

TOWN OF SUDBURY, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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Independent Auditors' Report

Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Sudbury, 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 Sudbury, Massachusetts, as of and for the fiscal year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sudbury, 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As more fully described in Note 1, the Town has not reported its equity interest in the operation of the Wayland-Sudbury Septage Disposal Facility related to its governmental activities, which is a departure from accounting principles generally accepted in the United States of America. Had the Town reported this amount, assets and net assets would have increased, and revenues and/or expenses would have changed for the governmental activities. The amount by which this departure would affect the assets, net assets, revenues and/or expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects, if any, of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Sudbury, Massachusetts, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis (located on pages 4 through 13), are not a required part of the basic financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2004, on our consideration of the Town of Sudbury, 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.

Sullivan, Day & Company, LLC

November 18, 2004

Management's Discussion and Analysis

As management of the Town of Sudbury, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2004.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$78,402,246 (net assets). Of this amount, \$14,868,139 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$5,224,754.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$18,670,971, an increase of \$4,309,379 in comparison with the prior year. Approximately \$12,903,000 represents unreserved fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$1,483,082 or 2.3 percent of total general fund expenditures.
- The Town's total bonded debt decreased by \$5,000 during the fiscal year; \$5,640,000 of new debt was issued.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

Government-wide financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the Town's swimming pool and landfill operations.

The government-wide financial statements can be found on pages 15-17 of this report.

Fund financial statements

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

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

Governmental Funds

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

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

The Town maintains 265 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization and community preservation (special revenue), and school construction and public works facilities (capital projects) funds, each of which are considered to be major funds. Data from the other 260 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The Town adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided to demonstrate compliance with the fiscal year 2004 budget.

The basic governmental funds financial statements and budgetary comparison statement can be found on pages 18-24 of this report.

Proprietary funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its swimming pool and landfill activities, each of which are considered to be major funds.

The basic proprietary fund financial statements can be found on pages 25-27 of this report.

Fiduciary funds

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

Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-51 of this report.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$78,402,246 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets.....	\$ 30,527,881	\$ 22,760,093	\$ 219,345	\$ 208,979	\$ 30,747,226	\$ 22,969,072
Noncurrent assets (excluding capital assets).....	26,331,910	28,108,673	-	-	26,331,910	28,108,673
Capital assets (net).....	80,596,172	76,583,156	862,425	900,639	81,458,597	77,483,795
Total assets.....	137,455,963	127,451,922	1,081,770	1,109,618	138,537,733	128,561,540
Liabilities						
Current liabilities (excluding debt).....	8,622,484	3,867,543	24,568	33,505	8,647,052	3,901,048
Noncurrent liabilities (excluding debt).....	618,435	518,000	-	-	618,435	518,000
Current debt.....	4,710,000	6,075,000	-	-	4,710,000	6,075,000
Noncurrent debt.....	46,160,000	44,890,000	-	-	46,160,000	44,890,000
Total liabilities.....	60,110,919	55,350,543	24,568	33,505	60,135,487	55,384,048
Net Assets						
Invested in capital assets (net of related debt).....	57,435,322	55,556,156	862,425	900,639	58,297,747	56,456,795
Restricted.....	5,236,360	4,856,887	-	-	5,236,360	4,856,887
Unrestricted.....	14,673,362	11,688,336	194,777	175,474	14,868,139	11,863,810
Total net assets.....	\$ 77,345,044	\$ 72,101,379	\$ 1,057,202	\$ 1,076,113	\$ 78,402,246	\$ 73,177,492

A significant portion of the Town's net assets (74.3%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used 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 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's net assets (6.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (19.0% or \$14,868,139) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$14,673,362 may be used to support governmental activities and \$194,777 may be used to support business-type activities.

Changes in Net Assets

The Town's total net assets increased by \$5,224,754 during the current fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2004	2003	2004	2003	2004	2003
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 3,142,267	\$ 3,097,635	\$ 652,698	\$ 608,713	\$ 3,794,965	\$ 3,706,348
Operating grants and contributions.....	9,738,357	9,130,153	-	-	9,738,357	9,130,153
Capital grants and contributions.....	1,030,840	724,193	-	-	1,030,840	724,193
<i>General Revenues:</i>						
Real estate and personal property taxes.....	48,507,675	48,514,433	-	-	48,507,675	48,514,433
Motor vehicle and other excise taxes.....	2,606,528	2,704,426	-	-	2,606,528	2,704,426
Tax liens.....	229,113	93,717	-	-	229,113	93,717
Penalties and interest on taxes.....	183,035	172,237	-	-	183,035	172,237
Payments in lieu of taxes.....	94,772	72,573	-	-	94,772	72,573
Community preservation surcharges.....	1,099,776	1,034,367	-	-	1,099,776	1,034,367
Grants and contributions not restricted to specific programs.....	1,551,826	1,753,069	-	-	1,551,826	1,753,069
Unrestricted investment income.....	171,136	333,558	-	-	171,136	333,558
Loss on disposal of capital assets.....	(74,529)	-	-	-	(74,529)	-
Total revenues.....	68,280,796	67,630,361	652,698	608,713	68,933,494	68,239,074
Expenses						
General government.....	2,475,079	2,621,841	-	-	2,475,079	2,621,841
Public safety.....	6,661,738	6,717,894	-	-	6,661,738	6,717,894
Education.....	45,885,256	43,663,502	-	-	45,885,256	43,663,502
Public works.....	3,123,901	3,193,245	-	-	3,123,901	3,193,245
Health and human services.....	780,176	1,023,160	-	-	780,176	1,023,160
Culture and recreation.....	1,914,782	1,573,204	-	-	1,914,782	1,573,204
Debt service - interest.....	2,263,971	2,469,371	-	-	2,263,971	2,469,371
Pool.....	-	-	397,976	422,650	397,976	422,650
Landfill.....	-	-	205,861	196,660	205,861	196,660
Total expenses.....	63,104,903	61,262,217	603,837	619,310	63,708,740	61,881,527
Change in net assets before transfers.....	5,175,893	6,368,144	48,861	(10,597)	5,224,754	6,357,547
Transfers, net.....	67,772	(62,866)	(67,772)	62,866	-	-
Change in net assets.....	5,243,665	6,305,278	(18,911)	52,269	5,224,754	6,357,547
Net assets - beginning of year.....	72,101,379	65,796,101	1,076,113	1,023,844	73,177,492	66,819,945
Net assets - end of year.....	\$ 77,345,044	\$ 72,101,379	\$ 1,057,202	\$ 1,076,113	\$ 78,402,246	\$ 73,177,492

Governmental activities increased the Town's net assets by \$5,243,665. The key elements of this change are increases in education grants (\$970,000) and revenues from state matching funds in the community preservation fund (\$1,030,000).

