

INDEPENDENT AUDITORS' REPORT

We have audited the general purpose financial statements of the Town of Belmont, Massachusetts, as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the enterprise fund. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the enterprise fund, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 opinion.

The Town has not maintained records of the cost of its general fixed assets and, therefore, a general fixed assets account group is not presented in the accompanying general purpose financial statements as required by accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the report of other auditors, except that the omission of a general fixed asset group of accounts results in an incomplete presentation, as discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Belmont, Massachusetts, at June 30, 2002, and the results of its operations and cash flows of its proprietary and nonexpendable trust funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2002 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Section Break (Next Page)

Combined Balance Sheet – All Fund Types and Account Group
June 30, 2002 (except for the Enterprise Fund and the Pension Trust Fund which are as of December 31, 2001)

| | Governmental fund types | | | Proprietary fund type | Fiduciary fund types | Account group | Total (memorandum only) |
|--|-------------------------|--------------------|---------------------|--------------------------|-------------------------|------------------------------|-------------------------------|
| | General | Special revenue | Capital projects | Enterprise | Trust and agency | General long-term debt | |
| Assets | | | | | | | |
| Cash and investments (note 5) | \$ 10225473 | 5889682 | 1103375 | 1294411 | 48156029 | | 66668970 |
| Restricted cash (notes 2 and 5) | | | | 1503184 | | | 1503184 |
| Receivables: | | | | | | | |
| Property taxes | 553621 | | | | | | 553621 |
| Deferred property taxes | 513308 | | | | | | 513308 |
| Tax liens | 390517 | | | | | | 390517 |
| Other taxes | 56981 | | | | | | 56981 |
| Motor vehicle excise | 278958 | | | | | | 278958 |
| Water and sewer user charges | 581896 | 277024 | | | | | 858920 |
| Intergovernmental | 27812 | | | | | | 27812 |
| Other | 553849 | 5335 | | | 5371 | | 564555 |
| Electric charges, net | | | | 861166 | | | 861166 |
| Due from other funds (note 10) | | | | | 1662741 | | 1662741 |
| Total receivables | <u>2956942</u> | <u>282359</u> | <u> </u> | <u>861166</u> | <u>1668112</u> | <u> </u> | <u>5768579</u> |
| Property, plant, and equipment, net | | | | 7704699 | | | 7704699 |
| Other assets | | | | 420299 | | | 420299 |
| Amounts to be provided for the retirement of general long-term obligations | | | | | | 21455889 | 21455889 |
| Total assets | <u>\$ 13182415</u> | <u>6172041</u> | <u>1103375</u> | <u>11783759</u> | <u>49824141</u> | <u>21455889</u> | <u>103521620</u> |
| Liabilities and Fund Equity | | | | | | | |
| Warrants and accounts payable | \$ 1177633 | | | 983677 | | | 2161310 |
| Accrued liabilities: | | | | | | | |
| Tax abatements | 140000 | | | | | | 140000 |
| Payroll and related withholdings | 393198 | | | | | | 393198 |
| Vacation and other compensatory time (note 7) | | | | | | 1239000 | 1239000 |
| Self insured benefit plans (notes 7 and 12) | | | | | | 777000 | 777000 |
| Other | 139512 | | | 250276 | | | 389788 |
| Deferred revenue | 2780438 | 282359 | | 135655 | 153701 | | 3352153 |
| Bond anticipation notes payable (note 8) | | | 25000 | | | | 25000 |
| General obligation bonds payable (note 7) | | | | 1600000 | | 19439889 | 21039889 |
| Total liabilities | <u>4630781</u> | <u>282359</u> | <u>25000</u> | <u>2969608</u> | <u>153701</u> | <u>21455889</u> | <u>29517338</u> |
| Fund equity: | | | | | | | |
| Retained earnings | | | | 8814151 | | | 8814151 |
| Fund equity: | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances | 3274806 | 282712 | 3485 | | | | 3561003 |
| Nonexpendable trust principal | | | | | 542893 | | 542893 |
| Employees' retirement benefits | | | | | 47807983 | | 47807983 |
| Unreserved: | | | | | | | |
| Designated for capital endowment | | 3167711 | | | | | 3167711 |
| Designated for subsequent year's expenditures | 56000 | 175000 | | | | | 231000 |
| Designated for tax rate stabilization | 62939 | | | | | | 62939 |
| Undesignated | 5157889 | 2264259 | 1074890 | | 1319564 | | 9816602 |
| Total fund equity | <u>8551634</u> | <u>5889682</u> | <u>1078375</u> | <u>8814151</u> | <u>49670440</u> | <u> </u> | <u>74004282</u> |
| Contingencies (note 12) | | | | | | | |
| Total liabilities and fund equity | <u>\$ 13182415</u> | <u>6172041</u> | <u>1103375</u> | <u>11783759</u> | <u>49824141</u> | <u>21455889</u> | <u>103521620</u> |

See accompanying notes to financial statements.

