specified purposes.

The *Capital Projects Funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

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

**Proprietary funds** are accounted for using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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

The following major enterprise funds are reported:

The *Water* enterprise fund is used to account for the Town's water activities.

The *Sewer* enterprise fund is used to account for the Town's sewer activities.

The *Harbor* enterprise fund is used to account for the Town's harbor activities.

The *Municipal Light* enterprise fund is used to account for the Town's electricity activities.

The *Internal Service Funds* are used to account for the financing of services provided by one department to other departments or governmental units.

The following activities within the internal service fund are reported:

The medical claims activity is used to account for Town and employee contributions and investment earnings which are used to pay medical claims of the Town's employees and covered dependents.

The medex claims activity is used to account for Town and employee contributions and investment earnings which are used to pay medical claims of the Town's retired employees over the age of 65 as a supplement to medicare.

The workmen's compensation activity is used to account for Town appropriations and investment earnings which are expended for the payment of injury claims, resulting from on-the-job accidents of Town employees.

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

The following Fiduciary funds are reported:

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allows the trustees to authorize spending of the realized investment earnings. The Town's educational scholarships and assistance to benefit the needy are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity. Agency funds apply the accrual basis of accounting but do not have a measurement focus. The Town's agency funds consist of performance

bonds and the collection and payment of hunting and fishing licenses, firearm permits, sales taxes and meals taxes to the State, dog licenses to the County, proceeds of extra work details to the Town employees, and school student activity accounts.

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

#### *Government-Wide and Fund Financial Statements*

For the enterprise funds, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

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

Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market. Mortgages are valued on the basis of future plan principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

#### E. Accounts Receivable and Allowance for Uncollectible Accounts

##### *Government-Wide and Fund Financial Statements*

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

Real and personal property taxes are based upon values assessed as of January 1 and are levied each July for the following fiscal year ending June 30. Taxes for each year are due in quarterly installments and are normally payable August 1, November 1, February 1 and May 1. Interest accrues on delinquent taxes and is recognized as revenue when received. Tax liens are processed within twelve months after the close of the valuation year on delinquent properties.

The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by the sale or taking of the property by the Town.

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

Boat excise taxes are assessed annually for each boat registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of boats registered and the fair value of those boats. The tax calculation is the fair value of the boat multiplied by \$10 per \$1,000 of value.

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

Water and Sewer fees are based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period.

Harbor fees are assessed based on an annual basis and the portion of the fees that relate to July 1 through December 31 is recorded as unearned revenue at June 30.

The allowance for uncollectible accounts has been estimated based on historical trends and is reflected as a reduction to the receivables in the asset section of the financial statements.

#### F. Inventories

##### *Government-Wide and Fund Financial Statements*

Inventories are recorded as expenditures at the time of purchase except in the Municipal Light Enterprise Fund where inventories of parts and accessories purchased for use in the utility business are stated at cost, which approximates market value at December 31, 2005. Such inventories of both the Governmental Funds and Enterprise Funds, except the Municipal Light Fund, are not material in total to the basic financial statements and therefore are not reported.

#### G. Capital Assets

##### *Government-Wide and Fund Financial Statements*

Capital assets, which include land, construction in progress, piers, buildings, building improvements, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental, business-type activity and fiduciary column of the government-wide and fund based financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for 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, and with the expected useful lives of greater than one year, are capitalized at the date of acquisition or construction. Capital assets (excluding land, and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Building improvements.....	6-20
Buildings.....	40
Infrastructure.....	5-50
Land improvements.....	10-30
Machinery and equipment.....	3-15

H. Compensated Absences*Government-Wide and Fund Financial Statements*

Under the terms of various union contracts, Town employees are granted vacation and sick leave benefits in varying amounts. In the event of termination, an employee is paid for all accumulated vacation. Vacation earned in one year may be carried forward to be used in the following year. Town employees are granted a varying proportion of their unused sick leave upon death or retirement. Accumulated unpaid vacation, sick pay and other employee benefit amounts are reported as liabilities in the government-wide and enterprise financial statements.

I. 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 (full accrual) financial statements.

J. Long-term Debt*Government-Wide and Proprietary Fund Financial Statements*

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

*Governmental Fund Financial Statements*

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

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

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



Net Assets has been “restricted for” the following:

Permanent Funds - Expendable represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

Permanent Funds - Nonexpendable represents the endowment portion of donor restricted trusts that support governmental programs.

Other Purposes - represents grants and gifts restricted by outside parties.

#### *Fund Financial Statements (Fund Balance)*

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:

Reserved for Encumbrances and Continuing Appropriations represents amounts for uncompleted appropriations for special purposes and other commitments carried over to the ensuing fiscal year.

Reserved for Perpetual Permanent Funds represents amounts held in trust for which the only investment earnings may be expended.

Fund balances have been “designated for” the following:

Subsequent Years Expenditures are fund balance amounts budgeted for the next fiscal year to either reduce the tax levy or to be used for specific appropriations.

#### L. Investment Income

Investment income from Special Revenue, Capital Projects, and Agency Funds is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL).

#### M. Total Columns

##### *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.

N. On-Behalf Payments*Government-Wide and Fund Financial Statements*

The Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town's teaching employees. The Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

The accompanying basic financial statements include the required adjustments, which have increased both intergovernmental revenue and pension expenditures by the same amount. The effect of such an adjustment have not changed the excess of revenues and other financing sources over expenditures and other financing uses or fund balances.

O. Fund and Appropriation Deficits

In the Internal Service Fund, the Medical Claims Fund deficit of approximately \$282,000 will be funded by insurance premium increases and the Workers' Compensation Fund deficit of approximately \$100,000 will be funded by Town appropriations.

P. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – CASH AND INVESTMENTS**

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

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

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

The Town's trust funds and retirement system have expanded investment powers including the ability to invest in equity securities, corporate bonds, annuities and other investments. The retirement system participates in the Pensions Reserves Investment Trust (PRIT) Fund which is a pooled investment fund that meets the criteria of an external investment pool. The Pension Reserves Investment Management (PRIM) Board is charged with the general supervision of the PRIT Fund. The fair value of the position in the PRIT fund is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial risk. At fiscal year-end, the carrying amount of deposits totaled \$14,708,428 and the bank balance totaled \$15,850,188. Of the bank balance, \$400,000 was covered by Federal Depository Insurance, and \$15,450,188 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2005, the carrying amount of deposits for the System totaled \$936,444 and the bank balance of \$175,019 was fully covered by Federal Depository Insurance.

Investments

At fiscal year end, the Town and the System had the following investments:

***Town balances at June 30, 2006:***

<b>Investment Type</b>	<b>Fair Value</b>
Equity Securities.....	\$ 896,752
MMDT.....	13,641,298
Total Investments.....	\$ 14,538,050

***System balances at December 31, 2005:***

<b>Investment Type</b>	<b>Fair Value</b>
PRIT.....	\$ 73,731,061

Custodial Credit Risk – Investments

For investments, custodial credit risk is the risk that, in the event of a failure by the counterparty, the government will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town does not have any custodial credit risk exposure as of June 30, 2006 because the \$896,752 in equity securities are held by the Town and the \$13,641,298 in shares of MMDT are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

At December 31, 2005, the System's \$73,731,061 investment in PRIT is not subject to custodial credit risk exposure because it is not evidenced by securities that exist in physical or book-entry form.

Interest Rate Risk

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

Credit Risk

The Town has not adopted a formal policy related to Credit Risk. The Town's investments in MMDT are unrated.

The System has not adopted a formal policy related to Credit Risk. The System's investments in PRIT are unrated.

#### Concentration of Credit Risk

The Town and the System do not place a limit on the amount that may be invested in any one issuer.

### **NOTE 3 – RECEIVABLES**

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

#### **GOVERNMENTAL, INTERNAL SERVICE AND FIDUCIARY FUNDS RECEIVABLES**

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 442,250	\$ (18,473)	\$ 423,777
Real estate tax deferrals.....	333,508	-	333,508
Tax liens.....	95,572	-	95,572
Motor vehicle and other excise taxes.....	476,741	(294,890)	181,851
Departmental and other.....	103,474	(641)	102,833
Intergovernmental - pension fund.....	318,093	-	318,093
Intergovernmental - governmental funds.....	18,881,692	-	18,881,692
Total.....	<u>\$ 20,651,330</u>	<u>\$ (314,004)</u>	<u>\$ 20,337,326</u>

At June 30, 2006, receivables for the enterprise funds consist of the following:

#### **ENTERPRISE FUND RECEIVABLES**

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer user fees.....	\$ 807,854	\$ (19,279)	\$ 788,575
Water user fees.....	602,028	(14,436)	587,592
Harbor user fees.....	2,990	(331)	2,659
Light user fees.....	1,554,335	(103,077)	1,451,258
Harbor excise.....	12,978	(651)	12,327
Total.....	<u>\$ 2,980,185</u>	<u>\$ (137,774)</u>	<u>\$ 2,842,411</u>

Deferred Revenue

Property taxes and other receivables in Governmental Funds that are measurable but not available have been classified as deferred revenue on June 30, 2006 as follows:

**COMPONENTS OF DEFERRED REVENUE**

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 238,074	\$ -	\$ 238,074
Real estate tax deferrals.....	333,508	-	333,508
Tax liens.....	90,447	-	90,447
Motor vehicle and other excise.....	122,473	-	122,473
Departmental and other.....	2,566	-	2,566
Intergovernmental.....	11,177	18,785,648	18,796,825
Total.....	\$ <u>798,245</u>	\$ <u>18,785,648</u>	\$ <u>19,583,893</u>

**NOTE 4 - INTERFUND TRANSFERS AND BALANCES**Interfund Receivables / Payables

Individual fund's interfund receivable and payable balances at June 30, 2006 are as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund.....	\$ -	\$ 2,586,400
Enterprise Funds:		
Electric, at December 31, 2005.....	1,508,142	-
Internal Service Funds:		
Medical Claims.....	-	291,569
Workmen's Compensation.....	291,569	
Agency Funds.....	78,900	-
	<u>1,878,611</u>	<u>2,877,969</u>
Less: Electric Fund Receivable at December 31, 2005	(1,508,142)	-
Less: General Fund Payable to Electric Fund at June 30, 2006	<u>-</u>	<u>(2,507,500)</u>
Total	\$ <u>370,469</u>	\$ <u>370,469</u>

Funds are transferred from one fund to support expenditures of other funds in accordance with the authority established for the individual fund. Transfers within fund types have been eliminated. Transfers between fund types during the year ended June 30, 2006 were:

Fund	Transfers Out:	Transfers In:	
		General Fund	Nonmajor Governmental Funds
General.....	\$ 39,074	\$ -	(1) \$ 39,074
Nonmajor Governmental.....	1,602,517	(3) 687,635	(2) 914,882
Water Enterprise.....	184,447	(4) 184,447	-
Sewer Enterprise.....	116,870	(4) 116,870	-
Electric Enterprise.....	330,000	(4) 330,000	-
Harbor Enterprise.....	25,081	(4) 25,081	-
Total.....	<u>\$ 2,297,989</u>	<u>\$ 1,344,033</u>	<u>\$ 953,956</u>

- (1) Transfer from the school department's budget to fund a deficit in the school lunch fund.  
 (2) Transfers within special revenue funds and permanent funds.  
 (3) To reimburse the general fund for BAN premiums and expenditures for Metco tuition, Medicare from police special details and other grant funds.  
 (4) Payments in lieu of taxes and reimbursements for general government services.

## NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	(Retirements)	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,940,302	\$ 2,000,320	\$ -	\$ 4,940,622
Construction in progress.....	-	27,846	-	27,846
Total capital assets not being depreciated.....	<u>2,940,302</u>	<u>2,028,166</u>	<u>-</u>	<u>4,968,468</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,224,048	132,395	-	2,356,443
Buildings.....	82,292,748	392,146	-	82,684,894
Building improvements.....	8,273,413	57,172	-	8,330,585
Machinery and equipment.....	6,743,135	1,373,983	(340,463)	7,776,655
Infrastructure.....	19,374,783	516,223	(194,125)	19,696,881
Total capital assets being depreciated.....	<u>118,908,127</u>	<u>2,471,919</u>	<u>(534,588)</u>	<u>120,845,458</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(676,850)	(74,535)	-	(751,385)
Buildings.....	(13,111,348)	(1,947,672)	-	(15,059,020)
Building improvements.....	(4,872,459)	(341,810)	-	(5,214,269)
Machinery and equipment.....	(4,390,121)	(545,906)	340,463	(4,595,564)
Infrastructure.....	(5,454,355)	(433,625)	194,125	(5,693,855)
Total accumulated depreciation.....	<u>(28,505,133)</u>	<u>(3,343,548)</u>	<u>534,588</u>	<u>(31,314,093)</u>
Total capital assets being depreciated, net.....	<u>90,402,994</u>	<u>(871,629)</u>	<u>-</u>	<u>89,531,365</u>
Total governmental activities capital assets, net.....	<u>\$ 93,343,296</u>	<u>\$ 1,156,537</u>	<u>\$ -</u>	<u>\$ 94,499,833</u>

Capital asset activity for the Business Type Activities for the fiscal year ended June 30, 2005 was as follows:

<b>Business-Type Activities:</b>	<b>Ending Balance</b>	<b>Additions</b>	<b>(Retirements)</b>	<b>Ending Balance</b>
<u>Sewer:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 115,466	\$ -	\$ -	\$ 115,466
<u>Capital assets being depreciated:</u>				
Buildings.....	114,350	-	-	114,350
Machinery and equipment.....	822,997	9,063	(26,126)	805,934
Infrastructure.....	11,661,168	356,076	(115,000)	11,902,244
Total capital assets being depreciated.....	12,598,515	365,139	(141,126)	12,822,528
<u>Less accumulated depreciation for:</u>				
Buildings.....	(114,350)	-	-	(114,350)
Machinery and equipment.....	(538,082)	(47,098)	26,126	(559,054)
Infrastructure.....	(4,785,782)	(234,484)	115,000	(4,905,266)
Total accumulated depreciation.....	(5,438,214)	(281,582)	141,126	(5,578,670)
Total capital assets being depreciated, net.....	7,160,301	83,557	-	7,243,858
Total sewer activities capital assets, net.....	\$ 7,275,767	\$ 83,557	\$ -	\$ 7,359,324
<u>Water:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 49,427	\$ -	\$ -	\$ 49,427
<u>Capital assets being depreciated:</u>				
Land improvements.....	-	45,856	-	45,856
Buildings.....	946,475	-	-	946,475
Machinery and equipment.....	919,863	143,314	(73,096)	990,081
Infrastructure.....	10,050,377	183,645	(15,000)	10,219,022
Total capital assets being depreciated.....	11,916,715	372,815	(88,096)	12,201,434
<u>Less accumulated depreciation for:</u>				
Land improvements.....	-	(764)	-	(764)
Buildings.....	(315,132)	(22,247)	-	(337,379)
Machinery and equipment.....	(719,286)	(62,015)	73,096	(708,205)
Infrastructure.....	(3,258,123)	(228,444)	15,000	(3,471,567)
Total accumulated depreciation.....	(4,292,541)	(313,470)	88,096	(4,517,915)
Total capital assets being depreciated, net.....	7,624,174	59,345	-	7,683,519
Total water activities capital assets, net.....	\$ 7,673,601	\$ 59,345	\$ -	\$ 7,732,946

	Ending Balance	Additions	(Retirements)	Ending Balance
<u>Harbor:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,004,077	\$ -	\$ -	\$ 2,004,077
Construction in progress.....	16,180	-	-	16,180
Total capital assets not being depreciated.....	2,020,257	-	-	2,020,257
<u>Capital assets being depreciated:</u>				
Piers.....	51,901	-	-	51,901
Buildings.....	915,109	-	-	915,109
Building improvements.....	86,131	-	-	86,131
Land improvements.....	916,556	-	-	916,556
Machinery and equipment.....	832,280	16,063	(5,900)	842,443
Total capital assets being depreciated.....	2,801,977	16,063	(5,900)	2,812,140
<u>Less accumulated depreciation for:</u>				
Piers.....	(42,379)	(1,417)	-	(43,796)
Buildings.....	(170,104)	(22,055)	-	(192,159)
Building improvements.....	(24,668)	(2,878)	-	(27,546)
Land improvements.....	(263,205)	(19,723)	-	(282,928)
Machinery and equipment.....	(459,288)	(45,865)	5,900	(499,253)
Total accumulated depreciation.....	(959,644)	(91,938)	5,900	(1,045,682)
Total capital assets being depreciated, net.....	1,842,333	(75,875)	-	1,766,458
Total harbor activities capital assets, net.....	\$ 3,862,590	\$ (75,875)	\$ -	\$ 3,786,715
<u>Light Department:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 52,096	\$ -	\$ -	\$ 52,096
<u>Capital assets being depreciated:</u>				
Light plant and equipment.....	19,533,299	1,186,599	(412,964)	20,306,934
<u>Less accumulated depreciation for:</u>				
Light plant and equipment.....	(7,764,251)	(976,572)	269,996	(8,470,827)
Total capital assets being depreciated, net.....	11,769,048	210,027	(142,968)	11,836,107
Total light activities capital assets, net.....	\$ 11,821,144	\$ 210,027	\$ (142,968)	\$ 11,888,203



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

	Ending Balance	Additions	(Retirements)	Ending Balance
<b>Fiduciary Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,045	\$ -	\$ -	\$ 2,045
<u>Capital assets being depreciated:</u>				
Buildings.....	72,839	6,702	-	79,541
<u>Less accumulated depreciation for:</u>				
Buildings.....	(54,733)	(2,782)	-	(57,515)
Total capital assets being depreciated, net.....	18,106	3,920	-	22,026
Total fiduciary activities capital assets, net.....	\$ 20,151	\$ 3,920	\$ -	\$ 24,071

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

**Governmental Activities:**

General government.....	\$ 112,452
Public safety.....	182,701
Education.....	2,064,204
Public works.....	655,789
Human services.....	40,915
Culture and recreation.....	287,487

Total depreciation expense - governmental activities..... \$ 3,343,548

**Business-Type Activities:**

Sewer.....	\$ 281,582
Water.....	313,470
Harbor.....	91,938
Light.....	976,572

Total depreciation expense - business-type activities..... \$ 1,663,562

**NOTE 6 – COMPENSATED ABSENCES**

The following is a summary of the changes in accrued vacation and sick pay for the year ended June 30, 2006. Compensated absences liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures.

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion
Governmental Activities:					
Accrued vacation.....	\$ 668,990	\$ 123,434	\$ (91,022)	\$ 701,402	\$ 701,402
Accrued sick pay.....	413,516	50,771	(51,508)	412,779	103,195
Total.....	1,082,506	174,205	(142,530)	1,114,181	804,597
Business-type Activities:					
Accrued vacation.....	79,951	29,547	(73,966)	35,532	35,532
Accrued sick pay.....	112,447	49,875	(471)	161,851	40,465
Total.....	192,398	79,422	(74,437)	197,383	75,997
Total accrued vacation and sick pay... \$	1,274,904	\$ 253,627	\$ (216,967)	\$ 1,311,564	\$ 880,594

**NOTE 7 – CAPITAL & OPERATING LEASES**

The Town has entered into lease agreements as lessee for financing the acquisition of two Crown Victoria's and a Ford Explorer for the police department. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	Governmental Activities
Vehicles.....	\$ 76,850
Less: accumulated depreciation.....	(12,750)
Total.....	\$ 64,100

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Fiscal Years Ending June 30</u>	Governmental Activities
2007.....	\$ 26,677
2008.....	23,558
Total minimum lease payments.....	50,235
Less: amounts representing interest.....	(3,360)
Present value of minimum lease payments.....	\$ 46,875

**NOTE 8 – SHORT-TERM FINANCING**

The Town of Marblehead is authorized, through its Treasurer, to borrow in anticipation of taxes (TANS), to fund capital project costs in anticipation of the issuance of bonds (BANS) or in anticipation of the receipt of federal (FANS) and state (SANS) grants.

Details related to short-term debt BAN activity for the fiscal year ended June 30, 2006, is as follows:

Description	Issue Date	Due Date	Interest Rate	Balance at June 30, 2005	Issued	Retired	Balance at June 30, 2006
School Construction.....	08/19/05	08/18/06	4.00%	\$ -	\$ 375,000	\$ -	\$ 375,000
Fire Truck.....	08/19/05	08/18/06	4.00%	-	415,000	-	415,000
Land.....	08/19/05	08/18/06	4.00%	-	2,025,000	-	2,025,000
Vehicles.....	08/19/05	08/18/06	4.00%	-	811,363	-	811,363
Totals.....				\$ -	\$ 3,626,363	\$ -	\$ 3,626,363

In August 2006, the Town paid down \$1,375,000 of the notes and reissued \$2,251,363 of 4.25% notes due, August 2007.

**NOTE 9 – LONG-TERM DEBT**

The Town of Marblehead's long-term debt issues constitute a pledge of the Town's full faith and credit. Payment is not limited to a particular revenue source. However, as previously noted, the Town's ability to raise property taxes is restricted by the enactment of legislation known as "Proposition 2½."

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the newly formed Massachusetts School Building Authority (the MSBA), provides resources for future debt service of general obligation school bonds outstanding. In FY2006, the Town received \$21,275,637 from the MSBA and elected to use these resources and a \$250,000 General Fund appropriation to pay down a portion of the long-term BAN that matured in FY2006. The remaining long-term BAN was paid off through a current refunding. Subsequent to year end the Town received a final payment from the MSBA of \$18,013,107 in which the Town elected to retire the refunding bonds, an additional short-term note and reserve the remaining funds in a special revenue fund to offset future interest expense related to the long-term bonds issued to fund the projects. Accordingly, the Town has recorded an intergovernmental receivable at June 30, 2006.

The Town has funded the school project costs to date through the issuance of BANs that meet the criteria to be recorded as long-term debt. In FY2006 the Town issued \$15,984,637 of BANs for this purpose which have appropriately been categorized as current refunding debt. The current refunding did not have an economic gain or loss. The Town is allowed by State Law to renew the BANS annually for up to 7 years.

The following is a summary of the long-term debt transactions of the Town for the year ended June 30, 2006:

### General Obligation Bonds and Notes Payable Schedule - Governmental Funds

	Interest % Rate	Balance 6/30/05	Issued	Redeemed	Balance 6/30/06
Drain Construction.....	4.23	\$ 65,000	\$ -	\$ 65,000	\$ -
Park, Recreation, & Council on Aging Building.....	4.23	240,000	-	240,000	-
Police Building Addition.....	4.23	60,000	-	60,000	-
School Remodeling.....	4.23	170,000	-	170,000	-
Drain Construction.....	4.57	170,000	-	110,000	60,000
Fire Truck.....	4.57	90,000	-	50,000	40,000
School DP Equipment.....	4.57	45,000	-	45,000	-
School Remodeling.....	4.57	20,000	-	20,000	-
School Remodeling.....	4.36	300,000	-	100,000	200,000
School Remodel-Energy.....	4.36	150,000	-	50,000	100,000
School Remodeling.....	4.93	280,000	-	55,000	225,000
School DP Equipment.....	4.93	115,000	-	30,000	85,000
School Athletic Fields.....	4.93	425,000	-	80,000	345,000
Drain Construction.....	3.93	2,950,000	-	500,000	2,450,000
School Construction.....	4.79	25,800,000	-	895,000	24,905,000
School Construction refunding.....	1.47	37,510,274	-	37,510,274	-
School Construction refunding.....	4.00	-	15,984,637	-	15,984,637
Total Governmental bond and notes payable.....		\$ 68,390,274	\$ 15,984,637	\$ 39,980,274	\$ 44,394,637

### Bonds and Notes Payable Schedule - Enterprise Funds

	Interest % Rate	Balance 6/30/05	Issued	Redeemed	Balance 6/30/06
Purchase Tucker's Wharf.....	4.23	\$ 65,000	\$ -	\$ 65,000	\$ -
Tucker's Building Remodeling.....	4.93	225,000	-	45,000	180,000
Tucker's Seawall Renovations.....	4.57	45,000	-	45,000	-
Total Enterprise bonds payable.....		\$ 335,000	\$ -	\$ 155,000	\$ 180,000

**B. Annual Requirements**

The annual requirements to amortize all long-term debt outstanding as of June 30, 2006, are as follows:

Fiscal Year	Governmental				Enterprise		Total Requirement
	Exempt from Proposition 2 1/2		Nonexempt		Principal	Interest	
	Principal	Interest	Principal	Interest			
2007	\$ 17,759,637	\$ 1,889,347	\$ 50,000	\$ 3,325	\$ 45,000	\$ 8,865	\$ 19,756,174
2008	1,695,000	1,192,448	50,000	1,113	45,000	6,705	2,990,266
2009	1,615,000	1,133,838	-	-	45,000	4,500	2,798,338
2010	1,645,000	1,066,888	-	-	45,000	2,250	2,759,138
2011	1,475,000	1,003,813	-	-	-	-	2,478,813
2012	1,055,000	953,294	-	-	-	-	2,008,294
2013	1,090,000	917,075	-	-	-	-	2,007,075
2014	1,125,000	869,875	-	-	-	-	1,994,875
2015	1,185,000	812,125	-	-	-	-	1,997,125
2016	1,245,000	751,375	-	-	-	-	1,996,375
2017	1,305,000	687,625	-	-	-	-	1,992,625
2018	1,375,000	620,625	-	-	-	-	1,995,625
2019	1,440,000	550,250	-	-	-	-	1,990,250
2020	1,510,000	476,500	-	-	-	-	1,986,500
2021	1,590,000	399,000	-	-	-	-	1,989,000
2022	1,665,000	317,625	-	-	-	-	1,982,625
2023	1,750,000	232,250	-	-	-	-	1,982,250
2024	1,840,000	142,500	-	-	-	-	1,982,500
2025	1,930,000	48,250	-	-	-	-	1,978,250
Totals	\$ 44,294,637	\$ 14,064,703	\$ 100,000	\$ 4,438	\$ 180,000	\$ 22,320	\$ 58,666,098

**C. Bond Authorizations**

Long-term debt authorizations voted by Town Meetings which have not been issued or rescinded as of June 30, 2006, are as follows:

Date Authorized	Project	Amount
November 2001	Middle School Conversion of Old High School.....	\$ 125,000
May 2004	New Fire Pumper.....	226,363
June 2005	Land acquisition.....	2,025,000
June 2005	Equipment.....	137
Total.....		\$ 2,376,500

**D. Changes in Long-term Liabilities**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Capital leases.....	\$ -	\$ 46,875	\$ -	\$ 46,875	\$ 21,318
Long-term bonds and notes.....	68,390,274	15,984,637	(39,980,274)	44,394,637	17,809,637
Compensated absences.....	1,082,506	174,205	(142,530)	1,114,181	804,597
Workers' compensation.....	485,311	77,876	(82,358)	480,829	98,141
Total governmental activity					
long-term liabilities.....	\$ 69,958,091	\$ 16,283,593	\$ (40,205,162)	\$ 46,036,522	\$ 18,733,693
<b>Business-Type Activities:</b>					
Long-term bonds and notes.....	\$ 335,000	\$ -	\$ (155,000)	\$ 180,000	\$ 45,000
Compensated absences.....	192,398	79,422	(74,437)	197,383	75,997
Total business-type activity					
long-term liabilities.....	\$ 527,398	\$ 79,422	\$ (229,437)	\$ 377,383	\$ 120,997

**NOTE 10 – PENSION PLAN****A. Defined Benefit Plan**

Pensions for employees other than School Department teaching staff and certain school administrators are provided through the Town of Marblehead Contributory Retirement System (the System), a cost-sharing multiple employer defined benefit plan, administered by the Marblehead Contributory Retirement Board. Massachusetts contributory retirement system benefits are uniform from system to system, including the Massachusetts Teachers Retirement System. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year average annual rate of regular compensation, as defined. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification.

