



323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

www.powersandsullivan.com

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Westwood, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Westwood, Massachusetts, as of and for the fiscal year ended June 30, 2004, which comprise the Town's basic financial statements. These financial statements are the responsibility of the Town of Westwood, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Westwood, Massachusetts, as of June 30, 2004, and the respective changes in financial position and cash flows where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2004, on our consideration of the Town of Westwood, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

A handwritten signature in cursive script that reads "Bowers + Sullivan". The signature is written in dark ink and is positioned above the date.

August 27, 2004

Management's Discussion and Analysis

As management of the Town of Westwood, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. This is the second year our financial statements have been prepared under the Governmental Accounting Standards Board Statement Number 34 – Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

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

Governments must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. If the Town of Westwood's financial statements have significant departures from GAAP the independent auditors' may issue a qualified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on the Town's bond rating and our ability to borrow money at favorable interest rates. The Town of Westwood has enjoyed an unqualified opinion on its financial statements since the fiscal year ended June 30, 1984.

Financial Highlights

- The governmental assets of the Town of Westwood exceeded its liabilities at the close of the most recent fiscal year by \$58,099,481 (net assets).
- Of this amount, 14% or \$8,079,192 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Town of Westwood's general fund reported an ending fund balance of \$4,940,462, an increase of \$1,504,114 in comparison with the prior year. Total fund balance represents 9.1% of total general fund expenditures. Approximately \$3.5 million of this total amount is available for appropriation at the government's discretion. Of this amount, \$1,446,270 was appropriated to balance the subsequent year's budget.
- The Town of Westwood's total governmental debt decreased by \$2.6 million during the current fiscal year. This was the net effect of \$4,028,000 in principal payments on debt and the issuance of \$2,262,000 in debt for the New High School. The Commonwealth of Massachusetts is committed to provide assistance in the form of a capital grant of 59% of the cost of the project through the state's school building assistance program.

Overview of the Financial Statements

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

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

The statement of net assets presents information on all of the Town of Westwood'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 of Westwood is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, culture and recreation, pension benefits, property and liability insurance, employee benefits, capital outlay, interest and state and county charges. The business-type activities include the activities of the sewer enterprise fund.

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

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

The Town of Westwood adopts an annual appropriated budget for its general fund. A budgetary comparison schedule is included as required supplementary information for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains only one type of propriety fund.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for its sewer operations.

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

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

Government-wide Financial Analysis

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 of Westwood, assets exceeded liabilities by \$74,350,402 at the close of the fiscal year 2004.

Governmental net assets of \$47,624,251 (82%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Westwood's net assets \$2,396,038 (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$8,079,192 (14%) may be used to meet the government’s ongoing obligations to citizens and creditors.

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

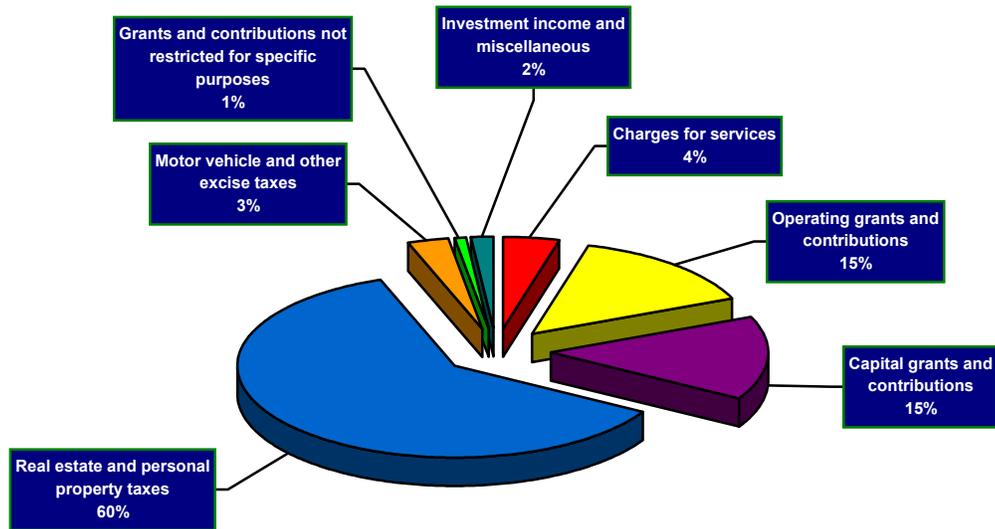
	Balance at June 30, 2004	Balance at June 30, 2003
	<u>2004</u>	<u>2003</u>
Assets:		
Current assets.....	\$ 24,332,882	\$ 37,876,225
Noncurrent assets (excluding capital).....	31,223,965	20,444,741
Capital assets.....	65,707,829	48,253,318
Total assets.....	121,264,676	106,574,284
Liabilities:		
Current liabilities (excluding debt).....	7,442,716	6,930,306
Noncurrent liabilities (excluding debt).....	1,052,479	467,000
Current debt.....	4,415,000	4,266,824
Noncurrent debt.....	50,255,000	53,039,041
Total liabilities.....	63,165,195	64,703,171
Net Assets:		
Capital assets net of related debt.....	47,624,251	32,916,498
Restricted.....	2,396,038	1,982,394
Unrestricted.....	8,079,192	6,972,221
Total net assets.....	\$ 58,099,481	\$ 41,871,113

Governmental activities. The governmental activities net assets increased by \$16,228,368 during the current fiscal year. The major reasons for this increase is directly attributed to the recognition of \$10,228,895 in capital grant revenue, the acquisition of approximately \$1,000,000 in capital assets from current revenues and the current reduction of debt exceeding depreciation by approximately \$2,200,000. All of these factors improve the Town's financial position.

	June 30, 2004	June 30, 2003
Program revenues:		
Charges for services.....	\$ 2,932,439	\$ 2,396,705
Operating grants and contributions.....	10,228,691	9,583,746
Capital grants and contributions.....	10,228,896	8,850,568
General Revenues:		
Real estate and personal property taxes.....	42,923,460	37,137,655
Motor vehicle and other excise taxes.....	2,167,086	2,417,791
Nonrestricted grants and contributions.....	700,468	724,330
Unrestricted investment income.....	494,065	731,824
Miscellaneous revenues.....	620,879	569,178
Total revenues.....	70,295,984	62,411,797
Expenses:		
General Government.....	2,902,036	2,749,932
Public Safety.....	6,885,140	6,041,399
Education.....	33,719,574	33,612,065
Public Works.....	4,538,604	4,094,204
Human Services.....	686,770	653,619
Culture and recreation.....	1,660,585	1,474,254
Property and liability insurance.....	273,966	241,297
Interest.....	2,887,074	1,300,036
State and county charges.....	513,867	538,506
Total expenses.....	54,067,616	50,705,312
Transfers.....	-	212,000
Change in net assets.....	\$ 16,228,368	\$ 11,918,485