Combined Statement of Revenues, Expenditures, and Changes in Fund Equity –
All Governmental Fund Types and Expendable Trust Funds
Year ended June 30, 2002

| | <u>Governmental fund types</u> | | | <u>Fiduciary fund type</u> | <u>Total (memorandum only)</u> |
|---|--------------------------------|----------------------------|-----------------------------|--------------------------------|--|
| | <u>General</u> | <u>Special revenue</u> | <u>Capital projects</u> | <u>Expendable trust</u> | |
| Revenues: | | | | | |
| Real and personal property taxes | \$ 42686198 | | | | 42686198 |
| Motor vehicle excise | 2576510 | | | | 2576510 |
| Payments in-lieu of taxes | 1078435 | | | | 1078435 |
| Intergovernmental | 7917544 | 1838105 | | | 9755649 |
| Water rates and sewer use charges | 5012607 | 3921615 | | | 8934222 |
| Departmental and other revenue | 1930774 | 1544848 | | 84127 | 3559749 |
| Penalties on taxes | 237390 | | | | 237390 |
| Investment income | 274088 | 158445 | | 63335 | 495868 |
| Contributions | | | | 3994602 | 3994602 |
| Total revenues | 61713546 | 7463013 | | 4142064 | 73318623 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 6607818 | | | | 6607818 |
| Public safety | 8700140 | | | | 8700140 |
| Education | 28089884 | 1618064 | | | 29707948 |
| Public service | 11275212 | 3944100 | | | 15219312 |
| Human services | 735737 | | | | 735737 |
| Culture and recreation | 2075919 | | | | 2075919 |
| Other expenditures | | 1487689 | | 28733 | 1516422 |
| State and county assessments | 1471794 | | | | 1471794 |
| Medical and life insurance | | | | 4047315 | 4047315 |
| Capital outlay | 1922521 | | 1928137 | | 3850658 |
| Debt service | 2789985 | | | | 2789985 |
| Total expenditures | 63669010 | 7049853 | 1928137 | 4076048 | 76723048 |
| Excess (deficiency) of revenues over expenditures | -1955464 | 413160 | -1928137 | 66016 | -3404425 |
| Other financing sources (uses): | | | | | |
| Operating transfers in (out), net (note 9) | -443952 | 195228 | | 523624 | 274900 |
| BANS refinanced on a long-term basis (notes 7 and 14) | | | 2250000 | | 2250000 |
| Total other financing sources (uses) | -443952 | 195228 | 2250000 | 523624 | 2524900 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | -2399416 | 608388 | 321863 | 589640 | -879525 |
| Fund equity, beginning of year | 10951050 | 5281294 | 756512 | 729924 | 17718780 |
| Fund equity, end of year | \$ 8551634 | 5889682 | 1078375 | 1319564 | 16839255 |

See accompanying notes to financial statements.

Statements of Revenues and Expenditures – Budgetary Basis –
General Fund and Budgeted Special Revenue Fund – Budget and Actual
Year ended June 30, 2002