Business-type activities decreased the Town's net assets by \$18,911. The key element of this change relates to the change in net transfers to and from the general fund.

Fund Financial Statement Analysis

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

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$18,670,971, an increase of \$4,309,379 in comparison with the prior year. \$11,072,535 represents undesignated fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$1,753,309)
- Employee benefits (\$2,632,958)
- Perpetual permanent funds (\$894,768)
- Other specific purposes (\$486,543)
- Fund a portion of the fiscal year 2005 budget (\$1,830,858)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$1,483,082, while total fund balance was \$7,700,207. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 2.3% of total general fund expenditures, while total fund balance represents 12.1% of that same amount.

The fund balance of the Town's general fund increased by \$1,064,991 during the current fiscal year. This is primarily attributable to the following:

- Unbudgeted collections of outstanding tax liens (\$123,000).
- Unbudgeted collections of licenses, permits and fees (\$188,000).
- Net increase of self-insurance activities reported in the general fund for GAAP (\$418,000).

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the stabilization fund (special revenue) increased by \$12,752 during the current fiscal year. This is attributable to investment income earned by the fund.

The fund balance of the community preservation fund (special revenue) increased by \$3,004,355 during the current fiscal year. This is attributable to the receipt of bond proceeds.

The fund balance of the school construction project fund (capital project) decreased by \$140,624 during the current fiscal year. This is attributable to expenditures on school construction projects.

The fund balance of the public works facilities fund (capital project) decreased by \$116,184 during the current fiscal year. This is attributable to expenditures on the public works facilities.

Proprietary funds

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

Unrestricted net assets of the swimming pool and landfill enterprise funds at the end of the year amounted to \$29,584 and \$165,193, respectively. The swimming pool and landfill enterprise funds had a decrease in net assets for the year of \$33,199 and an increase in net assets of \$14,288, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original and final general fund budget totaled \$63,836,257. During the year, general fund revenues exceeded budgetary estimates and expenditures were less, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$3,025,000.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$81,458,597 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$3,974,802, or 5.1% (a 5.2% increase for governmental activities and a 0.1% decrease for business-type activities).

Major capital asset events that occurred during the current fiscal year include the following:

- Land acquisition (\$4,700,000)
- School construction in progress (\$172,000)
- Completion of public works facility (\$116,000)
- Purchase of public safety and public works vehicles (\$495,000)
- Roadway improvements (\$605,000)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2004	2003	2004	2003	2004	2003
Land.....	\$ 22,689,708	\$ 17,989,708	\$ 192,500	\$ 192,500	\$ 22,882,208	\$ 18,182,208
Construction in progress.....	515,478	4,676,283	-	-	515,478	4,676,283
Buildings and improvements.....	54,062,936	50,915,825	661,250	690,000	54,724,186	51,605,825
Machinery and equipment.....	999,019	1,297,018	8,675	18,139	1,007,694	1,315,157
Vehicles.....	1,253,841	1,196,886	-	-	1,253,841	1,196,886
Infrastructure.....	1,075,190	507,436	-	-	1,075,190	507,436
Total capital assets.....	\$ 80,596,172	\$ 76,583,156	\$ 862,425	\$ 900,639	\$ 81,458,597	\$ 77,483,795

Additional information on the Town's capital assets can be found in Note 5 on pages 43-44 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$50,530,000, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>	
	2004	2003
General obligation bonds.....	\$ 50,530,000	\$ 50,535,000

The Town's total bonded debt decreased by \$5,000 (less than 0.1%) during the current fiscal year, with new debt issuances (for the purpose of land acquisition) totaling \$5,640,000.

The Town has an AAA bond rating from Standard & Poors.

State statutes limit the amount of general obligation debt the Town may issue to 5% of its total assessed valuation. The current debt limit is \$153,413,790, which is significantly in excess of the Town's outstanding debt.

Additional information on the Town's long-term debt can be found in Note 9 on pages 47-49 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the FY 2005 operating budget was influenced by the continued economic slowdown experienced in Massachusetts. This slowdown led to reductions in revenue expectations from two of the three major sources of revenue for the Town (local receipts and state aid), leaving the property tax as the only general fund revenue predicted to grow over the prior year. Instead we turned to use of prior year receipts and one time revenues to support a budget that increased 3.2% over FY 2004. Projections were for revenues to increase by \$1.7 million, as follows:

- Within levy property taxes, up 3.6% including new growth;
- State aid and local receipts, down 4.7%;
- One-time revenues and receipts from prior years, up 46% (a total of \$587,720 over FY 2004 use of such revenues). Sources included free cash, abatement surplus, retirement trust fund and transfers from old articles.

Our projections for state aid included an expectation that the state would level fund educational assistance (chapter 70) but reduce lottery and additional assistance by 10%. However, the state later level funded those accounts as well, but only after the Town's FY 2005 appropriations had already been made. Property taxes in Massachusetts are limited to a levy growth of 2 ½% plus a factor for new construction, unless the voters at an election approve an increase for operating expenses or debt service for a specific project. The Board of Selectmen deliberated over the question of asking voters for a Proposition 2 ½ override to increase revenues from the property tax, but eventually voted not to place such a question on the ballot.

A major reason that a budget could be funded even with such poor revenue growth was the slowing of growth in employee benefit and wage related costs. The cost of employee benefits and pensions was projected to rise only 9% over the prior year, slowing down an annual rate of increase that had been 15% in FY 2004 and 20% in FY 2003. Health insurance rates stabilized due to three primary factors: the stabilization of the financial health of our two primary carriers, the better than expected health insurance claims we experienced in the prior years, and the reduction in number of employees being covered. The Town (including Schools) reduced their staffing levels and the combined number of employees working for the Town was projected to drop from 772.6 FTE to 757.5 FTE in FY 2005. The Town's FY 2005 pension assessment grew by only 5.9% over FY 2004, following two years of 27% increases, and the cost of wages for employees was projected to grow at about 1%.

Though the general fund budget appropriation increased by 3.2%, we were aware service levels would decline in the Town and Schools, as the budget would have needed to grow substantially more in order to provide level services. The Sudbury Public Schools and the Lincoln-Sudbury Regional High School anticipated enrollment growth of 80 students each, without being able to hire staffing to accommodate that growth. Within Town departments, both police and fire departments did not receive enough overtime funding to be able to fully cover all shifts when personnel are on vacation or out sick. And we decided to postpone (until FY 2006) allocating funds for costly pieces of fire apparatus and public works vehicles which require replacement. Further, this budget did not allow us to meet a number of service demands that have emerged in recent years, and it continues the pattern of many departments being understaffed compared to other communities of our size.

Despite all of these continued revenue and spending challenges facing us, the Town of Sudbury remained in *excellent financial condition*, although we recognized that with a third year of reduced state aid and local receipts, FY 2005 is most likely the last year we can continue to use one-time revenues, prior year receipts, and staff reductions to balance the budget without seriously challenging our ability to provide expected services to our residents. For FY 2006, we will need to deal with capital replacement and investment demands, keeping class sizes from growing any larger, and increasing our public safety personnel to deal with population growth and new state and federal mandates.