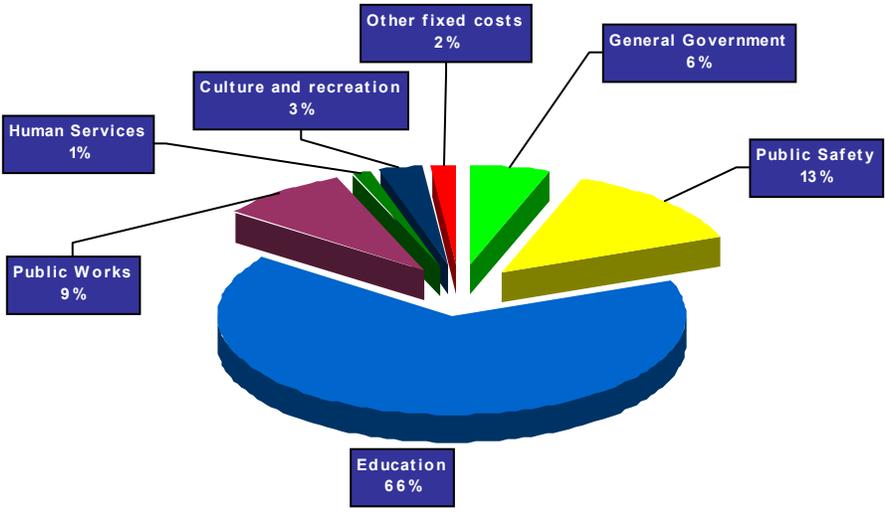
- Charges for services represent about 4% of governmental activities resources. The Town can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by the Board of Selectmen are included in this category.
- Operating and capital grants and contributions account for 30% of the governmental activities resources. Most of these resources apply to education operations. These resources offset cost within the school department in addition to their General Fund operating budget.
- Property taxes are by far the most significant revenue source for the Town's governmental activities. They comprise 61% of all resources.
- Other taxes comprise 5% of the governmental activity's resources.

FY04 Governmental Revenues

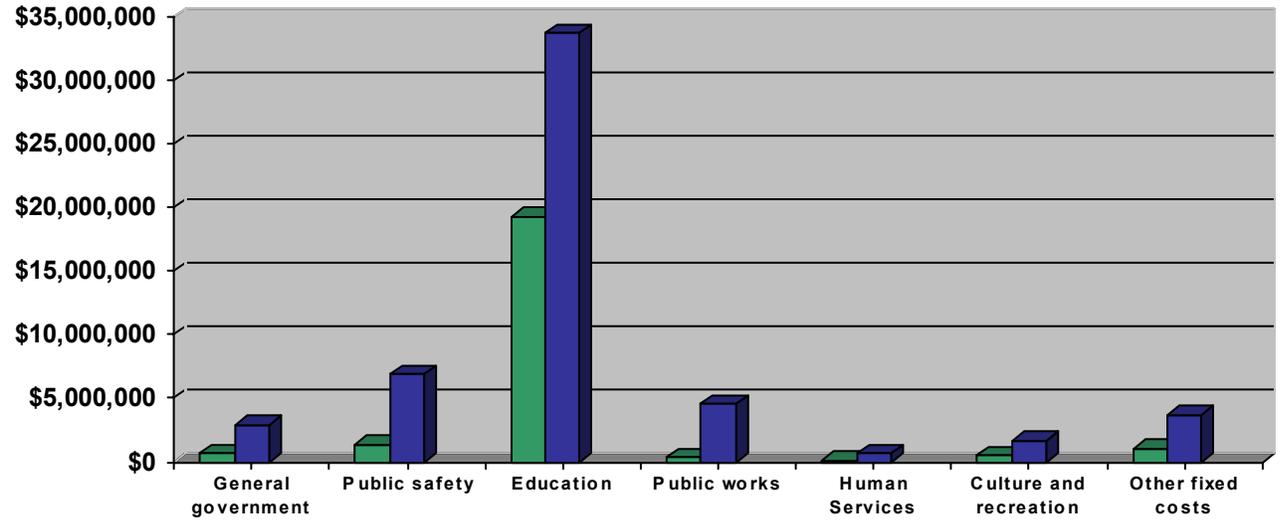


- Education is by far the largest governmental activity of the Town at 62%. Approximately \$33.3 million in taxes and other revenue were needed to cover its FY 2004 operating expenses.
- Public safety and public works are significant activities of the Town. Approximately \$6.4 million and \$4.4 million of taxes and other revenue were needed to cover their FY 2004 operating expenses, respectively. Combined, they represent 20% of governmental activity's expenses.

FY04 Governmental Expenses



Expenses and Program Revenues - Governmental Activities



Business-type activities. For sewer business-type activities assets exceeded liabilities by \$16,250,421 at the close of fiscal year 2004. Capital assets net of related debt was \$12,576,170 (77%) while unrestricted net assets was \$3,674,751 (23%). There was an increase of \$425,854 in net assets reported in connection with the sewer enterprise. This relative small change in net assets reflects management's goal of maintaining the system while only charging users for the cost of operations.

Changes in Revenues & Expenses – Business-type

	June 30, 2004	June 30, 2003
	<u> </u>	<u> </u>
Program revenues:		
Charges for services.....	\$ 3,657,703	\$ 3,673,919
Operating grants and contributions.....	114,779	130,477
Total revenues.....	3,772,482	3,804,396
Expenses:		
Sewer.....	3,346,728	3,531,101
Total expenses.....	3,346,728	3,531,101
Transfers.....	-	(212,000)
Change in net assets.....	\$ 425,754	\$ 61,295

Changes in Net Assets – Business-type

	Balance at June 30, 2004	Balance at June 30, 2003
	<u> </u>	<u> </u>
Assets:		
Current assets.....	\$ 3,317,370	\$ 3,635,207
Noncurrent assets (excluding capital).....	505,591	532,714
Capital assets.....	17,399,752	17,582,823
Total assets.....	21,222,713	21,750,744
Liabilities:		
Current liabilities (excluding debt).....	148,210	119,767
Current debt.....	968,918	982,228
Noncurrent debt.....	3,854,664	4,823,582
Total liabilities.....	4,971,792	5,925,577
Net Assets:		
Capital assets net of related debt.....	12,576,170	11,777,013
Unrestricted.....	3,674,751	4,048,154
Total net assets.....	\$ 16,250,921	\$ 15,825,167

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town of Westwood'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 of Westwood'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, governmental funds reported combined ending fund balances of \$16,759,792, a decrease of \$14,098,827 from the prior year. Most of the decrease is attributable to expenditures used to acquire capital assets. At June 30, 2004 \$6,064,002 of unspent capital projects funds represent the most significant portion of fund balance. In FY05 these funds will be reduced by the expenditures of funds to acquire capital assets and therefore the fund balance will be reduced.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,130,372, while total fund balance reached \$4,490,462. 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 4% of total general fund expenditures, while total fund balance represents 8.3% of that same amount.

The fund balance of the general fund increased by \$1,504,114 which represents management's intention to maintain sufficient reserves while maintain a structural balanced budget each fiscal year.

The Town also maintains a stabilization fund, which management has classified as a major governmental fund. The stabilization fund has a year end balance of \$782,142 which represents 1.45% of general fund expenditures. These funds can be used for general or capital purposes upon Town Meeting approval. Please refer to Note 11 for additional information on the Town's stabilization fund.

The New High School fund is used to account for the construction of a new High School facility. This fund had a year end fund balance of \$4,389,146 which is the unspent proceeds of the FY03 bond issuance of \$37,000,300 to finance the project. The Town expects to complete this project during FY05.

The Highway Improvement fund is used to account for the Town's roadway projects that are funded through the Massachusetts Highway Department under the provisions of Massachusetts General Law Chapter 90 § 34 which is referred to as "Chapter 90 funds". These funds are reimbursed to communities based on certified expenditure reports submitted to the Massachusetts Highway Department. The Town expended approximately \$300,000 through this program during fiscal year 2004. The Town has reported a receivable balance at year end of approximately \$547,000. This consists of approximately \$163,000 in reimbursements related to a \$1,100,000 project at the University Avenue Industrial Park and approximately \$384,000 in new roadway projects.