| | | General fund | | | Budgeted special revenue fund | | |
|--|----|--------------|----------|----------------------------------|-------------------------------|---------|----------------------------------|
| | | Final budget | Actual | Variance favorable (unfavorable) | Final budget | Actual | Variance favorable (unfavorable) |
| Revenues: | | | | | | | |
| Real and personal property taxes | \$ | 42236549 | 42236549 | | | | |
| Motor vehicle excise | | 2750000 | 2576278 | -173722 | | | |
| Payments in-lieu of taxes | | 1083596 | 1078435 | -5161 | | | |
| Intergovernmental | | 7849028 | 7917543 | 68515 | | | |
| Water rates and sewer use charges | | 4772342 | 5012607 | 240265 | 3708421 | 3921615 | 213194 |
| Departmental and other revenue | | 2542624 | 2581686 | 39062 | | | |
| Penalties on taxes | | 160000 | 237390 | 77390 | | | |
| Investment income | | 506000 | 274088 | -231912 | | | |
| Total revenues | | 61900139 | 61914576 | 14437 | 3708421 | 3921615 | 213194 |
| Expenditures: | | | | | | | |
| General government | | 7799460 | 7789059 | 10401 | | | |
| Public safety | | 8680517 | 8636632 | 43885 | | | |
| Education | | 28116467 | 28056048 | 60419 | | | |
| Public service | | 11438411 | 11287724 | 150687 | 3708421 | 3517277 | 191144 |
| Human services | | 753410 | 727077 | 26333 | | | |
| Culture and recreation | | 2049291 | 2046285 | 3006 | | | |
| State and county assessments | | 1458587 | 1471794 | -13207 | | | |
| Capital outlay | | 2493201 | 2481126 | 12075 | | | |
| Debt service | | 2797071 | 2789985 | 7086 | | | |
| Total expenditures | | 65586415 | 65285730 | 300685 | 3708421 | 3517277 | 191144 |
| Excess (deficiency) of revenues over expenditures | | -3686276 | -3371154 | 315122 | | 404338 | 404338 |
| Other financing sources (uses): | | | | | | | |
| Operating transfers in (out), net | | -724673 | -443952 | 280721 | | -100000 | -100000 |
| Total other financing sources and (uses) | | -724673 | -443952 | 280721 | | -100000 | -100000 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | \$ | -4410949 | -3815106 | 595843 | | 304338 | 304338 |
| Other budget items: | | | | | | | |
| Free cash appropriations | \$ | 1837100 | | | | | |
| Stabilization | | 1200000 | | | | | |
| Abatement surplus appropriation | | 430000 | | | | | |
| Other | | 943849 | | | | | |
| Total other budget items | | 4410949 | | | | | |
| Net budget | \$ | | | | | | |
| See accompanying notes to financial statements. | | | | | | | |

**Combined Statement of Revenues, Expenses, and Changes
in Fund Equity – Proprietary and Similar Trust Funds
Year ended June 30, 2002
(except for the Enterprise Fund which is for the year ended December 31, 2001)**

| | Proprietary fund type | Fiduciary fund type Nonexpendable trusts | Total (memorandum only) |
|-----------------------------------|--------------------------|---|-------------------------------|
| | Enterprise | | |
| Operating revenues: | | | |
| Charges for services | \$ 11794353 | | 11794353 |
| Total operating revenues | 11794353 | | 11794353 |
| Operating expenses: | | | |
| Purchased power | 7746365 | | 7746365 |
| Administrative and general | 1264371 | | 1264371 |
| Payment in-lieu of taxes | 550000 | | 550000 |
| Distribution | 678464 | | 678464 |
| Maintenance | 796747 | | 796747 |
| Customer accounts | 240522 | | 240522 |
| Depreciation | 658476 | | 658476 |
| Total operating expenses | 11934945 | | 11934945 |
| Operating loss | -140592 | | -140592 |
| Nonoperating revenues (expenses): | | | |
| Interest income | 154952 | 2753 | 157705 |
| Interest expense | -81544 | | -81544 |
| Other, net | 485050 | 475 | 485525 |
| Total nonoperating revenues, net | 558458 | 3228 | 561686 |
| Net income | 417866 | 3228 | 421094 |
| Retained earnings/fund equity: | | | |
| Beginning of year | 8396285 | 539665 | 8935950 |
| End of year | \$ 8814151 | 542893 | 9357044 |

See accompanying notes to financial statements.

**Statement of Changes in Plan Net Assets – Retirement System
Year ended December 31, 2001**

| | | | |
|---|-------------|--|--|
| Additions: | | | |
| Contributions (note 6): | | | |
| Employers | \$ 2996873 | | |
| Members | 1426555 | | |
| Transfers from other systems, net | 377858 | | |
| Total contributions | 4801286 | | |
| Investment loss, net of related fees of \$241,427 | -1747797 | | |
| Total additions | 3053489 | | |
| Deductions: | | | |
| Benefit payments | 5638765 | | |
| Administrative | 104127 | | |
| Refunds of contributions | 154887 | | |
| Total deductions | 5897779 | | |
| Net decrease | -2844290 | | |
| Plan net assets: | | | |
| Beginning of year | 50652273 | | |
| End of year | \$ 47807983 | | |

See accompanying notes to financial statements.

