

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Belmont, Massachusetts (the Town), as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 Belmont Municipal Light Department, a major enterprise fund, which represent 50.5% and 57.8%, respectively, of the 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 on the financial statements, insofar as it relates to amounts included for the Municipal Light Department, and the related effects on the business-type activities, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Municipal Light Department were not audited in accordance with *Government Auditing Standards*. 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 Belmont, Massachusetts, as of June 30, 2004, 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.

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Information on pages 40 through 42 are not required parts 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2005 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,  
KPMG LLP

As management of the Town of Belmont (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, 2004.

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, public education, water and sewer maintenance, trash disposal, electricity transmission and parks and recreational facilities.

### Financial Highlights

- The assets of the Town exceeded its liabilities at the close of fiscal 2004 by approximately \$74.2 million (net assets).
- The Town's total net assets increased by approximately \$3.1 million.
- At the end of fiscal 2004, undesignated fund balance for the general fund was approximately \$5.1 million or 8.1% of total general fund expenditures.
- The Town's total debt increased by approximately \$7.9 million during fiscal 2004.

## **Overview of the Financial Statements**

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

## **Government-wide Financial Statements**

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

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

The statement of activities presents information showing how the 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick and vacation time).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general administration, public safety, education, public works, human services, and cultural development. The business-type activities of the Town include water and sewer systems and electricity transmission activities.

## **Fund Financial Statements**

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

## **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial 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. Such information may be useful in evaluating a government's near-term financing requirements.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Town Annex Renovation Fund and the Fire Station Construction Fund, which are the Town's only major governmental funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation.

## **Proprietary Funds**

Enterprise funds (one type of proprietary fund) are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer systems and electricity transmission activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer systems and electricity transmission activities, all of which are considered to be major funds of the Town.

## Fiduciary Funds

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

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: a pension trust fund and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Town's agency fund accounts for primarily police and off-duty fire details.

The Town is the trustee, or fiduciary, for its employees' pension plan. The Town's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the Town's government-wide financial statements because the Town cannot use these assets to finance its operations.

## Notes to the 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.

## Other Information

In addition to the basic financial statements and accompanying notes, these financial statements also present certain required supplementary information (RSI).

The Town adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided for the general fund as RSI to demonstrate compliance with this budget.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by approximately \$74.2 million at the close of the most recent fiscal year.

A significant portion of the Town's net assets (65.6%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt are generally provided from other sources, since the capital assets themselves typically are not used to liquidate these liabilities.

|   | Net Assets<br>(Amounts in 000's) |        |                             |        |         |         |
|---|----------------------------------|--------|-----------------------------|--------|---------|---------|
|   | Governmental<br>activities       |        | Business-type<br>activities |        | Total   |         |
|   | 2004                             | 2003   | 2004                        | 2003   | 2004    | 2003    |
| Current and other assets                        | \$ 35,341                        | 33,049 | 10,156                      | 7,705  | 45,497  | 40,754  |
| Capital assets                                  | 63,098                           | 53,835 | 13,842                      | 13,517 | 76,940  | 67,352  |
| Total assets                                    | 98,439                           | 86,884 | 23,998                      | 21,222 | 122,437 | 108,106 |
| Long-term liabilities                           | 41,067                           | 29,524 | 2,861                       | 2,075  | 43,928  | 31,599  |
| Other liabilities                               | 3,366                            | 4,316  | 953                         | 1,083  | 4,319   | 5,399   |
| Total liabilities                               | 44,433                           | 33,840 | 3,814                       | 3,158  | 48,247  | 36,998  |
| Net assets:                                     |                                  |        |                             |        |         |         |
| Invested in capital assets, net of related debt | 36,823                           | 34,765 | 11,878                      | 11,833 | 48,701  | 46,598  |
| Restricted                                      | 1,806                            | 1,880  | 1,016                       | 816    | 2,822   | 2,696   |
| Unrestricted                                    | 15,377                           | 16,399 | 7,290                       | 5,415  | 22,667  | 21,814  |
| Total net assets                                | \$ 54,006                        | 53,044 | 20,184                      | 18,064 | 74,190  | 71,108  |

Certain reclassifications were made to the 2003 condensed financial information figures to conform to the current year presentation.

An additional portion of the Town's net assets (3.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents (\$22.7 million) of unrestricted net assets.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the Town as a whole, as well as for its separate governmental and business-type activities.

During fiscal 2004, the Town's net assets increased by approximately \$3.1 million – \$1.0 million in the governmental activities and by approximately \$2.1 million in business-type activities.

### **Governmental Activities**

Governmental activities increased the Town's net assets by approximately \$1.0 million, thereby accounting for 32.3% of the total growth in net assets of the Town. Key elements of this increase are as follows:

The Town budgets according to state regulations all capital projects in total from current-year appropriations or bond authorizations. The Town of Belmont funds over \$2.2 million a year from current-year appropriations for capital projects.

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 Town-wide referendum vote. The Town has taken advantage of this override capability to increase operating budgets and so-called "debt exclusions" that are not subject to the Proposition 2-1/2% limitations. In fiscal 2004, the Town issued \$10.0 million in debt for fire station renovations that fall into this category.

The Town collects over 98% of its property tax billings in the year billed. Property taxes increased by \$3.8 million in fiscal 2004. \$1.8 million of this increase was the allowable increase under Proposition 2-1/2%. \$0.7 million of this increase is the product of the certified new growth of the Town. There was an increase in the debt exclusion in fiscal 2004 of \$1.5 million and \$466,000 of unused tax capacity from 2003.

In fiscal year 2004, the Burbank Elementary School experienced a leak of one of their underground storage tanks. The leak gained access to a storm drain and further caused problems at Clay Pit Pond. The cost of cleanup and restoration, which is presented as a special item in the accompanying statement of activities, was \$1.4 million that the Town funded from internal reserves.

### **Business-type activities**

Business-type activities increased the Town's net assets by approximately \$2.1 million, accounting for 67.7% of the total growth in the government's net assets. Statutory requirements, much like governmental funds, call for the funding of capital purchases from current year revenues. Revenues generated for capital increases exceeded depreciation. The largest change in net assets of \$952,000 is seen in the water fund.

|  | Changes in Net Assets<br>(Amounts in 000's) |               |                          |               |               |               |
|--|---|---------------|--------------------------|---------------|---------------|---------------|
|  | Governmental activities                     |               | Business-type activities |               | Total         |               |
|  | 2004  | 2003          | 2004                     | 2003          | 2004          | 2003          |
| Revenues:                                      |   |               |                          |               |               |               |
| Program revenues:                              |   |               |                          |               |               |               |
| Charges for services                           | \$ 4,151                                    | 3,565         | 21,714                   | 21,153        | 25,865        | 24,718        |
| Operating grants                               | 6,024                                       | 6,259         | 28                       | 148           | 6,052         | 6,407         |
| Capital grants                                 | 1,240                                       | 786           | —                        | —             | 1,240         | 786           |
| General revenues:                              |   |               |                          |               |               |               |
| Property taxes                                 | 49,989                                      | 46,924        | —                        | —             | 49,989        | 46,924        |
| Excise taxes                                   | 2,912                                       | 2,681         | —                        | —             | 2,912         | 2,681         |
| Intergovernmental                              | 2,389                                       | 3,061         | —                        | —             | 2,389         | 3,061         |
| Other  | 2,031                                       | 1,726         | —                        | —             | 2,031         | 1,726         |
| Total revenues                                 | <u>68,736</u>                               | <u>65,002</u> | <u>21,742</u>            | <u>21,301</u> | <u>90,478</u> | <u>86,303</u> |
| Expenses:                                      |   |               |                          |               |               |               |
| General government                             | 3,236                                       | 2,712         | —                        | —             | 3,236         | 2,712         |
| Public safety                                  | 11,391                                      | 11,837        | —                        | —             | 11,391        | 11,837        |
| Education                                      | 35,017                                      | 32,891        | —                        | —             | 35,017        | 32,891        |
| Public works                                   | 11,428                                      | 7,676         | —                        | —             | 11,428        | 7,676         |
| Human services                                 | 843   | 843           | —                        | —             | 843           | 843           |
| Culture and recreation                         | 2,432                                       | 2,341         | —                        | —             | 2,432         | 2,341         |
| State and county assessments                   | 1,468                                       | 1,465         | —                        | —             | 1,468         | 1,465         |
| Other  | —   | 78            | —                        | —             | —             | 78            |
| Interest on long-term debt                     | 1,237                                       | 1,330         | —                        | —             | 1,237         | 1,330         |
| Enterprise accounts:                           |   |               |                          |               |               |               |
| Water  | —   | —             | 2,741                    | 2,950         | 2,741         | 2,950         |
| Sewer  | —   | —             | 4,568                    | 4,630         | 4,568         | 4,630         |
| Light  | —   | —             | 11,575                   | 11,577        | 11,575        | 11,577        |
| Total expenses                                 | <u>67,052</u>                               | <u>61,173</u> | <u>18,884</u>            | <u>19,157</u> | <u>85,936</u> | <u>80,330</u> |
| Excess before transfers and special item       | 1,684                                       | 3,829         | 2,858                    | 2,144         | 4,542         | 5,973         |
| Transfers                                      | 738   | 640           | (738)                    | (640)         | —             | —             |
| Special item – environmental remediation costs | (1,460)                                     | —             | —                        | —             | (1,460)       | —             |
| Increase in net assets                         | 962   | 4,469         | 2,120                    | 1,504         | 3,082         | 5,973         |
| Net assets – beginning of year                 | 53,044                                      | 48,575        | 18,064                   | 16,560        | 71,108        | 65,135        |
| Net assets – end of year                       | <u>\$ 54,006</u>                            | <u>53,044</u> | <u>20,184</u>            | <u>18,064</u> | <u>74,190</u> | <u>71,108</u> |

