

TOWN OF HOLDEN, MASSACHUSETTS

**REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS**

JUNE 30, 2006

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R. E. BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
25 CEMETERY STREET – P. O. BOX 230
Mendon, Massachusetts 01756

Phone: (508) 478-3941

Fax: (508) 478-1779

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Selectmen
Town of Holden, 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 Town of Holden, Massachusetts, as of and for the year ended June 30, 2006, (except for the financial statements of the Holden Electric Light Department which are as of 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 Town of Holden, Massachusetts's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Holden Electric Light Department, which represent 30.75 percent, 34.26 percent, and 70.58 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Holden Electric Light Department, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 and the report of other auditors provide 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 Holden, Massachusetts, as of June 30, 2006, (except for the Holden Electric Light Department which are as of December 31, 2005) and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 13, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

R. E. Brown & Company

December 27, 2006

Management's Discussion and Analysis

As management of the Town of Holden (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2006. We encourage readers to consider this information in addition to the statements and notes.

The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). GASB is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Users of these financial statements, such as investors and rating agencies, rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of one government compared to others.

Financial Highlights

The combined total assets of the Town exceeded the combined total liabilities by \$94.8 million, an increase of \$0.1 million or 0.1% more than the combined net assets for the previous fiscal year. A total of \$50.4 million or 53.2% of this sum represents the Town's investment in capital assets. A total of \$5.5 million or 5.7% is legally reserved or designated for specific future uses by the Town. A total of \$38.9 million or 41.1% is unrestricted and undesignated for future use.

Total net assets increased by \$0.1 million. Governmental activities' net assets decreased by \$1.0 million, while net assets for business-type activities increased by \$1.1 million.

Total revenue for the year for all funds was \$54.6 million - \$1.0 million or 1.9% more than the total revenue for the fiscal year ended June 30, 2005.

	Fiscal Year Ended <u>June 30, 2006</u>	%		Fiscal Year Ended <u>June 30, 2005</u>	%
	<u>Total</u>			<u>Total</u>	
Property taxes	\$ 23,908,866	43.81%	\$	22,802,631	42.58%
Motor vehicle excise	2,166,335	3.97%		2,223,997	4.15%
Penalties and interest	105,077	0.19%		80,760	0.15%
Payments in lieu of taxes	904,846	1.66%		533,295	1.00%
Charges for services	21,224,238	38.89%		17,390,771	32.48%
Operating grants and contributions	1,436,680	2.63%		1,625,180	3.04%
Capital grants and contributions	1,714,900	3.14%		6,657,207	12.43%
Nonrestricted grants and contributions	2,715,479	4.98%		1,691,645	3.16%
Unrestricted investment income and other	397,198	0.73%		541,488	1.01%
Total revenue	\$ <u>54,573,619</u>	<u>100.00%</u>	\$	<u>53,546,974</u>	<u>100.00%</u>

Total expenses for the year for all funds was \$54.4 million - \$5.1 million or 10.4% more than the total expenditures for the fiscal year ended June 30, 2005.

	Fiscal Year Ended <u>June 30, 2006</u>	% <u>Total</u>	Fiscal Year Ended <u>June 30, 2005</u>	% <u>Total</u>
General government	\$ 1,549,211	2.85%	\$ 1,731,234	3.51%
Public safety	3,018,830	5.55%	2,873,887	5.83%
Education	20,279,816	37.25%	19,069,342	38.68%
Public works	3,281,331	6.03%	3,146,254	6.38%
Water and sewer	4,428,923	8.14%	4,710,971	9.56%
Trash	872,535	1.60%	835,150	1.69%
Electric	14,007,548	25.73%	11,542,047	23.41%
Human services	219,182	0.40%	212,583	0.43%
Culture and recreation	1,292,473	2.37%	1,253,508	2.54%
Employee benefits	2,084,925	3.83%	2,091,697	4.24%
State and county assessments	96,219	0.18%	81,210	0.16%
Interest	3,309,130	6.08%	1,753,559	3.56%
Total expenditures	\$ <u>54,440,123</u>	<u>100.00%</u>	\$ <u>49,301,442</u>	<u>100.00%</u>

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Holden's basic financial statements. The Town of Holden's 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 short-term and long-term information about the Town. The fund financial statements focus on the individual parts of the Town government, reporting the 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 improve the Town's accountability.

Government-Wide Financial Statements

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

Statement of Net Assets – Presents all of the government's assets and liabilities, with the difference being reported as "net assets". The amount of net assets is widely considered a good measure of the Town's financial health. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. The reader should also consider other non-financial factors, such as the condition of the Town's infrastructure and changes in the property tax base, to assess the overall health of the Town.

Statement of Activities – Presents information showing how the Town'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 the cash flows. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods (i.e. uncollected taxes and earned but unused vacation leave).

In the government-wide statements, financial information is presented in two columns in order to summarize the Town's programs or activities. The types of activities presented are as follows:

Governmental Activities – Taxes and intergovernmental revenues primarily support the functions of the government and are reported in this section. Most of the Town's basic services are reported here including general government, public safety, education, public works, human services, culture, recreation, debt service, state/county charges and assessments, insurance, and employees' benefits.

Business-Type Activities – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The Water/Sewer, Electric, and Trash operations are considered business-type activities.

Fund Financial Statements

Traditional readers of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Holden, like most other local governments, uses a fund accounting system to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories:

Governmental Funds – Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the Town's near-term financing requirements. This approach reflects the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the Town's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

Because the focus of governmental funds is narrower than that of 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. This comparison will assist the reader in understanding 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 the comparison between governmental funds and governmental activities.

The Town maintains one major governmental fund that is presented separately in the governmental fund financial statements. The remaining non-major funds are combined into a single, aggregated presentation.

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

Proprietary Funds – Provides services for which the Town charges customers a fee and operates similar to a commercial business. The proprietary funds provide the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements and the proprietary funds financial statements.

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

Notes to 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

Statement of Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The Town's total net assets as of June 30, 2006 were \$94.8 million, of which the governmental activities were \$63.7 million and the business-type activities were \$31.1 million.

The largest portion of the Town's net assets (53.2%) reflects its investment in capital assets (land, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure, and construction in progress); less any related debt used to acquire those assets that remains outstanding. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

A modest amount of the Town's net assets (5.7%) are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (41.1%) may be used to meet the government's ongoing obligations to citizens and creditors.

Total current assets within the governmental activities were \$12.0 million and included cash & investments of \$8.1 million and receivables net of allowances of \$3.9 million.

Total current liabilities within the governmental activities were \$3.4 million and included accounts payable of \$0.4 million and bonds and notes payable of \$2.4 million. Noncurrent liabilities within the governmental activities were \$31.7 million and included \$31.1 million of general obligation bonds payable.

Total current assets within the business-type activities were \$6.3 million and included cash & investments of \$2.3 million and receivables net of allowances of \$1.3 million.

Current liabilities within the business-type activities were \$3.6 million and included accounts payable of \$1.3 million and bond and notes payable of \$2.1 million. Noncurrent liabilities within the business-type activities were \$21.7 million and included \$18.9 million of general obligation bonds payable.

Comparative Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2005</u>
Assets:						
Current assets	\$ 11,987,199	\$ 10,533,678	\$ 6,283,710	\$ 6,566,411	\$ 18,270,909	\$ 17,100,089
Noncurrent assets	22,468,128	24,522,925	12,041,737	9,434,698	34,509,865	33,957,623
Capital assets	64,343,627	65,561,035	38,083,590	38,236,383	102,427,217	103,797,418
Total assets	98,798,954	100,617,638	56,409,037	54,237,492	155,207,991	154,855,130
Liabilities:						
Current liabilities	3,441,304	3,233,276	3,638,974	3,968,687	7,080,278	7,201,963
Noncurrent liabilities	31,693,502	32,703,445	21,650,802	20,299,809	53,344,304	53,003,254
Total liabilities	35,134,806	35,936,721	25,289,776	24,268,496	60,424,582	60,205,217
Net Assets:						
Invested in capital assets	30,695,375	31,209,907	19,734,949	18,467,956	50,430,324	49,677,863
Restricted	5,438,346	5,116,104	-	-	5,438,346	5,116,104
Unrestricted	27,530,427	28,354,906	11,384,312	11,501,040	38,914,739	39,855,946
Total net assets	\$ 63,664,148	\$ 64,680,917	\$ 31,119,261	\$ 29,968,996	\$ 94,783,409	\$ 94,649,913

Governmental activities current assets increased by \$1.5 million as compared with FY2005, primarily due to current operating results. Business-type activity current assets decreased by a modest amount (\$0.3) million.

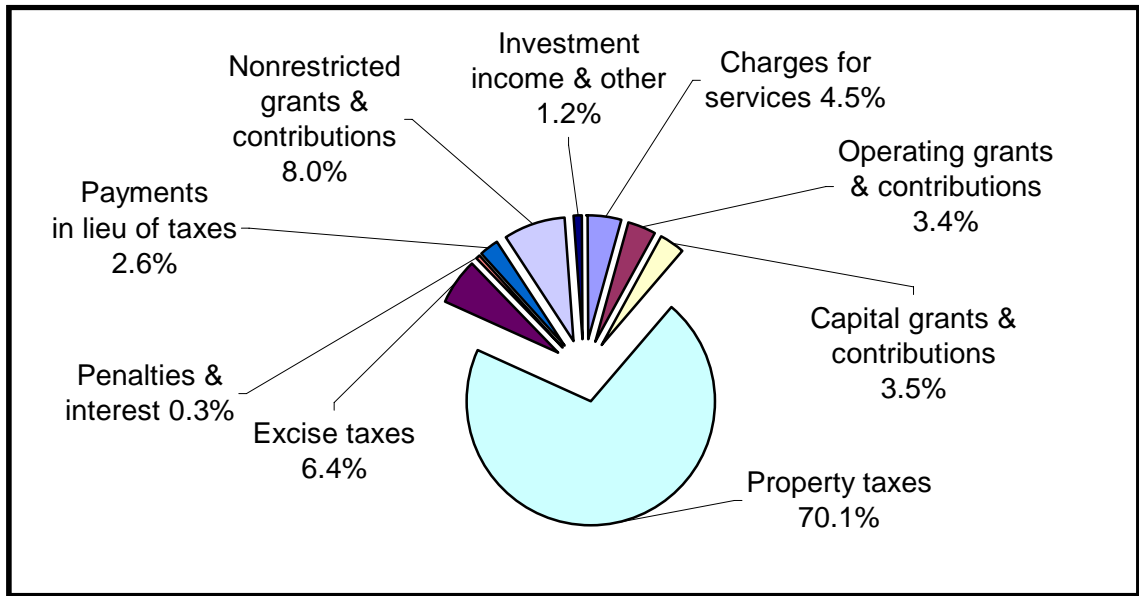
Governmental activities current liabilities increased modestly. Business-type activities current liabilities decreased modestly. Noncurrent liabilities increased due to issuance of a bond through MWPAT for water related activities.