**Combined Statement of Cash Flows – Proprietary Fund and
Nonexpendable Trust Funds
Year ended June 30, 2002
(except for the Enterprise Fund which is for the year ended December 31, 2001)**

| | Proprietary fund type | Fiduciary fund type Nonexpendable trusts | Total (memorandum only) |
|--|--------------------------|---|-------------------------------|
| | Enterprise | | |
| Cash flows from operating activities: | | | |
| Operating loss | \$ -140592 | | -140592 |
| Adjustments to reconcile operating gain to net cash provided by operating activities: | | | |
| Depreciation | 658476 | | 658476 |

| | | | |
|--|------------|----------|----------|
| Change in assets and liabilities: | | | |
| Accounts receivable, net | -68510 | | -68510 |
| Other assets | -18679 | | -18679 |
| Accounts payable and other liabilities | -144119 | | -144119 |
| Net cash provided by operating activities | 286576 | | 286576 |
| Cash flows from noncapital financing activities: | | | |
| Refund settlement | 450027 | | 450027 |
| Net cash provided by noncapital financing activities | 450027 | | 450027 |
| Cash flows from capital and related financing activities: | | | |
| Payments on bond payable | -200000 | | -200000 |
| Utility plant additions | -1464174 | | -1464174 |
| Net cash used by capital and related financing activities | -1664174 | | -1664174 |
| Cash flows from investing activities: | | | |
| Interest income | 154952 | 2753 | 157705 |
| Interest expense | -81544 | | -81544 |
| Other, net | 285299 | 475 | 285774 |
| Net cash provided by investing activities | 358707 | 3228 | 361935 |
| Net decrease in cash, cash equivalents and restricted cash | -568864 | 3228 | -565636 |
| Cash, cash equivalents, and restricted cash, beginning of year | 3366459 | 539665 | 3906124 |
| Cash, cash equivalents, and restricted cash, end of year | 2797595 | 542893 | 3340488 |
| Cash, cash equivalents, and restricted cash: | | | |
| Retirement system | | 46179904 | 46179904 |
| Expendable trust funds | | 1319564 | 1319564 |
| Agency funds | | 113668 | 113668 |
| Total per balance sheet | \$ 2797595 | 48156029 | 50953624 |
| Supplemental disclosure of cash paid in lieu of taxes | \$ 550000 | | 550000 |
| See accompanying notes to financial statements. | | | |

REPORTING ENTITY

Primary Government

The Town of Belmont is governed by an elected three-member Board of Selectmen. Generally accepted accounting principles (GAAP) require that the accompanying general purpose financial statements present the Town of Belmont (the primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. Pursuant to these criteria, the Town of Belmont Retirement System (the System) has been identified as a component unit. The System was established under the authority of Chapter 32 of the Massachusetts General Laws (MGL), as amended, and is an independent contributory retirement system available to employees of the Town. The powers of the System are vested in the Retirement Board. The System has been blended into the Town's fiduciary funds for reporting purposes.

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:

| Joint venture | Purpose | Address | Fiscal 2002 assessment |
|---|------------------------------------|--------------------------------------|---------------------------|
| Massachusetts Water Resources Authority (MWRA) | To provide water and sewer service | 100 First Avenue, Boston, MA 02129 | \$ <u>4,768,952</u> |
| Massachusetts Bay Transportation Authority (MBTA) | To provide public transportation | 10 Park Plaza Boston, MA 02116 | \$ <u>1,393,282</u> |
| Minuteman Regional School District | To provide vocational education | 785 Marrett Road Lexington, MA 02173 | \$ <u>644,823</u> |

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial condition and results of operations of the Town's funds are presented as of and for the year ended June 30, 2002, except for the Town's Municipal Light Department and Retirement System which are as of December 31, 2001. The accounting policies of the Town conform with GAAP, except that the Town does not maintain and therefore, does not report, a general fixed assets account group.

Fund Accounting

The operations of the Town are recorded in the following fund types and account group:

- **Governmental Fund Types**

Governmental funds are used to account for the Town's expendable financial resources and related liabilities (except those accounted for in proprietary and similar trust funds). The measurement focus is upon determination of changes in financial position. The following are the Town's governmental fund types:

- *General Fund* – The general fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.
- *Special Revenue Funds* – Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to specified purposes.
- *Capital Project Funds* – Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and similar trust funds).

- **Proprietary Fund Type**

Proprietary fund is used to account for activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income and capital maintenance. Following is the Town's proprietary fund type:

- *Enterprise Fund* – The enterprise fund is used to account for operations (a) that are financed primarily through user charges, or (b) where the governing body has decided that determination of net income is appropriate. The Town's Municipal Light Department (Department) is accounted for as an enterprise fund.
- **Fiduciary Fund Types**
 - *Trust and Agency Funds* – Fiduciary funds are used to account for assets held by the Town in a trustee capacity or as an agent. Trust funds include expendable trust funds, nonexpendable trust funds, and pension trust fund. Expendable trust funds are accounted for similar to governmental funds. Nonexpendable trust funds and pension trust funds are accounted for similar to proprietary funds. Agency funds are custodial in nature and do not involve measurement of results of operations.
- **Account Group**
 - *General Long-Term Debt Account Group* – This account group is used to account for all long-term obligations of the Town, except those accounted for in proprietary funds.

