

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Town of Duxbury, Massachusetts is a municipal corporation governed by an elected Board of Selectmen and an appointed Town Manager.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential Component Units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's general purpose financial statements to be misleading or incomplete. The Town has no Component Units that require inclusion in these general purpose financial statements.

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

The accounts of the Town are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of governmental funds not recorded directly in those funds.

The Town has the following fund types and account groups:

Governmental Funds are used to account for the Town's general governmental activity. Governmental fund types use 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.

The Town considers property tax revenues available if they are collected within 60 days after fiscal year end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received by the Town 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 are met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

Governmental funds include the following fund types:

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

The *Special Revenue Fund* is used to account for the proceeds of specific revenue sources (other than Expendable Trusts or Capital Projects) 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 Trust Funds).

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. For Proprietary Fund accounting, the Town applies 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.

The *Enterprise Fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the Town has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Town is accounting for its water activities in the Enterprise Fund.

The *Internal Service Fund* is used to account for the financing of services provided by one department to other departments or governmental units. The Town is accounting for its risk financing activities related to its employees' health insurance activities in its Internal Service Fund.

Fiduciary Funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Town under the terms of a trust agreement.

The *Expendable Trust Fund* is accounted for in essentially the same manner as governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds are used to account for trusts where both principal and earnings may be spent.

The *Nonexpendable Trust Fund* is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The Nonexpendable Trust Fund is used to account for trusts that stipulate that only earnings, and not principal, may be spent.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the Town holds for others in an agency capacity.

The **General Long-Term Obligations Account Group** is used to account for general long-term bonds issued by the Town, compensated absences, claims and judgments and capital lease obligations that will be financed in future fiscal years from Governmental Funds.

C. Cash and Investments

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

Investments are carried at fair value.

D. Inventories

Inventories are recorded as expenditures at the time of purchase. Such inventories of both the Governmental and Enterprise Funds are not material in total to the general purpose financial statements and therefore are not reported.

E. Property Taxes

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. Tax liens are processed approximately six months after the close of the valuation year on delinquent properties. Property taxes levied are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

F. Water Charges

Water charges are levied semi-annually based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water charges are recorded as a receivable in the fiscal year of the levy and are recorded under the full accrual basis of accounting.

G. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. For Governmental Funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

For the Water Enterprise Fund, vested accumulated vacation and sick leave are reported as fund liabilities.

H. Post Retirement Benefits

In addition to providing pension benefits, the Town provides health insurance coverage for approximately 230 retired employees and their survivors. The Town recognizes the cost of providing health insurance by recording its share of insurance premiums in the General Fund in the fiscal year paid. For the fiscal year ended June 30, 2002, this expenditure totaled approximately \$397,000.

I. Fixed Assets

Governmental Funds

The Commonwealth of Massachusetts does not require the Town to capitalize expenditures for General Fixed Assets. Accordingly, such disbursements in the Governmental Funds are considered expenditures in the fiscal

year payments are made. As a result of this practice, the accompanying general purpose financial statements do not include a statement of the General Fixed Asset Account Group, which is a departure from GAAP.

Enterprise Fund

Fixed assets of the Water Enterprise Fund are valued at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of donation. Public domain (infrastructure) fixed assets, such as water mains, are also recorded at historical cost, or estimated historical cost if actual historical cost is not available.

Fixed assets are capitalized upon purchase and depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

| | |
|---------------------------------|----|
| Buildings..... | 30 |
| Infrastructure..... | 20 |
| Major Repairs and Upgrades..... | 20 |
| Equipment..... | 5 |

The cost of normal recurring maintenance and repairs that do not materially add to the value of the asset or extend asset lives are not capitalized and are treated as expenses when incurred. Land, plant, improvements, infrastructure and equipment are capitalized.

J. Long-term Debt

Long-term financing of Governmental Fund Types is recorded in the General Long-Term Obligations Account Group. Principal and interest paid on long-term debt is recorded in the General Fund.

Long-term bonds and notes payable of the Enterprise Fund are recorded as bonds payable in the Enterprise Fund. Principle pay downs and interest expenses paid on long-term debt are recorded in the Enterprise Fund.