Employees who are employed on a basis, which anticipates work at an annual rate to exceed 1,040 hours, are eligible to participate from the date of their employment. Participants' contributions are fully vested at all times. A superannuation allowance may be received upon completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55). As of June 30, 2006, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits.....	320
Active employees.....	370
Inactive employees.....	56
Total.....	746

Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran status, and group classification.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated contributions. In addition, depending upon the

number of years of creditable service, such employees are entitled to receive either 0%, 50%, or 100% of the regular interest which has accrued upon those contributions.

Survivor benefits are extended to eligible beneficiaries of participants whose deaths occur prior to or following retirement.

From time to time, cost-of-living increases are granted to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance, subject to a maximum dollar increase (presently \$12,000). The Massachusetts legislature voted these increases until 1997, and the cost was borne by the System until 1980 and from 1981 to 1997 are the financial responsibility of the Commonwealth. Since July 1, 1998, the Town Retirement Board is authorized to vote to award annual cost-of-living increases up to a maximum of 3% which are the financial responsibility of the System.

State Legislation requires that both the employee and the Town contribute to the System. Employees contribute an amount equal to 5%, 7%, 8% or 9% of their base salary, based on the date hired. Active participants who were hired on or after January 1, 1979 contribute an additional 2% of salary in excess of \$30,000. The Town is required to contribute at an actuarially determined rate, which is the amount required to cover normal cost plus amortization of unfunded prior service cost as approved by the Commonwealth's Public Employee Retirement Administration Commission. The Town's contributions for each employee (and interest allocated to the employee's account) are fully vested after ten years of continuous service.

School Department teaching staff and certain administrators contribute to a pension plan administered by the Massachusetts Teachers Retirement Board. The Town makes no contributions to this plan. Contributions are made by the Commonwealth of Massachusetts as required by law. The amount of these on-behalf payments totaled \$4,854,282 for the fiscal year ended June 30, 2006. Employees in this plan are vested after ten years of continuous service and contribute the same as members of the Marblehead Contributory Retirement System as described above. Employer contributions are funded based on a funding schedule as approved by the Commonwealth's Public Employee Retirement Administration Commission.

The system may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination will be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of the Commonwealth, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

The System issues a publicly available financial report in accordance with guidelines established by the PERAC. That report may be obtained from the System located at 7 Widger Road, Marblehead, MA 01945.

#### B. Summary of Significant Accounting Policies

Basis of Accounting - The Marblehead Contributory Retirement System (the System) follows the policies mandated by the Commonwealth of Massachusetts. Its accounting records are maintained on the accrual basis. Town and participant contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of Massachusetts General Law and the plan.

Method Used to Value Investments - Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future plan principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

C. Funding Status and Progress

The most recent actuarial valuation of the System was prepared as of January 1, 2006. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Individual entry age normal
Amortization method	Increasing amortization
Remaining closed amortization period	17 years from July 1, 2006
Asset valuation method	Blended
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.5
Cost-of-living adjustments	3% on first \$12,000 of retirement income

D. Contributions Required and Contributions Made

The System's funding policy provides for periodic employer contributions at actuarially determined rates that expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due, based on the above assumptions. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial cost funding method. The Retirement Plan will amortize the unfunded liability over a 17-year period.

Generally accepted accounting principles require that the minimum cost charged each year by the Town for its pension obligation should be the present value of benefits estimated to be payable in the future, (computed using an acceptable actuarial valuation method using assumptions that reflect the best judgments of future events, including salary projections) plus amortization of the liability for past services, as of the balance sheet date.

Contributions, including expense appropriation, required for the last three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2004	\$ 2,420,142	100%
2005	2,074,360	100%
2006	2,112,859	100%

E. Funding Status and Historical Data

An analysis of the funding progress since 1988, the first year for which such information is available, is as follows (dollar amounts in the thousands):



Actuarial Valuation As of Jan 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1989	11,823	32,058	20,235	36.9%	8,418	240.4%
1992	21,457	33,715	12,258	63.6%	8,476	144.6%
1996	30,846	40,299	9,453	76.5%	9,276	101.9%
1998	42,540	55,347	12,807	76.9%	11,144	114.9%
2000	54,016	63,939	9,923	84.5%	11,834	83.9%
2002	60,615	71,022	10,407	85.3%	13,268	78.4%
2004	64,490	76,876	12,386	83.9%	13,983	88.6%
2006	69,105	82,948	13,843	83.3%	14,160	97.8%

#### F. Noncontributory Retirement Plan

The Town also has a noncontributory pension plan which covers certain employees hired prior to the adoption of the Contributory Retirement System. Total payments for the Town's share of this plan amounted to \$159,019 during the year ended June 30, 2006.

#### G. Other Post Employment Benefits

In addition to providing pension benefits, as described above, the Town provides the majority of retired employees, their dependents and beneficiaries, with payments for a portion of their health care and life insurance benefits in accordance with M.G.L. Chapter 32B. Benefits paid by the Town are on a cash basis, and there is no actuarial valuation available which would permit an estimation of the unfunded past service cost liability as of June 30, 2006 and the annual amounts needed to fund such a liability. The cost of these benefits amounts to approximately \$2,944,000 in fiscal year 2006. There are approximately 560 participants currently eligible. In the Fiscal Year 2007 budget, the Town appropriated the funds to conduct the actuarial work necessary for post-employment health benefits for retired employees to comply with GASB 45.

The Light Department, through the Town of Marblehead, provides certain health care and life insurance benefits to retired employees. Most employees are eligible if they reach normal retirement age while working for the Department. The Department is billed by the Town as claims are paid. The Department's cost for retiree health care and life insurance benefits was \$130,192 and \$95,347 for Calendar years 2005 and 2004, respectively.

### **NOTE 11 – COMMITMENTS**

#### A. Power Sales Agreements

The Town has various commitments through its participation in a bulk power supply agency, as discussed more fully in Note 13.

The Town has various minor commitments and obligations in connection with the its capital outlay program. At June 30, 2006 the Town does not have any major capital project in progress.

### **NOTE 12 – CONTINGENCIES**

The Town participates in a number of federally and state assisted grant programs, principal of which are educational grants. These programs are subject to program compliance and audits by the grantors or their

representatives. 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.

There are several pending lawsuits in which the Town is involved. The Town Counsel estimates that the potential claims against the Town, resulting from such litigation, which is not covered by insurance, would not materially effect the financial statements of the Town.

#### **NOTE 13 – PARTICIPATION IN MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY**

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

MMWEC is a public corporation and 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 the revenue 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 Project 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 the 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 issues of bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate plus available funds pledged under the Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are 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 the Stony Brook Peaking Project fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by FPL Energy Wyman IV, a subsidiary of FPL Energy, Inc. and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) a subsidiary of Dominion Resources, Inc. In addition to Millstone Unit 3, DNCI also is the owner of Millstone Unit 2. IN November 2005, the NRC renewed the operating license for the Milestone Unit 2 and Unit 3 nuclear units for and additional twenty years. The license for Unit 2 was extended to July 31, 2035 and 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 Seabrook, LLC, (FPLE Seabrook), the majority owner and an 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 Seabrook has stated its intention to request an extension of the 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 liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. Originally enacted in 1957, the act has been renewed several times. As part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Marblehead Municipal Light 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 Departmental 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. In the opinion of management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company.

As of December 31, 2005, total capital expenditures amounted to \$1,521,643,000, of which \$24,893,000 represents the amount associated with the Department's Project Capability in the Projects in which it participates. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$784,995,000, of which \$12,762,000 is associated with the Department's share of Project Capability of the Projects in which it participates. As of December 31, 2005, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$978,397,000, of which \$15,451,000 is anticipated to be billed to the Department in the future.

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

For years ended December 31,		Annual Costs	
	2006	\$	1,943,000
	2007		1,855,000
	2008		1,658,000
	2009		1,463,000
	2010		1,368,000
	2011 to 2015		6,015,000
	2016 to 2019		1,149,000
	Total	\$	15,451,000

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$3,754,000 and \$3,638,000 for the years ended December 31, 2005 and 2004, respectively.

#### NOTE 14 – 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 amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town is self-insured for its workers' compensation and its health insurance activities. These activities are accounted for in the Town's Internal Service Fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

A. Employee and Retiree Health Insurance

The Town established a medical claims fund in fiscal 1981 and a Medex claims fund in fiscal 1989. The purpose of these funds is to pay medical claims of the Town's current and retired employees and their covered dependents and minimize the total cost of annual medical insurance to the municipality. The Medex claims fund provides medical insurance which supplements Medicare for retired employees over the age of 65. All other employees' medical insurance is provided from the medical claims fund.

Contributions to the funds are made monthly in the following proportions:

- MEDEX - 75% Town, 25% Retiree
- HMO Blue New England - 80% Town, 20% Employee/Retiree
- Blue Choice- 77.5% Town, 22.5% Employee/Retiree
- Blue Care Elect – 70% Town, 30%, Employee/Retiree

Under the terms of the various collective bargaining agreements now in effect, the proportional cost split on HMO Blue New England will remain the same in future years, while the split for Blue choice will be phased to 70%-Town, 30%-Employee/Retiree and Blue Care Elect will be phased to 60%-Town, 40%-Employee/Retiree between now and fiscal year 2009.

In the medical claims fund, medical claims exceeding \$100,000 per individual paid per plan year are covered through a private insurance carrier. In the Medex claims fund there is no stop loss insurance because federal law limits exposure.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors.

The estimate of IBNR claims is based on a historical trend analysis and recent trends. The Town purchases individual stop loss insurance for claims in excess of the \$100,000 coverage. Settled claims have not exceeded this third party insurance coverage in any of the previous past three fiscal years. 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 Currently Due
<b>Medical Claims</b>								
Fiscal Year 2005	\$	912,421	\$	6,943,449	\$	(7,042,185)	\$	813,685
Fiscal Year 2006		813,685		7,539,546		(7,643,176)		710,055
<b>Medex Claims</b>								
Fiscal Year 2005	\$	137,401	\$	1,243,436	\$	(1,235,096)	\$	145,741
Fiscal Year 2006		145,741		1,295,934		(1,286,062)		155,613

B. Workers Compensation

The Town provides statutory workers compensation benefits under a self-insurance plan. In fiscal 1989 the Town established a workmen's compensation fund by accepting the provisions of Massachusetts General Laws,

Chapter 40, Section 13a. A private consultant hired by the Town administers workers' compensation claims. Claims are recorded as expenses in the year payment is made. The Town estimates its future workers' compensation liability based on history and type and records the liability in the Internal Service Fund.

An analysis of workers compensation activity is presented below:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2005	\$ 669,694	\$ (152,508)	\$ -	\$ 517,186	\$ 122,455
Fiscal Year 2006	517,186	135,679	(172,036)	480,829	98,141

#### NOTE 15 – MARBLEHEAD WATER AND SEWER COMMISSION

In August 2005, the Marblehead Water and Sewer Commission voted to accept Chapter 40N (Model Water and Sewer Commission) of the General Laws of Massachusetts. The intent of this vote was to establish an independent water and sewer district within the Town effective July 1, 2006. Subsequent to this vote being taken the Town's Board of Selectmen and Water and Sewer Commission agreed to establish a committee to analyze the effects of this action on the Town's residents. This committee, comprised of representatives from the Board of Selectmen, Water and Sewer Commission, and Finance Committee met several times and examined a multitude of fiscal and legal issues associated with the creation of an independent water and sewer district. As a result of this analysis, the Marblehead Water and Sewer Commission voted to rescind their August 2005 action to accept Chapter 40N. The Water and Sewer Commission continues to function as an Enterprise funded Town of Marblehead department.

#### NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

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

The GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, was implemented in fiscal year 2006. This pronouncement did not impact the basic financial statements.

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

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

The GASB issued Statement #48, Sales and Pledges of Receivables and Future Revenues and Intra-Entry Transfers of Assets and Future Revenues which is required to be implemented in FY2008. Management has elected to implement this GASB early. The basic financial statements were not impacted by this GASB.

*Other Future GASB Pronouncements:*

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

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

## ***Required Supplementary Information***

# ***General Fund***

The General Fund is used to account for all transactions encompassing the approved current operating budget, the related revenues, expenditures, assets, liabilities and fund balances which are not accounted for in other funds. The budget of the Town is recorded in detail in the general fund by line item within department and, as a result, most of the current operations of the Town are recorded here.