Governmental activities unrestricted net assets were down nearly 3% as compared with the prior year; in particular, as a result of expenses exceeding revenues by \$1.0 million. Business-type capital assets net of related debt increased by 6.7%, and unrestricted net assets decreased by 1.0% as compared with the prior year.

Governmental activities decreased the Town of Holden's net assets by \$1,016,769. Presented below are the components that contributed to the change in net assets, along with comparative data for the previous fiscal year:

Comparative Changes in Net Assets			
	Governmental Activities		Increase/ (Decrease)
	<u>FY 2006</u>	<u>FY 2005</u>	
Revenues			
<i>Program Revenues:</i>			
Charges for services	\$ 1,551,737	\$ 1,426,729	\$ 125,008
Operating grants and contributions	1,156,605	1,322,272	(165,667)
Capital grants and contributions	1,208,205	401,832	806,373
<i>General Revenues:</i>			
Real Estate and personal property taxes	23,908,866	22,802,631	1,106,235
Motor vehicle and other excise taxes	2,166,335	2,223,997	(57,662)
Penalties and interest	105,077	80,760	24,317
Payments in lieu of taxes	904,846	533,295	371,551
Nonrestricted grants and contributions	2,715,479	1,691,645	1,023,834
Unrestricted investment income & other	397,198	541,488	(144,290)
Total Revenues	<u>34,114,348</u>	<u>31,024,649</u>	<u>3,089,699</u>
Expenses:			
General Government	(1,549,211)	(1,731,234)	182,023
Public Safety	(3,018,830)	(2,873,887)	(144,943)
Education	(20,279,816)	(19,069,342)	(1,210,474)
Public Works	(3,281,331)	(3,146,254)	(135,077)
Human Services	(219,182)	(212,583)	(6,599)
Culture and Recreation	(1,292,473)	(1,253,508)	(38,965)
Employee Benefits	(2,084,925)	(2,091,697)	6,772
State and County Assessments	(96,219)	(81,210)	(15,009)
Interest	(3,309,130)	(1,753,559)	(1,555,571)
Total Expenses	<u>(35,131,117)</u>	<u>(32,213,274)</u>	<u>(2,917,843)</u>
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>(1,016,769)</u>	<u>(1,188,625)</u>	<u>171,856</u>
Net Assets - beginning	<u>64,680,917</u>	<u>65,869,542</u>	
Net Assets - ending	<u>\$ 63,664,148</u>	<u>\$ 64,680,917</u>	

Governmental Activities – FY2006 Revenues

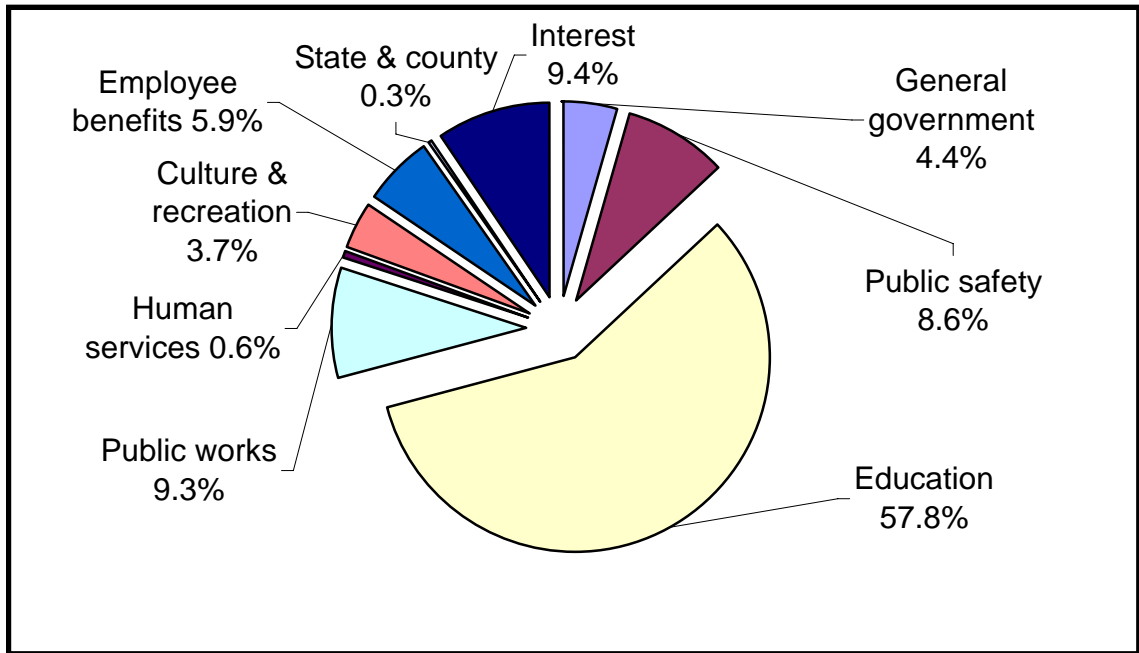


Revenues

Property taxes support over 70% of the Town's governmental activities. State aid increased modestly as compared with FY2005, shifting pressure to raise property tax revenue to the statutory maximum allowed.

Over 51% of the operating grants apply to employee benefits. Over 31% of the charges for services revenue was generated by public safety department services, culture and recreation services represented nearly 29%, and general government services represented nearly 18%. Capital grants revenue supported public works projects.

Governmental Activities – FY2006 Expenses



Expenses

Education is by far the largest governmental activity of the Town. Approximately \$20.1 million in taxes and other revenues were needed to cover the FY2006 operating expenses.

Interest expenses and public safety represent the second and third largest activities of the Town. Approximately \$3.3 million and \$2.3 million of taxes and revenues were needed to cover the FY2006 operating expenses.

Education and public safety costs continued to rise in FY2006. These expenses are expected to continue to be a budgetary challenge for management over the next few years.

Business-Type Activities

The Water/Sewer, Electric, and Trash operations are the three activities reported as business-type.

Business-type activities' net assets increased by \$1.1 million. Presented below are the components that contributed to the change in net assets, along with comparative data for the previous fiscal year:

Comparative Changes in Net Assets			
	Business-type Activities		Increase/ (Decrease)
	<u>FY 2006</u>	<u>FY 2005</u>	
Revenues			
<i>Program Revenues:</i>			
Charges for services	\$ 19,672,501	\$ 15,964,042	\$ 3,708,459
Operating grants and contributions	280,075	302,908	(22,833)
Capital grants and contributions	506,695	6,255,375	(5,748,680)
Total Revenues	<u>20,459,271</u>	<u>22,522,325</u>	<u>(2,063,054)</u>
Expenses:			
Electric	(14,007,548)	(11,542,047)	(2,465,501)
Water/Sewer	(4,428,923)	(4,710,971)	282,048
Trash	(872,535)	(835,150)	(37,385)
Total Expenses	<u>(19,309,006)</u>	<u>(17,088,168)</u>	<u>(2,220,838)</u>
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>1,150,265</u>	<u>5,434,157</u>	<u>(4,283,892)</u>
Net Assets - beginning	<u>29,968,996</u>	<u>24,534,839</u>	
Net Assets - ending	<u>\$ 31,119,261</u>	<u>\$ 29,968,996</u>	

Financial Analysis of the Government's Funds

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

Governmental Funds

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

At the end of the fiscal year, the Town's governmental funds reported combined ending fund balances of \$7.8 million, an increase of \$1.2 million in comparison with the prior fiscal year.

The General Fund is the chief operating fund of the Town. At the end of the fiscal year, undesignated fund balance was \$1,055,211, while total fund balance was \$3,587,358. As a measure of the General fund's liquidity, it may be useful to compare both undesignated fund balance and the total fund balance to total fund expenditures.

Proprietary Funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the fiscal year, the total net assets were \$31.1 million; \$19.7 million of which relates to the Town's investment in capital assets.

Fiduciary Funds

The Town's fiduciary funds provide the same type of information found in the government-wide financial statements, but in more detail. This reflects activities on resources held for the benefit of parties outside the government.

General Fund Budgetary Highlights

The original general fund budget was not increased to the final budget of approximately \$33.1 million. Modest amounts were transferred from general government to public works, and to public safety.

Revenues exceeded budgetary amounts by \$1,250,625, and expenditures were less than budgetary amounts by \$1,084,984. Favorable revenue types included property taxes, inter-governmental, and investment income. Public works expenditures were less than budgetary amounts by \$512,478, while other departments realized modest budget savings.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental and business type activities as of June 30, 2006 amount to \$102,427,217 (net of accumulated depreciation). This investment includes land, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure and construction in progress. The total decrease in the Town's investment for the fiscal year was approximately \$1.4 million (a \$1.2 million decrease for governmental activities and a \$0.2 million decrease for business-type activities).

Capital Assets (Net of Accumulated Depreciation)

Primary government	FY 2006	FY 2005	Increase/ (Decrease)
Land	\$ 3,120,642	\$ 3,120,642	\$ -
Buildings	36,514,408	37,654,458	(1,140,050)
Improvements other than buildings	2,346,730	2,312,542	34,188
Machinery and equipment	1,137,841	1,267,616	(129,775)
Vehicles	1,372,997	1,531,977	(158,980)
Infrastructure	49,505,335	49,185,876	319,459
Electric - construction in progress	152,971	48,316	104,655
Electric - general plant	5,243,665	5,463,286	(219,621)
Electric - distribution plant	3,032,628	3,212,705	(180,077)
Total Capital Assets	\$ 102,427,217	\$ 103,797,418	\$ (1,370,201)

Debt

The Town continued to maintain its "A1" rating from Moody's Investor Services. At the end of the fiscal year the Town (excluding the light plant) had a total bonded debt outstanding of \$51,136,531. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the government. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources.