K. Interfund/Intrafund Transactions

During the course of its operations, the Town records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

L. Fund Equity

The Town reports fund balances as reserved and designated where restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances have been "reserved or designated" for the following:

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

"Nonexpendable trusts" which represents amounts held by the Town for which only investment earnings may be expended.

“Stabilization” which represents the amount accumulated for general and/or capital purposes upon Town Meeting approval.

“Employees’ pension benefits” which represents the amount held by the Town to provide a reserve to meet future annual contributions to the System.

“Subsequent year’s expenditures” which represent funds that have been appropriated for use in the fiscal year 2003 budget.

M. Investment Income

Investment income from Special Revenue and Capital Projects Funds is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from the Water Enterprise Fund is voluntarily assigned to the General Fund.

N. Use of Estimates

The preparation of the general purpose 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 general purpose financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

O. Total Column (Memorandum Only)

The total column used on the Combined General Purpose 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 Town to adopt a balanced budget that is approved at the annual town meeting. The Town Manager presents an annual budget to the Board of Selectmen, Finance Committee and the Fiscal Advisory Committee, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted by categories that are broken down by personal services, expenses, debt service and capital outlay and are mandated by Municipal Law.

Supplementary appropriations are voted at special town meetings.

The majority of the Town’s 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 legal level of spending authorized for an appropriation account. However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized.

The Town adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2002 approved budget for the General Fund includes \$40,575,601 in current year appropriations and other amounts to be raised and \$906,448 in encumbrances and appropriations carried over from previous fiscal years. During fiscal year 2002, the Town approved supplemental appropriations totaling \$71,404.

The Town Accountant's office has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the Town's accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth of Massachusetts (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, 2002, is presented below:

| | | |
|---|----|-----------------------|
| Net change in fund balance, budgetary basis..... | \$ | 447,063 |
| <u>Basis of accounting differences:</u> | | |
| Net change in revenue accrual..... | | 15,310 |
| Recognition of revenue for on-behalf payments..... | | 1,939,139 |
| Recognition of expenditures for on-behalf payments..... | | <u>(1,939,139)</u> |
| Net change in fund balance, GAAP basis..... | \$ | <u><u>462,373</u></u> |

C. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2002, actual expenditures exceeded appropriations for state and county charges. This over-expenditure will be funded from available funds during fiscal year 2003.

D. Fund Deficits

Several individual fund deficits exist at June 30, 2002 within the Special Revenue Funds. These deficits will be funded through intergovernmental revenues, and available fund balance during fiscal year 2003.

At June 30, 2002, the Internal Service Fund had a deficit of (\$911,812). This deficit will be funded through future employee and Town contributions.

At June 30, 2002, the Capital Project Fund had a deficit of (19,972,705). This deficit will be funded through future long-term borrowing.

NOTE 3 - CASH AND INVESTMENTS

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

Statutes authorize the Town to invest in obligations of the U.S. Treasury, agencies, and instrumentalities,

certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

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

At fiscal year end, the carrying amount of the Town's deposits totaled \$3,145,718 and the bank balance totaled \$3,458,651. Of the bank balance, \$220,830 was covered by federal depository insurance and \$3,237,821 was uninsured and uncollateralized.

Investments are classified as to collateral risk into the following three categories:

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

| | Cash and Short-term Investments | Investments | Total |
|--|---------------------------------------|---------------------|----------------------|
| Cash balances at June 30, 2002: | | | |
| Checking, savings and NOW accounts..... | \$ 334,938 | \$ - | \$ 334,938 |
| Certificates of deposit..... | 62,750 | - | 62,750 |
| Money market deposits..... | <u>2,748,030</u> | <u>-</u> | <u>2,748,030</u> |
| Total carrying amount of cash..... | <u>3,145,718</u> | <u>-</u> | <u>3,145,718</u> |
| <u>Investments not subject to categorization:</u> | | | |
| MMDT..... | 28,885,748 | - | 28,885,748 |
| Mutual funds..... | 374,281 | - | 374,281 |
| <u>Investments subject to categorization:</u> | | | |
| U.S. government securities (Category 3)..... | - | 1,909,792 | 1,909,792 |
| Equity securities (Category 1)..... | <u>-</u> | <u>450,258</u> | <u>450,258</u> |
| Total investments..... | <u>29,260,029</u> | <u>2,360,050</u> | <u>31,620,079</u> |
| Total cash and investments of the Town at June 30, 2002... | \$ <u>32,405,747</u> | \$ <u>2,360,050</u> | \$ <u>34,765,797</u> |