### Financial Analysis of the Town's Governmental Funds

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

#### Governmental funds

The focus of the Town'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 financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of approximately \$30.7 million, an increase of approximately \$2.6 million in comparison with the prior year. Of this total amount, \$9.1 million constitutes undesignated fund balance, which is available for appropriation by the Town or for expenditures in accordance with legal restrictions. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been (1) committed to liquidate contracts and purchase orders of the prior period (\$17.5 million), (2) designated for capital endowment (\$3.2 million), (3) designated for subsequent year's expenditures (\$0.8 million), and (4) designated for future health claims and stabilization (\$0.1 million).

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was approximately \$5.1 million, while total general fund balance reached approximately \$8.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8.1% of total general fund expenditures, while total fund balance represents 13.4% of that same amount. The fund balance of the Town's general fund decreased by \$1.4 million during the current fiscal year.

The Town Annex Renovation fund is the capital fund established for the renovation and restoration of the Town Hall Annex and the School Administrative offices. These are historically significant buildings in Belmont dating back to the late 1800's when they had been built as a school and the original town library. These

restoration/renovations are being funded by a bond issuance of \$12 million (Bond Issue) that has been voted as a debt exclusion outside of the Proposition 2-1/2% limit in Massachusetts. The project is expected to be complete in January 2005. At June 30, 2004, approximately \$4.3 million of the Bond Issue remains unspent.

The Fire Station Construction Fund is the capital fund established for the building of two new fire stations to replace or consolidate the existing three stations. The Town funded \$10 million of a \$13 million authorization in 2004.

### Proprietary funds

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

The net assets of the proprietary funds at the end of the current fiscal year totaled approximately \$20.2 million. Changes in net assets of the proprietary funds at the end of the current fiscal year totaled approximately \$2.1 million.

### Budgetary Highlights

Differences between the original budget and the final amended budget were mainly the result of reserve fund transfers within budget line items to address a shortfall in the public works department due to the heavy snowfall in the winter of 2003-2004 and to fund the Burbank School oil spill.

### Capital Assets and Debt Administration

#### Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to approximately \$76.9 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction-in-progress, buildings, machinery and equipment, and infrastructure.

See note 4 for more information.

#### Long-term debt

At the end of the current fiscal year, the Town had total debt outstanding of approximately \$38.9 million. The entire amount is backed by the full faith and credit of the Town.

|                      | Outstanding debt<br>(Amounts in 000's) |                             | Total  |
|----------------------|--|-----------------------------|--------|
|                      | Governmental<br>activities             | Business-type<br>activities |        |
| Total long-term debt | \$ 36,977                              | 1,964                       | 38,941 |

The Town's debt increased by approximately \$7.9 million (25.7%) during the current fiscal year. The key factors in this increase were:

During 2004, the Town issued \$10.1 million of general obligation debt. This debt will be used to finance the fire station construction and related land acquisition as well as a new communications tower. The fire station construction and land acquisition was a voted debt exclusion under Proposition 2-1/2% and therefore not subject to the restriction of the property tax limit in Massachusetts.

Also during 2004, the Town received a \$650,000 noninterest-bearing loan from the MWRA for ongoing water line reconstruction.

The Town has an "AAA" rating from Moody's for general obligation debt.

#### Economic factors and next year's budget

The Town continues to experience growth in residential renovation and redevelopment. In 2004, 834 building permits were issued, resulting in \$31.2 million in value. This is increased over 2003 levels, which generated 775 permits of \$30.9 million in value. This activity has produced new growth tax revenue, which is exempt from the limitations imposed by Proposition 2½. For fiscal year 2004, the Town realized \$691,468 in new taxes from this source.

The unemployment rate for Belmont in 2004 was 2.9%, compared to the state average of 6.2%. Despite these economic conditions, Belmont's residents voted to override the Proposition 2½ tax levy limitation by \$13 million of

which \$2.8 million was used in fiscal year 2004 to fund important municipal and school operations. The Town collected 98% of all tax billings by the end of the fiscal year.

The per capita income in Belmont is \$42,485, compared to the state average of \$25,952. According to a study by Massachusetts Benchmarks, median family income in Belmont has grown 56% since 1990, to \$95,057. For single-family homes sold in 2004, the average value was \$673,500, representing an increase of 4.5% over 2003. All sales averaged \$580,787, representing an overall increase of 2.8% over 2003.

State aid for school and general government operations declined in fiscal 2004. However, at approximately 8.4% of the Town's budget, state aid is a small percentage of the revenue stream.

### Requests for Information

This information is designed to provide a general overview of the Town's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this document or requests for additional financial information should be addressed to the Finance Department, Town Hall, 19 Moore Street, Belmont, MA 02478.

### (1) Financial Statement Presentation

The Town of Belmont (the Town) is governed by an elected three-member Board of Selectmen. They in turn appoint a Town Administrator who has general supervision of and control over the Town's boards, commissions, officers and departments. The legislative body of the Town is the elected Town Meeting members which consist of 288 members elected for a three-year term in addition to some ex-officio members. Accounting principles generally accepted in the United States of America (GAAP) require that the accompanying basic financial statements present the Town (the primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. Pursuant to this 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 is included into the Town's fiduciary funds for reporting purposes.

The Town has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified service recipients. The following is a list of the Town's joint ventures, their purpose, the address where the joint venture financial statements are available, and the annual assessment paid by the Town in 2004.

The Town is a participant in the following joint ventures:

| <u>Joint venture</u>                              | <u>Purpose</u>                     | <u>Address</u>   | <u>Fiscal 2004<br/>assessment</u> |
|---|------------------------------------|--|-----------------------------------|
| Massachusetts Water Resources Authority (MWRA)    | To provide water and sewer service | 100 First Avenue,<br>Boston, MA 021 29                     | \$ <u>4,925,595</u>               |
| Massachusetts Bay Transportation Authority (MBTA) | To provide public transportation   | 10 Park Plaza<br>Boston, MA 02116                          | \$ <u>1,369,992</u>               |
| Minuteman Regional School District                | To provide vocational education    | 785 Marrett Road<br>Lexington, MA 021 73                   | \$ <u>597,063</u>                 |
| North East Solid Waste Communities (NESWC)        | To provide trash disposal services | c/o Xenergy<br>3 Burlington Woods<br>Burlington, MA 01 803 | \$ <u>1,041,848</u>               |

### (2) Summary of Significant Accounting Policies

The financial statements of the Town have been prepared in conformity with GAAP as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The Town also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the Town's accounting policies are described below.

**(a) Basis of Presentation**

The financial condition and results of operations of the Town are presented as of and for the year ended June 30, 2004, except for the Belmont Municipal Light Department (the Municipal Light Department or Light) and the System which are presented as of and for the year ended December 31, 2003.

**Government-wide Statements**

The statement of net assets and the statement of activities display information about the primary government (the Town). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements**

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major governmental funds:

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

*Town Annex Renovation Fund* – This fund accounts for the renovation and restoration of the Town Hall Annex.

*Fire Station Construction* – This fund accounts for the construction of a Town fire station.

The Town reports the following major enterprise funds:

*Water Fund* – This fund accounts for the provisions of water treatment and distribution to its residential and commercial users located within the Town.

*Sewer Fund* – This fund accounts for the provisions of sanitary sewer service to the residents and commercial users located within the Town.

*Light* – This fund accounts for the Town's Electric Light Department.

Additionally, the Town reports the following fund types:

*Pension Trust Fund* – Accounts for the activities of the System, which accumulates resources for pension benefit payments to qualified employees of its contributing members.

*Agency Funds* – These funds account for off-duty police, fire and custodial details. The Town's agency funds are custodial in nature (assets equals liabilities) and do not involve measurement of results of operations.

**(b) *Measurement Focus, Basis of Accounting***

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Town generally considers nongrant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Grant revenues that the Town earns by incurring obligations are recognized in the same period as when the obligations are recognized. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, landfill closure and postclosure care costs, and compensated absences, which are recognized as expenditures to the extent they have matured. Tax abatement liability is based upon actual claims submitted prior to June 30 and that are expected to be liquidated within the ensuing twelve months. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financial sources.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**(c) *Deferred Revenue***

In the governmental fund financial statements, deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

**(d) *Cash and Cash Equivalents***

To improve cash management, cash received by the Town is pooled. Monies for all funds, except those restricted by MGL to be held separately, are maintained in this pool. Individual fund integrity is maintained through Town records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheet.