Basis of Accounting

The modified accrual basis of accounting is followed by governmental funds, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term debt, which is recorded when due, and (2) the noncurrent portion of self-insured benefit plans and accrued vacation and other compensatory times which is recorded in the general long-term debt account group.

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.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end. Special assessments are recorded as revenue in the year the individual installments are due. Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned.

The Town has elected to apply to its proprietary fund, nonexpendable trust funds, and pension trust fund accounting standards applicable to the private sector issued on or before November 30, 1989, unless those standards conflict with or contradict pronouncements of the Governmental Accounting Standards Board. The accrual basis of accounting is used for these funds.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Open encumbrances at year-end are reported as reservations of fund balances. Encumbrances do not constitute expenditures or liabilities, except for budgetary purposes (see note 4).

Certain unexpended and unencumbered appropriations for incomplete projects are carried over to succeeding years. Such items are accounted for similar to encumbrances.

Fund Equity

The Town has allocated fund balances of its governmental and trust funds as follows:

- *Reserved for Encumbrances* – Represents the amount of unexpended appropriations carried forward to fiscal 2002 for projects that have not been completed, open purchase orders and for contracts that have not been performed.
- *Reserved for Nonexpendable Trust Principal* – Represents the amount of trust fund equity that is legally restricted for specific purposes.
- *Reserved for Employees' Retirement Benefits* – Represents the amount of funds accumulated in the System.
- *Designated for Capital Endowment* – Represents the amount of funds designated for long-range capital planning. The Capital Endowment Fund (the Fund) was capitalized with funds from the sale of the Town's interest in the local cable television system. Net income generated from the Fund's investments may be appropriated annually at the Town meeting upon recommendation of the Board of Selectmen for various purposes for which the Town is

authorized to borrow under the MGL, except routine maintenance or repairs to any capital asset. Principal may also be appropriated upon recommendation by the Board of Selectmen and two-thirds vote of the Town Meeting. Any excess earnings not appropriated are reinvested and become part of the Fund.

- *Designated for Subsequent Year's Expenditures* – Represents the amount of fund balance authorized to fund fiscal 2003 appropriations.
- *Designated for Tax Rate Stabilization* – Represents the amount of fund balance designated for future tax rate stability.
- *Undesignated* – Represents the amount of funds available for appropriation at Town meetings or for expenditure in accordance with legal restrictions for certain special revenue and trust funds.

Inventory

The cost of inventory is recorded as an expenditure at the time individual inventory items are purchased (purchase method) in governmental funds. Inventories of the enterprise fund, included in other assets in the accompanying combined balance sheet, totaling \$215,657, are stated at average cost. For governmental funds, inventory at June 30, 2002 was not material.

Property, Plant, and Equipment – Proprietary Fund

Property, plant, and equipment used by the proprietary fund are stated at cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Net interest costs are capitalized on projects during the construction period. Depreciation of utility plant is computed on the straight-line method at 3% of the cost of plant in service at the beginning of the calendar year, exclusive of land and land rights. Under Massachusetts law, the Department may change its depreciation rate from the allowed 3% rate only with the approval of the Massachusetts Department of Telecommunications (DTE). The Light Department used a depreciation rate of 4% for fiscal 2002. Accumulated depreciation at December 31, 2001, totaled \$12,204,141. Expenditures for maintenance and repairs are charged to operations as incurred.

Accrued Vacation and Other Compensatory Time

Employees are granted vacation in varying amounts. In addition, certain employees earn compensatory time. Upon retirement, termination, or death, certain employees are compensated for unused vacation (subject to certain limitations) and compensatory time at their then current rates of pay. The amount of vacation costs and compensatory time that is not due and payable is recorded in the general long-term debt account group. The amount recorded is the unused days earned at the current rate of pay.

Restricted Cash

Pursuant to provisions of the Commonwealth's General Laws, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to restricted cash. Interest earned must also remain in restricted cash. Such cash may only be used to pay for additions to utility plant.

Investment Valuation

Investments are carried at fair value. The Town invests in the Massachusetts Municipal Depository Trust, an external investment pool that is not SEC registered. This fund is state regulated and is valued at current share price. Valuation of the investments of the pension trust fund is described in note 6.

Use of Estimates

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

Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.

PROPERTY TAXES

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The Town

has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

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

BUDGETARY BASIS OF ACCOUNTING

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

The budgets for all departments and operations of the Town, except that of public schools, are prepared under the direction of the Board of Selectmen. The School Department budget is prepared under the direction of the School Committee. Original and supplemental appropriations are acted upon by Town meeting.