NOTE 4 – FIXED ASSETS

Fixed assets reported in the Water Enterprise Fund consist of the following at June 30, 2002:

| | |
|---|--------------------------------|
| Land..... | \$ 330,110 |
| Plant, facilities and infrastructure..... | 10,703,024 |
| Equipment and motor vehicles..... | 86,629 |
| Construction in progress..... | <u>1,597,323</u> |
| Total Water Enterprise Fund fixed assets..... | 12,717,086 |
| Accumulated depreciation..... | <u>(3,061,425)</u> |
| Net Water Enterprise Fund fixed assets..... | \$ <u><u>9,655,661</u></u> |

NOTE 5 - PENSION PLAN

Plan Description - The Town contributes to the Plymouth County Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Plymouth County Retirement Board. Substantially all employees are members of the System except for public school teachers and certain administrators who are members of the Commonwealth's Teachers Contributory Retirement System to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are funded by the Commonwealth. The amount of these on-behalf payments totaled approximately \$1,939,000 for the fiscal year ended June 30, 2002 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 are borne by the Commonwealth. Cost-of-living adjustments granted after 1997 are approved and funded by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth of Massachusetts Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at South Russell Street in Plymouth, Massachusetts, 02360.

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 are apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the System for the fiscal years ended June 30, 2002, 2001 and 2000 were \$1,005,445, \$968,352 and \$928,948, respectively, which equaled its required contribution for each fiscal year.

Noncontributory Retirement Allowance - The Town pays the entire retirement allowance for certain retirees who are eligible for non-contributory benefits and are not members of the System. The general fund expenditure for fiscal year 2002 totaled approximately \$42,000.

NOTE 6 – SHORT-TERM FINANCING

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

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

Short-term loans are general obligations of the Town 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 Water Enterprise Fund, respectively.

The Town has the following short-term debt outstanding at June 30, 2002:

| Type | Purpose | Rate (%) | Due Date | Balance at June 30, 2001 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2002 |
|------------------------------------|-----------------------------------|----------|----------|--------------------------|----------------------|---------------------|--------------------------|
| <i>Capital Projects Fund</i> | | | | | | | |
| BAN | Pool Dehumidifaction..... | 2.50% | 01/15/03 | \$ - | \$ 153,000 | \$ - | \$ 153,000 |
| BAN | Fire Pumper..... | 2.50% | 01/15/03 | - | 285,000 | - | 285,000 |
| BAN | Snug Harbor/Bluefish..... | 2.00% | 01/15/03 | 81,600 | 78,000 | 81,600 | 78,000 |
| BAN | Snug Harbor/Bluefish..... | 2.50% | 01/15/03 | - | 66,000 | - | 66,000 |
| BAN | Snug Harbor/Bluefish..... | 2.00% | 01/15/03 | 51,500 | 51,500 | 51,500 | 51,500 |
| BAN | Snug Harbor/Bluefish..... | 2.00% | 01/15/03 | - | 800,000 | - | 800,000 |
| BAN | Alden School..... | 2.00% | 01/15/03 | 1,300,000 | 1,300,000 | 1,300,000 | 1,300,000 |
| BAN | School Design..... | 2.50% | 01/15/03 | - | 14,132,123 | - | 14,132,123 |
| BAN | School Design..... | 2.00% | 01/15/03 | - | 13,703,500 | - | 13,703,500 |
| BAN | Merry Land..... | 2.50% | 01/15/03 | - | 459,000 | - | 459,000 |
| BAN | Millenium Green Land..... | 2.50% | 01/15/03 | - | 95,000 | - | 95,000 |
| BAN | High School Sewage Treatment..... | 2.50% | 01/15/03 | - | 1,533,000 | - | 1,533,000 |
| BAN | High School Sewage Treatment..... | 2.00% | 01/15/03 | - | 1,567,000 | - | 1,567,000 |
| BAN | * MWPAT Title V..... | N/A | N/A | - | 100,000 | - | 100,000 |
| <i>Total Capital Projects.....</i> | | | | <u>1,433,100</u> | <u>34,323,123</u> | <u>1,433,100</u> | <u>34,323,123</u> |
| <i>Enterprise Fund</i> | | | | | | | |
| BAN | Water Projects..... | 2.50% | 01/15/03 | - | 101,878 | - | 101,878 |
| BAN | Water Projects..... | 2.50% | 01/15/03 | - | 153,000 | - | 153,000 |
| BAN | Water Projects..... | 2.50% | 01/15/03 | - | 408,000 | - | 408,000 |
| <i>Total Enterprise Fund.....</i> | | | | <u>-</u> | <u>662,878</u> | <u>-</u> | <u>662,878</u> |
| <i>Total.....</i> | | | | <u>\$ 1,433,100</u> | <u>\$ 34,986,001</u> | <u>\$ 1,433,100</u> | <u>\$ 34,986,001</u> |