For purposes of the statement of cash flows, all highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

**(e) *Investment Valuation***

The Town's investments are carried at fair value. The Town invests in the Massachusetts Municipal Depository Trust (MMDT) which is an external investment pool and is not SEC-registered. This fund is state-regulated and is valued at current share price.

**(f) *Compensated Absences***

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated sick and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**(g) Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are reported as expenditures in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. The Town maintains a capitalization threshold of \$10,000. The Town's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the Town's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

|                         |              |
|-------------------------|--------------|
| Buildings               | 40-50 years  |
| Land improvements       | 20 years     |
| Machinery and equipment | 5-20 years   |
| Infrastructure          | 15-100 years |

Capital assets of the Light department are stated at cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time donated. 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 Light 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 2003. Expenditures for maintenance and repairs are charged to operations as incurred.

**(h) Fund Balances – Governmental Funds**

The Town has allocated fund balances to its governmental funds as follows:

*Reserved for Encumbrances* – Represents the amount of unexpended appropriations carried forward to fiscal 2005 for projects which have not been completed, open purchase orders and for contracts which have not been performed.

*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 2005 appropriations.

*Designated for Tax Rate Stabilization* – Represents the amount of fund balance designated for future tax rate stability.

*Designated for health claims* – represents amount of fund balance that can be expended for the purpose of paying health claims.

*Undesignated* – Represents the amount of funds available for appropriations by the Town or for expenditure in accordance with legal restrictions for certain special revenue, capital projects, and permanent funds.

**(i) Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation of the Town or through external restrictions imposed by grantors or laws or regulations primarily for cemetery perpetual care, educational scholarships and other purposes.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**(j) Bond Discounts, Premiums, and Issuance Costs**

In the government-wide and proprietary fund financial statements, bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums, and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

**(a) Inventory**

For the governmental fund financial statements, inventory is accounted for on the purchase method and recorded as an expenditure when purchased. For the government-wide and proprietary fund financial statements, inventory is accounted for on the consumption method and recorded as an other asset until consumed or used in operations.

**(l) Use of Estimates**

The preparation of financial statements in conformity with GAAP 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 during the reporting period. Actual results could differ from those estimates.

**(3) Property Tax Receivables**

Real and personal property taxes are based on values assessed as of each January 1 and are due in semiannual installments on November 1<sup>st</sup> and May 1<sup>st</sup>. 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.

**(4) Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

|   | <u>Beginning<br/>balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental activities:                        |                              |                  |                  |                           |
| Capital assets, not being<br>depreciated:       |                              |                  |                  |                           |
| Land  | \$ 347,777                   | 1,393,232        | —                | 1,741,009                 |
| Construction in progress                        | <u>2,146,855</u>             | <u>6,366,520</u> | <u>(392,749)</u> | <u>8,120,626</u>          |
| Total capital assets,<br>not being depreciated  | <u>2,494,632</u>             | <u>7,759,752</u> | <u>(392,749)</u> | <u>9,861,635</u>          |
| Capital assets, being depreciated:              |                              |                  |                  |                           |
| Buildings                                       | 63,532,535                   | 981,861          | —                | 64,514,396                |
| Land improvements                               | 2,077,387                    | 290,915          | —                | 2,368,302                 |
| Machinery and equipment                         | 6,440,419                    | 495,289          | (145,160)        | 6,790,548                 |
| Infrastructure                                  | <u>17,486,885</u>            | <u>2,034,024</u> | <u>—</u>         | <u>19,520,909</u>         |
|   | <u>89,537,226</u>            | <u>3,802,089</u> | <u>(145,160)</u> | <u>93,194,155</u>         |
| Less accumulated depreciation<br>for:           |                              |                  |                  |                           |
| Buildings                                       | 27,264,755                   | 1,118,575        | —                | 28,383,330                |
| Land improvements                               | 1,776,669                    | 49,720           | —                | 1,826,389                 |
| Machinery and equipment                         | 3,940,020                    | 455,591          | (91,252)         | 4,304,359                 |
| Infrastructure                                  | <u>5,215,140</u>             | <u>228,960</u>   | <u>—</u>         | <u>5,444,100</u>          |
|   | <u>38,196,584</u>            | <u>1,852,846</u> | <u>(91,252)</u>  | <u>39,958,178</u>         |
| Total capital assets,<br>being depreciated, net | <u>51,340,642</u>            | <u>1,949,243</u> | <u>(53,908)</u>  | <u>53,235,977</u>         |
| Governmental capital<br>assets, net             | <u>\$ 53,835,274</u>         | <u>9,708,995</u> | <u>(446,657)</u> | <u>63,097,612</u>         |

Depreciation expense was charged to governmental functions as follows:

|   |                     |
|---|---------------------|
| Governmental activities:                                |                     |
| Public safety   | \$ 248,141          |
| Public works  | 499,616             |
| Education   | 1,012,426           |
| Human services  | 18,377              |
| Culture and recreation                                  | <u>74,286</u>       |
| Total depreciation expense –<br>governmental activities | <u>\$ 1,852,846</u> |

|   | <b>Beginning<br/>balance</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>balance</b> |
|---|------------------------------|------------------|------------------|---------------------------|
| Business-type activities:                   |                              |                  |                  |                           |
| Water:                                      |                              |                  |                  |                           |
| Capital assets, not being depreciated:      |                              |                  |                  |                           |
| Land  | \$ 3,138                     | —                | —                | 3,138                     |
| Construction in progress                    | 3,631                        | 17,122           | (3,631)          | 17,122                    |
| Total capital assets, not being depreciated | 6,769                        | 17,122           | (3,631)          | 20,260                    |
| Capital assets, being depreciated:          |                              |                  |                  |                           |
| Buildings                                   | 141,491                      | —                | —                | 141,491                   |
| Land improvements                           | 7,822                        | —                | —                | 7,822                     |
| Machinery and equipment                     | 481,550                      | —                | —                | 481,550                   |
| Infrastructure                              | 19,840,003                   | 321,971          | —                | 20,161,974                |
| Total capital assets, being depreciated     | 20,470,866                   | 321,971          | —                | 20,792,837                |
| Less accumulated depreciation for:          |                              |                  |                  |                           |
| Buildings                                   | 114,844                      | 2,594            | —                | 117,438                   |
| Land improvements                           | 7,822                        | —                | —                | 7,822                     |
| Machinery and equipment                     | 256,162                      | 37,050           | —                | 293,212                   |
| Infrastructure                              | 17,490,564                   | 67,554           | —                | 17,558,118                |
|   | 17,869,392                   | 107,198          | —                | 17,976,590                |
| Total capital assets being depreciated, net | 2,601,474                    | 214,773          | —                | 2,816,247                 |
| Water capital assets, net                   | 2,608,243                    | 231,895          | (3,631)          | 2,836,507                 |

|   | <b>Beginning<br/>balance</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>balance</b> |
|---|------------------------------|------------------|------------------|---------------------------|
| Sewer:                                      |                              |                  |                  |                           |
| Capital assets, not being depreciated:      |                              |                  |                  |                           |
| Construction in progress                    | \$ —                         | 8,481            | —                | 8,481                     |
| Total capital assets, not being depreciated | —                            | 8,481            | —                | 8,481                     |
| Capital assets, being depreciated:          |                              |                  |                  |                           |
| Machinery and equipment                     | 216,471                      | 62,700           | —                | 279,171                   |
| Infrastructure                              | 4,794,679                    | 189,842          | —                | 4,984,521                 |
| Total capital assets, being depreciated     | 5,011,150                    | 252,542          | —                | 5,263,692                 |
| Less accumulated depreciation for:          |                              |                  |                  |                           |
| Machinery and equipment                     | 26,325                       | 28,257           | —                | 54,582                    |
| Infrastructure                              | 1,481,024                    | 59,867           | —                | 1,540,891                 |
| Total accumulated depreciation              | 1,507,349                    | 88,124           | —                | 1,595,473                 |
| Total capital assets being depreciated, net | 3,503,801                    | 164,418          | —                | 3,668,219                 |
| Sewer capital assets, net                   | 3,503,801                    | 172,899          | —                | 3,676,700                 |

|  | <u>Beginning<br/>balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Light:                                       |                              |                  |                  |                           |
| Capital assets, not being depreciated:       |                              |                  |                  |                           |
| Land   | \$ 9,348                     | —                | —                | 9,348                     |
| Total capital assets, not being depreciated  | <u>9,348</u>                 | <u>—</u>         | <u>—</u>         | <u>9,348</u>              |
| Capital assets, being depreciated:           |                              |                  |                  |                           |
| Buildings                                    | 14,527,293                   | 661,365          | (270,537)        | 14,918,121                |
| Machinery and equipment                      | 5,774,987                    | 74,693           | —                | 5,849,680                 |
| Total capital assets, being depreciated      | <u>20,302,280</u>            | <u>736,058</u>   | <u>(270,537)</u> | <u>20,767,801</u>         |
| Less accumulated depreciation for:           |                              |                  |                  |                           |
| Buildings                                    | 10,961,310                   | 581,088          | (270,537)        | 11,271,861                |
| Machinery and equipment                      | 1,945,661                    | 231,003          | —                | 2,176,664                 |
| Total accumulated depreciation               | <u>12,906,971</u>            | <u>812,091</u>   | <u>(270,537)</u> | <u>13,448,525</u>         |
| Total capital assets being depreciated, net  | <u>7,395,309</u>             | <u>(76,033)</u>  | <u>—</u>         | <u>7,319,276</u>          |
| Light capital assets, net                    | <u>7,404,657</u>             | <u>(76,033)</u>  | <u>—</u>         | <u>7,328,624</u>          |
| Business-type activities capital assets, net | <u>\$ 13,516,701</u>         | <u>328,761</u>   | <u>(3,631)</u>   | <u>13,841,831</u>         |