All general fund functions are budgeted. The special revenue fund is budgeted for the water fund. Those budgets are prepared on a basis other than generally accepted accounting principles (GAAP). The "actual" results columns of the Statements of Revenues and Expenditures – Budgetary Basis are presented on a "budget basis" to provide a meaningful comparison with the budget.

The major differences between budget and GAAP bases are that:

1. Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
2. Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP). The following reconciliations summarize the differences between budget and GAAP basis accounting principles for the year ended June 30, 2002:

| | General fund | | | Special revenue funds | | |
|---|----------------------|-------------------|-------------------------------------|-----------------------|------------------|-------------------------------------|
| | Revenue | Expenditures | Other financing sources (uses), net | Revenue | Expenditures | Other financing sources (uses), net |
| As reported on a budgetary basis | \$ 61,914,576 | 65,285,730 | (443,952) | 3,921,615 | 3,517,277 | (100,000) |
| Adjustment of revenues to a modified accrual basis | (201,030) | — | — | — | — | — |
| Adjustment for encumbrances and continuing appropriations and accrued expenditures, net of prior year reversals | — | (1,616,720) | — | — | — | — |
| Special revenue funds not budgeted | — | — | — | 3,541,398 | 3,532,576 | 295,000 |
| As reported on a GAAP basis | <u>\$ 61,713,546</u> | <u>63,669,010</u> | <u>(443,952)</u> | <u>7,463,013</u> | <u>7,049,853</u> | <u>195,228</u> |

CASH 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 prescribed levels without collateralization by the financial institutions involved. 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 agreements 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), a pooled fund.

The Town's pension trust fund has additional investment powers, most notably the ability to invest in common stocks, fixed income securities bonds, and other specified investments.

Deposits

The following summary presents the amount of Town deposits which are fully insured or collateralized with securities held by the Town or its agent in the Town's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name (Category 2), and those deposits which are not collateralized (Category 3) at June 30, 2002.

| | <u>Bank balance</u> | | | <u>Total bank balance</u> |
|------|---------------------|----------|------------|---------------------------|
| | <u>Category</u> | | | |
| | <u>1</u> | <u>2</u> | <u>3</u> | |
| Cash | \$ 4,300,524 | — | 12,643,662 | 16,944,186 |

The carrying amount of deposits listed above is \$14,866,659.

Investments

The Town categorizes investments according to the level of risk assumed by the Town. Category 1 includes investments that are insured, registered or held by the Town's agent in the Town's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the Town's name. Pooled funds are not categorized because they are managed investment pools.

| | <u>Carrying amount</u> | | | | <u>Fair value</u> |
|-----------------------------|------------------------|-------------------|-------------------|------------------------|-------------------|
| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Not categorized</u> | |
| Common stock | \$ 14,061,696 | — | — | — | 14,061,696 |
| Fixed income securities: | | | | | |
| U.S. Government obligations | 2,187,072 | — | — | — | 2,187,072 |
| Pooled funds | — | — | — | 37,056,727 | 37,056,727 |
| | <u>\$ 16,248,768</u> | <u>—</u> | <u>—</u> | <u>37,056,727</u> | <u>53,305,495</u> |

Of the investments reflected in the preceding table, investments of the Town's Pension System constitute 83% and 75% of the amounts in Category 1 and the Not Categorized column, respectively.

From time to time the System invests in derivative products, mainly currency hedges to minimize the currency risk on its international investments. The System's investments are managed by independent professional money managers whose investment performance is subject to periodic review. At December 31, 2001, the System considers its exposure to derivatives to be insignificant.

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

PENSION PLAN

The System's separately issued December 31, 2001 financial statements can be obtained by contacting the Town of Belmont Retirement Office located at 19 Moore Street, Belmont, Massachusetts 02478.

Plan Description

The Town contributes to the System, a cost sharing, multiple-employer, public employee retirement system that acts as the investment and administrative agent for the Town and the Belmont Housing Authority. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The System is a member of the Massachusetts Contributory System, which is governed by Chapter 32 of the MGL. Public school teachers are covered by the Commonwealth of Massachusetts Teachers' Retirement System, to which the Town of Belmont does not contribute.

Significant Accounting Policies of the System

1. *Basis of Accounting*

The System is presented on the accrual basis of accounting.

2. *Contributions*

Employer contributions are recognized as revenue and recorded as a receivable when appropriated by the participating employers. Plan member and other contributions are recognized when due.

3. *Benefits and Refunds*

Benefits and refunds to plan members and beneficiaries are recognized as expenses when due and payable in accordance with the terms of the plan.

4. *Valuation of Investments*

Investments are reported at fair value. Fair values of investments are based on quotations from a national securities exchange, except for pooled funds, which are valued at unit value.