* The Town entered into a \$100,000 loan agreement with the Massachusetts Water Pollution Abatement Trust (MWPAT) under a Community Septage Management Loan Program that is recorded as a BAN as of June 30, 2002 in anticipation of permanent financing by MWPAT. The note is interest free and payable upon demand.

NOTE 7 - LONG-TERM DEBT

State law permits the Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the Town's outstanding indebtedness at June 30, 2002, and the debt service requirements follow:

Bonds and Notes Payable Schedule – Governmental Funds

| Project | Interest Rate (%) | Outstanding at June 30, 2001 | Issued | Redeemed | Outstanding at June 30, 2002 |
|---------------------------------------|-------------------------|------------------------------------|--------------|--------------|------------------------------------|
| Powder Point Bridge..... | 5.17 | \$ 200,000 | \$ - | \$ 200,000 | \$ - |
| Conservation..... | 5.17 | 225,000 | - | 225,000 | - |
| Road Improvements..... | 4.42 | 45,000 | - | 15,000 | 30,000 |
| Departmental Equipment..... | 4.45 | 250,000 | - | 55,000 | 195,000 |
| Remodeling..... | 4.45 | 140,000 | - | 40,000 | 100,000 |
| School Equipment..... | 4.43 | 80,000 | - | 20,000 | 60,000 |
| DPW Building Construction... | 4.49 | 65,000 | - | 10,000 | 55,000 |
| Seawall..... | 4.42 | 45,000 | - | 15,000 | 30,000 |
| MWPAT 1997..... | 5.27 | 544,728 | - | 27,606 | 517,122 |
| Library..... | 5.00 | 2,520,000 | - | 160,000 | 2,360,000 |
| Dredging..... | 5.00 | 90,000 | - | 20,000 | 70,000 |
| Sewer Connections..... | 5.00 | 70,000 | - | 10,000 | 60,000 |
| Land acquisition..... | 3.89 | 1,250,000 | - | 160,000 | 1,090,000 |
| Bridge..... | 3.89 | 45,000 | - | 15,000 | 30,000 |
| Equipment..... | 3.89 | 45,000 | - | 15,000 | 30,000 |
| Landfill..... | 3.89 | 40,000 | - | 15,000 | 25,000 |
| School..... | 4.99 | 1,520,000 | - | 180,000 | 1,340,000 |
| Fire Station..... | 4.99 | 540,000 | - | 60,000 | 480,000 |
| Senior Center..... | 3.5-4.5 | 1,243,000 | 940,000 | - | 2,183,000 |
| Equipment..... | 3.5-4.5 | 250,000 | - | - | 250,000 |
| Sidewalks..... | 3.5-4.5 | 11,000 | 89,000 | - | 100,000 |
| Ambulance..... | 3.5-4.5 | 86,000 | - | - | 86,000 |
| MWPAT 2001 Title V..... | 4.50 | 195,676 | - | 10,872 | 184,804 |
| Total Bonds and Notes Payable..... | | \$ 9,500,404 | \$ 1,029,000 | \$ 1,253,478 | \$ 9,275,926 |