## (5) 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 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). The System has additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

### (a) 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, 2004 (except for the System which is at December 31, 2003).

|      | <u>Bank balance</u> |          |            | <u>Total bank<br/>balance</u> | <u>Carrying<br/>amount</u> |
|------|---------------------|----------|------------|-------------------------------|----------------------------|
|      | <u>Category</u>     |          |            |                               |                            |
|      | <u>1</u>            | <u>2</u> | <u>3</u>   |                               |                            |
| Cash | \$ 2,535,210        | —        | 35,380,580 | 37,915,790                    | 33,901,201                 |

**(b) Investments**

The Town categorizes investments according to the level of custodial credit 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.

Investments in MMDT, international investments, real estate, and venture capital funds are not categorized because they are managed investment pools.

|                         | Category      |   |   | Not categorized | Fair value |
|-------------------------|---------------|---|---|-----------------|------------|
|                         | 1             | 2 | 3 |                 |            |
| MMDT                    | \$ —          | — | — | 3,554,388       | 3,554,388  |
| Common stocks           | 13,162,356    | — | — | —               | 13,162,356 |
| Fixed-income securities | 2,471,992     | — | — | —               | 2,471,992  |
| Pooled funds            | —             | — | — | 34,789,931      | 34,789,931 |
| Total                   | \$ 15,634,348 | — | — | 38,344,319      | 53,978,667 |

Of the investments reflected in the preceding table, investments of the System constitute 80% and 91%, respectively, of the investments in Category 1 and not categorized.

From time to time the System invests in derivative products. The System's investments are managed by independent professional money managers whose investment performance is subject to periodic review. At June 30, 2004, 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, collection of state and federal aid, and capital outlays throughout the year.

**(6) Retirement System**

The System's separately issued December 31, 2003 financial statements can be obtained by contacting the Town of Belmont Retirement Office located at 19 Moore Street, Belmont, Massachusetts 02478.

**(a) 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 does not contribute.

**(b) Significant Accounting Policies of the System**

**(i) Basis of Accounting**

The System is presented on the accrual basis of accounting.

**(ii) 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.

**(iii) 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.

**(iv) 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.

**(v) Basis of Investment Transactions**

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

**(c) 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, 2003, 2002, and 2001 were approximately \$3.4 million, \$3.1 million, and \$2.9 million, respectively, and were made in accordance with the funding policy described above.

**(7) Long-Term Obligations**

The following is a summary of changes in long-term obligations for the year ended June 30, 2004:

|   | <u>Maturing<br/>through<br/>year ended<br/>June 30</u> | <u>Interest<br/>percentage<br/>range</u> | <u>Outstanding<br/>beginning<br/>of year</u> | <u>Additions</u>  | <u>Reductions</u>  | <u>Outstanding<br/>end<br/>of year</u> |
|---|--|--|--|-------------------|--------------------|--|
| Governmental activities:                        |  |  |  |                   |                    |  |
| General – general obligation<br>bonds           | 2024   | 3.00% – 5.50%                            | \$ 29,308,816                                | 10,126,000        | (2,458,170)        | 36,976,646                             |
| Subtotal  |  |  | <u>29,308,816</u>                            | <u>10,126,000</u> | <u>(2,458,170)</u> | <u>36,976,646</u>                      |
| Business-type activities:                       |  |  |  |                   |                    |  |
| Water – note payable                            | 2014   | 0%                                       | 55,322                                       | 650,000           | (55,322)           | 650,000                                |
| Sewer – note payable                            | 2005   | 0%                                       | 228,172                                      | —                 | (114,086)          | 114,086                                |
| Light – general obligation bonds                | 2010   | 4.25% – 4.60%                            | 1,400,000                                    | —                 | (200,000)          | 1,200,000                              |
| Subtotal  |  |  | <u>1,683,494</u>                             | <u>650,000</u>    | <u>(369,408)</u>   | <u>1,964,086</u>                       |
| Total debt                                      |  |  | <u>30,992,310</u>                            | <u>10,776,000</u> | <u>(2,827,578)</u> | <u>38,940,732</u>                      |
| Other long-term obligations:                    |  |  |  |                   |                    |  |
| Landfill closure and postclosure<br>care costs: |  |  |  |                   |                    |  |
| Governmental activities                         |  |  | —  | 3,800,000         | —                  | 3,800,000                              |
| Compensated absences:                           |  |  |  |                   |                    |  |
| Governmental activities                         |  |  | 1,238,600                                    | —                 | (114,825)          | 1,123,775                              |
| Business-type activities:                       |  |  |  |                   |                    |  |
| Water   |  |  | 69,200                                       | —                 | (5,200)            | 64,000                                 |
| Sewer   |  |  | 43,400                                       | —                 | (10,400)           | 33,000                                 |
| Light   |  |  | 140,035                                      | —                 | (6,458)            | 133,577                                |
| Subtotal  |  |  | <u>1,491,235</u>                             | <u>3,800,000</u>  | <u>(136,883)</u>   | <u>5,154,352</u>                       |
| Total long-term<br>obligations                  |  |  | <u>\$ 32,483,545</u>                         | <u>14,576,000</u> | <u>(2,964,461)</u> | <u>44,095,084</u>                      |

Water and sewer notes payable represent interest free notes from the MWRA. The notes are payable in equal installments through 2014 (water) and 2005 (sewer).

## **Maturity of Bond Indebtedness**

Bond indebtedness outstanding at June 30, 2004 matures as follows:

|                      | <b>Governmental activities</b> |                   |                   |
|----------------------|--------------------------------|-------------------|-------------------|
|                      | <b>Principal</b>               | <b>Interest</b>   | <b>Total</b>      |
| Year ending June 30: |                                |                   |                   |
| 2005                 | \$ 2,744,170                   | 1,583,639         | 4,327,809         |
| 2006                 | 2,598,170                      | 1,473,117         | 4,071,287         |
| 2007                 | 2,628,170                      | 1,367,449         | 3,995,619         |
| 2008                 | 2,628,170                      | 1,258,281         | 3,886,451         |
| 2009                 | 2,628,170                      | 1,153,573         | 3,781,743         |
| 2010-2014            | 12,290,934                     | 4,123,877         | 16,414,811        |
| 2015-2019            | 6,575,727                      | 1,852,277         | 8,428,004         |
| 2020-2024            | 4,883,135                      | 591,859           | 5,474,994         |
|                      | <u>\$ 36,976,646</u>           | <u>13,404,072</u> | <u>50,380,718</u> |

|                      | <b>Business-type activities</b> |                 |                  |                 |
|----------------------|---------------------------------|-----------------|------------------|-----------------|
|                      | <b>Water</b>                    |                 | <b>Sewer</b>     |                 |
|                      | <b>Principal</b>                | <b>Interest</b> | <b>Principal</b> | <b>Interest</b> |
| Year ending June 30: |                                 |                 |                  |                 |
| 2005                 | \$ 65,000                       | —               | 114,086          | —               |
| 2006                 | 65,000                          | —               | —                | —               |
| 2007                 | 65,000                          | —               | —                | —               |
| 2008                 | 65,000                          | —               | —                | —               |
| 2009                 | 65,000                          | —               | —                | —               |
| 2010-2014            | 325,000                         | —               | —                | —               |
|                      | <u>\$ 650,000</u>               | <u>—</u>        | <u>114,086</u>   | <u>—</u>        |

|                      | <b>Business-type activities</b> |                 |                  |                 |
|----------------------|---------------------------------|-----------------|------------------|-----------------|
|                      | <b>Light</b>                    |                 | <b>Total</b>     |                 |
|                      | <b>Principal</b>                | <b>Interest</b> | <b>Principal</b> | <b>Interest</b> |
| Year ending June 30: |                                 |                 |                  |                 |
| 2005                 | \$ 200,000                      | 49,400          | 379,086          | 49,400          |
| 2006                 | 200,000                         | 40,700          | 265,000          | 40,700          |
| 2007                 | 200,000                         | 31,800          | 265,000          | 31,800          |
| 2008                 | 200,000                         | 22,800          | 265,000          | 22,800          |
| 2009                 | 200,000                         | 13,750          | 265,000          | 13,750          |
| 2010-2014            | 200,000                         | 4,600           | 525,000          | 4,600           |
|                      | <u>\$ 1,200,000</u>             | <u>163,050</u>  | <u>1,964,086</u> | <u>163,050</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 2004, the Town received approximately \$1,088,800 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, 2004, the Town may issue approximately \$29,185,000 additional general obligation debt under the normal debt limit. The Town has approximately \$13,185,000 of debt exempt from the debt limit.