The Town issued general obligation refunding bonds during FY2006 for \$22,885,000 which were used to refinance \$20,990,000 of previously outstanding general obligation bonds for school related construction. In addition, the Town also issued bonds totaling \$923,349 through the MWPAT for water related construction activity.

Outstanding Debt at Year End		
Governmental Activities	Outstanding June 30, 2006	Outstanding June 30, 2005
Schools	\$ 30,006,000	\$ 29,993,000
Public Safety	280,000	320,000
Library	149,000	202,000
Senior Center	600,000	750,000
Underground Utilities	320,000	480,000
Swimming Pool	2,125,000	2,255,000
Title V	53,773	57,620
Total Governmental Activities	\$ 33,533,773	\$ 34,057,620
Business-type Activities		
Water Improvements	\$ 11,035,774	\$ 11,775,949
Sewer Construction	6,566,984	6,900,603
Total Business-type Activities	\$ 17,602,758	\$ 18,676,552

At the end of the fiscal year the Town's loans authorized/unissued was approximately \$7.0 million, primarily related to water and sewer construction projects.

Additional information on the Town's debt service can be found in the *Notes to the Financial Statements* (Note 8 – Short-term financing and Note 9 – Long-term debt).

Economic Factors and Next Year's Budget and Rates

The Town's per capita income was \$27,971, compared with \$25,952 for the state and \$21,587 for the nation as a whole.

The unemployment rate for the Town was 4.6%, compared with state and national rate of 5.0%.

The average 2006 single family home in Holden was valued at \$299,765, with an average annual tax bill of \$3,799. The overall property values for FY2006 increased over 10% as compared with FY2005.

The Town has a balanced budget for FY2007 and expects minimal growth for FY2008 operations.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town of Holden's finances. Questions concerning the information provided in this report or requests for additional information should be addressed to the Office of the Town Accountant, 1204 Main Street, Holden, MA 01520.

**TOWN OF HOLDEN, MASSACHUSETTS
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
CURRENT:			
CASH AND SHORT-TERM INVESTMENTS	\$ 5,670,378	\$ 2,312,160	\$ 7,982,538
INVESTMENTS	2,437,334	-	2,437,334
RECEIVABLES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:			
REAL ESTATE AND PERSONAL PROPERTY TAXES	161,489	-	161,489
TAX LIENS	222,201	-	222,201
MOTOR VEHICLE EXCISE TAXES	127,392	-	127,392
USER FEES	-	1,337,513	1,337,513
INTERGOVERNMENTAL	3,362,061	9,914	3,371,975
SPECIAL ASSESSMENTS	6,344	-	6,344
PREPAID EXPENSES	-	13,480	13,480
OTHER ASSETS	-	2,610,643	2,610,643
NONCURRENT:			
RESTRICTED ASSETS:			
CASH AND SHORT-TERM INVESTMENTS	-	4,941,872	4,941,872
RECEIVABLES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:			
USER FEES - SPECIAL ASSESSMENTS	27,194	7,099,865	7,127,059
INTERGOVERNMENTAL	22,440,934	-	22,440,934
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	64,343,627	38,083,590	102,427,217
TOTAL ASSETS	98,798,954	56,409,037	155,207,991
<u>LIABILITIES</u>			
CURRENT:			
ACCOUNTS PAYABLE	419,496	1,338,221	1,757,717
ACCRUED LIABILITIES	49,208	103,918	153,126
OTHER LIABILITIES	11,704	-	11,704
ACCRUED INTEREST	457,641	79,884	537,525
CAPITAL LEASE PAYABLE	69,408	-	69,408
BONDS AND NOTES PAYABLE	2,393,847	2,116,951	4,510,798
LANDFILL POSTCLOSURE CARE COSTS	20,000	-	20,000
COMPENSATED ABSENCES	20,000	-	20,000
NONCURRENT:			
CUSTOMER DEPOSITS	-	129,549	129,549
RATE STABILIZATION RESERVE	-	2,565,155	2,565,155
CAPITAL LEASE PAYABLE	72,307	-	72,307
BONDS AND NOTES PAYABLE	31,139,926	18,945,807	50,085,733
LANDFILL POSTCLOSURE CARE COSTS	300,000	-	300,000
COMPENSATED ABSENCES	181,269	10,291	191,560
TOTAL LIABILITIES	35,134,806	25,289,776	60,424,582
<u>NET ASSETS</u>			
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	30,695,375	19,734,949	50,430,324
RESTRICTED FOR:			
STREETS	1,229,193	-	1,229,193
PERMANENT FUNDS:			
EXPENDABLE	288,899	-	288,899
NONEXPENDABLE	358,780	-	358,780
OTHER PURPOSES	3,561,474	-	3,561,474
UNRESTRICTED	27,530,427	11,384,312	38,914,739
TOTAL NET ASSETS	\$ 63,664,148	\$ 31,119,261	\$ 94,783,409

See accompanying notes to the basic financial statements

**TOWN OF HOLDEN, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2006**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
GENERAL GOVERNMENT	\$ 1,549,211	\$ 276,666	\$ 153,796	\$ -	\$ (1,118,749)
PUBLIC SAFETY	3,018,830	487,922	251,188	-	(2,279,720)
EDUCATION	20,279,816	218,598	-	-	(20,061,218)
PUBLIC WORKS	3,281,331	80,776	(19,662)	1,208,205	(2,012,012)
HUMAN SERVICES	219,182	39,360	30,173	-	(149,649)
CULTURE & RECREATION	1,292,473	448,415	147,285	-	(696,773)
EMPLOYEE BENEFITS	2,084,925	-	593,825	-	(1,491,100)
STATE & COUNTY ASSESSMENTS	96,219	-	-	-	(96,219)
INTEREST & REFUNDING EXPENSES	3,309,130	-	-	-	(3,309,130)
TOTAL GOVERNMENTAL ACTIVITIES	35,131,117	1,551,737	1,156,605	1,208,205	(31,214,570)
BUSINESS-TYPE ACTIVITIES:					
WATER/SEWER	4,428,923	4,903,541	86,947	506,695	1,068,260
ELECTRIC	14,007,548	13,898,969	190,180	-	81,601
OTHER ENTERPRISE	872,535	869,991	2,948	-	404
TOTAL BUSINESS-TYPE ACTIVITIES	19,309,006	19,672,501	280,075	506,695	1,150,265
TOTAL PRIMARY GOVERNMENT	\$ 54,440,123	\$ 21,224,238	\$ 1,436,680	\$ 1,714,900	\$ (30,064,305)

See accompanying notes to the basic financial statements

(continued)

**TOWN OF HOLDEN, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2006**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
CHANGES IN NET ASSETS:			
NET (EXPENSE) REVENUE FROM PREVIOUS PAGE	\$ (31,214,570)	\$ 1,150,265	\$ (30,064,305)
GENERAL REVENUES:			
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS PAYABLE	23,773,383	-	23,773,383
TAX LIENS	135,483	-	135,483
MOTOR VEHICLE AND OTHER EXCISE TAXES	2,166,335	-	2,166,335
PENALTIES AND INTEREST ON TAXES	105,077	-	105,077
PAYMENTS IN LIEU OF TAXES	904,846	-	904,846
GRANTS AND CONTRIBUTIONS NOT RESTRICTED TO SPECIFIC PROGRAMS	2,715,479	-	2,715,479
RENTAL INCOME	82,140	-	82,140
UNRESTRICTED INVESTMENT INCOME	277,149	-	277,149
MISCELLANEOUS	37,909	-	37,909
TRANSFERS, NET	-	-	-
TOTAL GENERAL REVENUES AND TRANSFERS	30,197,801	-	30,197,801
CHANGE IN NET ASSETS	(1,016,769)	1,150,265	133,496
NET ASSETS:			
BEGINNING OF YEAR	64,680,917	29,968,996	94,649,913
END OF YEAR	\$ 63,664,148	\$ 31,119,261	\$ 94,783,409

See accompanying notes to the basic financial statements

(concluded)

**TOWN OF HOLDEN, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006**

<u>ASSETS</u>	<u>GENERAL</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
CASH AND SHORT-TERM INVESTMENTS	\$ 3,833,519	\$ 1,836,859	\$ 5,670,378
INVESTMENTS	-	2,437,334	2,437,334
RECEIVABLES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:			
REAL ESTATE AND PERSONAL PROPERTY TAXES	161,489	-	161,489
TAX LIENS	222,201	-	222,201
MOTOR VEHICLE EXCISE TAXES	127,392	-	127,392
INTERGOVERNMENTAL	24,491,144	1,311,851	25,802,995
SPECIAL ASSESSMENTS	-	33,538	33,538
TOTAL ASSETS	\$ 28,835,745	\$ 5,619,582	\$ 34,455,327
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
ACCOUNTS PAYABLE	\$ 299,034	\$ 120,462	\$ 419,496
ACCRUED LIABILITIES	49,208	-	49,208
OTHER LIABILITIES	11,704	-	11,704
DEFERRED REVENUES	24,888,441	1,262,731	26,151,172
TOTAL LIABILITIES	25,248,387	1,383,193	26,631,580
FUND BALANCES:			
RESERVED FOR:			
ENCUMBRANCES AND CONTINUING APPROPRIATIONS	587,839	-	587,839
PERPETUAL PERMANENT FUNDS	-	358,780	358,780
UNRESERVED			
DESIGNATED FOR SUBSEQUENT YEARS' EXPENDITURES	1,944,308	-	1,944,308
UNDESIGNATED, REPORTED IN:			
GENERAL FUND	1,055,211	-	1,055,211
SPECIAL REVENUE FUNDS	-	3,561,474	3,561,474
CAPITAL PROJECTS FUNDS	-	27,236	27,236
PERMANENT FUNDS	-	288,899	288,899
TOTAL FUND BALANCES	3,587,358	4,236,389	7,823,747
TOTAL LIABILITIES AND FUND BALANCES	\$ 28,835,745	\$ 5,619,582	\$ 34,455,327