Management remains committed to using a forecasting model we developed to project long-range costs as well as adhering to long-term financial principles for decision-making. We believe this approach will serve the Town well in managing our way out of the current financial difficulties and any future ones. The model allows us to focus not just on the balance between revenues and expenditures in the current year but also on those of future years because it isolates the primary drivers of future costs. Our financial principles require us to avoid making short-term decisions that solve the problems only for today but jeopardize the future. Such actions that have been avoided include using our Stabilization Fund to cover operating costs, eliminating funds for capital and maintenance, or "raiding" trust fund balances. These types of actions could be tremendously harmful to the Town over the long-run. The key to maintaining our good financial condition and retaining our hard won AAA credit rating is to continue to make decisions with multi-year sustainability in mind, and to respect the voters of the Town as to the service levels and property tax overrides they approve.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town Hall, 288 Old Sudbury Road, Sudbury, Massachusetts 01776.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and short-term investments.....	\$ 13,888,412	\$ 219,345	\$ 14,107,757
Restricted cash and short-term investments.....	9,660,212	-	9,660,212
Investments.....	3,108,969	-	3,108,969
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	583,654	-	583,654
Tax liens.....	866,907	-	866,907
Motor vehicle and other excise taxes.....	115,408	-	115,408
Community preservation surcharges.....	11,935	-	11,935
Intergovernmental.....	2,221,495	-	2,221,495
Tax foreclosures.....	14,393	-	14,393
Working capital deposit.....	56,496	-	56,496
Total current assets.....	30,527,881	219,345	30,747,226
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	293,910	-	293,910
Intergovernmental.....	26,038,000	-	26,038,000
Capital assets not being depreciated.....	23,205,186	192,500	23,397,686
Capital assets, net of accumulated depreciation.....	57,390,986	669,925	58,060,911
Total noncurrent assets.....	106,928,082	862,425	107,790,507
Total assets.....	137,455,963	1,081,770	138,537,733
LIABILITIES			
Current liabilities:			
Warrants payable.....	5,169,947	17,525	5,187,472
Accrued payroll.....	1,604,146	7,043	1,611,189
Tax refunds payable.....	78,500	-	78,500
Other liabilities.....	528,545	-	528,545
Abandoned property.....	172,975	-	172,975
Accrued interest.....	259,146	-	259,146
Accrued health claims payable.....	713,000	-	713,000
Capital lease obligations.....	38,194	-	38,194
Workers' compensation claims.....	8,550	-	8,550
Compensated absences.....	49,481	-	49,481
Short-term notes payable.....	340,000	-	340,000
Long-term bonds and notes payable.....	4,370,000	-	4,370,000
Total current liabilities.....	13,332,484	24,568	13,357,052
Noncurrent liabilities:			
Capital lease obligations.....	124,656	-	124,656
Workers' compensation claims.....	48,450	-	48,450
Compensated absences.....	445,329	-	445,329
Long-term bonds and notes payable.....	46,160,000	-	46,160,000
Total noncurrent liabilities.....	46,778,435	-	46,778,435
Total liabilities.....	60,110,919	24,568	60,135,487
NET ASSETS			
Invested in capital assets, net of related debt.....	57,435,322	862,425	58,297,747
Restricted for:			
Community preservation.....	3,597,783	-	3,597,783
Permanent funds:			
Expendable.....	257,266	-	257,266
Nonexpendable.....	894,768	-	894,768
Other specific purposes.....	486,543	-	486,543
Unrestricted.....	14,673,362	194,777	14,868,139
Total net assets.....	\$ 77,345,044	\$ 1,057,202	\$ 78,402,246

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expense)/ Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
General government.....	\$ 2,475,079	\$ 1,038,099	\$ 225,847	\$ -	\$ (1,211,133)
Public safety.....	6,661,738	255,253	308,683	-	(6,097,802)
Education.....	45,885,256	912,768	7,932,245	-	(37,040,243)
Public works.....	3,123,901	174,497	140,737	-	(2,808,667)
Health and human services.....	780,176	6,240	35,766	-	(738,170)
Culture and recreation.....	1,914,782	755,410	26,390	1,030,840	(102,142)
Debt service - interest.....	2,263,971	-	1,068,689	-	(1,195,282)
Total governmental activities.....	63,104,903	3,142,267	9,738,357	1,030,840	(49,193,439)
Business-type activities:					
Swimming pool.....	397,976	410,758	-	-	12,782
Landfill.....	205,861	241,940	-	-	36,079
Total business-type activities.....	603,837	652,698	-	-	48,861
Total primary government.....	\$ 63,708,740	\$ 3,794,965	\$ 9,738,357	\$ 1,030,840	\$ (49,144,578)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (49,193,439)	\$ 48,861	\$ (49,144,578)
<i>General revenues:</i>			
Real estate and personal property taxes.....	48,507,675	-	48,507,675
Motor vehicle and other excise taxes.....	2,606,528	-	2,606,528
Tax liens.....	229,113	-	229,113
Penalties and interest on taxes.....	183,035	-	183,035
Payments in lieu of taxes.....	94,772	-	94,772
Community preservation surcharges.....	1,099,776	-	1,099,776
Grants and contributions not restricted to specific programs.....	1,551,826	-	1,551,826
Unrestricted investment income.....	171,136	-	171,136
Loss on disposal of capital assets.....	(74,529)	-	(74,529)
<i>Transfers, net</i>	67,772	(67,772)	-
Total general revenues and transfers.....	54,437,104	(67,772)	54,369,332
Change in net assets.....	5,243,665	(18,911)	5,224,754
Net assets - beginning of year.....	72,101,379	1,076,113	73,177,492
Net assets - end of year.....	\$ 77,345,044	\$ 1,057,202	\$ 78,402,246

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2004

ASSETS	<u>General</u>	<u>Stabilization</u>	<u>Community Preservation</u>
Cash and short-term investments.....	\$ 10,330,278	\$ 59,684	\$ -
Investments.....	641,686	1,455,485	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	583,654	-	-
Real estate tax deferrals.....	293,910	-	-
Tax liens.....	862,537	-	4,370
Motor vehicle and other excise taxes.....	115,408	-	-
Community preservation surcharges.....	-	-	11,935
Intergovernmental.....	27,872,000	-	-
Tax foreclosures.....	14,393	-	-
Working capital deposit.....	56,496	-	-
Restricted assets:			
Cash and short-term investments.....	-	-	8,653,783
TOTAL ASSETS.....	<u>\$ 40,770,362</u>	<u>\$ 1,515,169</u>	<u>\$ 8,670,088</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 407,587	\$ -	\$ 4,716,000
Accrued payroll.....	1,604,146	-	-
Tax refunds payable.....	78,500	-	-
Other liabilities.....	528,545	-	-
Abandoned property.....	172,975	-	-
Deferred revenue.....	29,508,402	-	16,305
Accrued health claims payable.....	713,000	-	-
Workers' compensation claims.....	57,000	-	-
Short-term notes payable.....	-	-	340,000
TOTAL LIABILITIES.....	<u>33,070,155</u>	<u>-</u>	<u>5,072,305</u>
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	1,753,309	-	-
Employee benefits.....	2,632,958	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	1,830,858	-	-
Undesignated, reported in:			
General fund.....	1,483,082	-	-
Special revenue funds.....	-	1,515,169	3,597,783
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	<u>7,700,207</u>	<u>1,515,169</u>	<u>3,597,783</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 40,770,362</u>	<u>\$ 1,515,169</u>	<u>\$ 8,670,088</u>

See notes to basic financial statements.