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

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
<b>REVENUES:</b>				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 43,815,583	\$ 43,815,583	\$ 43,815,583
Motor vehicle and other excise taxes.....	-	2,760,000	2,760,000	2,760,000
Charges for services.....	-	580,000	580,000	580,000
Penalties and interest on taxes.....	-	122,000	122,000	122,000
Licenses and permits.....	-	585,000	585,000	585,000
Fines and forfeitures.....	-	180,000	180,000	180,000
Intergovernmental.....	-	5,535,282	5,535,282	5,535,282
Investment income.....	-	211,000	211,000	211,000
Miscellaneous.....	-	8,000	8,000	8,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>53,796,865</b>	<b>53,796,865</b>	<b>53,796,865</b>
<b>EXPENDITURES:</b>				
Current:				
<b>GENERAL GOVERNMENT</b>				
Moderator - Officials Expense.....	-	100	100	100
Selectmen Officials Expense.....	-	5,500	5,500	5,500
Salaries.....	-	276,318	276,318	276,318
Expense.....	-	68,063	68,063	68,063
Art 44, 2001 - Fort Sewall.....	55,607	-	55,607	55,607
Zoning Board Legal Services.....	-	5,000	5,000	21,286
Art. 6, 2006 Unpaid Bill Zoning.....	-	-	-	25
Out of State Travel.....	-	2,000	2,000	2,000
Finance Committee - Salaries.....	-	7,166	7,166	7,166
Expense.....	-	5,809	5,809	5,809
Local Travel.....	-	175	175	175
Reserve Fund.....	-	144,000	144,000	47,159
Finance - Salaries.....	-	533,010	533,010	533,010
Expense.....	-	234,537	234,537	234,537
Assessors - Officials Expense.....	-	300	300	300
Assessors - Salaries.....	-	151,344	151,344	156,895
Expense.....	-	58,785	58,785	58,785
Local Travel.....	-	1,200	1,200	1,200
Expense FY2005.....	9,000	-	9,000	9,000
Town Counsel - Salaries.....	-	2,000	2,000	2,000
Expense.....	-	32,936	32,936	47,936
Parking Tickets - Expense.....	-	10,484	10,484	10,484
Town Clerk - Salaries.....	-	127,266	127,266	127,266
Expense.....	-	7,045	7,045	7,490
Election and Registration - Salaries.....	-	20,159	20,159	20,159
Expense.....	-	15,800	15,800	15,800
Planning Board - Expense.....	-	1,675	1,675	1,675
Public Buildings - Salaries.....	-	76,151	76,151	76,151
Expense.....	-	101,100	101,100	106,050
Local Travel.....	-	400	400	400
Art. 41, 2005 - Improve Public Buildings.....	-	155,000	155,000	155,000
Art. 12, 2001 - Improve Public Buildings.....	35,297	-	35,297	35,297
Art. 42, 2002 - Improve Public Buildings.....	49,387	-	49,387	49,387
Town Reports.....	-	4,300	4,300	4,300
Town Audit of Accounts.....	-	32,000	32,000	32,000
<b>TOTAL GENERAL GOVERNMENT.....</b>	<b>149,291</b>	<b>2,079,623</b>	<b>2,228,914</b>	<b>2,174,305</b>

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 43,752,736	\$ -	\$ (62,847)
3,026,225	-	266,225
716,897	-	136,897
134,274	-	12,274
867,875	-	282,875
185,369	-	5,369
5,668,418	-	133,136
470,735	-	259,735
110,626	-	102,626
54,933,155	-	1,136,290
100	-	-
5,500	-	-
276,292	-	26
66,470	-	1,568
-	55,607	-
21,286	-	-
24	-	1
365	-	1,635
7,166	-	-
5,809	-	-
175	-	-
-	-	47,159
532,189	-	821
230,322	-	4,215
300	-	-
156,895	-	-
58,483	-	302
252	-	948
9,000	-	-
-	-	2,000
47,936	-	-
5,487	-	4,997
127,266	-	-
7,490	-	-
15,397	-	4,762
15,800	-	-
1,577	-	98
72,439	-	3,712
106,050	-	-
388	-	12
56,949	98,051	-
18,730	16,567	-
-	49,387	-
2,689	-	1,611
32,000	-	-
1,880,826	219,612	73,867

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
<b><u>PUBLIC SAFETY</u></b>				
Police - Salaries.....	-	2,558,258	2,558,258	2,558,258
Expense.....	-	182,262	182,262	187,628
Indemnification.....	-	10,000	10,000	9,182
Art. 40, 2005 - Lease 3 Cruisers.....	-	26,615	26,615	26,615
Art 6, 2006 Unpaid Bill - Police.....	-	-	-	568
Art 6, 2006 Unpaid Bill - Police Indemnification.....	-	-	-	818
Fire - Salaries.....	-	2,376,690	2,376,690	2,376,690
Expense.....	-	117,063	117,063	123,642
Building Commissioner - Salaries.....	-	369,399	369,399	369,399
Expense.....	-	9,755	9,755	9,755
Local Travel.....	-	3,000	3,000	3,000
Sealer of Weights & Measurers - Expense.....	-	150	150	150
Animal Inspector - Salaries.....	-	1,200	1,200	1,200
Dog Officer - Salaries.....	-	60,115	60,115	60,115
Expense.....	-	4,787	4,787	4,787
<b>TOTAL PUBLIC SAFETY.....</b>	<b>-</b>	<b>5,719,294</b>	<b>5,719,294</b>	<b>5,731,807</b>
<b><u>EDUCATION</u></b>				
Schools.....	-	22,945,663	22,945,663	22,906,589
Art. 7, 2005 - North Shore Technical School.....	-	128,536	128,536	128,536
<b>TOTAL SCHOOL.....</b>	<b>-</b>	<b>23,074,199</b>	<b>23,074,199</b>	<b>23,035,125</b>
<b><u>PUBLIC WORKS &amp; FACILITIES</u></b>				
Engineering - Salaries.....	-	104,367	104,367	104,473
Expense.....	-	10,395	10,395	10,395
Local Travel.....	-	500	500	500
Expense FY2001.....	3,029	-	3,029	3,029
Expense FY2002.....	20,000	-	20,000	20,000
Art. 6, 2001 - Walls and Fences.....	1,000	-	1,000	1,000
Highway - Salaries.....	-	616,631	616,631	616,631
Expense.....	-	85,934	85,934	85,934
Rebuild & Maintain HTTP STS.....	-	10,741	10,741	10,741
Snow Removal.....	-	100,000	100,000	100,000
Street Lighting.....	-	98,000	98,000	98,000
Maintain & Rebuild Sidewalks.....	-	13,950	13,950	13,950
Art. 40, 2005 - Trucks, Sanders, Plows.....	-	255,000	255,000	255,000
Waste Collection - Salaries.....	-	318,047	318,047	318,047
Expense.....	-	1,189,210	1,189,210	1,213,603
Local Travel.....	-	1,400	1,400	1,512
Art 37, 2005 - Disposal and Remediation.....	-	113,500	113,500	113,500
Art 13, 2004 - Disposal and Remediation.....	40,415	-	40,415	40,415
Art. 10, 2003 - Disposal and Remediation.....	19,675	-	19,675	19,675
Art 6, 2006 Unpaid Bill - Waste Collection.....	-	-	-	126
Drains - Salaries.....	-	81,561	81,561	82,231
Expense.....	-	5,150	5,150	5,150
Drain Construction Expense.....	-	1	1	1
Art. 23, 2005-Drain Construction.....	-	300,000	300,000	300,000
Art. 33, 2003 - Storm Drainage Construction.....	8,767	-	8,767	8,767
Art.36, 2004 - Drain Construction.....	157	-	157	157
Cemetery - Officials Expense.....	-	300	300	300
Salaries.....	-	248,758	248,758	248,758
Expense.....	-	26,703	26,703	26,703
Cemetery Improvements.....	-	3,500	3,500	3,500
Tree - Salaries.....	-	151,751	151,751	151,751
Expense.....	-	31,578	31,578	31,578
Art. 40, 2005 - Dump Truck.....	-	50,000	50,000	50,000
<b>TOTAL PUBLIC WORKS &amp; FACILITIES.....</b>	<b>93,043</b>	<b>3,816,977</b>	<b>3,910,020</b>	<b>3,935,427</b>

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
2,413,079	-	145,179
187,575	-	53
6,364	-	2,818
26,615	-	-
567	-	1
817	-	1
2,332,917	-	43,773
123,642	-	-
352,762	-	16,637
9,215	-	540
2,997	-	3
55	-	95
1,200	-	-
59,933	-	182
4,774	-	13
5,522,512	-	209,295
22,905,400	-	1,189
125,565	-	2,971
23,030,965	-	4,160
104,473	-	-
10,394	-	1
140	-	360
3,029	-	-
1,405	18,595	-
-	1,000	-
588,140	-	28,491
85,196	-	738
10,741	-	-
149,517	-	(49,517)
97,376	-	624
9,899	-	4,051
217,436	-	37,564
316,834	-	1,213
1,213,603	-	-
1,512	-	-
65,204	48,296	-
40,415	-	-
-	19,675	-
126	-	-
82,231	-	-
4,914	-	236
-	-	1
277,708	22,292	-
8,767	-	-
157	-	-
300	-	-
248,419	-	339
25,412	-	1,291
3,500	-	-
137,821	-	13,930
30,601	-	977
37,800	-	12,200
3,773,070	109,858	52,499

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
<b><u>HUMAN SERVICES</u></b>				
Health - Officials Expense.....	-	400	400	400
Salaries.....	-	95,377	95,377	95,377
Expense.....	-	10,685	10,685	10,281
Local Travel.....	-	1,300	1,300	1,622
Help for Abused Women and Children (HAWC).....	-	3,000	3,000	3,000
Art. 6, 2006 - Unpaid Bill - Health.....	-	-	-	404
Mental Health - Contractual Services.....	-	79,728	79,728	79,728
Council on Aging - Salaries.....	-	140,673	140,673	140,673
Expense.....	-	2,859	2,859	2,859
Veterans Benefits - Salaries.....	-	49,950	49,950	49,950
Expense.....	-	1,243	1,243	1,243
Local Travel.....	-	1,100	1,100	1,100
Benefits.....	-	12,000	12,000	13,200
<b>TOTAL HUMAN SERVICES.....</b>	<b>-</b>	<b>398,315</b>	<b>398,315</b>	<b>399,837</b>
<b><u>CULTURE &amp; RECREATION</u></b>				
Library - Salaries.....	-	626,333	626,333	626,333
Expense.....	-	218,122	218,122	233,289
Local Travel.....	-	100	100	100
Park - Salaries.....	-	501,217	501,217	501,217
Expense.....	-	141,290	141,290	141,290
Park Facility Expense.....	-	42,630	42,630	42,630
Art. 40, 2005 - Truck.....	-	48,000	48,000	48,000
Memorial & Veterans Day.....	-	1,950	1,950	1,950
<b>TOTAL CULTURE &amp; RECREATION.....</b>	<b>-</b>	<b>1,579,642</b>	<b>1,579,642</b>	<b>1,594,809</b>
<b><u>PENSION BENEFITS</u></b>				
Contributory Retirement Fund.....	-	1,715,520	1,715,520	1,715,520
Noncontributory Retirement.....	-	199,693	199,693	199,693
<b>TOTAL PENSION BENEFITS.....</b>	<b>-</b>	<b>1,915,213</b>	<b>1,915,213</b>	<b>1,915,213</b>
<b><u>PROPERTY AND LIABILITY INSURANCE</u></b>				
Other Insurance.....	-	410,071	410,071	410,071
<b>TOTAL PROPERTY AND LIABILITY INSURANCE..</b>	<b>-</b>	<b>410,071</b>	<b>410,071</b>	<b>410,071</b>
<b><u>FRINGE BENEFITS</u></b>				
Medicare.....	-	350,000	350,000	350,000
Group Insurance.....	-	7,964,196	7,964,196	7,964,196
<b>TOTAL FRINGE BENEFITS.....</b>	<b>-</b>	<b>8,314,196</b>	<b>8,314,196</b>	<b>8,314,196</b>
<b><u>INTERGOVERNMENTAL</u></b>				
State.....	-	2,368,826	2,368,826	2,368,826
<b>TOTAL INTERGOVERNMENTAL.....</b>	<b>-</b>	<b>2,368,826</b>	<b>2,368,826</b>	<b>2,368,826</b>
<b><u>DEBT SERVICES</u></b>				
Maturing Debt.....	-	2,670,000	2,670,000	2,670,000
Interest.....	-	2,455,423	2,455,423	2,455,423
<b>TOTAL DEBT SERVICES.....</b>	<b>-</b>	<b>5,125,423</b>	<b>5,125,423</b>	<b>5,125,423</b>
<b>TOTAL EXPENDITURES.....</b>	<b>242,334</b>	<b>54,801,779</b>	<b>55,044,113</b>	<b>55,005,039</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>				
<b>OVER EXPENDITURES.....</b>	<b>(242,334)</b>	<b>(1,004,914)</b>	<b>(1,247,248)</b>	<b>(1,208,174)</b>

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
400	-	-
93,772	-	1,605
7,531	-	2,750
1,622	-	-
3,000	-	-
404	-	-
79,728	-	-
135,555	-	5,118
2,258	-	601
49,949	-	1
1,105	-	138
1,035	-	65
13,200	-	-
389,559	-	10,278
618,629	-	7,704
233,289	-	-
39	-	61
439,532	-	61,685
137,543	-	3,747
38,627	-	4,003
37,800	-	10,200
1,950	-	-
1,507,409	-	87,400
1,715,520	-	-
159,019	-	40,674
1,874,539	-	40,674
334,103	-	75,968
334,103	-	75,968
326,485	-	23,515
7,963,650	-	546
8,290,135	-	24,061
2,217,767	-	151,059
2,217,767	-	151,059
2,670,000	-	-
2,454,422	-	1,001
5,124,422	-	1,001
53,945,307	329,470	730,262
987,848	(329,470)	1,866,552

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in.....	-	1,320,787	1,320,787	1,320,787
Transfers out.....	-	(39,074)	(39,074)	(39,074)
<b>TOTAL OTHER FINANCING SOURCES (USES):.....</b>	<b>-</b>	<b>1,281,713</b>	<b>1,281,713</b>	<b>1,281,713</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(242,334)</b>	<b>276,799</b>	<b>34,465</b>	<b>73,539</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>3,710,710</b>	<b>3,710,710</b>	<b>3,710,710</b>	<b>3,710,710</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 3,468,376</b>	<b>\$ 3,987,509</b>	<b>\$ 3,745,175</b>	<b>\$ 3,784,249</b>

See notes to required supplementary information.