See accompanying notes to the basic financial statements

**TOWN OF HOLDEN, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2006**

	GENERAL	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES:</u>			
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS	\$ 23,951,659	\$ -	\$ 23,951,659
MOTOR VEHICLE AND OTHER EXCISE TAXES	2,180,935	-	2,180,935
PENALTIES AND INTEREST ON TAXES	105,077	-	105,077
INTERGOVERNMENTAL	5,312,272	247,873	5,560,145
CHARGES FOR SERVICES	-	1,143,066	1,143,066
INVESTMENT INCOME	277,149	155,588	432,737
CONTRIBUTIONS & DONATIONS	-	126,991	126,991
DEPARTMENTAL AND OTHER	1,579,617	91,610	1,671,227
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	33,406,709	1,765,128	35,171,837
<u>EXPENDITURES:</u>			
CURRENT:			
GENERAL GOVERNMENT	1,407,070	207,308	1,614,378
PUBLIC SAFETY	2,706,875	325,516	3,032,391
EDUCATION	19,416,072	7,864	19,423,936
PUBLIC WORKS	2,224,965	108,737	2,333,702
HUMAN SERVICES	147,431	27,460	174,891
CULTURE & RECREATION	609,625	579,866	1,189,491
EMPLOYEE BENEFITS	2,172,593	-	2,172,593
STATE & COUNTY ASSESSMENTS	96,219	-	96,219
DEBT SERVICE			
PRINCIPAL	2,418,847	-	2,418,847
INTEREST	1,417,819	117,199	1,535,018
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	32,617,516	1,373,950	33,991,466
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	789,193	391,178	1,180,371
<u>OTHER FINANCING SOURCES (USES)</u>			
PROCEEDS FROM REFUNDING BONDS	22,885,000	-	22,885,000
BOND REFUNDING COSTS NET OF PREMIUM	(57,220)	-	(57,220)
PAYMENTS TO REFUNDED BOND ESCROW AGENT	(22,827,780)	-	(22,827,780)
OPERATING TRANSFERS IN	996,468	726,342	1,722,810
OPERATING TRANSFERS OUT	(726,342)	(996,468)	(1,722,810)
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	270,126	(270,126)	-
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	1,059,319	121,052	1,180,371
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FUND BALANCES AT BEGINNING OF YEAR	2,528,039	4,115,337	6,643,376
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FUND BALANCES AT END OF YEAR	\$ 3,587,358	\$ 4,236,389	\$ 7,823,747
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See accompanying notes to the basic financial statements

**TOWN OF HOLDEN, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2006**

TOTAL GOVERNMENTAL FUND BALANCES		\$ 7,823,747
CAPITAL ASSETS (NET) USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS		64,343,627
ACCOUNTS RECEIVABLE ARE NOT AVAILABLE TO PAY FOR CURRENT-PERIOD EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS		26,151,172
IN THE STATEMENT OF ACTIVITIES, INTEREST IS ACCRUED ON OUTSTANDING LONG-TERM DEBT, WHEREAS IN GOVERNMENTAL FUNDS INTEREST IS NOT REPORTED UNTIL DUE		(457,641)
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	(33,533,773)	
CAPITAL LEASE PAYABLE	(141,715)	
COMPENSATED ABSENCES	(201,269)	
LANDFILL POSTCLOSURE CARE COSTS	<u>(320,000)</u>	
NET EFFECT OF REPORTING LONG-TERM LIABILITIES		<u>(34,196,757)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$63,664,148</u>

See accompanying notes to the basic financial statements

**TOWN OF HOLDEN, MASSACHUSETTS
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 **\$ 1,180,371**

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	1,301,652	
DEPRECIATION EXPENSE	<u>(2,519,060)</u>	
NET EFFECT OF REPORTING CAPITAL ASSETS		(1,217,408)

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 (1,919,028)

THE ISSUANCE OF LONG-TERM DEBT (E.G., BONDS) 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 ISSUANCE COSTS, PREMIUMS, DISCOUNTS, AND SIMILAR ITEMS WHEN DEBT IS FIRST ISSUED, WHEREAS THESE AMOUNTS ARE DEFERRED AND AMORTIZED IN THE STATEMENT OF ACTIVITIES.

PROCEEDS FROM REFUNDING	(22,885,000)	
PAYMENTS TO REFUND BOND ESCROW AGENT	22,827,780	
DEBT SERVICE PRINCIPAL PAYMENTS	2,418,847	
NET LOSS ON REFUNDING BONDS	<u>(1,837,780)</u>	
NET EFFECT OF REPORTING LONG-TEM DEBT		523,847

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 CAPITAL LEASE PAYABLE	186,893	
NET CHANGE IN COMPENSATED ABSENCES ACCRUAL	87,668	
NET CHANGE IN LANDFILL POSTCLOSURE CARE ACCRUAL	20,000	
NET CHANGE IN ACCRUED INTEREST ON LONG-TERM DEBT	<u>120,888</u>	
NET EFFECT OF RECORDING LONG-TERM LIABILITIES		<u>415,449</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (1,016,769)**

See accompanying notes to the basic financial statements

**TOWN OF HOLDEN, MASSACHUSETTS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006**

	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL BUDGET	FINAL BUDGET	BUDGETARY AMOUNTS	VARIANCE OVER(UNDER)
<u>REVENUES:</u>				
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS	\$ 23,689,545	\$ 23,689,545	\$ 23,951,659	\$ 262,114
MOTOR VEHICLE AND OTHER EXCISE TAXES	2,178,000	2,178,000	2,180,935	2,935
PENALTIES & INTEREST ON TAXES	75,000	75,000	105,077	30,077
INTERGOVERNMENTAL	3,919,725	3,919,725	4,720,228	800,503
INVESTMENT INCOME	165,000	165,000	277,149	112,149
DEPARTMENTAL AND OTHER	1,536,770	1,536,770	1,579,617	42,847
TOTAL REVENUES	31,564,040	31,564,040	32,814,665	1,250,625
<u>EXPENDITURES:</u>				
CURRENT:				
GENERAL GOVERNMENT	1,845,135	1,660,379	1,407,070	253,309
PUBLIC SAFETY	2,699,572	2,783,714	2,706,875	76,839
EDUCATION	19,456,600	19,456,600	19,416,072	40,528
PUBLIC WORKS	2,665,000	2,737,443	2,224,965	512,478
HUMAN SERVICES	154,865	163,853	147,431	16,422
CULTURE & RECREATION	599,684	610,867	609,625	1,242
EMPLOYEE BENEFITS	1,654,290	1,662,290	1,583,532	78,758
STATE & COUNTY ASSESSMENTS	100,312	100,312	96,219	4,093
DEBT SERVICE:	3,934,998	3,934,998	3,833,683	101,315
TOTAL EXPENDITURES	33,110,456	33,110,456	32,025,472	1,084,984
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,546,416)	(1,546,416)	789,193	2,335,609
<u>OTHER FINANCING SOURCES (USES):</u>				
OPERATING TRANSFERS IN	996,468	996,468	996,468	-
OPERATING TRANSFERS OUT	(678,972)	(678,972)	(726,342)	(47,370)
TOTAL OTHER FINANCING SOURCES (USES)	317,496	317,496	270,126	(47,370)
NET CHANGE IN FUND BALANCE	(1,228,920)	(1,228,920)	1,059,319	2,288,239
BUDGETARY FUND BALANCE, BEGINNING OF YEAR	2,008,800	2,008,800	2,008,800	-
BUDGETARY FUND BALANCE, END OF YEAR	\$ 779,880	\$ 779,880	\$ 3,068,119	\$ 2,288,239

See accompanying notes to the basic financial statements

**TOWN OF HOLDEN, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2006**

<u>ASSETS</u>	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER/SEWER	ELECTRIC	OTHER ENTERPRISE	TOTAL
CURRENT:				
CASH AND SHORT-TERM INVESTMENTS	\$ 1,630,281	\$ 562,820	\$ 119,059	\$ 2,312,160
USER FEES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:	516,124	785,888	35,501	1,337,513
INTERGOVERNMENTAL	9,914	-	-	9,914
OTHER ASSETS	-	2,610,643	-	2,610,643
PREPAID EXPENSES	-	13,480	-	13,480
TOTAL CURRENT ASSETS	2,156,319	3,972,831	154,560	6,283,710
NONCURRENT:				
RESTRICTED CASH AND SHORT-TERM INVESTMENTS:				
DEPRECIATION FUND	-	1,051,654	-	1,051,654
CUSTOMER DEPOSITS	-	129,549	-	129,549
RATE STABILIZATION FUND	-	1,293,640	-	1,293,640
CONSTRUCTION FUND	-	2,467,029	-	2,467,029
USER FEES - SPECIAL ASSESSMENTS	7,099,865	-	-	7,099,865
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	29,654,326	8,429,264	-	38,083,590
TOTAL NONCURRENT ASSETS	36,754,191	13,371,136	-	50,125,327
TOTAL ASSETS	38,910,510	17,343,967	154,560	56,409,037
<u>LIABILITIES</u>				
CURRENT:				
ACCOUNTS PAYABLE	34,323	1,262,754	41,144	1,338,221
ACCRUED LIABILITIES	-	103,918	-	103,918
ACCRUED INTEREST	79,884	-	-	79,884
BONDS AND NOTES PAYABLE	1,851,951	265,000	-	2,116,951
TOTAL CURRENT LIABILITIES	1,966,158	1,631,672	41,144	3,638,974
NONCURRENT:				
CUSTOMER DEPOSITS	-	129,549	-	129,549
RATE STABILIZATION RESERVE	-	2,565,155	-	2,565,155
BONDS AND NOTES PAYABLE	16,590,807	2,355,000	-	18,945,807
COMPENSATED ABSENCES	10,291	-	-	10,291
TOTAL NONCURRENT LIABILITIES	16,601,098	5,049,704	-	21,650,802
TOTAL LIABILITIES	18,567,256	6,681,376	41,144	25,289,776
<u>NET ASSETS</u>				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	11,305,685	8,429,264	-	19,734,949
UNRESTRICTED	9,037,569	2,233,327	113,416	11,384,312
TOTAL NET ASSETS	\$ 20,343,254	\$ 10,662,591	\$ 113,416	\$ 31,119,261