School Construction	Public Works Facilities	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 3,498,450	\$ 13,888,412
-	-	1,011,798	3,108,969
-	-	-	583,654
-	-	-	293,910
-	-	-	866,907
-	-	-	115,408
-	-	-	11,935
-	-	387,495	28,259,495
-	-	-	14,393
-	-	-	56,496
<u>612,859</u>	<u>260,029</u>	<u>133,541</u>	<u>9,660,212</u>
<u>\$ 612,859</u>	<u>\$ 260,029</u>	<u>\$ 5,031,284</u>	<u>\$ 56,859,791</u>
\$ 31,404	\$ 14,956	\$ -	\$ 5,169,947
-	-	-	1,604,146
-	-	-	78,500
-	-	-	528,545
-	-	-	172,975
-	-	-	29,524,707
-	-	-	713,000
-	-	-	57,000
-	-	-	340,000
<u>31,404</u>	<u>14,956</u>	<u>-</u>	<u>38,188,820</u>
-	-	-	1,753,309
-	-	-	2,632,958
-	-	894,768	894,768
-	-	486,543	486,543
-	-	-	1,830,858
-	-	-	1,483,082
-	-	3,162,931	8,275,883
581,455	245,073	229,776	1,056,304
-	-	257,266	257,266
<u>581,455</u>	<u>245,073</u>	<u>5,031,284</u>	<u>18,670,971</u>
<u>\$ 612,859</u>	<u>\$ 260,029</u>	<u>\$ 5,031,284</u>	<u>\$ 56,859,791</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Stabilization	Community Preservation
REVENUES			
Real estate and personal property taxes.....	\$ 48,914,601	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,577,518	-	-
Tax liens.....	123,423	-	-
Payments in lieu of taxes.....	94,772	-	-
Community preservation surcharges.....	-	-	1,098,992
Charges for services.....	-	-	-
Intergovernmental	11,372,268	-	1,030,840
Penalties and interest on taxes.....	183,035	-	-
Licenses, permits and fees.....	833,197	-	-
Fines and forfeitures.....	111,837	-	-
Departmental.....	203,604	-	-
Contributions.....	-	-	-
Investment income.....	171,136	12,752	-
	<u>64,585,391</u>	<u>12,752</u>	<u>2,129,832</u>
TOTAL REVENUES.....			
EXPENDITURES			
Current:			
General government.....	1,848,406	-	-
Public safety.....	5,379,069	-	-
Education.....	35,203,185	-	-
Public works.....	2,468,156	-	-
Health and human services.....	475,805	-	-
Culture and recreation.....	862,179	-	4,765,477
Pension benefits.....	4,885,994	-	-
Employee benefits.....	4,496,359	-	-
Property and liability insurance.....	124,932	-	-
State and county charges.....	212,442	-	-
Debt service:			
Principal.....	5,645,000	-	-
Interest.....	2,255,686	-	-
	<u>63,857,213</u>	<u>-</u>	<u>4,765,477</u>
TOTAL EXPENDITURES.....			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	<u>728,178</u>	<u>12,752</u>	<u>(2,635,645)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in.....	433,625	-	-
Proceeds of bonds and notes.....	-	-	5,640,000
Transfers out.....	(96,812)	-	-
	<u>336,813</u>	<u>-</u>	<u>5,640,000</u>
TOTAL OTHER FINANCING SOURCES (USES).....			
NET CHANGE IN FUND BALANCES.....	1,064,991	12,752	3,004,355
FUND BALANCES AT BEGINNING OF YEAR.....	<u>6,635,216</u>	<u>1,502,417</u>	<u>593,428</u>
FUND BALANCES AT END OF YEAR.....	<u>\$ 7,700,207</u>	<u>\$ 1,515,169</u>	<u>\$ 3,597,783</u>

See notes to basic financial statements.

School Construction	Public Works Facilities	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 48,914,601
-	-	-	2,577,518
-	-	-	123,423
-	-	-	94,772
-	-	-	1,098,992
-	-	252,862	252,862
-	-	2,034,589	14,437,697
-	-	-	183,035
-	-	1,815,113	2,648,310
-	-	7,140	118,977
-	-	183,607	387,211
-	-	182,781	182,781
-	-	72,343	256,231
<u>-</u>	<u>-</u>	<u>4,548,435</u>	<u>71,276,410</u>
-	-	109,921	1,958,327
-	-	68,245	5,447,314
140,624	-	2,121,008	37,464,817
-	116,184	739,793	3,324,133
-	-	49,591	525,396
-	-	706,747	6,334,403
-	-	-	4,885,994
-	-	-	4,496,359
-	-	-	124,932
-	-	-	212,442
-	-	-	5,645,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,255,686</u>
<u>140,624</u>	<u>116,184</u>	<u>3,795,305</u>	<u>72,674,803</u>
<u>(140,624)</u>	<u>(116,184)</u>	<u>753,130</u>	<u>(1,398,393)</u>
-	-	96,812	530,437
-	-	-	5,640,000
<u>-</u>	<u>-</u>	<u>(365,853)</u>	<u>(462,665)</u>
<u>-</u>	<u>-</u>	<u>(269,041)</u>	<u>5,707,772</u>
(140,624)	(116,184)	484,089	4,309,379
<u>722,079</u>	<u>361,257</u>	<u>4,547,195</u>	<u>14,361,592</u>
<u>\$ 581,455</u>	<u>\$ 245,073</u>	<u>\$ 5,031,284</u>	<u>\$ 18,670,971</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Total governmental fund balances (page 19).....	\$	18,670,971
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		80,596,172
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		29,524,707
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(259,146)
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.....		(50,530,000)
Capital lease obligations.....		(162,850)
Compensated absences.....		(494,810)
		<u> </u>
Net assets of governmental activities (page 15).....	\$	<u><u>77,345,044</u></u>

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**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 21).....	\$	4,309,379
<p>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. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		6,505,223
Depreciation.....		(2,417,678)
<p>In the statement of activities, the <i>gain</i> or <i>loss</i> on the disposal of capital assets is reported, whereas in the governmental funds the disposal is not reported. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets disposed.....</p>		
		(74,529)
<p>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.....</p>		
		(2,921,085)
<p>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 impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(5,640,000)
Bond maturities.....		5,645,000
Capital lease obligations.....		(208,002)
Capital lease maturities.....		45,152
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		(8,285)
<p>Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. This amount represents the net change:</p>		
Compensated absences.....		8,490
Changes in net assets of governmental activities (page 17).....	\$	<u>5,243,665</u>

See notes to basic financial statements.