General Fund Budgetary Highlights

Actual general fund revenues exceeded the final budget amount by 2%, primarily occurring in the real estate tax and investment income accounts. Real estate tax collections were very strong and abatements granted very low.

Investment income exceeded budget by 64% due to higher than average cash balances from construction projects. This high investment income will decline going forward as major construction projects are completed.

Actual general fund expenditures are less than final budget by 1.2%, with the majority of the variance occurring in education and reserve fund accounts.

The general fund education expenditures were less than final budget by approximately \$240,000 or 1%, due to unanticipated changes in special education student assignments.

The reserve account varied from budget by approximately \$112,000 or 28%, as reserve funds were not fully needed for snow and ice expenditures due to a milder than normal winter.

The \$12,000 increase between the original budget and the final amended budget was due to supplementary appropriations to fund capital outlay and health and liability insurance budgets.

All of this increase was funded out of the town's available fund balances.

Capital Assets and Debt Management

In conjunction with the operating budget, the Town annually prepares a capital budget which includes detailed information concerning those capital requests for the upcoming fiscal year as well as summary information for the following four fiscal years to identify current projections of what level of capital outlay will be required in future years.

As part of the capital plan the Town has historically financed the acquisition of some capital assets from current revenue. As noted above, this policy will continue to improve the financial position as net assets will increase by the amount of acquisitions less the current depreciation.

Major capital assets are funded by the issuance of long-term debt. The effect on net assets during the construction phase of the project is neutral since the Town increases its assets and associated liability by the same amount. In subsequent years the net assets will be reduced through depreciation and will be increased by the revenues raised to support the debt principal payments. Outstanding long-term debt of the general government, as of June 30, 2004, totaled \$54,670,000, of which, approximately \$49,979,300 is related to school projects, leaving a balance of only approximately \$5,000,000 for other non-school related projects.

The enterprise fund has \$4,823,582 in sewer enterprise debt that is fully supported by the rates and do not rely on a general fund subsidy.

The Town's major capital project is used to account for the Town's new high school construction project which is anticipated to cost approximately \$45,000,000. To fund the project, the Town issued \$39,262,300 of long term bonds in FY03. The Commonwealth of Massachusetts is committed to provide assistance in the form of a capital grant of 59% of the cost of the project through the state's school building assistance program. The Town has recorded \$19,079,464 of capital grants during FY04 and FY03 equal to 59% the allowable capital expenses incurred each year.

Please refer to notes 6, 7, 8 and 9 for further discussion of the major capital and debt activity.

CAPITAL ASSETS

	Cost of Capital Assets at end of year	Accumulated Depreciation at end of year	Capital Assets, net
	<u> </u>	<u> </u>	<u> </u>
Governmental activities:			
Land.....	\$ 5,273,382	\$ -	\$ 5,273,382
Construction in progress.....	35,858,789	-	35,858,789
Buildings and improvements.....	35,145,911	(15,027,111)	20,118,800
Vehicles.....	4,600,521	(2,660,722)	1,939,799
Machinery and equipment.....	4,333,186	(2,649,747)	1,683,439
Furniture and fixtures.....	174,936	(104,178)	70,758
Infrastructure.....	<u>852,271</u>	<u>(89,409)</u>	<u>762,862</u>
Total governmental activities.....	<u>86,238,996</u>	<u>(20,531,167)</u>	<u>65,707,829</u>
Business-type activities:			
Land.....	350,850	-	350,850
Plant and infrastructure.....	25,172,007	(11,763,805)	13,408,202
Other buildings and improvements...	5,506,646	(2,039,537)	3,467,109
Vehicles.....	190,130	(116,548)	73,582
Machinery and equipment.....	230,326	(130,317)	100,009
Furniture and fixtures.....	<u>35,323</u>	<u>(35,323)</u>	<u>-</u>
Total business-type activities.....	<u>31,485,282</u>	<u>(14,085,530)</u>	<u>17,399,752</u>
Total capital assets.....	<u>\$ 117,724,278</u>	<u>\$ (34,616,697)</u>	<u>\$ 83,107,581</u>

GOVERNMENTAL BONDS PAYABLE

Project	Interest Rate (%)	Outstanding at June 30, 2003	Issued	Redeemed	Outstanding at June 30, 2004
Roads.....	4.40-5.70%	\$ 440,000	\$ -	\$ 220,000	\$ 220,000
Land acquisition.....	4.40-5.70%	60,000	-	30,000	30,000
Middle school/gym.....	3.50-4.00%	1,409,000	-	234,000	1,175,000
Middle school/gym.....	3.50-4.00%	330,000	-	55,000	275,000
Land acquisition.....	3.50-4.00%	240,000	-	40,000	200,000
Senior center.....	3.50-4.00%	144,000	-	24,000	120,000
School fields.....	3.50-4.00%	114,000	-	19,000	95,000
Middle school/gym completion.....	3.50-4.00%	90,000	-	15,000	75,000
Middle school/gym completion.....	3.50-4.00%	43,000	-	8,000	35,000
Lowell land purchase.....	4.89%	135,000	-	135,000	-
Martha Jones School construction.....	3.90-5.00%	6,480,000	-	720,000	5,760,000
Downey School construction.....	3.90-5.00%	5,670,000	-	630,000	5,040,000
Striar land purchase.....	3.90-5.00%	1,170,000	-	130,000	1,040,000
Cemetery land purchase.....	3.90-5.00%	270,000	-	30,000	240,000
School planning.....	2.50-5.38%	37,000,300	2,262,000	1,738,000	37,524,300
Public building.....	3.00-5.00%	2,600,000	-	-	2,600,000
Public building.....	3.00-5.00%	240,700	-	-	240,700
Total governmental bonds payable.....		\$ 56,436,000	\$ 2,262,000	\$ 4,028,000	\$ 54,670,000

ENTERPRISE BONDS PAYABLE

Project	Interest Rate (%)	Outstanding at June 30, 2003	Issued	Redeemed	Outstanding at June 30, 2004
Sewer (WPAT).....	1.26%	\$ 12,312	\$ -	\$ 6,017	\$ 6,295
Sewer (WPAT).....	1.26%	867,773	-	431,688	436,085
Sewer.....	4.40-5.70%	170,000	-	85,000	85,000
Sewer.....	4.40-5.70%	60,000	-	30,000	30,000
Sewer.....	3.50-4.00%	480,000	-	80,000	400,000
Sewer.....	3.50-4.00%	240,000	-	40,000	200,000
Sewer (MWRA).....	0.00%	20,614	-	20,614	-
Sewer (WPAT).....	3.88%	2,605,111	-	138,909	2,466,202
Sewer.....	3.90-5.00%	1,350,000	-	150,000	1,200,000
Total enterprise bonds payable.....		\$ 5,805,810	\$ -	\$ 982,228	\$ 4,823,582

The Town of Westwood maintains an “AA+” rating from Standard & Poor’s and a AA1 from Moody’s for general obligation debt.

Economic Factors and Next Year’s Budget and Rates

- The Commonwealth of Massachusetts is recovering from budget deficits of prior years and local aid has stabilized. The Town budgeted level funding for local aid for FY05.
- The operating budget increased 3.4% over the FY04 budget. This increase is attributable to moderate 3 – 4% increases for school and municipal operating budgets, a 7% decrease in debt service, and a 13% increase in employee health insurance.
- The FY05 budget includes a \$25,000 appropriation to the Stabilization reserve account.