5. *Basis of Investment Transactions*

Purchases and sales of investments are recorded on the trade date.

Contribution Requirements and Contribution Made

The System's funding policy is governed by Section 22D of Chapter 32. The Town is required to fund each year the actuarially determined normal cost plus an amount to amortize the unfunded liability no later than June 30, 2028. The System's funding schedule will amortize the unfunded liability by fiscal 2025. Normal cost is based upon the entry age normal cost method and would increase each year. The Commonwealth of Massachusetts funded cost-of-living adjustments (COLAs) granted from July 1, 1981 to June 30, 1998. The System is responsible for COLAs granted after July 1, 1998.

The Town's contributions to the System for the years ended December 31, 2001, 2000, and 1999 were \$2,943,529, \$2,778,126, and \$2,648,057, respectively, and were made in accordance with the funding policy described above.

Investment Concentration

At December 31, 2001, the System's pooled funds include the following investments that represented 5% or more of the System's net assets:

| | Fair value at December 31, 2001 |
|--|--|
| Putnam Core International Equity | |
| Tobacco Free Fund | \$ 4,120,514 |
| Standish, Ayer & Wood Investment Trust | 13,647,467 |
| Delaware Pooled Trust | 3,817,625 |
| Wellington Large Cap Research Value Portfolio | 7,853,514 |

LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2002:

| | <u>June 30, 2001</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2002</u> |
|--|--------------------------|------------------|--------------------|--------------------------|
| General Municipal Purposes serial maturities through 2013 (interest rates 4.2% to 5.5%) | \$ 4,857,000 | 2,250,000 | (742,000) | 6,365,000* |
| School bonds, serial maturities, through 2015 (interest rates 4.2% to 6.1%) | 15,255,000 | — | (1,090,000) | 14,165,000 |
| Massachusetts Water Resources Authority (MWRA) loan, serial maturities through 2019 (non-interest bearing) | 682,469 | — | (172,580) | 509,889 |
| Total general obligation bonds | <u>20,794,469</u> | <u>2,250,000</u> | <u>(2,004,580)</u> | <u>21,039,889</u> |
| Other long-term obligations: | | | | |
| Vacation and other compensatory time | 1,228,000 | 11,000 | — | 1,239,000 |
| Self-insured benefit plans (note 12) | <u>701,300</u> | <u>75,700</u> | <u>—</u> | <u>777,000</u> |
| | <u>1,929,300</u> | <u>86,700</u> | <u>—</u> | <u>2,016,000</u> |
| Total general long-term debt | <u>\$ 22,723,769</u> | <u>2,336,700</u> | <u>(2,004,580)</u> | <u>23,055,889</u> |

* Includes Electric Enterprise debt of \$1,600,000 and BANS refinanced on a long-term basis (see note 14).

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2002, including interest, are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|------------------|-------------------|
| Year ending June 30: | | | |
| 2003 | \$ 1,997,580 | 876,989 | 2,874,569 |
| 2004 | 2,227,578 | 1,070,779 | 3,298,357 |
| 2005 | 1,924,256 | 893,323 | 2,817,579 |
| 2006 | 1,683,170 | 792,698 | 2,475,868 |
| 2007 | 1,713,170 | 707,783 | 2,420,953 |
| Thereafter | <u>11,494,135</u> | <u>3,428,437</u> | <u>14,922,572</u> |
| | <u>\$ 21,039,889</u> | <u>7,770,009</u> | <u>28,809,898</u> |

The Commonwealth of Massachusetts has approved school construction assistance to the Town. The assistance program, which is administered by the School Building Assistance Bureau (SBAB), provides funds for future debt service of general obligation school bonds outstanding. These resources are subject to annual appropriation by the state legislature and the Town's compliance with certain reporting requirements. During fiscal 2002, the Town received approximately \$1,100,000 of such assistance.

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

Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2002, the Town may issue approximately \$105,000,000 additional general obligation debt under the normal debt limit. The Town has approximately \$16,950,000 of debt exempt from the debt limit.

At June 30, 2002, the Town had \$12,950,000 of authorized and unissued debt.