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 48,557,301	\$ 48,557,301	\$ 48,712,065	\$ 154,764
Motor vehicle and other excise taxes.....	2,735,321	2,735,321	2,577,518	(157,803)
Tax liens.....	-	-	123,423	123,423
Payments in lieu of taxes.....	60,000	60,000	94,772	34,772
Intergovernmental	8,038,980	8,038,980	8,070,268	31,288
Penalties and interest on taxes.....	125,000	125,000	183,035	58,035
Licenses, permits and fees.....	644,925	644,925	833,197	188,272
Fines and forfeitures.....	75,000	75,000	111,837	36,837
Departmental.....	109,248	109,248	203,604	94,356
Investment income.....	300,000	300,000	145,171	(154,829)
TOTAL REVENUES.....	60,645,775	60,645,775	61,054,890	409,115
EXPENDITURES				
Current:				
General government.....	2,774,727	2,314,059	2,024,492	289,567
Public safety.....	5,238,968	5,705,946	5,379,069	326,877
Education.....	36,321,864	36,321,864	35,203,185	1,118,679
Public works.....	2,664,645	2,684,145	2,468,156	215,989
Health and human services.....	508,284	509,736	475,805	33,931
Culture and recreation.....	877,413	879,777	862,179	17,598
Pension benefits.....	1,680,807	1,583,994	1,583,994	-
Employee benefits.....	5,234,175	5,204,172	4,889,011	315,161
Property and liability insurance.....	124,800	125,178	124,932	246
State and county charges.....	217,902	217,902	212,442	5,460
Debt service:				
Principal.....	5,645,000	5,645,000	5,645,000	-
Interest.....	2,547,672	2,547,672	2,255,686	291,986
TOTAL EXPENDITURES.....	63,836,257	63,739,445	61,123,951	2,615,494
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,190,482)	(3,093,670)	(69,061)	3,024,609
OTHER FINANCING SOURCES (USES)				
Transfers in.....	433,625	433,625	433,625	-
Transfers out.....	-	(96,812)	(96,812)	-
TOTAL OTHER FINANCING SOURCES (USES).....	433,625	336,813	336,813	-
NET CHANGE IN FUND BALANCE.....	(2,756,857)	(2,756,857)	267,752	3,024,609
FUND BALANCE AT BEGINNING OF YEAR.....	4,644,497	4,644,497	4,644,497	-
FUND BALANCE AT END OF YEAR.....	\$ 1,887,640	\$ 1,887,640	\$ 4,912,249	\$ 3,024,609

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>Business-Type Activities - Enterprise Funds</u>		
	Swimming Pool	Landfill	Total
ASSETS			
Current assets:			
Cash and short-term investments.....	\$ 43,620	\$ 175,725	\$ 219,345
Noncurrent assets:			
Capital assets not being depreciated.....	-	192,500	192,500
Capital assets, net of accumulated depreciation.....	661,250	8,675	669,925
Total noncurrent assets.....	661,250	201,175	862,425
Total assets.....	704,870	376,900	1,081,770
LIABILITIES			
Current liabilities:			
Warrants payable.....	9,972	7,553	17,525
Accrued payroll.....	4,064	2,979	7,043
Total current liabilities.....	14,036	10,532	24,568
NET ASSETS			
Invested in capital assets, net of related debt.....	661,250	201,175	862,425
Unrestricted.....	29,584	165,193	194,777
Total net assets.....	\$ 690,834	\$ 366,368	\$ 1,057,202

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Business-Type Activities - Enterprise Funds</u>		
	Swimming Pool	Landfill	Total
OPERATING REVENUES			
Charges for services.....	\$ 410,758	\$ 241,940	\$ 652,698
OPERATING EXPENSES			
Cost of service and administration.....	272,815	174,890	447,705
Repairs and maintenance.....	96,411	21,507	117,918
Depreciation.....	28,750	9,464	38,214
 TOTAL OPERATING EXPENSES.....	 397,976	 205,861	 603,837
 OPERATING INCOME (LOSS).....	 12,782	 36,079	 48,861
TRANSFERS			
Transfers out.....	(45,981)	(21,791)	(67,772)
CHANGE IN NET ASSETS.....	(33,199)	14,288	(18,911)
NET ASSETS AT BEGINNING OF YEAR.....	724,033	352,080	1,076,113
NET ASSETS AT END OF YEAR.....	\$ 690,834	\$ 366,368	\$ 1,057,202

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Enterprise Funds		
	Swimming Pool	Landfill	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 410,758	\$ 241,940	\$ 652,698
Payments to vendors.....	(147,442)	(124,363)	(271,805)
Payments to employees.....	(233,138)	(69,617)	(302,755)
NET CASH FROM OPERATING ACTIVITIES.....	30,178	47,960	78,138
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out.....	(45,981)	(21,791)	(67,772)
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	(15,803)	26,169	10,366
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	59,423	149,556	208,979
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 43,620	\$ 175,725	\$ 219,345
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 12,782	\$ 36,079	\$ 48,861
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	28,750	9,464	38,214
Changes in assets and liabilities:			
Warrants payable.....	(10,895)	479	(10,416)
Accrued payroll.....	(459)	1,938	1,479
Total adjustments.....	17,396	11,881	29,277
NET CASH FROM OPERATING ACTIVITIES.....	\$ 30,178	\$ 47,960	\$ 78,138

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

ASSETS	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and short-term investments.....	\$ 87,145	\$ 726,207
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	<u>-</u>	<u>127,827</u>
Total assets.....	<u>87,145</u>	<u>854,034</u>
 LIABILITIES		
Liabilities due depositors.....	<u>-</u>	<u>854,034</u>
 NET ASSETS		
Held in trust for other purposes.....	<u>\$ 87,145</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private donations.....	\$ 1,777
Net investment income:	
Interest.....	<u>6,184</u>
TOTAL ADDITIONS.....	7,961
DEDUCTIONS	
Scholarships awarded.....	<u>7,022</u>
CHANGE IN NET ASSETS.....	939
NET ASSETS AT BEGINNING OF YEAR.....	<u>86,206</u>
NET ASSETS AT END OF YEAR.....	<u><u>\$ 87,145</u></u>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

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

B. Reporting Entity

The Town of Sudbury, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

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/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

Joint Ventures

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in the following joint ventures with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Wayland-Sudbury Septage Disposal Facility (Facility)

The Town is a participant in a joint venture with the Town of Wayland for the operation of a septage disposal facility. The Towns of Sudbury and Wayland each appoint five members of the Operational Review Committee who oversee the operations. Each town has a 50 percent interest in the venture. The Town of Sudbury is the custodian of the Facility's cash and investments, which is reported in the Agency Fund.