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Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
1,344,033	-	23,246
<u>(39,074)</u>	<u>-</u>	<u>-</u>
1,304,959	-	23,246
2,292,807	(329,470)	1,889,798
<u>3,710,710</u>	<u>-</u>	<u>-</u>
\$ <u><u>6,003,517</u></u>	\$ <u><u>(329,470)</u></u>	\$ <u><u>1,889,798</u></u>

(Concluded)



**NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****1. Budgetary information**

During the fiscal year, the finance committee submits to the Town Meeting an operating budget for the proposed expenditures and other financing uses for the fiscal year commencing the following July 1st. The budget, as enacted by the Town Meeting, also establishes that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special Town Meetings or at the next annual Town Meeting held prior to the end of the fiscal year. On May 2, 2006 at the annual Town Meeting, the Town voted to use available funds to increase the appropriations for Selectmen's expenses totaling \$25, Police expenses totaling \$568, Police Indemnification expenses totaling \$818, Waste Collection expenses totaling \$126 and Health expenses totaling \$404. During the fiscal year the finance committee may transfer funds for extraordinary or unforeseen expenditures. The Town appropriated \$144,000 for this purpose in fiscal 2006 and transfers of \$96,841 were made. All unencumbered and unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Although formal budgetary integration is not employed for Special Revenue Funds, effective budgetary control is alternatively achieved through provisions of the Massachusetts General Laws and the Town's by-laws.

Appropriations are authorized by the Town Meeting for line items within departments. Typical line items are salaries, expense, and local travel. These are the legal levels of budgetary control (level at which expenditures may not exceed budget). However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote at a Special Town Meeting.

**2. Budgetary – GAAP Reporting Reconciliation**

The budgetary basis and modified accrual basis of accounting are substantially the same.

A reconciliation of budgetary-basis to GAAP-basis results is as follows:

Net change in fund balance - budgetary basis.....	\$ 2,292,807
Basis of Accounting Differences:	
Recognition of revenue for on-behalf payments.....	(4,854,282)
Recognition of expenditures for on-behalf payments.....	<u>4,854,282</u>
Net change in fund balance - GAAP basis (modified accrual).....	<u>\$ 2,292,807</u>

**3. Appropriation Deficits**

For the fiscal year ended June 30, 2006, actual expenditures and encumbrances exceeded appropriations for public works snow removal by \$49,517. These over-expenditures will be funded by fiscal year 2007 tax rate.

## ***Other Supplementary Information***

## ***Combining Statements***

# ***NONMAJOR GOVERNMENTAL FUNDS***

## ***Special Revenue Funds:***

Federal Grants - To account for grants from the Federal Government for various purposes. They are expended in accordance with the grant.

State Grants - To account for grants from the Commonwealth of Massachusetts for various purposes. They are expended in accordance with the grant.

Other Grants - To account for grants from individuals and foundations for various purposes. They are expended for the purpose designated by the grantor or benefactor.

Revolving Funds - To account for revolving funds specifically allowed by the laws of the Commonwealth of Massachusetts. These funds are expended for purposes specified by the enabling state statute or vote of the Town Meeting.

Receipts Reserved for Appropriation - To account for receipts set aside for specific purposes as allowed by the laws of the Commonwealth of Massachusetts. Receipts reserved for appropriation are transferred to the general fund when appropriated as part of the Town's annual budget.

Gifts - To account for receipts of various gifts and donations. They are expended for the purpose designated by the donor or benefactor.

Special Revenue Trust Funds - To account for contributions where both principal and investment earnings may be spent to support the government.

## ***Capital Project Funds:***

Upper Middle School Conversion – To account for financial resources to be used for the conversion of the old high school to a middle school.

Land Acquisition – To account for the land acquisition of Robinson Farm.

Other Capital Projects - To account for activities of the Town's five year drain plan.

## ***Permanent Funds:***

Public Funds - To account for contributions and earnings to support the government, where the principal portion is non-expendable.

**NONMAJOR GOVERNMENTAL FUNDS**  
COMBINING BALANCE SHEET

JUNE 30, 2006

<i>Special Revenue Funds</i>						
	Federal Grants	State Grants	Other Grants	Revolving Funds	Receipts Reserved for Appropriation	Gifts
<b>ASSETS</b>						
Cash and cash equivalents.....	\$ 240,103	\$ 289,739	\$ 147,535	\$ 452,197	\$ 1,309,466	\$ 179,627
Investments.....	-	-	-	-	-	-
Receivables, net of uncollectibles:						
Accounts.....	-	-	-	28,853	825	-
Due from federal government.....	45,478	-	-	-	-	-
Due from commonwealth.....	-	760,420	-	-	1,653,470	-
Working capital deposit.....	-	-	-	-	-	-
<b>TOTAL ASSETS.....</b>	<b>\$ 285,581</b>	<b>\$ 1,050,159</b>	<b>\$ 147,535</b>	<b>\$ 481,050</b>	<b>\$ 2,963,761</b>	<b>\$ 179,627</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Warrants payable.....	\$ 41,612	\$ 202,344	\$ -	\$ 115,220	\$ -	\$ 15,664
Deferred revenues.....	-	758,177	-	13,539	1,654,295	-
Notes payable.....	-	-	-	-	-	-
<b>TOTAL LIABILITIES.....</b>	<b>41,612</b>	<b>960,521</b>	<b>-</b>	<b>128,759</b>	<b>1,654,295</b>	<b>15,664</b>
<b>FUND BALANCES:</b>						
Reserved for:						
Perpetual permanent funds.....	-	-	-	-	-	-
Unreserved:						
Undesignated, reported in:						
Special revenue funds.....	243,969	89,638	147,535	352,291	1,309,466	163,963
Capital project funds.....	-	-	-	-	-	-
Permanent funds.....	-	-	-	-	-	-
<b>TOTAL FUND BALANCES.....</b>	<b>243,969</b>	<b>89,638</b>	<b>147,535</b>	<b>352,291</b>	<b>1,309,466</b>	<b>163,963</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 285,581</b>	<b>\$ 1,050,159</b>	<b>\$ 147,535</b>	<b>\$ 481,050</b>	<b>\$ 2,963,761</b>	<b>\$ 179,627</b>

<b>Special Revenue Funds</b>		<b>Capital Projects Funds</b>				<b>Permanent Fund</b>	Total Nonmajor Governmental Funds
Special Revenue Trust Funds	Sub-total	Upper Middle School Conversion	Land Acquisition	Other Capital Projects	Sub-total	Public Funds	
\$ 2,635,062	\$ 5,253,729	\$ 826	\$ 24,680	\$ 168,263	\$ 193,769	\$ 3,569,197	\$ 9,016,695
-	-	-	-	-	-	896,752	896,752
-	29,678	-	-	-	-	-	29,678
-	45,478	-	-	-	-	-	45,478
-	2,413,890	375,000	-	-	375,000	-	2,788,890
15,000	15,000	-	-	-	-	-	15,000
<u>\$ 2,650,062</u>	<u>\$ 7,757,775</u>	<u>\$ 375,826</u>	<u>\$ 24,680</u>	<u>\$ 168,263</u>	<u>\$ 568,769</u>	<u>\$ 4,465,949</u>	<u>\$ 12,792,493</u>
\$ 286	\$ 375,126	\$ -	\$ -	\$ 16,253	\$ 16,253	\$ 4,029	\$ 395,408
-	2,426,011	375,000	-	-	375,000	-	2,801,011
-	-	375,000	2,025,000	1,226,363	3,626,363	-	3,626,363
286	2,801,137	750,000	2,025,000	1,242,616	4,017,616	4,029	6,822,782
-	-	-	-	-	-	3,218,824	3,218,824
2,649,776	4,956,638	-	-	-	-	-	4,956,638
-	-	(374,174)	(2,000,320)	(1,074,353)	(3,448,847)	-	(3,448,847)
-	-	-	-	-	-	1,243,096	1,243,096
2,649,776	4,956,638	(374,174)	(2,000,320)	(1,074,353)	(3,448,847)	4,461,920	5,969,711
<u>\$ 2,650,062</u>	<u>\$ 7,757,775</u>	<u>\$ 375,826</u>	<u>\$ 24,680</u>	<u>\$ 168,263</u>	<u>\$ 568,769</u>	<u>\$ 4,465,949</u>	<u>\$ 12,792,493</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

***Special Revenue Funds***

	Federal Grants	State Grants	Other Grants	Revolving Funds	Receipts Reserved for Appropriation
<b>REVENUES:</b>					
Charges for services.....	\$ -	\$ -	\$ -	\$ 1,571,361	\$ 30,924
Fines and forfeitures.....	-	-	-	200	-
Intergovernmental.....	1,147,357	1,810,391	1,075	99,316	-
Departmental and other.....	-	-	-	339,631	-
Contributions.....	-	23	39,010	18,611	-
Investment income.....	-	157	6,097	320	-
Miscellaneous.....	-	-	-	245,513	425
<b>TOTAL REVENUES.....</b>	<b>1,147,357</b>	<b>1,810,571</b>	<b>46,182</b>	<b>2,274,952</b>	<b>31,349</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	-	-	-	857	17,680
Public safety.....	21,450	61,753	-	179,888	-
Education.....	1,014,237	1,523,973	5,754	1,390,570	-
Public works.....	-	343,988	-	334,083	-
Human services.....	27,000	140,591	8,746	200,163	-
Culture and recreation.....	221	25,165	9,303	278,982	-
<b>TOTAL EXPENDITURES.....</b>	<b>1,062,908</b>	<b>2,095,470</b>	<b>23,803</b>	<b>2,384,543</b>	<b>17,680</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>84,449</b>	<b>(284,899)</b>	<b>22,379</b>	<b>(109,591)</b>	<b>13,669</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Premium from issuance of refunding bonds.....	-	-	-	-	197,483
Transfers in.....	-	242,859	-	52,574	-
Transfers out.....	(242,860)	(14,547)	-	(12,886)	(642,650)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(242,860)</b>	<b>228,312</b>	<b>-</b>	<b>39,688</b>	<b>(445,167)</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(158,411)</b>	<b>(56,587)</b>	<b>22,379</b>	<b>(69,903)</b>	<b>(431,498)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>402,380</b>	<b>146,225</b>	<b>125,156</b>	<b>422,194</b>	<b>1,740,964</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 243,969</b>	<b>\$ 89,638</b>	<b>\$ 147,535</b>	<b>\$ 352,291</b>	<b>\$ 1,309,466</b>

<i>Special Revenue Funds</i>			<i>Capital Projects Funds</i>				<i>Permanent Fund</i>	Total Nonmajor Governmental Funds
Gifts	Special Revenue Trust Funds	Sub-total	Upper Middle School Conversion	Land Acquisition	Other Capital Projects	Sub-total	Public Funds	
\$ 1,982	\$ -	\$ 1,604,267	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,604,267
-	-	200	-	-	-	-	-	200
-	-	3,058,139	-	-	-	-	-	3,058,139
7	-	339,638	-	-	-	-	-	339,638
105,510	150,835	313,989	-	-	-	-	37,189	351,178
-	133,801	140,375	-	-	-	-	176,430	316,805
-	-	245,938	-	-	-	-	-	245,938
107,499	284,636	5,702,546	-	-	-	-	213,619	5,916,165
43,922	-	62,459	-	2,000,320	-	2,000,320	1,799	2,064,578
10,012	4,700	277,803	-	-	376,478	376,478	-	654,281
31,821	-	3,966,355	377,147	-	7,798	384,945	-	4,351,300
392	-	678,463	-	-	569,913	569,913	9,195	1,257,571
10,064	22,467	409,031	-	-	-	-	-	409,031
815	52,095	366,581	-	-	130,971	130,971	2,318	499,870
97,026	79,262	5,760,692	377,147	2,000,320	1,085,160	3,462,627	13,312	9,236,631
10,473	205,374	(58,146)	(377,147)	(2,000,320)	(1,085,160)	(3,462,627)	200,307	(3,320,466)
-	-	197,483	-	-	-	-	-	197,483
-	1,000	296,433	-	-	-	-	657,523	953,956
(465,142)	-	(1,378,085)	-	-	-	-	(224,432)	(1,602,517)
(465,142)	1,000	(884,169)	-	-	-	-	433,091	(451,078)
(454,669)	206,374	(942,315)	(377,147)	(2,000,320)	(1,085,160)	(3,462,627)	633,398	(3,771,544)
618,632	2,443,402	5,898,953	2,973	-	10,807	13,780	3,828,522	9,741,255
\$ 163,963	\$ 2,649,776	\$ 4,956,638	\$ (374,174)	\$ (2,000,320)	\$ (1,074,353)	\$ (3,448,847)	\$ 4,461,920	\$ 5,969,711



# ***Internal Service Funds***

Medical Claims Fund - To account for contributions from the Town and Town employees, receipt of investment earnings and payment of medical claims of the Town's employees and their covered dependents.

Medex Claims Fund - To account for contributions from the Town and Town employees, receipt of investment earnings and payment of medical claims of the Town's retired employees over the age of 65, as a supplement to Medicare.

Workmen's Compensation Fund - To account for appropriations from the Town and investment earnings which accumulate to be expended for the payment of injury claims, resulting from on-the-job accidents of Town employees.