See accompanying notes to the basic financial statements

TOWN OF HOLDEN, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2006

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER/SEWER	ELECTRIC	OTHER ENTERPRISE	TOTAL
<u>OPERATING REVENUES:</u>				
CHARGES FOR SERVICES	\$ 4,903,541	\$ 13,898,969	\$ 869,991	\$ 19,672,501
DEPARTMENTAL AND OTHER	86,947	158,020	-	244,967
TOTAL OPERATING REVENUES	4,990,488	14,056,989	869,991	19,917,468
<u>OPERATING EXPENSES:</u>				
GENERAL SERVICES	2,876,712	13,089,606	872,535	16,838,853
DEPRECIATION	767,180	884,688	-	1,651,868
TOTAL OPERATING EXPENSES	3,643,892	13,974,294	872,535	18,490,721
OPERATING INCOME (LOSS)	1,346,596	82,695	(2,544)	1,426,747
<u>NON-OPERATING REVENUES (EXPENSES):</u>				
INTERGOVERNMENTAL	506,695	-	-	506,695
INVESTMENT INCOME	-	32,160	2,948	35,108
INTEREST EXPENSE	(785,031)	(33,254)	-	(818,285)
TOTAL NON-OPERATING REVENUES (EXPENSES), NET	(278,336)	(1,094)	2,948	(276,482)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,068,260	81,601	404	1,150,265
<u>OPERATING TRANSFERS:</u>	-	-	-	-
CHANGE IN NET ASSETS	1,068,260	81,601	404	1,150,265
NET ASSETS AT BEGINNING OF YEAR	19,274,994	10,580,990	113,012	29,968,996
NET ASSETS AT END OF YEAR	\$ 20,343,254	\$ 10,662,591	\$ 113,416	\$ 31,119,261

See accompanying notes to the basic financial statements

**TOWN OF HOLDEN, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 2006**

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	WATER/SEWER	ELECTRIC	OTHER ENTERPRISE	TOTAL
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
RECEIPTS FROM CUSTOMERS AND USERS	\$ 4,097,661	\$ 13,123,807	\$ 876,489	\$ 18,097,957
PAYMENTS TO SUPPLIERS	(2,727,398)	(12,341,348)	(811,600)	(15,880,346)
PAYMENTS TO EMPLOYEES	(440,799)	(971,900)	(43,612)	(1,456,311)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>929,464</u>	<u>(189,441)</u>	<u>21,277</u>	<u>761,300</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
PROCEEDS FROM THE ISSUANCE OF BONDS AND NOTES	910,584	2,620,000	-	3,530,584
RATE STABILIZATION RESERVE	-	(31,686)	-	(31,686)
PRINCIPAL PAYMENTS ON BONDS AND NOTES	(991,004)	-	-	(991,004)
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(909,430)	(589,645)	-	(1,499,075)
INTEREST EXPENSE	(351,417)	(33,254)	-	(384,671)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:	<u>(1,341,267)</u>	<u>1,965,415</u>	<u>-</u>	<u>624,148</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
INTEREST RECEIVED	-	32,160	2,949	35,109
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES:	<u>-</u>	<u>32,160</u>	<u>2,949</u>	<u>35,109</u>
NET INCREASE (DECREASE) IN CASH AND SHORT TERM INVESTMENTS	(411,803)	1,808,134	24,226	1,420,557
CASH AND SHORT TERM INVESTMENTS - BEGINNING OF YEAR	<u>2,042,084</u>	<u>3,696,558</u>	<u>94,833</u>	<u>5,833,475</u>
CASH AND SHORT TERM INVESTMENTS - END OF YEAR	<u>\$ 1,630,281</u>	<u>\$ 5,504,692</u>	<u>\$ 119,059</u>	<u>\$ 7,254,032</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>				
OPERATING INCOME (LOSS)	<u>\$ 1,346,596</u>	<u>\$ 82,695</u>	<u>\$ (2,544)</u>	<u>\$ 1,426,747</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
DEPRECIATION	767,180	884,688	-	1,651,868
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	(892,827)	(343,237)	6,498	(1,229,566)
(INCREASE) DECREASE IN PREPAID EXPENSES	-	90,754	-	90,754
(INCREASE) DECREASE IN OTHER ASSETS	-	(926,286)	-	(926,286)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	(291,785)	356,698	17,323	82,236
INCREASE (DECREASE) IN OTHER LIABILITIES	-	(334,753)	-	(334,753)
INCREASE (DECREASE) IN COMPENSATED ABSENCES PAYABLE	300	-	-	300
TOTAL ADJUSTMENTS	<u>(417,132)</u>	<u>(272,136)</u>	<u>23,821</u>	<u>(665,447)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 929,464</u>	<u>\$ (189,441)</u>	<u>\$ 21,277</u>	<u>\$ 761,300</u>

See accompanying notes to the basic financial statements

TOWN OF HOLDEN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
<u>ASSETS</u>		
CASH AND SHORT-TERM INVESTMENTS	\$ 25,749	\$ 79,495
<u>LIABILITIES</u>		
ACCOUNTS PAYABLE	-	9,829
OTHER LIABILITIES	-	69,666
TOTAL LIABILITIES	-	79,495
<u>NET ASSETS</u>		
HELD IN TRUST FOR OTHER PURPOSES	\$ 25,749	\$ -

See accompanying notes to the basic financial statements

**TOWN OF HOLDEN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2006**

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
<u>ADDITIONS:</u>	
CONTRIBUTIONS:	
PRIVATE DONATIONS	\$ 2,241
NET INVESTMENT INCOME (LOSS):	
INVESTMENT INCOME	<u>826</u>
TOTAL ADDITIONS	<u>3,067</u>
<u>DEDUCTIONS:</u>	
EDUCATION	6
HUMAN SERVICES	<u>100</u>
TOTAL DEDUCTIONS	<u>106</u>
CHANGE IN NET ASSETS	2,961
NET ASSETS AT BEGINNING OF YEAR	<u>22,788</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 25,749</u></u>

See accompanying notes to the basic financial statements

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

Primary Government

The Town is a municipal corporation that is governed by an elected five member Board of Selectmen (the Board). The Board is responsible for appointing a Town Manager whose responsibility is to manage the day to day operations. For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units, blended or discretely presented, for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the government's operations and discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. It has been determined that there are no component units (blended or discretely presented) for inclusion in the primary government's financial reporting entity.

Joint Ventures

Municipal joint ventures pool resources to share the costs, risks and rewards of providing services to their participants, the general public or others. The Town is a participant in the following joint ventures:

Name	Purpose	Address	Annual Assessment
Wachusett Regional School District	To provide grades K-12 Educational Services	Jefferson School 1745 Main Street Jefferson, MA 01522	\$ 18,900,680
Montachusett Regional Vocational Technical High School	To provide grades 9-12 Vocational and Technical Educational Services	1050 Westminster St. Fitchburg, MA 01420	\$ 515,392

The Wachusett Regional School District (the District) is governed by a twenty (20) member school committee consisting of eight elected (8) representatives from the Town of Holden. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the above address. The Town has an approximately 45.31% equity interest in the joint venture.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

The Montachusett Regional Vocational Technical High School (the District) is governed by a twenty-two (22) member school committee which includes one appointed (1) representative from the Town of Holden. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the above address. The Town has an approximately 10.65% equity interest in the joint venture.

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. *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

A fund is considered major if it is the primary operating fund of the Town or it meets the following criteria:

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

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

Fiduciary funds are reported by fund type.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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:

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

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

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

Fund Financial Statements

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the 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., when they become both 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 interest on general long-term debt which is recognized when due, and the non current portion of compensated absences, capital leases, and landfill post-closure care costs which are recognized when the obligations are expected to be liquidated with current expendable available resources.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The Town considers property taxes as available if they are due and collected within 60 days after fiscal year-end. Licenses and permits, user charges, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received. Investment earnings are recorded as earned.

The Town reports the following major governmental fund:

- The *General fund* is the primary operating fund of the Town. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

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

- The *Special Revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.
- The *Capital Projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise and trust funds).
- The *Permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary Fund Financial Statements

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

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

The following major proprietary funds are reported:

- The *Water and Sewer Enterprise fund* is used to account for water and sewer activities.
- The *Electric Light Enterprise fund* is used to account for electric light activities.
- The *Other Enterprise fund* which is not a major proprietary fund is the solid waste fund which is presented in the other enterprise fund column on the proprietary funds financial statements.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Fiduciary Fund Financial Statements

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

The following fiduciary fund types are reported:

- The *Private-Purpose Trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund (nonmajor governmental funds), under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *Agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges. By law, all taxable property in the Commonwealth must be assessed at 100% of fair market value. Once levied, which is required to be at least 30 days prior to the due date, these taxes are recorded as receivables in the fiscal year of levy. Based on the Town's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. The Town ultimately has the right to foreclose on all properties where the taxes remain unpaid.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

A statewide property tax limitation statute known as "Proposition 2 ½" limits the amount of increase in property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½ % of the total assessed value of all taxable property within the Town. Secondly, the tax levy cannot increase by more than 2 ½ % of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2 ½ can be overridden by a Town-wide referendum.

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

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

Motor Vehicle Excise

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

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

Water and Sewer

User fees are levied quarterly based on residential and commercial meter readings, which are now billed through the light department by utilizing the utility billing/receivable software, and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens may be processed in December of every year and included as a lien on the property owner's tax bill. Water and sewer charges and related liens (if any) are recorded as receivables in the fiscal year of the levy.

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

Departmental and Other

Departmental and other receivables consist primarily of title V receivables and are recorded as receivables in the fiscal year accrued. Since the receivables are secured via the lien process, these assets are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Intergovernmental

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

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

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

F. Inventories

Government-Wide and Fund Financial Statements

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

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of five years or greater.

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>Asset Class</u>	<u>Estimated Useful Life (in years)</u>
Buildings and Improvements	40-50
Capital Improvements (other than buildings)	20-25
Machinery and Equipment	10-15
Vehicles	5-10
Infrastructure	20-50

Capital assets of the Municipal Light Plant are depreciated at an annual rate of 5%.