All these factors were considered in preparing the Town of Westwood’s budget for fiscal year 2005.

The official tax rates for FY05 have not yet been set. However, the Town’s residential tax rate will remain flat or slightly decline from the current \$12.96 per thousand of valuation. The Town’s commercial tax rate will also remain flat or slightly decline from the current rate of \$23.36. The tax rate declines are primarily due to the pending receipt of capital grant funds from the state for school construction projects.

Sewer rates will increase by 4% for fiscal year 2005. The increase is primarily due to the increase in the assessment charged by the state for the Massachusetts Water Resource Authority (MWRA).

Requests for Information

This financial report is designed to provide a general overview of the Town of Westwood’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Town Hall, 580 High Street, Westwood, Massachusetts 02090

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 22,722,516	\$ 1,056,075	\$ 23,778,591
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	163,752	-	163,752
Tax liens.....	115,158	-	115,158
Motor vehicle excise taxes.....	111,590	-	111,590
User charges.....	-	2,234,172	2,234,172
Departmental and other.....	223,282	-	223,282
Special assessments.....	2,803	-	2,803
Intergovernmental.....	993,781	27,123	1,020,904
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	31,223,965	505,591	31,729,556
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	23,114,209	350,850	23,465,059
Depreciable.....	42,593,620	17,048,902	59,642,522
TOTAL ASSETS.....	121,264,676	21,222,713	142,487,389
LIABILITIES			
CURRENT:			
Warrants payable.....	5,022,845	85,428	5,108,273
Accrued payroll.....	808,863	5,514	814,377
Accrued interest.....	275,871	44,268	320,139
Other liabilities.....	255,339	-	255,339
Capital lease obligations.....	344,798	-	344,798
Compensated absences.....	735,000	13,000	748,000
Bonds and notes payable.....	4,415,000	968,918	5,383,918
NONCURRENT:			
Capital lease obligations.....	605,479	-	605,479
Compensated absences.....	447,000	-	447,000
Bonds and notes payable.....	50,255,000	3,854,664	54,109,664
TOTAL LIABILITIES.....	63,165,195	4,971,792	68,136,987
NET ASSETS			
Invested in capital assets, net of related debt.....	47,624,251	12,576,170	60,200,421
Restricted for:			
Permanent funds:			
Expendable.....	219,535	-	219,535
Nonexpendable.....	260,154	-	260,154
Other purposes.....	1,916,349	-	1,916,349
Unrestricted.....	8,079,192	3,674,751	11,753,943
TOTAL NET ASSETS.....	\$ 58,099,481	\$ 16,250,921	\$ 74,350,402

See notes to basic financial statements.

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STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 2,902,036	\$ 189,373	\$ 489,163	\$ -	\$ (2,223,500)
Public safety.....	6,885,140	824,255	549,984	-	(5,510,901)
Education.....	33,719,574	1,362,860	7,957,238	9,964,397	(14,435,079)
Public works.....	4,538,604	31,090	22,946	264,499	(4,220,069)
Human services.....	686,770	53,350	73,062	-	(560,358)
Culture and recreation.....	1,660,585	471,511	72,713	-	(1,116,361)
Property and liability insurance.....	273,966	-	-	-	(273,966)
Interest.....	2,887,074	-	1,063,585	-	(1,823,489)
State and county charges.....	513,867	-	-	-	(513,867)
Total Governmental Activities.....	54,067,616	2,932,439	10,228,691	10,228,896	(30,677,590)
<i>Business-Type Activities:</i>					
Sewer.....	3,346,728	3,657,703	114,779	-	425,754
Total Primary Government.....	\$ 57,414,344	\$ 6,590,142	\$ 10,343,470	\$ 10,228,896	\$ (30,251,836)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (30,677,590)	\$ 425,754	\$ (30,251,836)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	42,923,460	-	42,923,460
Motor vehicle and other excise taxes.....	2,167,086	-	2,167,086
Penalties and interest on taxes.....	109,524	-	109,524
Grants and contributions not restricted to specific programs.....	700,468	-	700,468
Unrestricted investment income.....	494,065	-	494,065
Miscellaneous.....	511,355	-	511,355
Total general revenues and transfers.....	46,905,958	-	46,905,958
Change in net assets.....	16,228,368	425,754	16,654,122
<i>Net Assets:</i>			
Beginning of year.....	41,871,113	15,825,167	57,696,280
End of year.....	\$ 58,099,481	\$ 16,250,921	\$ 74,350,402

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2004

ASSETS	General	Stabilization	New High School	Highway Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments.....	\$ 7,239,861	\$ 782,142	\$ 7,781,358	\$ 115,791	\$ 6,803,364	\$ 22,722,516
Receivables, net of uncollectibles:						
Real estate and personal property taxes.....	163,752	-	-	-	-	163,752
Tax liens.....	115,158	-	-	-	-	115,158
Motor vehicle and other excise taxes.....	111,590	-	-	-	-	111,590
Departmental and other.....	8,888	-	-	-	214,394	223,282
Special assessments.....	2,803	-	-	-	-	2,803
Intergovernmental.....	31,472,697	-	-	547,186	197,863	32,217,746
TOTAL ASSETS.....	\$ 39,114,749	\$ 782,142	\$ 7,781,358	\$ 662,977	\$ 7,215,621	\$ 55,556,847
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants payable.....	\$ 1,359,520	\$ -	\$ 3,392,212	\$ -	\$ 271,113	\$ 5,022,845
Accrued payroll.....	808,863	-	-	-	-	808,863
Other liabilities.....	255,339	-	-	-	-	255,339
Deferred revenues.....	31,750,565	-	-	547,186	412,257	32,710,008
TOTAL LIABILITIES.....	34,174,287	-	3,392,212	547,186	683,370	38,797,055
FUND BALANCES:						
Reserved for:						
Encumbrances and continuing appropriations.....	1,363,820	-	-	-	-	1,363,820
Perpetual permanent funds.....	-	-	-	-	260,154	260,154
Unreserved:						
Designated for subsequent year's expenditures.....	1,446,270	-	-	-	-	1,446,270
Undesignated, reported in:						
General fund.....	2,130,372	-	-	-	-	2,130,372
Special revenue funds.....	-	782,142	-	115,791	4,377,706	5,275,639
Capital projects funds.....	-	-	4,389,146	-	1,674,856	6,064,002
Permanent funds.....	-	-	-	-	219,535	219,535
TOTAL FUND BALANCES.....	4,940,462	782,142	4,389,146	115,791	6,532,251	16,759,792
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 39,114,749	\$ 782,142	\$ 7,781,358	\$ 662,977	\$ 7,215,621	\$ 55,556,847

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

Total governmental fund balances.....		\$ 16,759,792
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		65,707,829
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		32,710,008
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(275,871)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(54,670,000)	
Capital lease obligations.....	(950,277)	
Compensated absences.....	<u>(1,182,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(56,802,277)</u>
Net assets of governmental activities.....		<u>\$ 58,099,481</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