The Facility did not issue an audited financial statement and, as a result, the Town's equity interest in its operation is not included in the basic financial statements, which is a departure from GAAP.

Lincoln Sudbury Regional High School District (LSRHSD)

The LSRHSD is governed by a six member school district committee consisting of three elected representatives of the Town. The Town is indirectly liable for the LSRHSD debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2004, the Town's assessment totaled \$13,441,758. Separate financial statements may be obtained by writing to the Treasurer of the LSRHSD at 390 Lincoln Road, Sudbury, MA 01776.

Minuteman Regional High School (MRHS)

The MRHS is governed by a seventeen member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the MRHS debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2004, the Town's assessment totaled \$281,132. Separate financial statements may be obtained by writing to the Treasurer of the MRHS at 758 Marrett Road, Lexington, MA 02421-7313.

C. Government-Wide and Fund Financial StatementsGovernment-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement activities) report information on all 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 primarily supported by user fees.

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. Fiduciary funds are reported by fund type.

D. Measurement Focus, Basis of Accounting and Basis of PresentationGovernment-Wide and Fund Financial Statements

The government-wide and enterprise fund financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. 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, capital lease obligations, 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 the end of the fiscal year. 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 required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and capital reserves. Use of this fund is subject to Town Meeting approval.

The *community preservation fund* is a special revenue fund used to account for the 3% local real estate tax surcharge on nonexempt property (and matching state trust fund distribution) that can be used for open space, historic resource and affordable housing purposes. Property exempt from the surcharge consists of the first \$100,000 of all residential property and also property owned by low-income residents or seniors with low or moderate income as defined by Massachusetts Department of Revenue (DOR) guidelines. Disbursements from this fund must originate from the Community Preservation Committee and be approved by Town Meeting.

The *school construction fund* is a capital projects fund used to account for financial resources to expand and upgrade school facilities.

The *public works facilities fund* is a capital projects fund used to account for financial resources to construct a new public works facility.

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 capital projects funds or permanent 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, and 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, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

The following major proprietary funds are reported:

The *swimming pool enterprise fund* is used to account for recreational swimming pool activities.

The *landfill enterprise fund* is used to account for landfill 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 government's programs.

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements, other than those reported in the permanent fund, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist primarily of performance bonds, bid deposits and cash receipt collections for the Facility. Agency funds do not present the results of operations or have a measurement focus.

E. Cash and Investments

Government-Wide and Fund Financial Statements

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, 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 and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

Motor Vehicle and Other Excise Taxes

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

Community Preservation Surcharges

Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax 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. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

Departmental and Other

Departmental and other receivables represent amounts due vendors related to police details and the septage facility and are recorded as receivables in the fiscal year accrued.

Intergovernmental

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

G. Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts is not reported.

- Real estate taxes
- Community preservation surcharges

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

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

I. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements. Pursuant to GASB Statement No. 34, the Town is eligible to defer, until fiscal year 2007, the requirement to record and depreciate its governmental funds infrastructure assets acquired before the effective implementation date. Therefore, infrastructure acquired prior to July 1, 2002 has not been recorded.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	30
Buildings and improvements.....	20 - 40
Machinery and equipment.....	5 - 20
Vehicles.....	4 - 20
Infrastructure.....	30

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

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Deferred Revenue

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

N. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Community preservation" represents amounts restricted for affordable housing, open space and historic purposes.

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other specific purposes" 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.

"Employee benefits" represents amounts restricted for self-insurance activities.

"Perpetual permanent funds" represents amounts held in trust for which only investment earnings may be expended.

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

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2005 operating budget.

O. Long-term DebtGovernment-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line 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 when the debt is issued. 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.

P. 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 to the general fund.

Q. 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 upon employee retirements and resignations.

R. Post Retirement BenefitsGovernment-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's 50% 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 \$531,000. There were approximately 222 participants eligible to receive benefits at June 30, 2004.

S. 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.

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority approval via Special Town Meeting.

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

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2004 approved budget for the general fund authorized \$63,836,257 in appropriations and other amounts to be raised.

The Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Reconciliation of Budgetary and GAAP Results

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2004, is presented as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis as reported on the statement of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 61,054,890	\$ 61,123,951
<u>Perspective difference:</u>		
Activity of health insurance and workers' compensation trusts recorded in the general fund for GAAP purposes.....	25,965	(392,652)
<u>Adjustments</u>		
Net change in recording 60-day receipts.....	101,840	-
Net change in recording tax refunds payable.....	100,696	-
To record revenue for MTRB on-behalf payments.....	3,302,000	-
To record expenditure for MTRB on-behalf payments.....	-	3,302,000
Net change in recording other expenditures.....	-	(176,086)
	<u>64,585,391</u>	<u>63,857,213</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>64,585,391</u>	\$ <u>63,857,213</u>

C. Individual Fund Deficits

At June 30, 2004, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Storm Escrow.....	\$ 9,784	Available funds
Chapter 90.....	44,441	Available funds
Dutton/Landham Road.....	8,646	Available funds

NOTE 3 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and short-term investments".

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

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

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.

At fiscal year-end, the carrying amount of deposits totaled \$20,013,768 and the bank balance totaled \$20,141,083. Of the bank balance, \$10,149,101 was covered by Federal Depository Insurance and the Depositors Insurance Fund, and \$9,991,982 was uninsured and uncollateralized.