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

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the fiscal year of purchase for the various funds.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

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

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

K. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are classified into three components:

- a. *Invested in capital assets, net of related debt* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted net assets* – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Net assets have been “restricted” for the following:

- *Streets* represent amounts committed by the Commonwealth for the repair and/or construction of streets.
 - *Permanent funds -expendable* represents amounts held in trust for which the expenditures are restricted by various trust agreements.
 - *Permanent funds -nonexpendable* represents amounts held in trust for which only investment earnings may be expended.
 - *Other specific purposes* represent restrictions placed on assets from outside parties.
- c. *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements (Fund Balances)

- a. *Fund balances* consist of funds that are reserved for amounts, that are not available for appropriation, that are legally restricted by outside parties for a specific future use, and designations of fund balances that represent tentative management plans that are subject to change.

Fund balances have been reserved for the following:

- *Encumbrances and continuing appropriations* represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.
- *Perpetual permanent funds* represent amounts held in trust for which only investment earnings may be expended.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Fund balances have been designated for the following:

- *Subsequent year's expenditures* represents amounts appropriated for the fiscal year 2007 operating budget.
- b. *Undesignated fund balances* – all other fund balances that do not meet the definition of “reserved” or “designated”.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay.

Government-Wide and Proprietary Fund Financial Statements

The total amount to be paid in future years is presented in the government-wide and proprietary fund statement of net assets. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method).

Governmental Fund Financial Statements

The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2006 is recorded in the governmental fund financial statement.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

O. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health and life insurance coverage is provided for retired employees and their survivors in accordance with Chapter 32B, of Massachusetts General Laws, under various contributory plans. The cost of providing health and life insurance is recognized by recording the employer's 50%, 74%, or 80% share of insurance premium costs (depending on the plan selected) in the general fund in the fiscal year paid. All benefits are provided through third-party insurance carriers and health maintenance organizations that administer, assume, and pay all claims. For the fiscal year ended June 30, 2006, this expense/expenditure totaled approximately \$351,311. There were approximately 92 participants receiving benefits as of June 30, 2006.

P. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, 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 financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could vary from estimates that were used.

Q. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Basis of Accounting

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the Town adopts an annual budget for the general fund as well as for those special revenue funds for which the provisions of Chapter 44, Section 53f 1/2 have been adopted. The budgets for all departments and operations of the Town, except that of the public school districts, are prepared under the direction of the Town Manager. The School Districts' budgets are prepared under the direction of the School Committees. The level of expenditures may not legally exceed appropriations for each department or undertaking in the following categories: (1) salaries and wages; (2) ordinary maintenance; and (3) capital outlays.

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

Original and supplemental appropriations are enacted upon by a Town Meeting vote. Management may not amend the budget without seeking the approval of the governing body. The Town's Finance Committee can legally transfer funds from its reserve fund to other appropriations within the budget without seeking Town Meeting approvals. The original fiscal year 2006 approved budget authorized \$32,591,217 in current year appropriations and other amounts to be raised and \$519,239 in encumbrances and appropriations carried over from previous fiscal years.

The Town Accountant has the responsibility to ensure that budgetary controls are maintained and monitored through the accounting system.

B. Budgetary – GAAP Reconciliation

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

Net change in fund balance - budgetary basis	\$ 1,059,319
Basis of accounting differences:	
Increase in revenue for on-behalf payments - MTRS	589,061
Increase in expenditures for on-behalf payments - MTRS	(589,061)
Increase in revenue for the MWPAT subsidy	2,983
Increase in expenditures for the MWPAT subsidy	<u>(2,983)</u>
Net change in fund balance - GAAP basis	<u><u>\$ 1,059,319</u></u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

C. Deficit Fund Balances

Individual fund deficits exist within the special revenue funds and a capital project in the Water/Sewer Enterprise fund. These individual deficits will be eliminated through subsequent fiscal year budget transfers, grants, or proceeds from long-term debt during fiscal year 2007.

NOTE 3 – DEPOSITS AND INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels unless collateralized by the financial institutions involved.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of bank failure, the Town's deposits may not be returned. The Town carries deposits that are fully insured by FDIC insurance, DIF insurance or collateralized with securities held by the Town or the Town's agent in the Town's name. The Town also carries deposits that are not collateralized and are uninsured. As of June 30, 2006, the bank balances of uninsured and uncollateralized deposits are \$3,502,868.

Investments

Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreement guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The Town's fair value of its investment in MMDT represents their value of the pool's shares. The Town's Trust Funds have expanded investment powers including the ability to invest in equity securities, corporate bonds, annuities and other specified investments.

The composition of the Town's bank recorded deposits and investments fluctuates depending primarily on the timing of property tax receipts, proceeds from borrowings, collections of state and federal aid, and capital outlays throughout the year.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

The following is a listing of the primary government's fixed income investments and related maturity schedule (in years) as of June 30, 2006:

Investment type	Fair value	Less than 1	1-5	6 -10
<u>Debt Securities:</u>				
U.S. Treasury Note	\$ 72,770	\$ -	\$ 72,770	\$ -
Federal Home Loan Mortgage Corporation	195,819	-	195,819	-
Federal National Mortgage Association	919,017	99,125	819,892	-
Federal Home Loan Bank Consolidated Bond	1,004,697	322,719	681,978	-
Federal Farm Credit Bank	95,969	-	95,969	-
Federal Home Loan Mortgage Corp. Pass-Through Certificates	13,810	-	-	13,810
Total Debt Securities	\$ 2,302,082	<u>\$ 421,844</u>	<u>\$ 1,866,428</u>	<u>\$ 13,810</u>
<u>Other Investments:</u>				
MMDT	8,017,607			
Mutual Funds	127,002			
Total Other Investments	<u>8,144,609</u>			
Total Investments	<u>\$ 10,446,691</u>			

Interest Rate Risk

The Town's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in possession of an outside party. Of the investments in debt securities listed above, the Town does not have any custodial credit risk exposure because the related securities are collateralized mortgage obligations or backed by other assets. The Town does not have an investment policy for custodial credit risk.

Credit Risk

The Town has not adopted a formal policy related to Credit Risk. All of the debt securities at June 30, 2006 are agency collateralized mortgage obligations or backed by other assets and are rated AAA.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Concentration of Credit Risk

The Town places no limit on the amount the government may invest in any one issuer. More than 5% of the Town's investments are in the following securities:

Issuer	Percentage of Total Investments
Federal Home Loan Mortgage Corporation	9%
Federal National Mortgage Association	40%
Federal Home Loan Bank Consolidated Bond	44%

NOTE 4 – RECEIVABLES

The receivables at June 30, 2006 for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes	\$ 173,097	\$ (11,608)	\$ 161,489
Tax liens	222,201	-	222,201
Motor vehicle excise taxes	149,873	(22,481)	127,392
Special assessments	33,538	-	33,538
Intergovernmental	25,802,995	-	25,802,995
	<u> </u>	<u> </u>	<u> </u>
Total	<u><u>\$ 26,381,704</u></u>	<u><u>\$ (34,089)</u></u>	<u><u>\$ 26,347,615</u></u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

The receivables at June 30, 2006, (electric light at December 31, 2005) for the enterprise funds consist of the following:

Receivables:	Gross Amount	Allowance for Uncollectibles	Net Amount
<i>Water and Sewer</i>			
User fees - includes betterments	\$ 7,615,989	\$ -	\$ 7,615,989
Intergovernmental	9,914	-	9,914
<i>Trash</i>			
User fees	35,501	-	35,501
<i>Electric Light</i>			
User fees	795,888	(10,000)	785,888
 Total	 <u>\$ 8,457,292</u>	 <u>\$ (10,000)</u>	 <u>\$ 8,447,292</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with revenues that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

Deferred Revenue Analysis			
Receivable Type:	General Fund	Nonmajor Governmental Funds	Total
Property Taxes	\$ 47,704	\$ -	\$ 47,704
Tax Liens	222,201	-	222,201
Motor vehicle excise taxes	127,392	-	127,392
Special Assessments	-	33,538	33,538
Intergovernmental	24,491,144	1,229,193	25,720,337
 Total	 <u>\$ 24,888,441</u>	 <u>\$ 1,262,731</u>	 <u>\$ 26,151,172</u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 – CAPITAL ASSETS

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

<u>Governmental Activities:</u>	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land	\$ 2,688,094	\$ -	\$ -	\$ 2,688,094
Total capital assets not being depreciated	2,688,094	-	-	2,688,094
<u>Capital assets being depreciated:</u>				
Buildings and improvements	40,462,013	-	-	40,462,013
Capital improvements (other than buildings)	1,423,627	120,637	-	1,544,264
Machinery and equipment	1,359,287	15,256	-	1,374,543
Vehicles	3,259,107	86,150	(95,658)	3,249,599
Infrastructure	48,398,338	1,175,267	-	49,573,605
Total capital assets being depreciated	94,902,372	1,397,310	(95,658)	96,204,024
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(9,048,592)	(978,299)	-	(10,026,891)
Capital improvements (other than buildings)	(193,508)	(47,264)	-	(240,772)
Machinery and equipment	(691,047)	(100,448)	-	(791,495)
Vehicles	(1,808,557)	(256,013)	95,658	(1,968,912)
Infrastructure	(20,287,727)	(1,232,694)	-	(21,520,421)
Total accumulated depreciation	(32,029,431)	(2,614,718)	95,658	(34,548,491)
Total capital assets being depreciated, net	62,872,941	(1,217,408)	-	61,655,533
Total governmental activities capital assets, net	<u>\$ 65,561,035</u>	<u>\$ (1,217,408)</u>	<u>\$ -</u>	<u>\$ 64,343,627</u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Business-Type Activities: (Water & Sewer Enterprise)	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land	\$ 432,548	\$ -	\$ -	\$ 432,548
Total capital assets not being depreciated	432,548	-	-	432,548
<u>Capital assets being depreciated:</u>				
Buildings and improvements	7,917,262	-	-	7,917,262
Capital improvements (other than buildings)	1,158,968	-	-	1,158,968
Machinery and equipment	787,022	-	-	787,022
Vehicles	273,286	43,859	(19,540)	297,605
Infrastructure	25,165,470	865,570	-	26,031,040
Total capital assets being depreciated	35,302,008	909,429	(19,540)	36,191,897
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	(1,676,224)	(161,752)	-	(1,837,976)
Capital improvements (other than buildings)	(76,544)	(39,185)	-	(115,729)
Machinery and equipment	(187,647)	(64,754)	-	(252,401)
Vehicles	(191,859)	(32,976)	19,540	(205,295)
Infrastructure	(4,090,205)	(468,513)	-	(4,558,718)
Total accumulated depreciation	(6,222,479)	(767,180)	19,540	(6,970,119)
Total capital assets being depreciated, net	29,079,529	142,249	-	29,221,778
Total business-type activities capital assets, net	\$ 29,512,077	\$ 142,249	\$ -	\$ 29,654,326