**INTERNAL SERVICE FUNDS**  
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2006

	Medical Claims	Medex Claims	Workmen's Compensation	Total
<b>ASSETS</b>				
CURRENT:				
Cash and cash equivalents.....	\$ -	\$ 213,154	\$ 88,161	\$ 301,315
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	52,762	-	-	52,762
Due from other funds.....	-	-	291,569	291,569
Working capital deposit.....	<u>1,415,900</u>	<u>247,700</u>	<u>24,888</u>	<u>1,688,488</u>
TOTAL ASSETS.....	<u>1,468,662</u>	<u>460,854</u>	<u>404,618</u>	<u>2,334,134</u>
<b>LIABILITIES</b>				
CURRENT:				
Warrants payable.....	749,014	119,606	23,753	892,373
Accrued liabilities.....	710,055	155,613	-	865,668
Workers' compensation.....	-	-	98,141	98,141
Due to other funds.....	<u>291,569</u>	<u>-</u>	<u>-</u>	<u>291,569</u>
Total current liabilities.....	<u>1,750,638</u>	<u>275,219</u>	<u>121,894</u>	<u>2,147,751</u>
NONCURRENT:				
Workers' compensation.....	<u>-</u>	<u>-</u>	<u>382,688</u>	<u>382,688</u>
TOTAL LIABILITIES.....	<u>1,750,638</u>	<u>275,219</u>	<u>504,582</u>	<u>2,530,439</u>
<b>NET ASSETS</b>				
Unrestricted.....	\$ <u>(281,976)</u>	\$ <u>185,635</u>	\$ <u>(99,964)</u>	\$ <u>(196,305)</u>

**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Medical Claims	Medex Claims	Workmen's Compensation	Total
<b><u>OPERATING REVENUES:</u></b>				
Charges for services .....	\$ 9,827,143	\$ 1,520,064	\$ 200,000	\$ 11,547,207
Miscellaneous.....	87,759	-	-	87,759
<b>TOTAL OPERATING REVENUES .....</b>	<b>9,914,902</b>	<b>1,520,064</b>	<b>200,000</b>	<b>11,634,966</b>
<b><u>OPERATING EXPENSES:</u></b>				
Cost of services and administration.....	8,364,373	1,388,516	172,036	9,924,925
<b>OPERATING INCOME (LOSS).....</b>	<b>1,550,529</b>	<b>131,548</b>	<b>27,964</b>	<b>1,710,041</b>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>				
Investment income.....	-	7,498	16,020	23,518
<b>CHANGE IN NET ASSETS.....</b>	<b>1,550,529</b>	<b>139,046</b>	<b>43,984</b>	<b>1,733,559</b>
<b>NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>(1,832,505)</b>	<b>46,589</b>	<b>(143,948)</b>	<b>(1,929,864)</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ (281,976)</b>	<b>\$ 185,635</b>	<b>\$ (99,964)</b>	<b>\$ (196,305)</b>

**INTERNAL SERVICE FUNDS**  
COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Medical Claims	Medex Claims	Workmen's Compensation	Total
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from interfund services provided.....	\$ 9,724,322	\$ 1,490,664	\$ 200,000	\$ 11,414,986
Payments for interfund services used.....	(8,448,241)	(1,349,799)	(185,202)	(9,983,242)
NET CASH FROM OPERATING ACTIVITIES.....	1,276,081	140,865	14,798	1,431,744
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Advances from other funds.....	(1,276,081)	-	(291,569)	(1,567,650)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,276,081)	-	(291,569)	(1,567,650)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>				
Investment income.....	-	7,498	16,020	23,518
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	-	148,363	(260,751)	(112,388)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	-	64,791	348,912	413,703
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ -	\$ 213,154	\$ 88,161	\$ 301,315
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u></b>				
Operating income (loss).....	\$ 1,550,529	\$ 131,548	\$ 27,964	\$ 1,710,041
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Changes in assets and liabilities:				
Departmental and other.....	99,120	-	-	99,120
Working capital deposit.....	(289,700)	(29,400)	-	(319,100)
Warrants payable.....	19,762	28,845	(8,684)	39,923
Accrued liabilities.....	(103,630)	9,872	-	(93,758)
Workers' compensation.....	-	-	(4,482)	(4,482)
Total adjustments.....	(274,448)	9,317	(13,166)	(278,297)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,276,081	\$ 140,865	\$ 14,798	\$ 1,431,744

# ***Fiduciary Funds***

## ***Private Purpose Trust Funds:***

Charity Funds - To account for contributions held by the Town to benefit private charities.

Scholarship Funds - To account for scholarship funds held by the Town to benefit individuals.

Other Funds - To account for other amounts held by the Town for the benefit of individuals or private organizations.

***Agency Funds*** - To account for performance bonds and the collection and payment of hunting and fishing licenses, firearm permits, sales taxes and meals taxes to the State, dog licenses to the County, proceeds of extra work details to the Town employees, and school student activity accounts.

**PRIVATE PURPOSE TRUST FUNDS**  
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2006

	Charity Funds	Scholarship Funds	Other Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents.....	\$ 2,123,295	\$ 887,694	\$ 125,503	\$ 3,136,492
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	-	175	-	175
Capital assets, net of accumulated depreciation.....	24,071	-	-	24,071
<b>TOTAL ASSETS</b> .....	<u>2,147,366</u>	<u>887,869</u>	<u>125,503</u>	<u>3,160,738</u>
<b>LIABILITIES</b>				
Warrants payable.....	-	8,834	-	8,834
<b>NET ASSETS</b>				
Held in trust for other purposes.....	\$ <u>2,147,366</u>	\$ <u>878,860</u>	\$ <u>125,503</u>	\$ <u>3,151,729</u>

**PRIVATE PURPOSE TRUST FUNDS**  
**COMBINING STATEMENT CHANGES IN NET ASSETS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Charity Funds	Scholarship Funds	Other Funds	Total
<b>ADDITIONS:</b>				
Contributions:				
Private donations.....	\$ 13,550	\$ -	\$ -	\$ 13,550
Net investment income (loss):				
Interest.....	86,104	35,372	5,001	126,477
TOTAL ADDITIONS.....	99,654	35,372	5,001	140,027
<b>DEDUCTIONS:</b>				
Charitable payments.....	24,180	-	-	24,180
Depreciation.....	2,782	-	-	2,782
Educational scholarships.....	-	8,850	-	8,850
TOTAL DEDUCTIONS.....	26,962	8,850	-	35,812
CHANGE IN NET ASSETS.....	72,692	26,522	5,001	104,215
NET ASSETS AT BEGINNING OF YEAR.....	2,074,674	852,338	120,502	3,047,514
NET ASSETS AT END OF YEAR.....	\$ 2,147,366	\$ 878,860	\$ 125,503	\$ 3,151,729

**AGENCY FUNDS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Balance at June 30, 2005		Additions		Deductions		Balance at June 30, 2006
<b>ASSETS</b>							
Cash and cash equivalents.....	\$ 61,207	\$	455,820	\$	503,186	\$	13,841
Due from general fund.....	25,181		171,516		117,797		78,900
Total assets.....	<u>\$ 86,388</u>	\$	<u>627,336</u>	\$	<u>620,983</u>	\$	<u>92,741</u>
<b>LIABILITIES</b>							
Liabilities due depositors.....	<u>\$ 86,388</u>	\$	<u>627,336</u>	\$	<u>620,983</u>	\$	<u>92,741</u>



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# *Statistical Section*

Statistical tables differ from financial statements since they usually cover more than one fiscal year and may present nonaccounting data. The following tables reflect social and economic data, financial trends, and fiscal capacity.



*A view of the Moonlight over Marblehead Neck.*

## ***Statistical Section***

# ***STATISTICAL SECTION***

This part of the Town of Marblehead's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

## ***Financial Trends***

- These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.

## ***Revenue Capacity***

- These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.

## ***Debt Capacity***

- These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.

## ***Demographic and Economic Information***

- These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.

## ***Operating Information***

- These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.

SOURCES: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Town implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

# **Net Assets By Component**

## **Last Four Fiscal Years**

	<b>Fiscal Year</b>			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities				
Invested in capital assets, net of related debt.....	\$ 54,031,802	\$ 62,029,368	\$ 63,376,136	\$ 61,014,943
Restricted.....	4,718,510	7,367,239	8,369,340	8,514,978
Unrestricted.....	<u>6,393,833</u>	<u>2,063,935</u>	<u>1,019,991</u>	<u>7,900,994</u>
Total governmental activities net assets.....	<u>\$ 65,144,145</u>	<u>\$ 71,460,542</u>	<u>\$ 72,765,467</u>	<u>\$ 77,430,915</u>
Business-type activities				
Invested in capital assets, net of related debt.....	28,851,221	30,152,007	31,295,881	31,576,803
Unrestricted.....	<u>12,389,899</u>	<u>11,398,374</u>	<u>10,487,961</u>	<u>10,905,805</u>
Total business-type activities net assets.....	<u>\$ 41,241,120</u>	<u>\$ 41,550,381</u>	<u>\$ 41,783,843</u>	<u>\$ 42,482,608</u>
Primary government				
Invested in capital assets, net of related debt.....	82,883,023	92,181,375	94,672,019	92,591,746
Restricted.....	4,718,510	7,367,239	8,369,340	8,514,978
Unrestricted.....	<u>18,783,732</u>	<u>13,462,309</u>	<u>11,507,953</u>	<u>18,806,799</u>
Total primary government net assets.....	<u>\$ 106,385,265</u>	<u>\$ 113,010,923</u>	<u>\$ 114,549,312</u>	<u>\$ 119,913,523</u>

## Changes in Net Assets

### Last Four Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
<b>Expenses</b>				
Governmental activities:				
General government.....	\$ 2,938,994	\$ 3,365,848	\$ 3,391,116	\$ 3,270,652
Public safety.....	7,867,199	7,957,974	7,787,203	7,980,128
Education.....	32,368,949	36,143,224	38,303,976	41,023,533
Public works.....	5,654,141	5,101,138	4,903,611	4,879,129
Human services.....	914,967	929,242	826,827	1,084,279
Culture and recreation.....	2,361,916	2,301,611	2,427,894	2,438,794
Interest.....	1,451,423	1,059,107	1,847,413	2,214,597
Total government activities expenses.....	<u>53,557,589</u>	<u>56,858,144</u>	<u>59,488,040</u>	<u>62,891,112</u>
Business-type activities:				
Water.....	2,223,297	2,312,442	2,408,244	2,575,458
Sewer.....	3,061,348	2,980,770	3,489,015	3,274,040
Electric.....	10,381,542	10,805,232	10,941,345	13,344,444
Harbor.....	584,471	576,851	455,038	620,604
Total business-type activities expenses.....	<u>16,250,658</u>	<u>16,675,295</u>	<u>17,293,642</u>	<u>19,814,546</u>
Total primary government expenses.....	<u>\$ 69,808,247</u>	<u>\$ 73,533,439</u>	<u>\$ 76,781,682</u>	<u>\$ 82,705,658</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services.....	\$ 2,947,311	\$ 2,375,995	\$ 2,734,373	\$ 2,832,424
Education.....	1,144,334	1,156,320	1,151,263	1,185,631
Operating grants and contributions.....	9,961,379	10,236,741	11,965,143	13,534,764
Capital grant and contributions.....	6,016,683	6,184,306	-	-
Total government activities program revenues.....	<u>20,069,707</u>	<u>19,953,362</u>	<u>15,850,779</u>	<u>17,552,819</u>
Business-type activities:				
Charges for services - Water.....	2,357,092	2,404,325	2,985,712	3,084,796
Charges for services - Sewer.....	3,054,481	3,098,366	3,897,788	3,254,460
Charges for services - Electric.....	11,524,933	11,747,745	11,350,011	13,845,358
Charges for services - Harbor.....	713,552	709,857	755,014	743,085
Operating grants and contributions.....	-	-	25,000	3,473
Total business-type activities program revenues.....	<u>17,650,058</u>	<u>17,960,293</u>	<u>19,013,525</u>	<u>20,931,172</u>
Total primary government program revenues.....	<u>\$ 37,719,765</u>	<u>\$ 37,913,655</u>	<u>\$ 34,864,304</u>	<u>\$ 38,483,991</u>
<b>Net (Expense)/Revenue</b>				
Governmental activities.....	\$ (33,487,882)	\$ (36,904,782)	\$ (43,637,261)	\$ (45,338,293)
Business-type activities.....	<u>1,399,400</u>	<u>1,284,998</u>	<u>1,719,883</u>	<u>1,116,626</u>
Total primary government net expense.....	<u>\$ (32,088,482)</u>	<u>\$ (35,619,784)</u>	<u>\$ (41,917,378)</u>	<u>\$ (44,221,667)</u>

(Continued)

## Changes in Net Assets

### Last Four Fiscal Years

	Fiscal Year			
	2003	2004	2005	2006
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental activities:				
Real estate and personal property taxes, net of tax refunds payable.....	\$ 34,614,791	\$ 37,663,340	\$ 39,608,751	\$ 44,052,622
Motor vehicle and other excise taxes.....	2,816,116	2,815,852	3,008,370	3,033,965
Penalties and interest on taxes.....	112,354	128,811	142,047	134,274
Payments in lieu of taxes.....	75,499	-	4,821	-
Grants and contributions not restricted to specific programs.....	1,174,530	1,104,617	1,120,708	1,254,124
Unrestricted investment income.....	517,360	494,060	369,109	811,058
Gain (loss) on disposal of capital assets.....	(26,635)	-	-	-
Miscellaneous.....	2,719	-	-	61,300
Transfers.....	57,508	1,026,962	688,377	656,398
Total governmental activities.....	39,344,242	43,233,642	44,942,183	50,003,741
Business-type activities:				
Unrestricted investment income.....	107,863	51,225	104,009	238,535
Transfers.....	(57,508)	(1,026,962)	(688,377)	(656,398)
Total primary government.....	\$ 50,355	\$ (975,737)	\$ (584,368)	\$ (417,863)
<b>Changes in Net Assets</b>				
Governmental activities.....	\$ 5,856,360	\$ 6,328,860	\$ 1,304,922	\$ 4,665,448
Business-type activities.....	1,449,755	309,261	1,135,515	698,763
Total primary government.....	\$ 7,306,115	\$ 6,638,121	\$ 2,440,437	\$ 5,364,211

(Concluded)

**Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved.....	\$ 2,559,255	\$ 2,897,319	\$ 2,741,420	\$ 2,047,209	\$ 2,021,489	\$ 2,495,896	\$ 590,889	\$ 346,436	\$ 242,334	\$ 329,471
Unreserved.....	3,103,677	2,603,322	2,330,214	2,752,993	3,725,511	3,196,616	4,600,668	3,321,417	3,468,375	4,905,746
Total general fund.....	<u>\$ 5,662,932</u>	<u>\$ 5,500,641</u>	<u>\$ 5,071,634</u>	<u>\$ 4,800,202</u>	<u>\$ 5,747,000</u>	<u>\$ 5,692,512</u>	<u>\$ 5,191,557</u>	<u>\$ 3,667,853</u>	<u>\$ 3,710,709</u>	<u>\$ 5,235,217</u>
All Other Governmental Funds										
Reserved.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,119,714	\$ 3,160,017	\$ 3,242,776	\$ 3,218,824
Unreserved, reported in:										
Special revenue funds.....	1,054,528	934,008	1,061,776	924,573	1,265,026	3,470,693	3,335,913	4,201,446	5,898,953	4,956,638
Capital projects funds.....	1,624,314	296,192	(1,421,646)	(1,100,256)	(11,185,348)	2,364,897	5,440,999	2,137,325	13,780	(3,448,847)
Permanent funds.....	-	-	-	-	-	-	670,784	726,568	585,746	1,243,096
Total all other governmental funds...	<u>\$ 2,678,842</u>	<u>\$ 1,230,200</u>	<u>\$ (359,870)</u>	<u>\$ (175,683)</u>	<u>\$ (9,920,322)</u>	<u>\$ 5,835,590</u>	<u>\$ 12,567,410</u>	<u>\$ 10,225,356</u>	<u>\$ 9,741,255</u>	<u>\$ 5,969,711</u>

Fiscal years 1997 through 2002 exclude Expendable and Nonexpendable Trust Funds which were reported under the pre-GASB 34 format.