	General	Stabilization	New High School	Highway Improvement	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Real estate and personal property taxes, net of tax refunds.....	\$ 42,985,534	\$ -	\$ -	\$ -	\$ -	\$ 42,985,534
Motor vehicle and other excise taxes.....	2,273,692	-	-	-	-	2,273,692
Charges for services.....	-	-	-	-	2,651,950	2,651,950
Penalties and interest on taxes.....	109,524	-	-	-	-	109,524
Fees and rentals.....	193,562	-	-	-	-	193,562
Licenses and permits.....	390,896	-	-	-	-	390,896
Fines and forfeitures.....	20,103	-	-	-	-	20,103
Intergovernmental.....	7,009,108	-	-	336,657	1,933,184	9,278,949
Departmental and other.....	225,296	-	-	-	90,252	315,548
Special assessments.....	2,279	-	-	-	-	2,279
Contributions.....	-	-	-	-	292,751	292,751
Investment income.....	494,065	8,858	-	-	23,179	526,102
TOTAL REVENUES.....	53,704,059	8,858	-	336,657	4,991,316	59,040,890
EXPENDITURES:						
Current:						
General government.....	1,985,381	-	-	-	455,501	2,440,882
Public safety.....	5,226,004	-	-	-	197,020	5,423,024
Education.....	24,209,045	-	16,561,795	-	2,954,537	43,725,377
Public works.....	3,626,277	-	-	312,592	1,696,416	5,635,285
Human services.....	503,854	-	-	-	50,037	553,891
Culture and recreation.....	1,070,023	-	-	-	282,995	1,353,018
Pension benefits.....	4,914,630	-	-	-	-	4,914,630
Property and liability insurance.....	273,966	-	-	-	-	273,966
Employee benefits.....	3,068,685	-	-	-	4,800	3,073,485
State and county charges.....	513,867	-	-	-	-	513,867
Capital outlay.....	1,148,062	-	-	-	-	1,148,062
Debt service:						
Principal.....	4,028,000	-	-	-	-	4,028,000
Interest.....	3,258,430	-	-	-	-	3,258,430
TOTAL EXPENDITURES.....	53,826,224	-	16,561,795	312,592	5,641,306	76,341,917
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(122,165)	8,858	(16,561,795)	24,065	(649,990)	(17,301,027)
OTHER FINANCING SOURCES (USES):						
Proceeds from bonds and notes.....	-	-	2,262,000	-	-	2,262,000
Premium from issuance of bonds.....	-	-	-	-	511,354	511,354
Capital lease financing.....	428,846	-	-	-	-	428,846
Transfers in.....	1,197,433	-	-	-	-	1,197,433
Transfers out.....	-	-	-	-	(1,197,433)	(1,197,433)
TOTAL OTHER FINANCING SOURCES (USES).....	1,626,279	-	2,262,000	-	(686,079)	3,202,200
NET CHANGE IN FUND BALANCES.....	1,504,114	8,858	(14,299,795)	24,065	(1,336,069)	(14,098,827)
FUND BALANCES AT BEGINNING OF YEAR.....	3,436,348	773,284	18,688,941	91,726	7,868,320	30,858,619
FUND BALANCES AT END OF YEAR.....	\$ 4,940,462	\$ 782,142	\$ 4,389,146	\$ 115,791	\$ 6,532,251	\$ 16,759,792

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds..... \$ (14,098,827)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	19,309,906
Depreciation expense.....	<u>(1,855,395)</u>

Net effect of reporting capital assets..... 17,454,511

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

10,743,740

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

Capital lease financing.....	(80,412)
Proceeds from bonds and notes.....	(2,262,000)
Debt service principal payments.....	<u>4,028,000</u>

Net effect of reporting long-term debt..... 1,685,588

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

Net change in compensated absences accrual.....	72,000
Net change in accrued interest on long-term debt.....	<u>371,356</u>

Net effect of recording long-term liabilities..... 443,356

Change in net assets of governmental activities..... \$ 16,228,368

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>Business-type Sewer Enterprise</u>
ASSETS	
CURRENT:	
Cash and short-term investments.....	\$ 1,056,075
Receivables, net of allowance for uncollectibles:	
User fees.....	2,234,172
Intergovernmental.....	<u>27,123</u>
Total current assets.....	<u>3,317,370</u>
NONCURRENT:	
Receivables, net of allowance for uncollectibles:	
Intergovernmental.....	505,591
Capital assets, net of accumulated depreciation:	
Nondepreciable.....	350,850
Depreciable.....	<u>17,048,902</u>
Total noncurrent assets.....	<u>17,905,343</u>
TOTAL ASSETS.....	<u>21,222,713</u>
LIABILITIES	
CURRENT:	
Warrants payable.....	85,428
Accrued payroll.....	5,514
Accrued interest.....	44,268
Compensated absences.....	13,000
Bonds and notes payable.....	<u>968,918</u>
Total current liabilities.....	<u>1,117,128</u>
NONCURRENT:	
Bonds and notes payable.....	<u>3,854,664</u>
TOTAL LIABILITIES.....	<u>4,971,792</u>
NET ASSETS	
Invested in capital assets, net of related debt.....	12,225,320
Unrestricted.....	<u>4,025,601</u>
TOTAL NET ASSETS.....	<u>\$ 16,250,921</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

	<u>Business-type Sewer Enterprise</u>
OPERATING REVENUES:	
Charges for services	\$ 3,416,654
Sewer betterments.....	<u>241,049</u>
TOTAL OPERATING REVENUES	<u>3,657,703</u>
OPERATING EXPENSES:	
Cost of services and administration	404,500
MWRA Assessment.....	1,822,911
Depreciation.....	<u>662,179</u>
TOTAL OPERATING EXPENSES	<u>2,889,590</u>
OPERATING INCOME (LOSS).....	<u>768,113</u>
NONOPERATING REVENUES (EXPENSES):	
Interest expense.....	(245,138)
Intergovernmental.....	114,779
Other expenses.....	<u>(212,000)</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(342,359)</u>
CHANGE IN NET ASSETS.....	425,754
NET ASSETS AT BEGINNING OF YEAR.....	<u>15,825,167</u>
NET ASSETS AT END OF YEAR.....	\$ <u><u>16,250,921</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2004

		Business-type Sewer Enterprise
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers and users.....	\$	3,831,494
Payments to vendors.....		(1,912,578)
Payments to employees.....		(273,509)
NET CASH FROM OPERATING ACTIVITIES.....		1,645,407
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Advances to other funds.....		(212,000)
Intergovernmental subsidy.....		140,644
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....		(71,356)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets.....		(479,108)
Principal payments on bonds and notes.....		(982,228)
Interest expense.....		(258,019)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....		(1,719,355)
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....		(145,304)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....		1,201,379
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$	1,056,075
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>		
Operating income (loss).....	\$	768,113
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....		662,179
Changes in assets and liabilities:		
User fees.....		173,791
Warrants payable.....		31,271
Accrued payroll.....		5,514
Accrued compensated absences.....		4,539
Total adjustments.....		877,294
NET CASH FROM OPERATING ACTIVITIES.....	\$	1,645,407

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	Private Purpose Trust Funds	Agency Funds
ASSETS		
CURRENT:		
Cash and short-term investments.....	\$ 342,796	\$ 132,803
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	-	43,459
TOTAL ASSETS	<u>342,796</u>	<u>176,262</u>
LIABILITIES		
Warrants payable.....	-	3,483
Liabilities due depositors.....	-	172,779
TOTAL LIABILITIES	<u>-</u>	<u>176,262</u>
NET ASSETS	<u>\$ 342,796</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Contributions:	
Private donations.....	\$ 30,111
Net investment income:	
Interest.....	<u>55,916</u>
TOTAL ADDITIONS.....	<u>86,027</u>
<u>DEDUCTIONS:</u>	
Educational scholarships.....	<u>70,450</u>
CHANGE IN NET ASSETS.....	15,577
NET ASSETS AT BEGINNING OF YEAR.....	<u>327,219</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 342,796</u>

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

An elected three-member Board of Selectmen governs the Town.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the Primary Government) and its component units. The Town did not identify any component units requiring inclusion in the basic financial statements.