At June 30, 2004, the Town had \$4,244,000 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, 2004, the estimated share of such debt being serviced by the Town, and the total of its share of estimated indirect debt.

|       | Long-term<br>debt<br>outstanding<br>(unaudited)<br>amounts in 000's | Town's<br>estimated<br>share | Town's<br>estimated<br>indirect debt<br>(unaudited)<br>amounts in 000's |
|-------|---|------------------------------|---|
| MWRA: |   |                              |   |
| Water | \$ 1,730,645  | 1.096%                       | 18,961  |
| Sewer | 3,550,623   | 1.154                        | 40,971  |

### (8) Operating Transfers

Operating transfers and their purposes during the year ended June 30, 2004 were as follows:

|  | Governmental funds |           | Enterprise funds |        |           |
|--|--------------------|-----------|------------------|--------|-----------|
|  | General            | Other     | Water            | Sewer  | Light     |
| Water – administration                             | \$ 100,000         | —         | (100,000)        | —      | —         |
| Sewer – subsidy                                    | (11,899)           | —         | —                | 11,899 | —         |
| Electric – in lieu of taxes                        | 650,000            | —         | —                | —      | (650,000) |
| Capital endowment – debt service                   | 50,000             | (50,000)  | —                | —      | —         |
| Parking meters – revolving fund transfer           | 30,000             | (30,000)  | —                | —      | —         |
| Cemetery perpetual care – expendable fund transfer | 25,000             | (25,000)  | —                | —      | —         |
| Capital – environmental cleanup costs              | 22,003             | (22,003)  | —                | —      | —         |
| General – capital items                            | (2,703,924)        | 2,703,924 | —                | —      | —         |
| Total  | \$ (1,838,820)     | 2,576,921 | (100,000)        | 11,899 | (650,000) |

### (9) Due from Other Funds

The pension trust fund had an interfund receivable of \$1,739,430, which represents remaining pension contributions. There is no corresponding payable because the Town and the pension trust fund have different fiscal year-ends.

### (10) Postemployment 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, 2004. The Town's share of the total cost for the year ended June 30, 2004 was approximately \$2.2 million.

### (11) Risk Management

The Town is exposed to various risks of loss related to general liability, property and casualty, workers' compensation and unemployment 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. Self-insured workers' compensation is not material to the Town's basic financial statements at June 30, 2004. All other employees of the Town are provided workers' compensation coverage through a premium-based plan.

Through April 1, 2003, the Town was self-insured for those employees electing indemnity health plans. The Town also provides preferred provider health plans (premium-based health plans) for those employees not electing indemnity plans. Subsequent to April 1, 2003, the Town's health insurance is completely premium based.

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.

## **(12) Landfill Closure and Postclosure Care Costs**

The Town's landfill was closed in 1973. State regulations, embodied in an Administrative Consent Order between the Town and the Massachusetts Department of Environmental Protection, require the Town to place a final cover on its landfill site. Those laws and regulations also require the Town to perform certain maintenance and monitoring functions at the site for 30 years after the year the landfill cover is installed. The Town estimates the landfill closure and postclosure care costs to be approximately \$3.8 million, which is included as a long-term liability in the statement of net assets. This estimate is based on what it would cost to perform all closure and postclosure care in fiscal 2004. The potential exists for changes to the estimates due to inflation or deflation, technology or applicable laws and regulations.

## **(13) 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 basic financial statements.

### **Note A – 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 and are prepared on a basis other than generally accepted accounting principles (GAAP). The "actual" results column budgetary basis is presented on a "budget basis" to provide a meaningful comparison with the budget.

The major differences between budget and GAAP bases are that:

- (a) 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).
- (b) 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, 2004.
- (c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).

**Note B – Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures – General Fund**

|   | <u>Revenue</u>       | <u>Expenditures</u> | <u>Other<br/>financing<br/>sources<br/>(uses), net</u> |
|---|----------------------|---------------------|--|
| As reported on a budgetary basis  | \$ 63,328,277        | 62,364,456          | (758,576)  |
| Adjustment of revenues to a modified<br>accrual basis   | 591,291              | —                   | —  |
| Reclassification of budgeted transfers:   |                      |                     |  |
| Health Claims Trust   | —                    | —                   | (308,000)  |
| Kendal Fire Insurance   | —                    | —                   | (420,000)  |
| Reclassifications – Light Department –<br>interest  | —                    | (257,950)           | (257,950)  |
| Adjustment for encumbrances and<br>continuing appropriations and accrued<br>expenditures, net of prior year reversals | —                    | 1,467,712           | —  |
| As reported on a GAAP basis   | <u>\$ 63,919,568</u> | <u>63,574,218</u>   | <u>(1,744,526)</u>                                     |

.....Section Break (Next Page).....

Budgetary Comparison Schedule – General Fund  
 Required Supplementary Information  
 June 30, 2004

|                                       | Budgeted amounts |            | Actual amounts<br>(budgetary basis) | Variance with final budget positive (negative) |
|---------------------------------------|------------------|------------|-------------------------------------|--|
|                                       | Original         | Final      |                                     |  |
| Resources (inflows):                  |                  |            |                                     |  |
| Real and personal property taxes, net | \$ 50,259,081    | 50,259,081 | 50,259,081                          | —  |
| Excises                               | 2,675,000        | 2,675,000  | 2,578,316                           | (96,684)                                       |
| Licenses and permits                  | 470,800          | 470,800    | 562,410                             | 91,610   |
| Intergovernmental                     | 6,527,856        | 6,527,856  | 6,531,657                           | 3,801  |
| Charges for services                  | 1,461,300        | 1,461,300  | 1,418,528                           | (42,772)                                       |
| Fines and forfeitures                 | 414,900          | 414,900    | 471,041                             | 56,141   |
| Investment income                     | 225,000          | 225,000    | 253,311                             | 28,311   |
| Other                                 | 603,400          | 1,169,420  | 1,253,933                           | 84,513   |
| Amounts available for appropriation   | 62,637,337       | 63,203,357 | 63,328,277                          | 124,920  |
| Charges to appropriations (outflows): |                  |            |                                     |  |
| Current:                              |                  |            |                                     |  |
| General government                    | 2,783,436        | 2,869,558  | 2,568,007                           | 301,551  |
| Public safety                         | 9,057,095        | 9,116,088  | 8,870,692                           | 245,396  |
| Education                             | 30,138,363       | 30,152,363 | 30,124,649                          | 27,714   |
| Public works                          | 6,757,487        | 6,794,962  | 6,482,960                           | 312,002  |
| Human services                        | 839,699          | 856,200    | 793,752                             | 62,448   |
| Culture and recreation                | 2,124,218        | 2,129,671  | 2,059,241                           | 70,430   |
| State and county assessments          | 1,455,722        | 1,455,722  | 1,468,561                           | (12,839)                                       |
| Pension                               | 2,865,537        | 2,865,537  | 2,854,328                           | 11,209   |
| Medical and insurance                 | 1,908,919        | 1,530,971  | 1,482,076                           | 48,895   |
| Capital outlay                        | —                | 1,469,000  | 1,413,023                           | 55,977   |
| Debt service                          | 4,276,868        | 4,276,868  | 4,247,167                           | 29,701   |
| Total charges to appropriations       | 62,207,344       | 63,516,940 | 62,364,456                          | 1,152,484                                      |
| Excess (deficiency)                   | 429,993          | (313,583)  | 963,821                             | 1,277,404                                      |
| Other financing sources (uses):       |                  |            |                                     |  |
| Premium on bond sale                  | —                | —          | 94,294                              | 94,294   |

|                                      |              |             |           |           |
|--------------------------------------|--------------|-------------|-----------|-----------|
| Transfers in (out), net              | (1,170,974)  | (852,870)   | (852,870) | —         |
| Total other financing sources (uses) | (1,170,974)  | (852,870)   | (758,576) | 94,294    |
| Net change                           | \$ (740,981) | (1,166,453) | 205,245   | 1,371,698 |

See notes to required supplementary information.