**Changes in Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Revenues:</b>										
Real estate and personal property taxes,										
net of tax refunds.....	\$ 25,869,314	\$ 26,881,212	\$ 27,948,768	\$ 29,143,026	\$ 30,181,410	\$ 33,412,393	\$ 34,609,845	\$ 37,536,410	\$ 39,636,668	\$ 43,703,685
Motor vehicle and other excise taxes.....	1,906,502	2,458,633	2,250,018	2,832,151	2,689,466	2,684,652	2,810,072	2,809,905	3,014,927	3,026,225
Charges for Services.....	1,542,002	1,724,843	2,145,284	2,073,694	2,062,949	2,417,398	2,328,201	2,266,211	2,250,402	2,321,164
Penalties and interest on taxes.....	177,862	173,351	201,003	136,615	130,863	125,118	112,354	128,811	142,047	134,274
Licenses and permits (**and fees).....	349,827	452,278	413,892	375,475	457,597	512,478	445,850	557,746	805,077	867,875
Fines and forfeitures.....	183,170	174,874	167,299	186,366	164,701	185,354	186,801	184,034	209,571	185,569
Intergovernmental.....	4,909,444	4,531,277	4,337,702	7,795,581	9,568,885	9,375,238	10,004,918	10,361,141	12,013,630	34,856,476
Departmental.....	-	-	-	-	-	-	301,228	351,221	363,625	339,638
Contributions.....	127,140	242,660	137,938	218,961	391,583	364,035	448,003	366,484	708,368	383,178
Miscellaneous.....	267,850	288,172	323,330	336,359	335,169	402,121	375,330	188,506	258,863	356,564
Investment income.....	615,155	509,738	480,394	495,292	1,625,099	769,304	482,227	487,621	355,094	787,540
<b>Total Revenue.....</b>	<b>35,948,266</b>	<b>37,437,038</b>	<b>38,405,628</b>	<b>43,593,520</b>	<b>47,607,722</b>	<b>50,248,091</b>	<b>52,104,829</b>	<b>55,238,090</b>	<b>59,758,272</b>	<b>86,962,188</b>
<b>Expenditures:</b>										
General government.....	1,881,004	1,557,901	1,751,615	1,741,671	1,651,605	1,749,068	1,746,526	1,874,184	1,870,327	1,945,087
Public safety.....	4,403,037	4,900,866	4,924,483	5,138,448	5,605,684	5,859,514	6,156,558	5,994,391	5,950,368	5,879,191
Education.....	16,552,246	18,014,181	19,209,920	20,353,581	21,497,375	22,929,034	23,527,300	24,891,158	25,499,823	26,941,821
Public works.....	3,000,297	3,388,038	3,128,582	3,241,085	4,362,998	4,177,068	4,168,445	4,503,427	4,420,167	4,460,726
Human services.....	674,082	701,569	756,853	776,735	838,688	810,067	763,295	724,254	674,636	798,590
Culture and recreation.....	1,320,298	1,481,460	1,597,092	1,664,076	1,639,867	1,862,226	1,889,906	1,834,109	1,808,462	1,876,306
Pension benefits.....	-	-	-	4,797,468	5,074,648	5,080,649	5,571,615	6,137,142	6,533,588	6,728,821
Employee benefits.....	4,972,392	5,122,894	5,371,565	3,197,682	3,291,869	3,604,154	3,895,920	4,844,001	6,153,016	8,884,059
Property and liability insurance.....	-	-	-	93,890	105,023	157,751	245,545	304,088	323,166	334,103
State and county charges.....	741,796	765,847	684,977	622,850	608,657	596,520	1,824,080	1,714,756	2,094,128	2,217,767
Capital outlay.....	3,464,725	3,011,215	1,359,572	2,347,479	15,097,502	27,049,754	12,320,801	12,303,674	2,938,545	3,462,627
Debt service.....										
Principal.....	1,130	1,275	1,170	1,165,000	1,300,000	1,775,000	1,755,000	1,655,000	2,269,726	23,995,637
Interest.....	1,469,546	1,655,466	1,481,784	367,791	453,437	1,684,707	1,640,631	1,622,294	1,958,022	2,585,246
<b>Total Expenditures.....</b>	<b>38,480,553</b>	<b>40,600,712</b>	<b>40,267,613</b>	<b>45,507,756</b>	<b>61,527,353</b>	<b>77,335,512</b>	<b>65,505,622</b>	<b>68,402,478</b>	<b>62,493,974</b>	<b>90,109,981</b>
<b>Excess of revenues over (under) expenditures.....</b>	<b>(2,532,287)</b>	<b>(3,163,674)</b>	<b>(1,861,985)</b>	<b>(1,914,236)</b>	<b>(13,919,631)</b>	<b>(27,087,421)</b>	<b>(13,400,793)</b>	<b>(13,164,388)</b>	<b>(2,735,702)</b>	<b>(3,147,793)</b>
<b>Other Financing Sources (Uses)</b>										
Issuance of debt.....	2,110,269	1,572,564	-	1,645,000	4,950,000	40,600,000	15,400,000	8,000,000	-	-
Premium from issuance of bonds.....	-	-	-	6,316	120,786	165,638	509,739	471,668	1,806,081	197,483
Proceeds from bonds and notes.....	-	-	-	-	-	-	-	-	37,510,274	15,984,637
Payments of current refunded debt.....	-	-	-	-	-	-	-	-	(37,510,274)	(15,984,637)
Capital lease financing.....	-	-	26,200	25,000	235,710	-	-	-	-	46,875
Transfers in.....	1,152,688	1,055,544	774,368	536,631	1,738,319	711,238	537,488	2,514,566	2,256,375	2,297,989
Transfers out.....	(1,176,071)	(1,075,367)	(957,660)	(625,087)	(1,923,025)	(899,708)	(679,980)	(1,687,604)	(1,767,998)	(1,641,591)
<b>Total other financing sources (uses).....</b>	<b>2,086,886</b>	<b>1,552,741</b>	<b>(157,092)</b>	<b>1,587,860</b>	<b>5,121,790</b>	<b>40,577,168</b>	<b>15,767,247</b>	<b>9,298,630</b>	<b>2,294,458</b>	<b>900,756</b>
<b>Net change in fund balance.....</b>	<b>\$ (445,401)</b>	<b>\$ (1,610,933)</b>	<b>\$ (2,019,077)</b>	<b>\$ (326,376)</b>	<b>\$ (8,797,841)</b>	<b>\$ 13,489,747</b>	<b>\$ 2,366,454</b>	<b>\$ (3,865,758)</b>	<b>\$ (441,244)</b>	<b>\$ (2,247,037)</b>
<b>Debt service as a percentage of noncapital expenditures.....</b>	<b>3.94%</b>	<b>4.20%</b>	<b>3.79%</b>	<b>3.47%</b>	<b>2.93%</b>	<b>4.61%</b>	<b>6.62%</b>	<b>5.97%</b>	<b>7.24%</b>	<b>8.25%</b>

Fiscal years 1997 through 2002 exclude Expendable and Nonexpendable Trust Funds which were reported under the pre-GASB 34 format.

In Fiscal years 1997 through 1999, pension benefits were included with employee benefits.

Beginning in fiscal year 2000, the on-behalf payments provided by Massachusetts Teachers Retirement System are reported as intergovernmental revenue and pension expenditures.

\*\*Fiscal years 1997 through 2002 include fees with licenses and permits

In fiscal year 2006 the debt service % has been adjusted for the principal payment of \$21,275,637 from a state grant.

# Assessed Value and Actual Value of Taxable Property by Classification and Tax Rates

## Last Ten Fiscal Years

Fiscal Year	Assessed and Actual Values and Tax Rates							
	Residential Value	Residential Tax Rate	Commercial Value	Industrial Value	Personal Property	Total Commercial Value	Commercial Tax Rate	Total Town Value
1997	(1) \$2,004,567,670	\$12.18	\$99,451,930	\$13,280,720	\$13,863,330	\$126,595,980	\$12.18	\$2,131,163,650
1998	\$2,120,747,201	\$12.00	\$104,585,629	\$13,901,270	\$14,827,490	\$133,314,389	\$12.00	\$2,254,061,590
1999	\$2,273,353,314	\$11.60	\$108,962,111	\$14,036,800	\$16,480,870	\$139,479,781	\$11.60	\$2,412,833,095
2000	(1) \$2,468,188,927	\$11.14	\$116,225,713	\$15,557,860	\$17,274,360	\$149,057,933	\$11.14	\$2,617,246,860
2001	\$2,794,500,036	\$10.23	\$128,533,269	\$16,637,820	\$16,453,240	\$161,624,329	\$10.23	\$2,956,124,365
2002	\$3,334,739,063	\$9.50	\$145,486,042	\$17,847,070	\$17,974,530	\$181,307,642	\$9.50	\$3,516,046,705
2003	(1) \$3,904,694,030	\$8.42	\$155,455,505	\$18,408,805	\$21,508,430	\$195,372,740	\$8.42	\$4,100,066,770
2004	\$4,262,454,683	\$8.48	\$162,486,031	\$17,785,900	\$23,082,370	\$203,354,301	\$8.48	\$4,465,808,984
2005	\$4,596,303,034	\$8.26	\$175,052,553	\$19,390,500	\$36,175,490	\$230,618,543	\$8.26	\$4,826,921,577
2006	\$5,007,339,729	\$8.43	\$184,593,258	\$17,596,200	\$33,605,700	\$235,795,158	\$8.43	\$5,243,134,887

(1) Revaluation Year

Source: Town of Marblehead, Assessor's Department

# Principal Taxpayers

June 30, 2006

Name	Nature of Business	2006			1996		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Moore, Edward T., Trust	Real estate investor	\$55,853,600	1	1.07%	\$14,179,700	2	0.69%
Rockett, J. Hillary	Real estate investor	\$35,504,500	2	0.68%	\$14,775,600	1	0.72%
Algonquin Gas Transmission Co	Utility	\$15,920,300	3	0.30%	-	-	-
Bessom Associates	Co-operative housing	\$15,165,700	4	0.29%	\$5,421,200	4	0.26%
Eastern Yacht Club	Private yacht club	\$12,169,000	5	0.23%	\$5,632,100	3	0.27%
Angelo Arena	Real estate investor	\$10,153,300	6	0.19%	\$4,467,000	5	0.22%
Individual	Residence	\$9,671,500	7	0.18%	-	-	-
James Crosby	Commercial Property	\$8,264,800	8	0.16%	\$2,936,900	10	0.14%
Robert W. Green	Real Estate Investor	\$7,949,000	9	0.15%	-	-	-
Keyspan	Utility	\$7,243,753	10	0.14%	-	-	-
Corinthian Yacht Club	Private Yacht Club	-	-	-	\$4,286,800	6	0.21%
Boston Gas Company	Utility	-	-	-	\$3,689,800	8	0.18%
New England Telephone	Utility	-	-	-	\$3,923,600	7	0.19%
Vernelle Polley Hafele	Real estate investor	-	-	-	\$3,380,200	9	0.16%
<b>Totals</b>		<u>\$177,895,453</u>		<u>3.39%</u>	<u>\$62,692,900</u>		<u>3.04%</u>

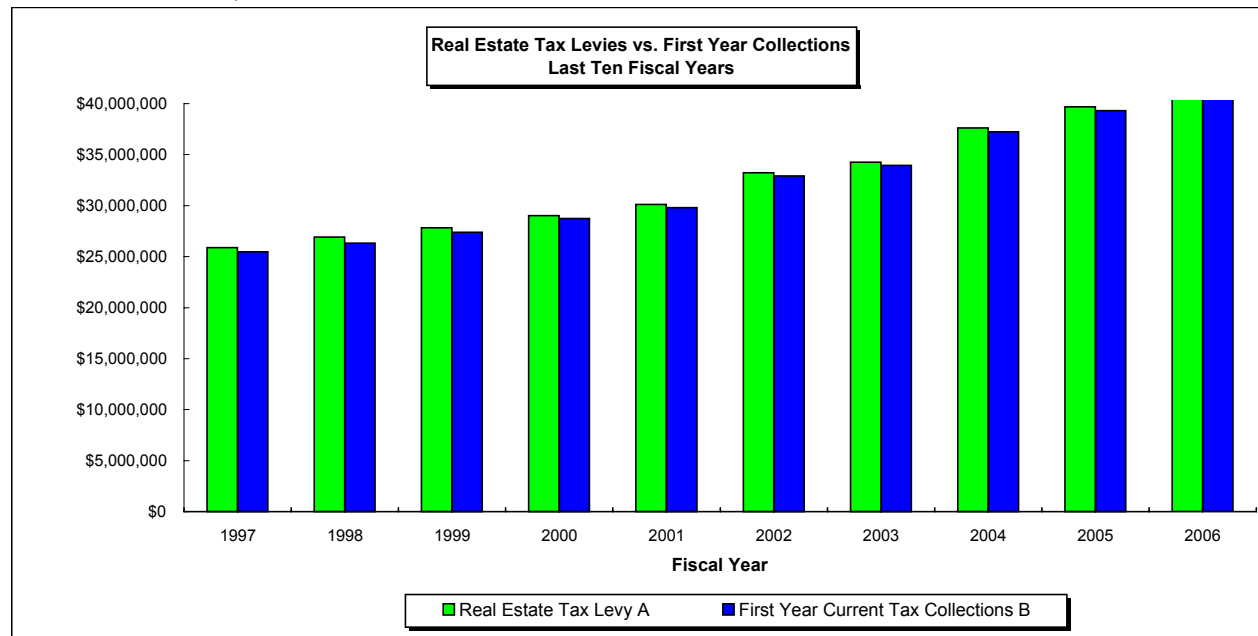
Source: Town of Marblehead, Assessor's Department