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Capital asset activity for the *electric light plant* at December 31, 2005 was as follows:

Business-Type Activities: (Light Plant Enterprise)	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$ 48,316	\$ 104,655	\$ -	\$ 152,971
Total capital assets not being depreciated	48,316	104,655	-	152,971
<u>Capital assets being depreciated:</u>				
Distribution Plant	13,059,454	431,898	(62,083)	13,429,269
General Plant	4,630,019	53,090	-	4,683,109
Total capital assets being depreciated	17,689,473	484,988	(62,083)	18,112,378
<u>Less accumulated depreciation for:</u>				
Distribution Plant	(7,596,168)	(651,519)	62,083	(8,185,604)
General Plant	(1,417,314)	(233,167)	-	(1,650,481)
Total accumulated depreciation	(9,013,482)	(884,686)	62,083	(9,836,085)
Total capital assets being depreciated, net	8,675,991	(399,698)	-	8,276,293
Total business-type activities capital assets, net	<u>\$ 8,724,307</u>	<u>\$ (295,043)</u>	<u>\$ -</u>	<u>\$ 8,429,264</u>

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

Governmental Activities:	
General government	\$ 36,451
Public safety	184,127
Education	855,880
Public works	1,371,968
Human services	44,291
Culture and recreation	122,001
Total depreciation expense - governmental activities	<u>\$ 2,614,718</u>
Business-Type Activities:	
Water and Sewer	\$ 767,180
Electric light - (December 31, 2005)	884,686
Total depreciation expense - business-type activities	<u>\$ 1,651,866</u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 – CAPITAL LEASE

The Town has entered into a lease agreement as lessee for financing the acquisition of a fire engine with a down payment of \$75,327. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

	<u>Governmental Activities</u>
Asset:	
Vehicle	\$ 349,512
Less: Accumulated depreciation	<u>(17,476)</u>
	<u><u>\$ 332,036</u></u>

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2007	\$ 75,327
2008	<u>75,326</u>
Total minimum lease payments	150,653
Less: amount representing interest	<u>(8,938)</u>
Present value of minimum lease payments	<u><u>\$ 141,715</u></u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 – INTERFUND TRANSFERS

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

<u>Operating Transfers Out:</u>	<u>Operating Transfers In:</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonmajor Governmental Funds	\$ 996,468	\$ -	\$ 996,468 (1)
General Fund	<u>-</u>	<u>726,342</u>	<u>726,342 (2)</u>
Total	<u>\$ 996,468</u>	<u>\$ 726,342</u>	<u>\$ 1,722,810</u>

(1) Represents various budgeted transfers to supplement the operating budget

(2) Represents various budgeted and non-budgeted transfers from the general fund to various funds.

NOTE 8 – SHORT-TERM FINANCING

Under state law, and with the appropriate authorization, the Town is authorized to borrow funds on a temporary basis as follows:

- To fund current operations prior to the collection of revenues by issuing revenue anticipation notes (RANS).
- To fund grants prior to reimbursement by issuing grant anticipation notes (GANS).
- To fund Capital project costs incurred prior to selling permanent debt by issuing bond anticipation notes (BANS).
- To fund current project costs and other approved expenditures incurred, that are anticipated to be reimbursed by the Commonwealth, through the issuance of State Aid anticipation notes (SANS).

Short-term loans are general obligations of the Town and maturity dates are governed by statute. Interest expenses for short-term borrowings are accounted for in the water/sewer enterprise fund.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

The following is a summary of changes in short-term debt for the year ended June 30, 2006:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2005	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2006
MWPAT	Sewer Connections	Var.	10/3/2006	\$ 740,000	\$ 100,000	\$ -	\$ 840,000
MWPAT	Sewer Connections	Var.	11/16/2005	351,875	-	(351,875)	-
Total Water/Sewer Enterprise Fund				<u>\$ 1,091,875</u>	<u>\$ 100,000</u>	<u>\$ (351,875)</u>	<u>\$ 840,000</u>

NOTE 9 – LONG-TERM DEBT

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

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

Bonds and Notes Payable Schedule -Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2005	Issued	Redeemed	Outstanding at June 30, 2006
General Obligation	4.75	\$ 2,120,000	\$ -	\$ 575,000	\$ 1,545,000
Title V	Var.	57,620	-	3,847	53,773
Senior Center	5.15	750,000	-	150,000	600,000
School	5.64	27,830,000	(20,990,000)	1,220,000	5,620,000
School - Refunding	4.12	-	22,885,000	265,000	22,620,000
School	3.64	845,000	-	40,000	805,000
Outdoor Recreation	3.64	2,255,000	-	130,000	2,125,000
School Construction	2.67	120,000	-	15,000	105,000
School Construction	3.00	80,000	-	20,000	60,000
Total		<u>\$ 34,057,620</u>	<u>\$ 1,895,000</u>	<u>\$ 2,418,847</u>	<u>\$ 33,533,773</u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

The annual debt service requirements for principal and interest for Governmental bonds and notes outstanding at June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,393,847	\$ 1,411,025	\$ 3,804,872
2008	2,478,847	1,299,280	3,778,127
2009	2,273,847	1,190,029	3,463,876
2010	2,138,847	1,086,678	3,225,525
2011	2,093,873	982,725	3,076,598
2012-2016	11,634,296	3,607,153	15,241,449
2017-2020	<u>10,520,216</u>	<u>1,090,600</u>	<u>11,610,816</u>
Total	<u>\$ 33,533,773</u>	<u>\$ 10,667,490</u>	<u>\$ 44,201,263</u>

Bonds and Notes Payable Schedule -Water and Sewer Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2005</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2006</u>
Water	6.44	\$ 100,000	\$ -	\$ 100,000	\$ -
Water Wells	4.98	1,115,000	-	100,000	1,015,000
MWPAT Drinking Water	Var.	1,654,459	-	80,267	1,574,192
Water	3.64	900,000	-	50,000	850,000
Water	3.64	2,340,000	-	130,000	2,210,000
Water Meters	2.67	880,000	-	110,000	770,000
MWPAT Drinking Water	Var.	713,831	-	30,293	683,538
MWPAT Drinking Water	Var.	768,013	-	73,809	694,204
MWPAT Drinking Water	Var.	3,304,646	-	989,155	2,315,491
MWPAT Drinking Water	2.00	-	923,349	-	923,349
MWPAT Sewer Construction	Var.	2,670,103	-	134,728	2,535,375
MWPAT Sewer Construction	Var.	3,710,346	-	166,334	3,544,012
MWPAT Sewer Connections	Var.	<u>520,154</u>	<u>-</u>	<u>32,557</u>	<u>487,597</u>
Total		<u>\$ 18,676,552</u>	<u>\$ 923,349</u>	<u>\$ 1,997,143</u>	<u>\$ 17,602,758</u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

The annual debt service requirements for principal and interest for water and sewer enterprise fund bonds and notes outstanding at June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,011,951	\$ 754,530	\$ 1,766,481
2008	1,027,694	712,371	1,740,065
2009	1,025,236	679,113	1,704,349
2010	1,040,361	641,527	1,681,888
2011	1,056,397	599,553	1,655,950
2012-2016	5,315,822	2,231,114	7,546,936
2017-2021	5,295,869	969,921	6,265,790
2022-2026	1,829,428	101,152	1,930,580
Total	<u>\$ 17,602,758</u>	<u>\$ 6,689,281</u>	<u>\$ 24,292,039</u>

Bonds and Notes Payable Schedule - Light Plant Enterprise Fund (December 31, 2005)

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at December 31, 2004</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at December 31, 2005</u>
Substation	3.375/3.50	<u>\$ -</u>	<u>\$ 2,620,000</u>	<u>\$ -</u>	<u>\$ 2,620,000</u>

The annual debt service requirements for principal and interest for light plant enterprise fund bond outstanding at December 31, 2005 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 265,000	\$ 78,089	\$ 343,089
2007	265,000	69,311	334,311
2008	265,000	61,195	326,195
2009	265,000	53,245	318,245
2010	260,000	45,370	305,370
2011-2015	1,300,000	105,820	1,405,820
Total	<u>\$ 2,620,000</u>	<u>\$ 413,030</u>	<u>\$ 3,033,030</u>

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Loans Authorized and Unissued

As of June 30, 2006, the Town has loans authorized and unissued as follows:

<u>Description</u>	<u>Date Authorized</u>	<u>Amount</u>
Sewer Construction	10/23/1995	\$ 3,841,770
Water System	5/17/1999	646,134
Water System	5/15/2000	1,608,385
Water System	5/17/2004	<u>876,651</u>
Total		<u><u>\$ 6,972,940</u></u>

Advanced Refunding – Debt Defeasance

On December 1, 2005, the Town issued \$22,885,000 in general obligation refunding bonds with interest rates ranging between 3.15% and 4.29%. The Town issued the bonds to advance refund \$20,990,000 of the general obligation bonds issued March 1, 2000. The Town used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2000 series bonds. As a result, that portion of the 2000 series bonds is considered defeased, and the Town has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$5,620,000 at June 30, 2006.

The advance refunding reduced total debt service payments over the next 15 years by nearly \$1,142,787. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,164,036.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Changes in Long-term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006 (electric light as of December 31, 2005):

The governmental activities long-term liabilities are generally liquidated by the general fund.