Statement of Activities  
Year ended June 30, 2004

| Functions/programs                               | Expenses      | Charges for services | Program revenues                   |                                  | Governmental activities | Business-type activities | Total        | Net (expense) revenue and changes in net assets |
|--|---------------|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|--------------|---|
|  |               |                      | Operating grants and contributions | Capital grants and contributions |                         |                          |              |   |
| <b>Governmental activities:</b>                  |               |                      |                                    |                                  |                         |                          |              |   |
| General government                               | \$ 3,236,388  | 225,881              | 2,216                              | 79,230                           | (2,929,061)             |                          | (2,929,061)  |   |
| Public safety                                    | 11,390,790    | 1,097,416            | 281,051                            | 183,509                          | (9,828,814)             |                          | (9,828,814)  |   |
| Education  | 35,017,361    | 1,345,156            | 5,072,777                          | 695,695                          | (27,903,733)            |                          | (27,903,733) |   |
| Public works                                     | 11,427,666    | 807,162              | 176,581                            | 281,532                          | (10,162,391)            |                          | (10,162,391) |   |
| Human services                                   | 842,595       | 100,955              | 37,516                             | —                                | (704,124)               |                          | (704,124)    |   |
| Culture and recreation                           | 2,432,052     | 574,228              | 61,758                             | —                                | (1,796,066)             |                          | (1,796,066)  |   |
| State and county assessments                     | 1,468,561     | —                    | —                                  | —                                | (1,468,561)             |                          | (1,468,561)  |   |
| Interest on long-term debt                       | 1,236,677     | —                    | 392,305                            | —                                | (844,372)               |                          | (844,372)    |   |
| Total governmental activities                    | 67,052,090    | 4,150,798            | 6,024,204                          | 1,239,966                        | (55,637,122)            |                          | (55,637,122) |   |
| <b>Business-type activities:</b>                 |               |                      |                                    |                                  |                         |                          |              |   |
| Water  | 2,741,005     | 3,793,264            | —                                  | —                                | —                       | 1,052,259                | 1,052,259    |   |
| Sewer  | 4,567,472     | 5,353,543            | —                                  | —                                | —                       | 786,071                  | 786,071      |   |
| Light  | 11,574,628    | 12,567,104           | 28,034                             | —                                | —                       | 1,020,510                | 1,020,510    |   |
| Total business-type activities                   | 18,883,105    | 21,713,911           | 28,034                             | —                                | —                       | 2,858,840                | 2,858,840    |   |
| Total primary government                         | \$ 85,935,195 | 25,864,709           | 6,052,238                          | 1,239,966                        | (55,637,122)            |                          | (52,778,282) |   |
| <b>General revenues:</b>                         |               |                      |                                    |                                  |                         |                          |              |   |
| Property taxes, levied for general purposes, net |               |                      |                                    |                                  | 49,989,458              | —                        | 49,989,458   |   |
| Excises  |               |                      |                                    |                                  | 2,911,774               | —                        | 2,911,774    |   |
| Fines and forfeitures                            |               |                      |                                    |                                  | 471,041                 | —                        | 471,041      |   |
| Other  |               |                      |                                    |                                  | 1,306,642               | —                        | 1,306,642    |   |
| Intergovernmental                                |               |                      |                                    |                                  | 2,389,173               | —                        | 2,389,173    |   |
| Investment income                                |               |                      |                                    |                                  | 253,311                 | —                        | 253,311      |   |
| Transfers  |               |                      |                                    |                                  | 738,101                 | (738,101)                | —            |   |
| Special item – environmental remediation costs   |               |                      |                                    |                                  | (1,460,100)             | —                        | (1,460,100)  |   |
| Total general revenues, transfers                |               |                      |                                    |                                  | 49,989,458              | —                        | 49,989,458   |   |

and special item  
Change in net assets  
Net assets, beginning of year  
Net assets, end of year

Balance Sheet – Governmental Funds  
June 30, 2004

| <b>Assets</b>                                 | <b>General</b>       | <b>Town annex<br/>renovation</b> | <b>Fire station<br/>construction</b> | <b>Other<br/>governmental</b> | <b>Total</b>      |
|---|----------------------|----------------------------------|--------------------------------------|-------------------------------|-------------------|
| Cash and investments                          | 9,734,944            | 4,311,357                        | 8,510,717                            | 9,018,252                     | 31,575,270        |
| Restricted cash                               | —                    | —                                | —                                    | 616,189                       | 616,189           |
| Receivables, net:                             |                      |                                  |                                      |                               |                   |
| Property taxes                                | 2,079,270            | —                                | —                                    | —                             | 2,079,270         |
| Intergovernmental                             | —                    | —                                | —                                    | 100,921                       | 100,921           |
| Other   | 683,228              | —                                | —                                    | 40,016                        | 723,244           |
| <b>Total assets</b>                           | <b>\$ 12,497,442</b> | <b>4,311,357</b>                 | <b>8,510,717</b>                     | <b>9,775,378</b>              | <b>35,094,894</b> |
| <b>Liabilities and Fund Balance</b>           |                      |                                  |                                      |                               |                   |
| Warrants and accounts payable                 | 612,303              | 13,270                           | —                                    | 138,152                       | 763,725           |
| Accrued liabilities:                          |                      |                                  |                                      |                               |                   |
| Tax abatements                                | 92,445               | —                                | —                                    | —                             | 92,445            |
| Payroll and related withholdings              | 409,941              | —                                | —                                    | —                             | 409,941           |
| Other   | 163,237              | 267,158                          | —                                    | —                             | 430,395           |
| Deferred revenue                              | 2,680,939            | —                                | —                                    | —                             | 2,680,939         |
| <b>Total liabilities</b>                      | <b>3,958,865</b>     | <b>280,428</b>                   | <b>—</b>                             | <b>138,152</b>                | <b>4,377,445</b>  |
| <b>Fund balance:</b>                          |                      |                                  |                                      |                               |                   |
| Reserved for:                                 |                      |                                  |                                      |                               |                   |
| Encumbrances                                  | 2,525,481            | 4,030,929                        | 8,510,717                            | 2,445,339                     | 17,512,466        |
| Unreserved:                                   |                      |                                  |                                      |                               |                   |
| Designated for capital endowment              | —                    | —                                | —                                    | 3,257,597                     | 3,257,597         |
| Designated for health claims                  | 44,254               | —                                | —                                    | —                             | 44,254            |
| Designated for subsequent year's expenditures | 790,000              | —                                | —                                    | —                             | 790,000           |
| Designated for stabilization                  | 34,459               | —                                | —                                    | —                             | 34,459            |
| Undesignated, reported in:                    |                      |                                  |                                      |                               |                   |
| General Fund                                  | 5,144,383            | —                                | —                                    | —                             | 5,144,383         |
| Special Revenue Funds                         | —                    | —                                | —                                    | 2,128,191                     | 2,128,191         |
| Permanent funds                               | —                    | —                                | —                                    | 1,806,099                     | 1,806,099         |
| <b>Total fund equity</b>                      | <b>8,538,577</b>     | <b>4,030,929</b>                 | <b>8,510,717</b>                     | <b>9,637,226</b>              | <b>30,717,449</b> |
| <b>Total liabilities and fund balances</b>    | <b>\$ 12,497,442</b> | <b>4,311,357</b>                 | <b>8,510,717</b>                     | <b>9,775,378</b>              | <b>35,094,894</b> |

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2004

Total fund balance – governmental funds  
Amounts reported for governmental activities in the statement of net assets are different because:

|   |                      |
|---|----------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds                    | 63,097,612           |
| Tax revenues are recorded on an accrual basis   | 2,646,788            |
| Bond issuance costs are capitalized in the government-wide statements   | 206,455              |
| Inventory is capitalized in the government-wide statements  | 40,457               |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of: | —                    |
| <b>Total</b>  | <b>\$ 30,717,449</b> |

|                                       |               |
|---------------------------------------|---------------|
| General obligation bonds              | (36,976,646)  |
| Bond premium                          | (290,631)     |
| Landfill                              | (3,800,000)   |
| Accrued interest on bonds             | (511,515)     |
| Compensated absences                  | (1,123,775)   |
|                                       | (42,702,567)  |
| Net assets of governmental activities | \$ 54,006,194 |

See accompanying notes to basic financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year ended June 30, 2004