## Property Tax Levies and Collections

### Last Ten Fiscal Years

Fiscal Year		(2) Total Tax Levy	Less Abatements & Exemptions	(2) Net Tax Levy	First Year Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy
1997		\$ 25,957,573	89,210	\$25,868,363	\$25,473,965	98.5%	\$277,864	\$25,751,829	99.55%
1998	(1)	\$ 27,048,739	132,236	\$26,916,503	\$26,325,456	97.8%	\$283,787	\$26,609,243	98.86%
1999		\$ 27,988,864	159,719	\$27,829,145	\$27,380,835	98.4%	\$245,464	\$27,626,299	99.27%
2000		\$ 29,156,130	128,199	\$29,027,931	\$28,725,420	99.0%	\$234,578	\$28,959,998	99.77%
2001	(1)	\$ 30,241,152	110,615	\$30,130,537	\$29,800,427	98.9%	\$247,758	\$30,048,185	99.73%
2002		\$ 33,402,444	176,510	\$33,225,934	\$32,900,353	99.0%	\$238,539	\$33,152,444	99.78%
2003		\$ 34,497,302	230,828	\$34,266,474	\$33,930,910	99.0%	\$227,591	\$34,158,501	99.68%
2004	(1)	\$ 37,870,060	265,523	\$37,604,537	\$37,251,701	99.1%	\$260,483	\$37,512,184	99.75%
2005		\$ 39,870,372	185,215	\$39,685,157	\$39,322,124	99.1%	\$228,442	\$39,550,566	99.66%
2006		\$ 44,199,627	203,989	\$43,995,638	\$43,420,228	98.7%	\$0	\$43,420,228	98.69%

Source: Town of Marblehead's, Finance Department



(1) Revaluation year.

(2) Includes omitted and revised assessments.

(3) Includes tax liens.

# Ratios of Outstanding Debt and General Bonded Debt

## Last Ten Fiscal Years

Fiscal Year	U. S. Census Population	Personal Income	Assessed Value	Governmental Activities Debt				
				General Obligation Bonds	Capital Leases	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
1997	20,209	\$ 888,982,425	\$ 2,131,163,650	\$ 8,590,000	-	\$425	0.97%	0.40%
1998	20,433	\$ 917,179,651	\$ 2,254,061,590	\$ 8,885,000	-	\$435	0.97%	0.39%
1999	20,344	\$ 931,821,115	\$ 2,412,833,095	\$ 7,715,000	-	\$379	0.83%	0.32%
2000	20,761	\$ 970,327,618	\$ 2,617,246,860	\$ 8,195,000	-	\$395	0.84%	0.31%
2001	20,035	\$ 955,123,747	\$ 2,956,124,365	\$ 9,620,000	-	\$480	1.01%	0.33%
2002	20,254	\$ 984,875,363	\$ 3,516,046,705	\$ 9,570,000	-	\$472	0.97%	0.27%
2003	20,158	\$ 999,811,391	\$ 4,097,066,770	\$ 8,315,000	-	\$412	0.83%	0.20%
2004	20,461	\$ 1,035,136,605	\$ 4,465,808,984	\$ 6,660,000	-	\$325	0.64%	0.15%
2005	21,360	\$ 1,102,230,010	\$ 4,826,921,577	\$ 30,880,000	-	\$1,446	2.80%	0.64%
2006	20,482	\$ 1,078,061,450	\$ 5,243,134,887	\$ 28,410,000	\$ 46,875	\$1,389	2.64%	0.54%

Fiscal Year	Business-type Activities (1)				
	Total Primary Government				
	General Obligation Bonds	Total Debt Outstanding	Per Capita	Percentage of Personal Income	Percentage of Assessed Value
1997	\$ 1,070,000	\$ 9,660,000	\$ 478	1.09%	0.45%
1998	\$ 930,000	\$ 9,815,000	\$ 480	1.07%	0.44%
1999	\$ 810,000	\$ 8,525,000	\$ 419	0.91%	0.35%
2000	\$ 1,140,000	\$ 9,335,000	\$ 450	0.96%	0.36%
2001	\$ 975,000	\$ 10,595,000	\$ 529	1.11%	0.36%
2002	\$ 815,000	\$ 10,385,000	\$ 513	1.05%	0.30%
2003	\$ 655,000	\$ 8,970,000	\$ 445	0.90%	0.22%
2004	\$ 495,000	\$ 7,155,000	\$ 350	0.69%	0.16%
2005	\$ 335,000	\$ 31,215,000	\$ 1,461	2.83%	0.65%
2006	\$ 180,000	\$ 28,636,875	\$ 1,398	2.66%	0.55%

(1) Sewer, Water, Harbor and Electric Enterprise Funds  
Source: Audited Financial Statements, U. S. Census

# **Direct and Overlapping Governmental Activities Debt**

**As of June 30, 2006**

	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
<u>Town of Marblehead, Massachusetts</u>			
Debt repaid with property taxes			
North Shore Regional Vocational Technical School District..... \$	2,120,000	2.42%	\$ 51,304
South Essex Sewerage District.....	10,693,188	7.28%	778,824
Massachusetts Water Resource Authority.....	1,136,833,000	1.00%	<u>18,370,973</u>
Subtotal, overlapping debt.....			19,201,101
Town direct debt.....			<u>48,021,000</u>
Total direct and overlapping debt.....			\$ <u><u>67,222,101</u></u>

Source: Town of Marblehead's, Finance Department

**Computation of Legal Debt Margin**

**Last Ten Fiscal Years**

	<b>Fiscal Year</b>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Equalized valuation.....	\$ <u>2,228,344,710</u>	\$ <u>2,249,236,900</u>	\$ <u>2,388,893,800</u>	\$ <u>2,811,457,400</u>	\$ <u>2,811,457,400</u>	\$ <u>2,811,457,400</u>	\$ <u>3,815,051,700</u>	\$ <u>3,815,051,700</u>	\$ <u>4,841,734,800</u>	\$ <u>5,582,874,900</u>
Debt Limit - 5% of equalized valuation.....	111,417,236	112,461,845	119,444,690	140,572,870	140,572,870	140,572,870	190,752,585	190,752,585	242,086,740	279,143,745
Less:										
Total debt applicable to limitation.....	<u>9,660,000</u>	<u>9,815,000</u>	<u>8,525,000</u>	<u>9,335,000</u>	<u>12,820,000</u>	<u>10,885,000</u>	<u>8,970,000</u>	<u>7,155,000</u>	<u>31,215,000</u>	<u>28,590,000</u>
Legal debt margin.....	\$ <u>101,757,236</u>	\$ <u>102,646,845</u>	\$ <u>110,919,690</u>	\$ <u>131,237,870</u>	\$ <u>127,752,870</u>	\$ <u>129,687,870</u>	\$ <u>181,782,585</u>	\$ <u>183,597,585</u>	\$ <u>210,871,740</u>	\$ <u>250,553,745</u>
Total debt applicable to the limit as a percentage of debt limit.....	9%	10%	8%	7%	10%	8%	5%	4%	15%	11%

Source: Town of Marblehead, Finance Department

## Demographic and Economic Statistics

### Last Ten Fiscal Years

Fiscal Year	Population Estimates	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
1997	20,209	\$ 888,982,425	\$ 43,989	39.5	2,703	2.20%
1998	20,433	\$ 917,179,651	\$ 44,887	39.5	2,749	2.00%
1999	20,344	\$ 931,821,115	\$ 45,803	39.5	2,826	1.80%
2000	20,761	\$ 970,327,618	\$ 46,738	41.9	2,803	1.50%
2001	20,035	\$ 955,123,747	\$ 47,673	41.9	2,792	2.70%
2002	20,254	\$ 984,875,363	\$ 48,626	41.9	2,875	4.00%
2003	20,158	\$ 999,811,391	\$ 49,599	41.9	2,970	3.90%
2004	20,461	\$ 1,035,136,605	\$ 50,591	41.9	3,003	3.60%
2005	21,360	\$ 1,102,230,010	\$ 51,603	41.9	3,067	3.30%
2006	20,482	\$ 1,078,061,450	\$ 52,635	41.9	3,133	3.00%

Source: U. S. Census, Division of Local Services  
Median age is based on most recent census data



# Full-time Equivalent Town Employees by Function

## Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Function										
General government.....	23.00	24.00	24.50	24.50	24.50	24.50	24.50	23.25	23.25	22.50
Public safety.....	54.00	53.00	54.50	58.50	56.50	58.50	56.25	58.50	54.75	55.25
Fire.....	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.00	42.50	42.50
Education.....	351.10	369.60	385.90	396.20	400.10	414.30	424.20	426.00	448.40	466.32
Public works.....	38.75	37.25	38.25	38.50	37.50	39.50	39.00	37.00	36.25	36.25
Human services.....	6.00	6.00	5.50	5.50	6.75	7.00	6.75	6.75	6.00	6.25
Culture and recreation.....	34.75	32.00	33.25	30.50	32.25	29.00	32.75	30.75	28.00	30.75
Total .....	<u>549.60</u>	<u>563.85</u>	<u>583.90</u>	<u>595.70</u>	<u>599.60</u>	<u>614.80</u>	<u>625.45</u>	<u>624.25</u>	<u>639.15</u>	<u>659.82</u>

Source: Town Records

## Operating Indicators by Function/Program

### Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police										
Physical arrests.....	521	247	327	504	366	226	284	283	317	285
Motor vehicle violations.....	901	575	742	688	1,291	880	1,249	1,488	1,309	3,110
Parking violations.....	5,122	5,246	3,722	5,467	4,504	5,714	4,879	4,995	4,998	3,545
Fire										
Inspections.....	1,439	1,491	1,635	1,594	1,579	1,467	1,622	1,622	1,860	1,707
Emergency responses.....	1,820	1,939	2,219	2,185	2,066	2,219	2,105	2,105	2,347	2,167
Libraries										
Volumes in circulation.....	127,660	119,916	120,321	120,177	117,926	115,771	118,504	119,867	120,989	118,078
Total volumes borrowed.....	251,776	241,700	231,849	206,450	215,105	219,458	227,481	212,263	210,510	208,820
Water										
Service connections.....	7,608	7,608	7,620	7,635	7,827	7,869	7,877	7,877	8,004	7,459
Consumption in gallons.....	2,220,000	2,220,000	2,030,000	2,030,000	1,870,000	1,873,000	1,915,100	1,915,100	1,930,000	2,016,000
Daily consumption.....	5,380,000	5,380,000	4,405,000	4,405,000	3,926,000	3,296,000	3,557,000	3,557,000	3,054,000	3,666,000
Sewer										
Service connections.....	7,350	7,350	7,370	7,379	7,399	7,789	7,792	7,792	7,901	7,223
Daily average collection.....	3,000,000	3,000,000	1,590,000	1,590,000	1,800,000	1,800,000	1,800,000	1,800,000	2,448,387	2,400,000

Source: Various Town departments

## Capital Asset Statistics by Function/Program

### Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police										
Number of Stations.....	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Fire										
Number of Stations.....	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Education										
Number of elementary schools.....	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	6.0
Number of middle schools.....	1.0	1.0	1.0	1.0	1.0	1.0	1.0	2.0	2.0	1.0
Number of high schools.....	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Water										
Water mains (miles).....	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	86.7	86.7
Fire hydrants.....	815.0	815.0	815.0	823.0	825.0	825.0	828.0	828.0	851.0	852.0
Sewer										
Sanitary sewers (miles).....	96.0	96.0	96.0	96.0	96.0	96.0	96.0	96.0	87.5	87.5
Storm sewers (miles).....	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	50.9	50.9
Recreation										
Parks and playgrounds.....	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Park and playground (acreage).....	74.4	74.4	74.4	74.4	74.4	74.4	74.4	74.4	74.4	74.4
Conservation land (acreage).....	126.8	126.8	126.8	126.8	126.8	126.8	126.8	126.8	126.8	126.8
Railroad right of way (acreage).....	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4
Public beaches.....	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Ball fields.....	12.0	13.0	13.0	13.0	13.0	15.0	15.0	15.0	15.0	15.0
Tennis courts.....	13.0	13.0	13.0	12.0	12.0	12.0	12.0	12.0	12.0	10.0
Harbor										
Harbors.....	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Mooring.....	1,975.0	2,060.0	2,012.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0	2,200.0
Private yacht clubs.....	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	6.0	6.0
Municipal boatyards.....	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Boat ramps.....	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Public landings.....	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Emergency rescue watercraft.....	3.0	3.0	3.0	3.0	4.0	4.0	3.0	3.0	2.0	2.0

Source: Various Town departments

### Current Year and Nine Years Ago

[illegible]

source: Massachusetts Department of Employment and Training  
\*actual numbers from fiscal 1995



*A view from Redd's Pond.*



Photos by Rob Kipp

*A View of Little Harbor at Low Tide.*