The Town pays assessments, which include debt service payments to other local governmental units providing services within the Town's boundaries (commonly referred to as overlapping debt). The following summary sets forth the long-term debt of each entity at June 30, 2002, the estimated share of such debt being serviced by the Town, and the total of its share of estimated indirect debt.

| | Long-term debt outstanding (unaudited) | Town's estimated share | Town's estimated indirect debt |
|-------|---|---------------------------------------|---|
| MWRA: | | | |
| Water | \$ 1,450,125,000 | 1.21% | \$ 17,607,376 |
| Sewer | 3,408,921,000 | 1.19% | 40,729,336 |

TEMPORARY BORROWINGS

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANs or TANs).
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs).
- Federal and state-aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates that are limited by statute. At June 30, 2002, the following temporary borrowing was outstanding:

| Type | Weighted average interest rate | Maturity date | Amount |
|--------------------------------|---|----------------------|---------------|
| BANs, Belmont High Track Plans | 3.08% | 8/15/02 | \$ 25,000 |

OPERATING TRANSFERS

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Operating transfers during the year were as follows:

| | General | Special revenue | Expendable trusts |
|--------------------------------|---------------------|----------------------------|------------------------------|
| Purpose of operating transfer: | | | |
| Capital endowment | \$ (380,228) | 380,228 | — |
| Parking meters | 60,000 | (60,000) | — |
| Cemetery perpetual care | 25,000 | (25,000) | — |
| Water fund | 100,000 | (100,000) | — |
| Belmont Light | 274,900 | — | — |
| Health insurance | (523,624) | — | 523,624 |
| | <u>\$ (443,952)</u> | <u>195,228</u> | <u>523,624</u> |

The General Fund had an interfund transfer in from the Municipal Light Department of \$274,900. There is no corresponding transfer out because the Town and the Municipal Light Department have different fiscal year ends.

DUE FROM OTHER FUNDS

The pension trust fund had an interfund receivable of \$1,662,741. There is no corresponding payable because the Town and the pension trust fund have different fiscal year ends.

POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the Town provides the majority of retired employees with partial payment of their health care and life insurance benefits. These benefits are provided primarily through Harvard Pilgrim and Unicare. Benefits paid by the Town are on a “pay-as-you-go” basis, and there is no actuarial valuation available as of June 30, 2002. The Town’s share of the total cost for the year ended June 30, 2002, was approximately \$1,350,000.

RISK MANAGEMENT

The Town is exposed to various risks of loss related to general liability, property and casualty, workers’ compensation, unemployment, and employee health and life insurance claims.

Buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$50,000 per incident. Vehicle damage and loss is self-insured. The Town is self-insured for workers’ compensation relating to police officers and firefighters. All other employees of the Town are provided workers’ compensation coverage through a premium-based plan.

In 1999, the Town experienced a loss due to a fire at one of its buildings. The building was insured up to and including replacement cost. For the years ended June 30, 2000 and 1999, the Town received partial insurance settlements on the actual cash value of the building of \$517,000 and \$500,000, respectively. In September 2001, the Town received a final settlement of \$4,900,000.

The Town is also self-insured for those employees electing indemnity health plans. Both employees and the Town make contributions based upon a 80% (Town) and 20% (employee) primary care premium formula. The purpose of this program is to pay medical claims of the Town’s employees and their covered dependents. The Town carries insurance on individual medical claims in excess of \$100,000 annually. The Town also provides preferred provider health plans (premium based health plans) for those employees not electing indemnity plans.

The Town is self-insured for other general liability; however, Chapter 258 of the MGL limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain, and breach of contract.

Liabilities for self-insured claims are reported as liabilities if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Town records such liabilities in the general long-term debt account group (GLTDAG). Changes in the GLTDAG claims liability in fiscal 2002 and 2001 were as follows:

| | <u>Workers’ compensation</u> | <u>Indemnity plans</u> | <u>Total</u> |
|---|----------------------------------|----------------------------|----------------|
| Balance, June 30, 2000 | \$ 15,000 | 717,300 | 732,300 |
| Provision for losses/change in estimate | — | 2,828,000 | 2,828,000 |
| Payments for claims | (15,000) | (2,844,000) | (2,859,000) |
| Balance, June 30, 2001 | — | 701,300 | 701,300 |
| Provision for losses/change in estimate | — | 3,185,368 | 3,185,368 |
| Payments for claims | — | (3,109,668) | (3,109,668) |
| Balance, June 30, 2002 | \$ — | <u>777,000</u> | <u>777,000</u> |

CONTINGENCIES

There are several lawsuits in which the Town is involved. The Town estimates that the potential claims against the Town not covered by insurance resulting from such litigation would not materially affect the Town’s general purpose financial statements.

SUBSEQUENT EVENT

On August 14, 2002, the Town sold \$14,200,000 of General Purpose bonds at interest rates ranging from 3.50% to 4.75%, with serial maturities through 2022. Of the bond proceeds, \$2,250,000 was used to retire a like amount of BANs maturing on August 15, 2002. Accordingly, the Town has presented the refinanced BANs as long-term debt at June 30, 2002.