|  | General       | Town annex renovation | Fire station construction | Other governmental | Total       |
|--|---------------|-----------------------|---------------------------|--------------------|-------------|
| Revenues:  |               |                       |                           |                    |             |
| Real and personal property taxes   | \$ 50,850,372 | —                     | —                         | —                  | 50,850,372  |
| Excises  | 2,578,316     | —                     | —                         | —                  | 2,578,316   |
| Licenses and permits   | 562,410       | —                     | —                         | —                  | 562,410     |
| Intergovernmental  | 6,531,657     | —                     | —                         | 2,805,492          | 9,337,149   |
| Charges for services   | 1,418,528     | —                     | —                         | 1,432,621          | 2,851,149   |
| Fines and forfeitures  | 471,041       | —                     | —                         | 60,003             | 531,044     |
| Investment income  | 253,311       | —                     | —                         | 88,327             | 341,638     |
| Contributions  | —             | —                     | —                         | 208,564            | 208,564     |
| Other  | 1,253,933     | —                     | —                         | 66,019             | 1,319,952   |
| Total revenues   | 63,919,568    | —                     | —                         | 4,661,026          | 68,580,594  |
| Expenditures:  |               |                       |                           |                    |             |
| Current:   |               |                       |                           |                    |             |
| General government   | 2,640,355     | —                     | —                         | 17,599             | 2,657,954   |
| Public safety  | 8,839,034     | —                     | —                         | 53,660             | 8,892,694   |
| Education  | 29,992,875    | —                     | —                         | 3,404,562          | 33,397,437  |
| Public works   | 6,587,670     | —                     | —                         | 173,841            | 6,761,511   |
| Human services   | 792,023       | —                     | —                         | 32,237             | 824,260     |
| Culture and recreation   | 2,053,354     | —                     | —                         | 43,321             | 2,096,675   |
| Environmental remediation costs  | 1,454,718     | —                     | —                         | 5,382              | 1,460,100   |
| State and county assessments   | 1,468,561     | —                     | —                         | —                  | 1,468,561   |
| Pension  | 2,854,328     | —                     | —                         | —                  | 2,854,328   |
| Medical and insurance  | 1,523,209     | —                     | —                         | —                  | 1,523,209   |
| Capital outlay   | 1,378,873     | 6,081,873             | 1,489,283                 | 2,074,047          | 11,024,076  |
| Debt service   | 3,989,218     | —                     | —                         | —                  | 3,989,218   |
| Total expenditures   | 63,574,218    | 6,081,873             | 1,489,283                 | 5,804,649          | 76,950,023  |
| Excess (deficiency) of revenues over (under) expenditures  | 345,350       | (6,081,873)           | (1,489,283)               | (1,143,623)        | (8,369,429) |
| Other financing sources (uses):  |               |                       |                           |                    |             |
| Transfers in   | 877,003       | —                     | —                         | 2,703,924          | 3,580,927   |
| Transfers out  | (2,715,823)   | —                     | —                         | (127,003)          | (2,842,826) |
| Proceeds of long-term debt   | —             | —                     | 10,000,000                | 126,000            | 10,126,000  |
| Premium on bond sale   | 94,294        | —                     | —                         | —                  | 94,294      |
| Total other financing sources (uses)   | (1,744,526)   | —                     | 10,000,000                | 2,702,921          | 10,958,395  |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | (1,399,176)   | (6,081,873)           | 8,510,717                 | 1,559,298          | 2,588,966   |
| Fund balance, beginning of year  | 9,937,753     | 10,112,802            | —                         | 8,077,928          | 28,128,483  |
| Fund balance, end of year  | 8,538,577     | 4,030,929             | 8,510,717                 | 9,637,226          | 30,717,449  |

Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the Statement of Activities  
Year ended June 30, 2004

|  |    |             |
|--|----|-------------|
| Net change in fund balances – total governmental funds   | \$ | 2,588,966   |
| Amounts reported for governmental activities in the statement of activities are different because:   |    |             |
| Governmental funds report capital additions as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital additions \$11,115,184 exceeded depreciation expense \$1,852,846   |    | 9,262,338   |
| Governmental funds report inventory on the purchase method while the consumption method is used for the statement of activities  |    | 40,457      |
| Accrual basis tax revenues can result in more or (less) revenues reported in the statement of activities depending upon timing of billings and collections   |    |             |
| Proceeds of long-term debt \$(10,126,000) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal \$(2,458,170) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments            |    | 1,55,771    |
| Bond premiums, net of amortization \$(75,978) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs, net of amortization \$(51,953) are expenditures in the governmental funds, but are deferred assets in the statement of net assets. This is the amount by which premiums exceeded issuance costs |    | (7,667,830) |
| 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. This amount represents the increase in landfill closure and postclosure care costs \$(3,800,000) and the decreases in compensated absences \$(114,825) and interest payable \$(291,776)                                |    | (24,025)    |
| Change in net assets of governmental activities  | \$ | (3,393,399) |
| See accompanying notes to basic financial statements.  |    | 962,278     |

Statement of Net Assets – Proprietary Funds  
June 30, 2004

(except for the Municipal Light Department, which is as of December 31, 2003)

|                           | Enterprise funds |         |           |
|---------------------------|------------------|---------|-----------|
| Assets                    | Water            | Sewer   | Light     |
| Total                     |                  |         |           |
| Current assets:           |                  |         |           |
| Cash and cash equivalents | \$ 2,658,132     | 730,120 | 1,461,738 |
|                           |                  |         | 4,849,990 |

|                                     |                     |                  |                   |                   |
|-------------------------------------|---------------------|------------------|-------------------|-------------------|
| Receivables, net                    | 635,543             | 1,218,595        | 715,534           | 2,569,672         |
| Other                               | 119,822             | 9,601            | 364,455           | 493,878           |
| <b>Total current assets</b>         | <b>3,413,497</b>    | <b>1,958,316</b> | <b>2,541,727</b>  | <b>7,913,540</b>  |
| Noncurrent assets:                  |                     |                  |                   |                   |
| Restricted cash                     | —                   | —                | 2,243,079         | 2,243,079         |
| Capital assets:                     |                     |                  |                   |                   |
| Nondepreciable                      | 20,260              | 8,481            | 9,348             | 38,089            |
| Depreciable, net                    | 2,816,247           | 3,668,219        | 7,319,276         | 13,803,742        |
| <b>Total noncurrent assets</b>      | <b>2,836,507</b>    | <b>3,676,700</b> | <b>9,571,703</b>  | <b>16,084,910</b> |
| <b>Total assets</b>                 | <b>6,250,004</b>    | <b>5,635,016</b> | <b>12,113,430</b> | <b>23,998,450</b> |
| <b>Liabilities</b>                  |                     |                  |                   |                   |
| Current liabilities:                |                     |                  |                   |                   |
| Warrants and accounts payable       | 50,661              | 26,691           | 594,071           | 671,423           |
| Accrued liabilities                 | 13,491              | 8,481            | 28,956            | 50,928            |
| Compensated absences                | 64,000              | 33,000           | 133,577           | 230,577           |
| Bonds and notes payable             | 65,000              | 114,086          | 200,000           | 379,086           |
| <b>Total current liabilities</b>    | <b>193,152</b>      | <b>182,258</b>   | <b>956,604</b>    | <b>1,332,014</b>  |
| Noncurrent liabilities:             |                     |                  |                   |                   |
| Bonds and notes payable             | 585,000             | —                | 1,000,000         | 1,585,000         |
| Other                               | —                   | —                | 897,151           | 897,151           |
| <b>Total noncurrent liabilities</b> | <b>585,000</b>      | <b>—</b>         | <b>1,897,151</b>  | <b>2,482,151</b>  |
| <b>Total liabilities</b>            | <b>778,152</b>      | <b>182,258</b>   | <b>2,853,755</b>  | <b>3,814,165</b>  |
| <b>Net Assets</b>                   |                     |                  |                   |                   |
| Invested in capital assets, net of  |                     |                  |                   |                   |
| related debt                        | 2,186,507           | 3,562,614        | 6,128,624         | 11,877,745        |
| Restricted for debt service         | —                   | —                | 1,016,000         | 1,016,000         |
| Unrestricted                        | 3,285,345           | 1,890,144        | 2,115,051         | 7,290,540         |
| <b>Total net assets</b>             | <b>\$ 5,471,852</b> | <b>5,452,758</b> | <b>9,259,675</b>  | <b>20,184,285</b> |

See accompanying notes to basic financial statements.

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds  
Year ended June 30, 2004  
(except for the Municipal Light Department, which is for the year ended December 31, 2003)

|  | <b>Enterprise funds</b> |                  |                   |                   |
|--|-------------------------|------------------|-------------------|-------------------|
|  | <b>Water</b>            | <b>Sewer</b>     | <b>Light</b>      | <b>Total</b>      |
| Operating revenues:                          |                         |                  |                   |                   |
| Charges for services                         | \$ 3,788,257            | 5,353,543        | 12,494,756        | 21,636,556        |
| Other  | —                       | —                | 44,589            | 44,589            |
| <b>Total operating revenues</b>              | <b>3,788,257</b>        | <b>5,353,543</b> | <b>12,539,345</b> | <b>21,681,145</b> |
| Operating expenses:                          |                         |                  |                   |                   |
| MWRA assessment                              | 1,395,114               | 3,530,481        | —                 | 4,925,595         |
| Salaries and benefits                        | 1,034,502               | 784,287          | —                 | 1,818,789         |
| Other  | 204,191                 | 164,580          | 10,695,342        | 11,064,113        |
| Depreciation                                 | 1,071,988               | 88,124           | 812,091           | 1,007,413         |
| <b>Total operating expenses</b>              | <b>2,741,005</b>        | <b>4,567,472</b> | <b>11,507,433</b> | <b>18,815,910</b> |
| <b>Operating income</b>                      | <b>1,047,252</b>        | <b>786,071</b>   | <b>1,031,912</b>  | <b>2,865,235</b>  |
| Nonoperating revenue (expense):              |                         |                  |                   |                   |
| Interest income                              | 5,007                   | —                | 27,759            | 32,766            |
| Interest expense                             | —                       | —                | (67,195)          | (67,195)          |
| Other  | —                       | —                | 28,034            | 28,034            |
| <b>Total nonoperating revenue (expenses)</b> | <b>5,007</b>            | <b>—</b>         | <b>(11,402)</b>   | <b>(6,395)</b>    |
| <b>Income before transfers</b>               | <b>1,052,259</b>        | <b>786,071</b>   | <b>1,020,510</b>  | <b>2,858,840</b>  |
| Transfers in                                 | —                       | 11,899           | —                 | 11,899            |
| Transfers out                                | (100,000)               | —                | (650,000)         | (750,000)         |
| <b>Change in net assets</b>                  | <b>952,259</b>          | <b>797,970</b>   | <b>370,510</b>    | <b>2,120,739</b>  |
| Total net assets, beginning                  | 4,519,593               | 4,654,788        | 8,889,165         | 18,063,546        |
| Total net assets, end                        | \$ 5,471,852            | 5,452,758        | 9,259,675         | 20,184,285        |

See accompanying notes to basic financial statements.