Joint Ventures

The Town has entered into a joint venture with the Towns of Avon, Canton, Dedham, Braintree, Holbrook, Milton, Norwood, and Randolph to pool resources and share the costs, risks and rewards of providing vocational education through the Blue Hills Regional Technical School District (District). As of June 30, 2004, the District has no significant unreserved fund balance and has approximately \$1.3 million in outstanding long-term bonds related to capital improvements. The following is the address where the District's financial statements are available, its purpose, and the assessment paid by the Town during fiscal year 2004.

<u>Joint venture and address</u>	<u>Purpose</u>	<u>2004 Assessment</u>
Blue Hills Regional Technical School District 800 Randolph Street, Canton, MA 02021	To provide vocational education	<u>\$ 86,843</u>

The Town has no equity interest in the District.

Jointly Governed Organizations

The Board of Selectmen is responsible for appointing three of the six-member Board of Water Commissioners of the Dedham-Westwood Water District. The Town's accountability for this organization does not extend beyond making these appointments.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

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

The *stabilization fund* is used to account for the accumulation of resources to provide general and/or capital reserves.

The *new high school fund* is used to account for financial resources to expand and upgrade the high school facilities.

The *highway improvement fund* is used to account for funds received from the State Highway Department which are used for construction, reconstruction and improvements of roadways.

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

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise Funds).

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

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

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

The following major proprietary fund is reported:

The *sewer enterprise fund* is used to account for the sewer activities.

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

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments. The Town's educational scholarships are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity. The Town's agency funds consist primarily of public safety and custodial details worked by Town employees.

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate tax liens are processed annually on delinquent properties. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

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

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

Motor Vehicle Excise

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

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

User Charges

Sewer charges are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Sewer liens are processed in October of every year and included as a lien on the property owner's tax bill. Sewer charges are recorded as receivables in the fiscal year of the levy and are recorded under the full accrual basis of accounting.

Departmental and Other

Departmental and other receivables consist primarily of police details, ambulance fees and school rentals and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Special Assessments

Special assessments consist of street, construction and particular apportioned betterments. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Intergovernmental

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

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

F. Inventories

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

G. Capital Assets

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

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

As allowed by GASB Statement #34, the Town has elected to delay the retroactive reporting of all major general governmental infrastructure assets that were acquired prior to the implementation of GASB Statement #34. Consequently, infrastructure assets that were acquired, or significantly reconstructed or improved prior to fiscal year 2003 are not included in these financial statements.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	7-40
Vehicles.....	5-10
Machinery and equipment.....	5-50
Furniture and fixtures.....	5-20
Infrastructure.....	5-50

H. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

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

Net assets have been "restricted for" the following:

"Permanent funds - expendable" represents the expendable resources generated by amounts held in trust which stipulate that only earnings may be used for purposes that support governmental programs.

"Permanent funds - nonexpendable" represents the permanently restricted portion of amounts held in trust which stipulate that only earnings may be used for purposes that support governmental programs.

"Other purposes" – represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

"Perpetual permanent funds" represents the permanently restricted portion of amounts held in trust which stipulate that only earnings may be used for purposes that support governmental programs.

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2004 operating budget.

J. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

K. Investment Income

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

Investment income from proprietary funds is voluntarily assigned and transferred to the general fund.

L. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

M. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50-60% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2004, this expenditure totaled approximately \$766,000. There were approximately 284 participants eligible to receive benefits at June 30, 2004.

N. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

O. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

The Town maintains a cash and investment pool that is available for use by all Funds. Each Fund Type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-term Investments." The deposits and investments of the Trust Funds are held separately from those of other Town funds.

At fiscal year-end, the carrying amount of the Town's deposits totaled \$23,666,059 and the bank balance totaled \$24,062,254. Of the bank balance, \$800,000 was covered by Federal Depository Insurance and the Depositors Insurance Fund and \$1,147,781 was uninsured and uncollateralized.

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

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

Short-term investments and investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Town or its agent in the Town's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the Town's name.

	Cash and Short-term Investments
Checking, savings and NOW accounts.....	\$ 1,558,068
Money market deposits.....	22,107,991
Total carrying amount of cash.....	23,666,059
 <u>Investments not subject to categorization:</u>	
MMDT.....	428,430
Mutual funds.....	159,701
Total investments.....	588,131
<i>Total cash and short-term investments.....</i>	<i>\$ 24,254,190</i>

NOTE 3 – RECEIVABLES

At June 30, 2004, receivables for the individual major governmental funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 163,752	\$ -	\$ 163,752
Tax liens.....	115,158	-	115,158
Motor vehicle and other excise taxes.....	154,388	(42,798)	111,590
Departmental and other.....	261,236	(37,954)	223,282
Special assessments.....	2,803	-	2,803
Intergovernmental.....	32,217,746	-	32,217,746
Total.....	\$ 32,915,083	\$ (80,752)	\$ 32,834,331

At June 30, 2004, receivables for the fiduciary funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Details.....	\$ 43,459	\$ -	\$ 43,459

At June 30, 2004, receivables for the enterprise funds consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Sewer fees.....	\$ 2,234,172	\$ -	\$ 2,234,172

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 39,429	\$ -	\$ 39,429
Tax liens.....	115,158	-	115,158
Motor vehicle and other excise taxes.....	111,590	-	111,590
Departmental and other.....	8,888	214,394	223,282
Special assessments.....	2,803	-	2,803
Intergovernmental.....	31,472,697	745,049	32,217,746
Total.....	\$ 31,750,565	\$ 959,443	\$ 32,710,008

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2004, there were no interfund receivables or payables.

Interfund transfers in for the fiscal year ended June 30, 2004, are summarized as follows:

	<u>Total</u>
Budgeted appropriations from pension reserve funds.....	\$ 350,000
Budgeted appropriations from ambulance fund.....	357,463
Budgeted appropriations from conservation fund.....	7,000
Budgeted appropriations from cemetery permanent funds.....	10,000
Budgeted appropriations from sale of land fund.....	72,970
Budgeted appropriations from revolving funds.....	<u>400,000</u>
Transfers to the General Fund from the Nonmajor Governmental funds.....	<u>\$ 1,197,433</u>

NOTE 5 – PENSION PLAN

Plan Description - The Town contributes to the Norfolk Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the Norfolk County Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Commonwealth of Massachusetts' Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$3,718,000 for the fiscal year ended June 30, 2004, and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Pension Expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Norfolk County Contributory Retirement Board and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 480 Neponset Street, Building 15, Canton, MA, 02021.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,148,264, \$1,101,179 and \$1,092,886 respectively, which equaled its required contribution for each fiscal year.

Noncontributory Retirement Allowance – The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2004 totaled approximately \$48,000.

Pension Reserve Fund – The Town has established a pension reserve fund (accounted for in the nonmajor governmental funds) that is distinct and separate from the System. The purpose of the fund is to provide a reserve to meet future annual contributions to the System. The assets of this fund are invested in certificates of deposit.