The following details the balance of cash and short-term investments and investments as reported on the basic financial statements at June 30, 2004:

	<u>Cash and Short-term Investments</u>	<u>Investments</u>	<u>Total</u>
Checking, savings and NOW accounts.....	\$ 4,603,179	\$ -	\$ 4,603,179
Certificates of deposit.....	1,000,912	-	1,000,912
Money market deposits.....	<u>14,409,677</u>	<u>-</u>	<u>14,409,677</u>
Total carrying amount of cash.....	<u>20,013,768</u>	<u>-</u>	<u>20,013,768</u>
<u>Investments not subject to categorization:</u>			
MMDT.....	3,040,906	-	3,040,906
Money market mutual funds.....	1,526,647	-	1,526,647
<u>Investments subject to categorization (Category 3):</u>			
U.S. government securities.....	-	1,707,081	1,707,081
Equity securities.....	-	538,718	538,718
Fixed income securities.....	<u>-</u>	<u>863,170</u>	<u>863,170</u>
Total investments.....	<u>4,567,553</u>	<u>3,108,969</u>	<u>7,676,522</u>
Total as reported on the basic financial statements (including restricted amounts).....	<u>\$ 24,581,321</u>	<u>\$ 3,108,969</u>	<u>\$ 27,690,290</u>

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2004, receivables for the individual major governmental funds and nonmajor and fiduciary 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.....	\$ 658,059	\$ (74,405)	\$ 583,654
Real estate tax deferrals.....	293,910	-	293,910
Tax liens.....	866,907	-	866,907
Motor vehicle and other excise taxes.....	336,966	(221,558)	115,408
Community preservation surcharges.....	11,935	-	11,935
Departmental and other.....	127,827	-	127,827
Intergovernmental.....	28,259,495	-	28,259,495
	<u>\$ 30,555,099</u>	<u>\$ (295,963)</u>	<u>\$ 30,259,136</u>

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

	General Fund	Community Preservation Fund	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 350,154	\$ -	\$ 350,154
Real estate tax deferrals.....	293,910	-	293,910
Tax liens.....	862,537	4,370	866,907
Motor vehicle and other excise taxes.....	115,408	-	115,408
Community preservation surcharges.....	-	11,935	11,935
Intergovernmental (state school construction).....	27,872,000	-	27,872,000
Tax foreclosures.....	14,393	-	14,393
Total.....	<u>\$ 29,508,402</u>	<u>\$ 16,305</u>	<u>\$ 29,524,707</u>

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the School Building Authority (SBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2004, approximately \$3,135,000 of such assistance was received. Approximately \$42,900,000 will be received in future fiscal years. Of this amount, approximately \$15,028,000 represents reimbursement of long-term interest costs, and approximately \$27,872,000 represents reimbursement of approved construction costs. Accordingly, a \$27,872,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

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.....	\$ 17,989,708	\$ 4,700,000	\$ -	\$ 22,689,708
Construction in progress.....	4,676,283	207,938	(4,368,743)	515,478
Total capital assets not being depreciated.....	<u>22,665,991</u>	<u>4,907,938</u>	<u>(4,368,743)</u>	<u>23,205,186</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	375,000	-	-	375,000
Buildings and improvements.....	60,493,167	4,733,800	-	65,226,967
Machinery and equipment.....	3,811,934	131,583	-	3,943,517
Vehicles.....	3,244,359	495,212	(208,130)	3,531,441
Infrastructure.....	524,934	605,433	-	1,130,367
Total capital assets being depreciated.....	<u>68,449,394</u>	<u>5,966,028</u>	<u>(208,130)</u>	<u>74,207,292</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(375,000)	-	-	(375,000)
Buildings and improvements.....	(9,577,342)	(1,586,689)	-	(11,164,031)
Machinery and equipment.....	(2,514,916)	(429,582)	-	(2,944,498)
Vehicles.....	(2,047,473)	(363,728)	133,601	(2,277,600)
Infrastructure.....	(17,498)	(37,679)	-	(55,177)
Total accumulated depreciation.....	<u>(14,532,229)</u>	<u>(2,417,678)</u>	<u>133,601</u>	<u>(16,816,306)</u>
Total capital assets being depreciated, net.....	<u>53,917,165</u>	<u>3,548,350</u>	<u>(74,529)</u>	<u>57,390,986</u>
Total governmental activities capital assets, net.....	<u>\$ 76,583,156</u>	<u>\$ 8,456,288</u>	<u>\$ (4,443,272)</u>	<u>\$ 80,596,172</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 192,500	\$ -	\$ -	\$ 192,500
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	1,150,000	-	-	1,150,000
Machinery and equipment.....	230,373	-	-	230,373
Total capital assets being depreciated.....	1,380,373	-	-	1,380,373
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(460,000)	(28,750)	-	(488,750)
Machinery and equipment.....	(212,234)	(9,464)	-	(221,698)
Total accumulated depreciation.....	(672,234)	(38,214)	-	(710,448)
Total capital assets being depreciated, net.....	708,139	(38,214)	-	669,925
Total business-type activities capital assets, net.....	\$ 900,639	\$ (38,214)	\$ -	\$ 862,425

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

Governmental Activities:

General government.....	\$ 10,729
Public safety.....	245,925
Education.....	1,634,482
Public works.....	381,316
Health and human services.....	16,584
Culture and recreation.....	128,642

Total depreciation expense - governmental activities..... \$ 2,417,678

Business-Type Activities:

Landfill.....	\$ 9,464
Swimming pool.....	28,750

Total depreciation expense - business-type activities..... \$ 38,214

NOTE 6 - CAPITAL LEASES

The Town has entered into certain capital lease agreements for vehicles under which the vehicles will become the property of the Town when all terms of the lease agreements are met. The agreements also contain early purchase options which would allow the Town to purchase the vehicles before the end of the lease terms.

The following schedule presents future minimum lease payments as of June 30, 2004:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2005.....	\$ 45,153
2006.....	45,152
2007.....	45,152
2008.....	<u>45,154</u>
 Total minimum lease payments.....	 180,611
Less: amounts representing interest.....	<u>(17,761)</u>
 Present value of minimum lease payments.....	 \$ <u><u>162,850</u></u>

Vehicles and related accumulated amortization under capital lease are as follows:

	<u>Governmental Activities</u>
Vehicles.....	\$ 208,002
Less: accumulated amortization.....	<u>(45,152)</u>
 Total.....	 \$ <u><u>162,850</u></u>

Amortization of leased vehicles under capital assets is included with depreciation expense.

NOTE 7 - INTERFUND TRANSFERS

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

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 96,812	\$ 96,812 (1)
Nonmajor Governmental Funds.....	365,853	-	365,853 (2)
Swimming Pool Enterprise Fund.....	45,981	-	45,981 (3)
Landfill Enterprise Fund.....	21,791	-	21,791 (3)
	<u>\$ 433,625</u>	<u>\$ 96,812</u>	<u>\$ 530,437</u>

- (1) Represents funding of accumulated benefits special revenue fund.
- (2) Represents budgeted transfers from the ambulance receipts special revenue (\$210,853), DPW mining revolving special revenue (\$100,000), retirement trust special revenue (\$15,000) and library expansion capital project (\$40,000) funds to fund the fiscal year 2004 operating budget.
- (3) Represents budgeted indirect cost transfers.

NOTE 8 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2004, are as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2003	Increases	Decreases	Balance at June 30, 2004
BAN	Land Acquisition.....	6/30/03	5/21/04	1.15%	\$ 430,000	\$ -	\$ (430,000)	\$ -
BAN	Land Acquisition.....	5/21/04	7/21/04	1.38%	-	340,000	-	340,000
	Total.....				<u>\$ 430,000</u>	<u>\$ 340,000</u>	<u>\$ (430,000)</u>	<u>\$ 340,000</u>

Subsequent Events

On July 21, 2004, the Town retired the \$340,000 outstanding BAN from a portion of the bond proceeds received during June 2004.