Statement of Cash Flows – Proprietary Funds  
Year ended June 30, 2004  
(except for the Municipal Light Department, which is for the year ended December 31, 2003)

|                              | <b>Enterprise funds</b> |              |              |              |
|------------------------------|-------------------------|--------------|--------------|--------------|
|                              | <b>Water</b>            | <b>Sewer</b> | <b>Light</b> | <b>Total</b> |
| Cash flows from operations:  |                         |              |              |              |
| Cash received from customers | \$ 3,963,396            | 5,484,071    | 12,596,485   | 22,043,952   |

|   |              |             |              |              |
|---|--------------|-------------|--------------|--------------|
| Cash paid to employees and other vendors                                | (2,756,314)  | (4,483,027) | (10,828,676) | (18,068,017) |
| Net cash provided by operations   | 1,207,082    | 1,001,044   | 1,767,809    | 3,975,935    |
| Cash flows from noncapital financing activities:                        |              |             |              |              |
| Transfers   | (100,000)    | 11,899      | (650,000)    | (738,101)    |
| Interest expense  | —            | —           | (4,995)      | (4,995)      |
| Net cash provided by (used in) noncapital financing activities          | (100,000)    | 11,899      | (654,995)    | (743,096)    |
| Cash flows from capital and related financing activities:               |              |             |              |              |
| Acquisition and construction of capital assets                          | (335,462)    | (261,023)   | (736,058)    | (1,332,543)  |
| Interest paid on debt   | —            | —           | (62,200)     | (62,200)     |
| Issuance of long-term debt  | 650,000      | —           | —            | 650,000      |
| Repayment of long-term debt   | (55,322)     | (114,086)   | (200,000)    | (369,408)    |
| Other   | —            | —           | 506,256      | 506,256      |
| Net cash provided by (used in) capital and related financing activities | 259,216      | (375,109)   | (492,002)    | (607,895)    |
| Cash flows from investing activity:                                     |              |             |              |              |
| Interest income   | 5,007        | —           | 27,759       | 32,766       |
| Net cash provided by investing activity                                 | 5,007        | —           | 27,759       | 32,766       |
| Increase in cash and cash equivalents                                   | 1,371,305    | 637,834     | 648,571      | 2,657,710    |
| Cash and cash equivalents, beginning of year                            | 1,286,827    | 92,286      | 3,056,246    | 4,435,359    |
| Cash and cash equivalents, end of year                                  | \$ 2,658,132 | 730,120     | 3,704,817    | 7,093,069    |
| Reconciliation of operating income to cash provided by operations:      |              |             |              |              |
| Operating income  | \$ 1,047,252 | 786,071     | 1,031,912    | 2,865,235    |
| Reconciliation of operating income to net cash provided by operations:  |              |             |              |              |
| Depreciation expense  | 1,071,98     | 88,124      | 81,209       | 1,007,413    |
| Changes in operating assets and liabilities:                            |              |             |              |              |
| Accounts receivable   | 1,751,39     | 130,528     | 57,184       | 362,851      |
| Other assets  | (119,822)    | (9,601)     | (27,401)     | (156,824)    |
| Accounts payable  | (4,793)      | 9,197       | (106,319)    | (101,915)    |
| Other accrued liabilities   | 2,108        | (3,275)     | 342          | (825)        |
| Net cash provided by operations   | \$ 1,207,082 | 1,001,044   | 1,767,809    | 3,975,935    |

Statement of Net Assets – Fiduciary Funds  
June 30, 2004

| <b>Assets</b>   | <b>As of<br/>December 31,<br/>2003:<br/>Pension<br/>trust fund</b> | <b>Agency<br/>funds</b> |
|---|--|-------------------------|
| Cash and cash equivalents                             | \$ 1,204,051   | 94,157                  |
| Receivables:  |  |                         |
| Due from general fund                                 | 1,739,430  | —                       |
| Other   | 155,844  | 143,303                 |
| Total receivables                                     | 1,895,274  | 143,303                 |
| Investments, at fair value:                           |  |                         |
| Common stock  | 12,507,201   | —                       |
| Pooled investments                                    | 34,789,931   | —                       |
| Total investments                                     | 47,297,132   | —                       |
| Total assets  | 50,396,457   | 237,460                 |
| <b>Liabilities</b>                                    |  |                         |
| Accounts payable and other liabilities                | 63,483   | 237,460                 |
| Total liabilities                                     | 63,483   | 237,460                 |
| <b>Net Assets</b>                                     |  |                         |
| Held in trust for pension benefits                    | \$ 50,332,974  |                         |
| See accompanying notes to basic financial statements. |  |                         |

Statement of Changes in Net Assets – Fiduciary Funds  
Year ended December 31, 2003

|  |    | <b>Pension<br/>trust fund</b> |
|--|----|-------------------------------|
| Additions:   |    |                               |
| Contributions:   |    |                               |
| Employers  | \$ | 3,478,861                     |
| Members  |    | 1,249,979                     |
| Transfers from other systems, net                                |    | 558,097                       |
| Total contributions  |    | 5,286,937                     |
| Investment gain, net of related fees of \$214,838                |    | 8,087,882                     |
| Total additions  |    | 13,374,819                    |
| Deductions:  |    |                               |
| Benefit payments to retirees, survivors, and disability retirees |    | 6,426,682                     |
| Administrative   |    | 1,231,600                     |
| Refunds of contributions   |    | 99,479                        |
| Total deductions   |    | 6,649,321                     |
| Change in net assets   |    | 6,725,498                     |
| Net assets, beginning of year                                    |    | 43,607,476                    |
| Net assets, end of year  | \$ | 50,332,974                    |
| See accompanying notes to basic financial statements.            |    |                               |

Budgetary Comparison Schedule – General Fund

Required Supplementary Information

June 30, 2004

|  |    | Budgeted amounts |             | Actual                       |
|--|----|------------------|-------------|------------------------------|
|  |    | Original         | Final       | amounts<br>(budgetary basis) |
| <b>Resources (inflows):</b>                  |    |                  |             |                              |
| Real and personal property taxes, net        | \$ | 50,259,081       | 50,259,081  | 50,259,081                   |
| Excises                                      |    | 2,675,000        | 2,675,000   | 2,578,000                    |
| Licenses and permits                         |    | 470,800          | 470,800     | 562,000                      |
| Intergovernmental                            |    | 6,527,856        | 6,527,856   | 6,531,000                    |
| Charges for services                         |    | 1,461,300        | 1,461,300   | 1,418,000                    |
| Fines and forfeitures                        |    | 414,900          | 414,900     | 471,000                      |
| Investment income                            |    | 225,000          | 225,000     | 253,000                      |
| Other  |    | 603,400          | 1,169,420   | 1,253,000                    |
| Amounts available for appropriation          |    | 62,637,337       | 63,203,357  | 63,328,000                   |
| <b>Charges to appropriations (outflows):</b> |    |                  |             |                              |
| <b>Current:</b>                              |    |                  |             |                              |
| General government                           |    | 2,783,436        | 2,869,558   | 2,568,000                    |
| Public safety                                |    | 9,057,095        | 9,116,088   | 8,870,000                    |
| Education                                    |    | 30,138,363       | 30,152,363  | 30,124,000                   |
| Public works                                 |    | 6,757,487        | 6,794,962   | 6,482,000                    |
| Human services                               |    | 839,699          | 856,200     | 793,000                      |
| Culture and recreation                       |    | 2,124,218        | 2,129,671   | 2,059,000                    |
| State and county assessments                 |    | 1,455,722        | 1,455,722   | 1,468,000                    |
| Pension                                      |    | 2,865,537        | 2,865,537   | 2,854,000                    |
| Medical and insurance                        |    | 1,908,919        | 1,530,971   | 1,482,000                    |
| Capital outlay                               |    | —                | 1,469,000   | 1,413,000                    |
| Debt service                                 |    | 4,276,868        | 4,276,868   | 4,247,000                    |
| Total charges to appropriations              |    | 62,207,344       | 63,516,940  | 62,364,000                   |
| Excess (deficiency)                          |    | 429,993          | (313,583)   | 963,000                      |
| <b>Other financing sources (uses):</b>       |    |                  |             |                              |
| Premium on bond sale                         |    | —                | —           | 94,000                       |
| Transfers in (out), net                      |    | (1,170,974)      | (852,870)   | (852,870)                    |
| Total other financing sources (uses)         |    | (1,170,974)      | (852,870)   | (758,870)                    |
| Net change                                   | \$ | (740,981)        | (1,166,453) | 205,000                      |

See notes to required supplementary information.