A summary of changes in the pension reserve fund during fiscal year 2004 is as follows:

Beginning balance, July 1, 2003.....	\$	688,769
Interest income.....		6,098
Transfers to the general fund.....		<u>(350,000)</u>
Ending balance, June 30, 2004.....	\$	<u><u>344,867</u></u>

NOTE 6 – CAPITAL ASSETS

The Town has elected to delay the retrospective reporting of general infrastructure assets as allowed by GASB Statement #34.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,273,382	\$ -	\$ -	\$ 5,273,382
Construction in progress.....	17,840,827	18,017,962	-	35,858,789
Total capital assets not being depreciated.....	23,114,209	18,017,962	-	41,132,171
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	34,786,270	359,641	-	35,145,911
Vehicles.....	4,604,907	361,376	(365,762)	4,600,521
Machinery and equipment.....	4,072,436	260,750	-	4,333,186
Furniture and fixtures.....	174,936	-	-	174,936
Infrastructure.....	542,094	310,177	-	852,271
Total capital assets being depreciated.....	44,180,643	1,291,944	(365,762)	45,106,825
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	14,199,029	828,082	-	15,027,111
Vehicles.....	2,622,341	404,143	(365,762)	2,660,722
Machinery and equipment.....	2,109,828	539,919	-	2,649,747
Furniture and fixtures.....	83,231	20,947	-	104,178
Infrastructure.....	27,105	62,304	-	89,409
Total accumulated depreciation.....	19,041,534	1,855,395	(365,762)	20,531,167
Total capital assets being depreciated, net.....	25,139,109	(563,451)	-	24,575,658
Total governmental activities capital assets, net.....	\$ 48,253,318	\$ 17,454,511	\$ -	\$ 65,707,829

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 350,850	\$ -	\$ -	\$ 350,850
<u>Capital assets being depreciated:</u>				
Plant and infrastructure.....	24,729,899	442,108	-	25,172,007
Other buildings and improvements.....	5,469,646	37,000	-	5,506,646
Vehicles.....	190,130	-	-	190,130
Machinery and equipment.....	230,326	-	-	230,326
Furniture and fixtures.....	35,323	-	-	35,323
Total capital assets being depreciated.....	30,655,324	479,108	-	31,134,432
<u>Less accumulated depreciation for:</u>				
Plant and infrastructure.....	11,260,175	503,630	-	11,763,805
Other buildings and improvements.....	1,929,774	109,763	-	2,039,537
Vehicles.....	90,903	25,645	-	116,548
Machinery and equipment.....	107,176	23,141	-	130,317
Furniture and fixtures.....	35,323	-	-	35,323
Total accumulated depreciation.....	13,423,351	662,179	-	14,085,530
Total capital assets being depreciated, net.....	17,231,973	(183,071)	-	17,048,902
Total business-type activities capital assets, net.....	\$ 17,582,823	\$ (183,071)	\$ -	\$ 17,399,752

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

Governmental Activities:	
General government.....	\$ 161,286
Public safety.....	292,718
Education.....	1,000,384
Public works.....	366,579
Human services.....	9,254
Culture and recreation.....	25,174
Total depreciation expense - governmental activities.....	\$ 1,855,395
Business-Type Activities:	
Sewer.....	\$ 662,179

NOTE 7 – CAPITAL LEASES

The Town has entered into lease agreements as lessee for financing the acquisition of an Aerial Ladder Fire Apparatus, six relocatable classroom buildings, and two rescue fire pumpers with down payments of \$254,515, \$135,000 and \$271,154, respectively. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Vehicles.....	\$ 890,000
Buildings and improvements.....	772,575
Accumulated depreciation.....	<u>(120,822)</u>
 Total.....	 \$ <u><u>1,541,753</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2005.....	\$ 385,999
2006.....	385,999
2007.....	<u>256,189</u>
 Total minimum lease payments.....	 1,028,187
 Less: amounts representing interest.....	 <u>(77,910)</u>
 Present value of minimum lease payments.....	 \$ <u><u>950,277</u></u>

NOTE 8 – SHORT-TERM FINANCING

The Town is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FANS and SANS).

Short-term loans are general obligations of the Town and carry maturity dates that are limited by statute. Interest expenditures for short-term borrowings are accounted for in the General Fund and Sewer Enterprise Fund.

The Town did not engage in any short-term debt activity during the current year and had no short-term debt outstanding at June 30, 2004.

NOTE 9 – LONG-TERM DEBT

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 2 1/2% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the Town's outstanding indebtedness at June 30, 2004, and the debt service requirements follow.

Project	Interest Rate (%)	Outstanding at June 30, 2003	Issued	Redeemed	Outstanding at June 30, 2004
Roads.....	4.40-5.70%	\$ 440,000	\$ -	\$ 220,000	\$ 220,000
Land acquisition.....	4.40-5.70%	60,000	-	30,000	30,000
Middle school/gym.....	3.50-4.00%	1,409,000	-	234,000	1,175,000
Middle school/gym.....	3.50-4.00%	330,000	-	55,000	275,000
Land acquisition.....	3.50-4.00%	240,000	-	40,000	200,000
Senior center.....	3.50-4.00%	144,000	-	24,000	120,000
School fields.....	3.50-4.00%	114,000	-	19,000	95,000
Middle school/gym completion.....	3.50-4.00%	90,000	-	15,000	75,000
Middle school/gym completion.....	3.50-4.00%	43,000	-	8,000	35,000
Lowell land purchase.....	4.89%	135,000	-	135,000	-
Martha Jones School construction.....	3.90-5.00%	6,480,000	-	720,000	5,760,000
Downey School construction.....	3.90-5.00%	5,670,000	-	630,000	5,040,000
Striar land purchase.....	3.90-5.00%	1,170,000	-	130,000	1,040,000
Cemetery land purchase.....	3.90-5.00%	270,000	-	30,000	240,000
School planning.....	2.50-5.38%	37,000,300	2,262,000	1,738,000	37,524,300
Public building.....	3.00-5.00%	2,600,000	-	-	2,600,000
Public building.....	3.00-5.00%	240,700	-	-	240,700
Total governmental bonds payable.....		\$ 56,436,000	\$ 2,262,000	\$ 4,028,000	\$ 54,670,000
Sewer (WPAT).....	1.26%	\$ 12,312	\$ -	\$ 6,017	\$ 6,295
Sewer (WPAT).....	1.26%	867,773	-	431,688	436,085
Sewer.....	4.40-5.70%	170,000	-	85,000	85,000
Sewer.....	4.40-5.70%	60,000	-	30,000	30,000
Sewer.....	3.50-4.00%	480,000	-	80,000	400,000
Sewer.....	3.50-4.00%	240,000	-	40,000	200,000
Sewer (MWRA).....	0.00%	20,614	-	20,614	-
Sewer (WPAT).....	3.88%	2,605,111	-	138,909	2,466,202
Sewer.....	3.90-5.00%	1,350,000	-	150,000	1,200,000
Total enterprise bonds payable.....		\$ 5,805,810	\$ -	\$ 982,228	\$ 4,823,582
Total general obligation bonds and notes payable.....		\$ 62,241,810	\$ 2,262,000	\$ 5,010,228	\$ 59,493,582

Debt service requirements for principal and interest for bonds payable in the general fund in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005.....	\$ 4,415,000	\$ 2,307,775	\$ 6,722,775
2006.....	4,165,000	2,137,364	6,302,364
2007.....	4,165,000	1,979,048	6,144,048
2008.....	4,165,000	1,835,447	6,000,447
2009.....	4,165,000	1,693,057	5,858,057
2010.....	3,770,000	1,523,055	5,293,055
2011.....	3,770,000	1,370,367	5,140,367
2012.....	3,770,000	1,215,793	4,985,793
2013.....	2,255,000	1,036,731	3,291,731
2014.....	2,255,000	923,981	3,178,981
2015.....	1,975,000	811,231	2,786,231
2016.....	1,975,000	712,481	2,687,481
2017.....	1,975,000	629,531	2,604,531
2018.....	1,975,000	523,375	2,498,375
2019.....	1,975,000	436,475	2,411,475
2020.....	1,975,000	347,600	2,322,600
2021.....	1,975,000	258,725	2,233,725
2022.....	1,975,000	167,875	2,142,875
2023.....	1,975,000	83,938	2,058,938
	<u>\$ 54,670,000</u>	<u>\$ 19,993,849</u>	<u>\$ 74,663,849</u>