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes payable	\$ 34,057,620	\$ 1,895,000	\$ (2,418,847)	\$ 33,533,773	\$ 2,393,847
Compensated absences	288,937	-	(87,668)	201,269	20,000
Landfill postclosure care costs	340,000	-	(20,000)	320,000	20,000
Capital lease payable	51,247	141,715	(51,247)	141,715	69,408
Total governmental activity long-term liabilities	<u>\$ 34,737,804</u>	<u>\$ 2,036,715</u>	<u>\$ (2,577,762)</u>	<u>\$ 34,196,757</u>	<u>\$ 2,503,255</u>

Business-Type Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes payable - water/sewer	\$ 18,676,552	\$ 923,349	\$ (1,997,143)	\$ 17,602,758	\$ 1,011,951
Bonds and notes payable - electric light	-	2,620,000	-	2,620,000	265,000
Compensated absences	9,991	300	-	10,291	-
Customer deposits - electric light	123,584	5,965	-	129,549	-
Rate stabilization reserve - electric light	2,596,841	-	(31,686)	2,565,155	-
Total business-type activity long-term liabilities	<u>\$ 21,406,968</u>	<u>\$ 3,549,614</u>	<u>\$ (2,028,829)</u>	<u>\$ 22,927,753</u>	<u>\$ 1,276,951</u>

School Building Assistance Bureau Reimbursements

Chapter 645 of the Act of 1948 as amended ("Chapter 645") created a statewide school building assistance program. Pursuant to this program, cities and towns issued bonds for eligible school building projects and were reimbursed over a period of years by the Commonwealth according to a statutory percentage for such city or town.

Legislation enacted as part of the Commonwealth's Fiscal 2002 budget repealed 645 and created a new school building assistance program codified as Chapter 70B of the Massachusetts General Laws. Among other changes, the new program includes grants for alternatives to construction and calculates grants for each project based on a number of factors. The new legislation does not affect the reimbursement percentages for bonds previously issued under Chapter 645, and the grants for certain "grandfathered" projects will be based on the statutory percentages provided for in Chapter 645.

The Town has been approved for a 70% percent state school construction grant through the School Building Assistance Bureau (SBAB) to cover eligible project costs, including debt service associated with the financing of these projects, subject to annual appropriation by the state legislature. The Town received \$2,050,210 in FY 2006 from the SBAB for completed school construction projects.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Overlapping Debt

The Town pays assessments under formulas which include debt service payments to other governmental agencies providing services to the Town, (commonly referred to as overlapping debt). The following summary sets forth the long-term debt of such governmental agencies and the estimated share being financed by the Town as of June 30, 2006:

<u>Agency</u>	<u>Total Long-Term Debt Outstanding</u>	<u>Town's Estimated Share</u>	<u>Town's Indirect Debt</u>
Wachusett Regional School District	\$22,290,000	45.31%	\$ 10,099,599
Montachusett Regional Vocational Technical School District	<u>11,760,000</u>	10.65%	<u>1,252,440</u>
	<u><u>\$34,050,000</u></u>		<u><u>\$ 11,352,039</u></u>

NOTE 10 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters.

Non-school buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$1,000 per incident. The fully insurable value of the Town buildings is \$28,767,400. School buildings are insured by the Wachusett Regional School District.

The Town purchases accident policies for uniformed police and fire personnel. The limits vary depending on the nature of the injury and the personnel involved. Accident claims paid to uniformed police and fire personnel was not material in fiscal year 2006.

The Town has two contributory health care options for its employees. There are 93 active employees and 92 retirees who participate in the Town's health care programs. For active employees, the Town contributes 80% of the premium costs for both family and individual plans, except for members of the Holden Light Department employees union, with which the Town is currently negotiating a new contract. Until that contract is settled, the Town will continue to contribute 80% of the cost of a family plan and 90% of the cost of an individual plan. There are currently four (4) subscribers who fall into this category. For retirees, the Town contributes 74% of the premium costs for the senior HMO plans (Fallon Senior Plan and Medicare HMO Blue) and 50% of the premium costs for the Blue Cross Medex and Fallon Major Medical plans.

The Town is insured for general liability; however, Chapter 258 of the Massachusetts General Laws limits the Town's liability to a maximum of \$100,000 per claim in all matters except in actions relating to federal civil rights, eminent domain and breach of contract. Such claims are charged to the general fund. There were no such claims in 2006.

TOWN OF HOLDEN, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 11 – PENSION PLANS

A. Plan Descriptions

The Town contributes to the Worcester Regional Retirement System (the “System”), a cost sharing, multiple-employer, defined benefit pension plan administered by the Worcester Regional Retirement Board. Substantially, all full-time employees are members of the “System.” Public school teachers and certain school administrators formerly employed by the Town of Holden, and now employed by the Wachusett Regional School District, are members of the Massachusetts Teachers’ Retirement System (MTRS) to which the Town does not contribute.

The “System” and the MTRS are contributory defined benefit plans and membership in both the “System” and the MTRS is mandatory upon commencement of employment for all permanent, full-time employees. The “System” and the MTRS provide retirement, disability and death benefits to plan members and beneficiaries.

Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The “System” issues a publicly available financial report, which can be obtained through the Commonwealth of Massachusetts, Public Employee Retirement Administration Commission (“PERAC”), One Ashburton Place, Boston, Massachusetts 02108.

B. Funding Policies

Worcester Regional Retirement System

Plan members are required to contribute to the “System” at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the “System”, its share of the remaining system-wide, actuarially determined, contribution plus administration costs, which are apportioned among the employers, based on active covered payroll. The Commonwealth of Massachusetts reimburses the “system” for a portion of the benefit payments for the cost of living increases. The contributions to the “System” for years ended June 30, 2006, 2005, and 2004 were \$510,160, \$451,625, and \$458,369 respectively, which were equal to its required contributions for each of these years.

Massachusetts Teachers’ Retirement System

Plan members (at varying rates of annual covered compensation) and the Commonwealth of Massachusetts fund contributions to the MTRS. The Commonwealth of Massachusetts contributed “on-behalf” payments to the MTRS totaling \$589,061 for fiscal year 2006. In accordance with GASB Statement No. 24, these on-behalf” payments have been recorded in the general fund as intergovernmental revenues and pension expenditures.

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NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Town participates in a number of federal award programs. However the Town is not subject to the provisions of the Single Audit Act Amendments of 1996 since the Town did not expand more than \$500,000 of federal awards during the period ended June 30, 2006. These programs may still be subject to financial and compliance audits. Accordingly, the amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is believed the amount, if any, would not be material.

The Town's landfill was closed in 1986 by order of the Department of Environmental Protection (DEP). The DEP approved the capping of the landfill site in April 1992. The Town is responsible for post-closure monitoring of the site for thirty years (16 years remaining), and the estimated liability has been recorded in the Statement of Net Assets, Governmental Activities. The \$320,000 reported as landfill post-closure liability at June 30, 2006 is based on what it would cost to perform all post-closure care costs at June 30, 2006. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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

NOTE 13 – SUBSEQUENT EVENT

On October 1, 2006, the Town borrowed \$707,184 from the Massachusetts Water Pollution Abatement Trust (**MWPAT**). Portions of the semi-annual interest repayments are subsidized by the **MWPAT**. Principal is payable in variable amounts beginning on August 1, 2007 through August 1, 2024. Interest is payable semi-annually on August 1st and February 1st, beginning February 1, 2007.

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NOTE 14 – PRIOR PERIOD ADJUSTMENTS

The Water/Sewer Enterprise fund net assets have been restated to reflect the recognition of donated capital assets (including land, buildings and improvements, and infrastructure) and related accumulated depreciation not previously recorded. In addition, the Electric Light Enterprise fund net assets have been restated to correct an understatement of Unbilled Revenue and Revenue discovered during the electric light department's 2005 audit. As a result, total Business-Type Activities net assets have been restated to reflect the changes made to the Water/Sewer Enterprise fund net assets and the Electric Light Enterprise fund net assets.

Description	Water/Sewer Enterprise Fund Net Assets	Electric Light Enterprise Fund Net Assets	Total Business-Type Activities Net Assets
Balances as previously reported	\$ 13,635,255	\$ 10,316,320	\$ 24,064,587
To record the value of donated capital assets including land, buildings and improvements, and infrastructure at fair market value	5,696,500	-	5,696,500
To record accumulated depreciation associated with donated capital assets including land, buildings and improvements, and infrastructure	(56,761)	-	(56,761)
To correct understatement of Unbilled Revenue	-	264,670	264,670
Balances as restated	<u>\$ 19,274,994</u>	<u>\$ 10,580,990</u>	<u>\$ 29,968,996</u>

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NOTE 15 - MMWEC PARTICIPATION AND CONTINGENT LIABILITIES

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

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other utilities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs).

Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on 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 a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs. In addition, should any Project Participant fail to make payment, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participants' share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participants' share of that Project's Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

Holden 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 Department revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

Though it's membership in MMWEC, the Department is contingently liable on various projects in which they participated as detailed below.

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 MMWEC's 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.

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MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No.4 plant, which is operated and owned by its majority owner, FPL Energy Wyman N, 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), the majority owner and a subsidiary of Dominion Resources, Inc. DNCI also owns and operates Millstone Unit 2 nuclear unit. In November 2005, the Nuclear Regulatory Commission (NRC) renewed the operating licenses for the Millstone Unit 2 and Unit 3 nuclear units for an 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 1986 to 1990 during which time Seabrook had an operating license, but did not operate. FPLE Seabrook, LLC 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. Also 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. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

Holden 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 Department revenues. Under the PSAs, each Participant is unconditionally obliged to make all 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 MMWEC management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the department.

As of December 31, 2005, total Projects(s) capital expenditures amounted to \$1,521,643, of which \$47,494,000 represents the amount associated with the Department's share of Project Capability. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling \$784,995,000, of which \$23,496,000 is associated with the Department's share of Project Capability. As of December 31, 2005, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$978,397,000, of which \$29,498,000 is anticipated to be billed to the Department in the future.

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The estimated aggregate amount of Holden 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.

<u>For years ended December 31,</u>	<u>Annual Costs</u>
2006	\$ 3,226,000
2007	3,147,000
2008	3,000,000
2009	2,686,000
2010	2,436,000
2011 - 2015	11,550,000
2016 - 2020	<u>3,453,000</u>
	<u><u>\$ 29,498,000</u></u>

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were \$5,438,000 and \$5,431,000 for the years ended December 31, 2005 and 2004, respectively.