NOTE 9 - LONG-TERM OBLIGATIONS

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". However, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2004, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2003	Additions	Reductions	Outstanding at June 30, 2004
Municipal Purpose.....	4.74%	\$ 2,625,000	\$ -	\$ (660,000)	\$ 1,965,000
Municipal Purpose.....	5.24%	600,000	-	(350,000)	250,000
Land Acquisition.....	4.63%	6,740,000	-	(440,000)	6,300,000
School Construction.....	5.00%	6,224,021	-	(622,927)	5,601,094
School Construction.....	5.00%	17,505,979	-	(1,752,073)	15,753,906
School Construction.....	4.44%	9,457,000	-	(543,000)	8,914,000
Municipal Purpose.....	4.00%	180,000	-	(25,000)	155,000
Municipal Purpose.....	4.00%	117,000	-	(15,000)	102,000
Municipal Purpose.....	3.75%	230,000	-	(80,000)	150,000
Municipal Purpose.....	4.00%	165,000	-	(25,000)	140,000
Municipal Purpose.....	3.75%	36,000	-	(12,000)	24,000
Land Acquisition Refunding.....	3.50%	925,000	-	(120,000)	805,000
School & Public Works Construction.....	2.89%	5,730,000	-	(1,000,000)	4,730,000
Land Acquisition.....	4.18%	-	5,640,000	-	5,640,000
Total governmental funds.....		\$ 50,535,000	\$ 5,640,000	\$ (5,645,000)	\$ 50,530,000

Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005.....	\$ 4,370,000	\$ 2,250,883	\$ 6,620,883
2006.....	4,110,000	2,072,348	6,182,348
2007.....	4,000,000	1,907,531	5,907,531
2008.....	3,325,000	1,742,185	5,067,185
2009.....	3,240,000	1,607,969	4,847,969
2010.....	3,235,000	1,473,264	4,708,264
2011.....	3,235,000	1,335,220	4,570,220
2012.....	3,110,000	1,193,686	4,303,686
2013.....	3,015,000	1,053,429	4,068,429
2014.....	2,490,000	915,811	3,405,811
2015.....	2,430,000	798,353	3,228,353
2016.....	2,330,000	682,561	3,012,561
2017.....	2,265,000	569,463	2,834,463
2018.....	2,265,000	459,230	2,724,230
2019.....	2,035,000	353,498	2,388,498
2020.....	2,135,000	257,646	2,392,646
2021.....	2,235,000	109,696	2,344,696
2022.....	235,000	33,134	268,134
2023.....	235,000	22,208	257,208
2024.....	235,000	11,162	246,162
Total.....	\$ <u>50,530,000</u>	\$ <u>18,849,277</u>	\$ <u>69,379,277</u>

During fiscal year 2004, the Town issued bonds in the amount of \$5,640,000 to purchase land for conservation purposes. The future debt service related to these bonds will be paid from the Town’s community preservation fund.

Authorized and Unissued Debt

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:

<u>Purpose</u>	<u>Amount</u>
Septic system.....	\$ 200,000
Recreation fields.....	60,500
Meachen Meggs land.....	8,000
Public works facility.....	3,800
Wastewater study.....	90,000
Street lighting.....	55,000
Community preservation act.....	355,200
Total.....	\$ <u>772,500</u>

Changes in Long-Term Liabilities

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

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 50,535,000	\$ 5,640,000	\$ (5,645,000)	\$ 50,530,000	\$ 4,370,000
Capital lease obligations.....	-	208,002	(45,152)	162,850	38,194
Workers' compensation claims.....	76,000	16,544	(35,544)	57,000	8,550
Compensated absences.....	503,300	-	(8,490)	494,810	49,481
Total.....	<u>\$ 51,114,300</u>	<u>\$ 5,864,546</u>	<u>\$ (5,734,186)</u>	<u>\$ 51,244,660</u>	<u>\$ 4,466,225</u>

Except for bonds issued related to the community preservation fund, long-term liabilities are generally liquidated by the general fund. Long-term debt issued for the community preservation fund is liquidated by the community preservation fund.

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 Town is self-insured for its health insurance, workers' compensation (excluding public safety employees injured on duty), and municipal building insurance activities. These activities are accounted for in the general fund, where revenues are recorded when earned and expenses are recorded when incurred.

A. Health Insurance

The estimated "Incurred But Not Reported (IBNR)" claims are based on a two month claims paid average. The liability at June 30, 2004 totaled \$713,000. Changes in the reported liability since July 1, 2002, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2003.....	\$ 119,000	\$ 4,285,551	\$ (3,756,551)	\$ 648,000
Fiscal year 2004.....	648,000	4,221,787	(4,156,787)	713,000

B. Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The Town has recorded a liability of \$57,000 at June 30, 2004, which represents an estimate of all outstanding claims as of that date.

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2003.....	\$ 51,000	\$ 56,772	\$ (31,772)	\$ 76,000
Fiscal year 2004.....	76,000	16,544	(35,544)	57,000

NOTE 11 - PENSION PLAN

Plan Description – The Town contributes to the Middlesex Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Middlesex 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 Massachusetts' Teachers Retirement System (MTRS), 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 \$3,302,000 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 increases 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 authorized by the Middlesex Retirement Board and are borne by the System. The System issues a publicly available 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 25 Linnell Circle, Billerica, Massachusetts 01865.

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. Chapter 32 of MGL governs the contributions of plan members. The Town's contributions to the System for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,583,994, \$1,209,216, and \$1,067,717, respectively, which equaled its required contribution for each fiscal year.

NOTE 12 - COMMITMENTS

The Town has entered into, or is planning to enter into, contracts totaling approximately \$772,500 for various governmental and community preservation projects.

The Town is continuing its progress related to its various school construction projects. There was approximately \$580,000 remaining to be spent on these projects as of June 30, 2004.

The Town has entered into, or is planning to enter into, contracts totaling approximately \$172,000 for the development of a "Revolutionary Cemetery".

The Town is scheduled to complete the Flynn Building renovations in fiscal year 2005. There was approximately \$100,000 remaining to be spent on the project as of June 30, 2004.

NOTE 13 - CONTINGENCIES

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.

The Town participates in a number of federal award programs. Although the 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.

NOTE 14 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

During fiscal year 2004 the Town implemented GASB Statement #39 - *Determining Whether Certain Organizations are Component Units, an amendment to GASB Statement No. 14*, which did not affect the basic financial statements.

NOTE 15 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #40, *Deposit and Investment Risk Disclosures*, which is required to be implemented during fiscal year 2005.
- Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented during fiscal year 2006.
- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2008.
- Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented during fiscal year 2006.
- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2009.

These pronouncements will be implemented on their respective due dates.