Debt service requirements for principal and interest for bonds and notes payable in the sewer enterprise fund in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005.....	\$ 968,918	\$ 214,172	\$ 1,183,090
2006.....	414,166	168,651	582,817
2007.....	417,670	150,014	567,684
2008.....	421,953	131,845	553,798
2009.....	425,750	114,115	539,865
2010.....	309,838	98,312	408,150
2011.....	314,687	83,806	398,493
2012.....	319,700	68,863	388,563
2013.....	90,300	137,859	228,159
2014.....	176,300	53,434	229,734
2015.....	181,600	44,263	225,863
2016.....	187,100	34,816	221,916
2017.....	192,800	25,081	217,881
2018.....	198,500	15,178	213,678
2019.....	204,300	5,108	209,408
	<u>\$ 4,823,582</u>	<u>\$ 1,345,517</u>	<u>\$ 6,169,099</u>

The Town is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (WPAT) on a periodic basis for principal in the amount of \$532,714 and interest costs for \$807,233. Thus, net WPAT loan repayments including interest are scheduled to be \$2,621,574. Since the Town is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The fiscal year 2004 principal and interest subsidy totaled approximately \$26,000 and \$116,000, respectively.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the School Building Assistance Bureau (SBAB), provides resources for construction costs and debt service interest of general obligation school bonds outstanding. During fiscal year 2004, approximately \$330,000 of such assistance was received. Approximately \$42,593,000 will be received in future fiscal years. Of this amount, approximately \$11,120,000 represents reimbursement of long-term interest costs, and \$31,472,697 represents reimbursement of approved construction costs. Accordingly, \$31,472,697 intergovernmental receivable and corresponding deferred revenue has been recorded in the fund base financial statements and the change in the receivable has been recognized as revenue in the conversion to the government-wide financial statements.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2004, the Town had the following authorized and unissued debt:

Purpose	Date Voted	Article	Amount Authorized	Amount Unissued
Additional high school construction.....	STM 2/2002	5 & 6	\$ 8,333,640	\$ 5,033,340
Eminent domain land purchase.....	ATM 5/2001	15	300,000	300,000
Purchase of Islington Church.....	ATM 5/2004	16	600,000	600,000
Sewer engineering and construction.....	ATM 5/2004	17	<u>750,000</u>	<u>750,000</u>
Total.....			<u>\$ 9,983,640</u>	<u>\$ 6,683,340</u>

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2004, the following changes occurred in long-term liabilities:

	Balance at June 30, 2003	Additions	Retirements and Other	Balance at June 30, 2004	Current Portion
Governmental Funds:					
Long-Term Bonds and Notes.....	\$ 56,436,000	\$ 2,262,000	\$ (4,028,000)	\$ 54,670,000	\$ 4,415,000
Capital Lease Obligations.....	869,865	80,412	-	950,277	344,798
Compensated Absences.....	1,254,000	715,000	(787,000)	1,182,000	735,000
Total Governmental Funds.....	<u>58,559,865</u>	<u>3,057,412</u>	<u>(4,815,000)</u>	<u>56,802,277</u>	<u>5,494,798</u>
Business Type Activities:					
Long-Term Bonds and Notes.....	5,805,810	-	(982,228)	4,823,582	968,918
Compensated Absences.....	8,461	13,000	(8,461)	13,000	13,000
Total Business Type Activities....	<u>5,814,271</u>	<u>13,000</u>	<u>(990,689)</u>	<u>4,836,582</u>	<u>981,918</u>
Total.....	<u>\$ 64,374,136</u>	<u>\$ 3,070,412</u>	<u>\$ (5,805,689)</u>	<u>\$ 61,638,859</u>	<u>\$ 6,476,716</u>

Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures.

NOTE 10 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town provides health insurance to its employees through its participation in the West Suburban Health Group (the Group), a non-profit trust comprised of eleven towns, one school district and two educational collaboratives. The Group is self-sustaining through member premiums. The Town recognizes the cost of providing health insurance by recording its 60% share of insurance premiums paid to the Group in the general fund in the fiscal year paid. The purpose of the Group is to pay medical claims of its members' employees and their covered dependents. In the event the group is terminated, the Town is obligated to pay its prorated share of a deficit, should one exist.

The Town is a member of the Massachusetts Interlocal Insurance Association (MIIA), a public entity risk pool currently operating as a common risk management and insurance program for workers' compensation benefits for employees other than uniformed police and fire personnel. MIIA is self-sustaining through member premiums and reinsures through commercial companies for stop loss insurance. The total premiums assessed by MIIA to the Town during fiscal year 2004 totaled \$100,000 and are recorded in the general fund.

The Town is self-insured for the workers' compensation claims of police officers and firefighters and are paid on a pay-as-you-go basis from the General Fund. The estimated liability for workers' compensation claims is based on history and injury type. The Town's liability is not material at June 30, 2004, and therefore is not reported.

The Town is self-insured for unemployment compensation. During fiscal year 2004, the Town appropriated \$75,000 to provide for anticipated costs of unemployment benefits. During fiscal year 2004, claims related to unemployment compensation totaled \$72,270. The liability for unemployment compensation was not material at June 30, 2004, and therefore is not reported.

NOTE 11 – STABILIZATION FUND

The Town has \$782,142 in a stabilization fund classified as a major governmental fund in the fund-based statements. The stabilization fund may be used for general and/or capital purposes upon Town Meeting approval. During fiscal year 2004, the stabilization fund earned investment income of approximately \$8,858.

NOTE 12 – COMMITMENTS

During fiscal year 2004, the Town continued construction of a new high school, with an expected total cost of approximately \$45,000,000. The Town has been approved for school construction assistance from the SBAB for 59% of the total costs of the project.

NOTE 13 – CONTINGENCIES

The Town participates in a number of federal award programs. Although the Town grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2004, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2004, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2004.

NOTE 14 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2004, the following GASB pronouncement was implemented:

- Statement #39, Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement #14.

Future Implementation of GASB Pronouncements

- The GASB has issued Statement #40, Deposit and Investment Risk Disclosures, an amendment of GASB Statement #3, which is required to be implemented during fiscal year 2005. The implementation of this statement will require changes to the note disclosures only. It will not effect the financial statements.

- The GASB issued Statement #41, Budgetary Comparison Schedule—Perspective Differences which is required to be implemented during fiscal year 2005. This statement will not effect the financial statements.
- During fiscal year 2004, the GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is required to be implemented in fiscal year 2006.
- During fiscal year 2004, the GASB issued Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The standards in this statement do not apply to the Town, however, a related statement (Statement #45), addresses new standards for the Town related to Other Postemployment Benefits.
- During fiscal year 2004, the GASB issued Statement #44, Economic Condition Reporting: The Statistical section—an amendment of NCGA Statement 1, which is required to be implemented in fiscal year 2006.
- During fiscal year 2005, the GASB issued Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which is required to be implemented in fiscal year 2008.