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> |
|--------------------|---------------------|---------------------|----------------------|
| 2003..... | \$ 1,133,085 | \$ 390,681 | \$ 1,523,766 |
| 2004..... | 1,119,719 | 344,391 | 1,464,110 |
| 2005..... | 1,010,425 | 300,318 | 1,310,743 |
| 2006..... | 811,149 | 262,023 | 1,073,172 |
| 2007..... | 742,193 | 228,089 | 970,282 |
| 2008..... | 743,272 | 195,485 | 938,757 |
| 2009..... | 709,147 | 163,002 | 872,149 |
| 2010..... | 560,061 | 134,145 | 694,206 |
| 2011..... | 351,034 | 107,712 | 458,746 |
| 2012..... | 352,036 | 91,816 | 443,852 |
| 2013..... | 353,102 | 85,536 | 438,638 |
| 2014..... | 344,199 | 59,941 | 404,140 |
| 2015..... | 340,363 | 43,721 | 384,084 |
| 2016..... | 341,577 | 27,352 | 368,929 |
| 2017..... | 342,828 | 10,701 | 353,529 |
| 2018..... | 10,868 | 815 | 11,683 |
| 2019..... | 10,868 | 272 | 11,140 |
| Totals..... | \$ <u>9,275,926</u> | \$ <u>2,445,999</u> | \$ <u>11,721,925</u> |

Bonds and Notes Payable Schedule – Enterprise Fund

| <u>Project</u> | <u>Interest Rate (%)</u> | <u>Outstanding at June 30, 2001</u> | <u>Issued</u> | <u>Redeemed</u> | <u>Outstanding at June 30, 2002</u> |
|---------------------------------------|----------------------------------|---|------------------|-------------------|---|
| Water Projects..... | 4.45 | \$ 900,000 | \$ - | \$ 180,000 | \$ 720,000 |
| Water Wells..... | 5.00 | 40,000 | - | 20,000 | 20,000 |
| Municipal Bond..... | 3.89 | 2,300,000 | - | 225,000 | 2,075,000 |
| Water..... | 4.99 | 360,000 | - | 40,000 | 320,000 |
| Water Projects..... | 3.5 - 4.5 | 201,900 | 23,100 | - | 225,000 |
| Total Bonds and Notes Payable..... | | \$ <u>3,801,900</u> | \$ <u>23,100</u> | \$ <u>465,000</u> | \$ <u>3,360,000</u> |

Debt service requirements for the Water Enterprise Fund are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|---------------------|-------------------|---------------------|
| 2003..... | \$ 490,000 | \$ 129,911 | \$ 619,911 |
| 2004..... | 470,000 | 110,219 | 580,219 |
| 2005..... | 470,000 | 90,914 | 560,914 |
| 2006..... | 470,000 | 71,519 | 541,519 |
| 2007..... | 290,000 | 55,954 | 345,954 |
| 2008..... | 285,000 | 44,335 | 329,335 |
| 2009..... | 285,000 | 32,610 | 317,610 |
| 2010..... | 160,000 | 23,265 | 183,265 |
| 2011..... | 120,000 | 16,275 | 136,275 |
| 2012..... | 120,000 | 11,225 | 131,225 |
| 2013..... | 100,000 | 6,525 | 106,525 |
| 2014..... | 100,000 | 2,188 | 102,188 |
| Totals..... | <u>\$ 3,360,000</u> | <u>\$ 594,939</u> | <u>\$ 3,954,939</u> |

The Commonwealth of Massachusetts has approved construction assistance to the Town. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2002, the Town received approximately \$135,000 of such assistance. Approximately \$1,216,000 will be received in future fiscal years. Of this amount, approximately \$287,840 represents reimbursement of long-term interest costs, and approximately \$928,160 represents reimbursement of approved construction costs. Accordingly, an intergovernmental receivable and corresponding deferred revenue have been reported in these general purpose financial statements in the amount of \$928,160.

The Town received \$650,000 under a loan agreement (Pool Loan Program 1996 Series 3) entered into on April 29, 1997 and \$195,676 under a loan agreement (Pool Loan Program 2000 Series 4) entered into on October 25, 2000, both with the Massachusetts Water Pollution Abatement Trust (MWPAT). The loans provide funding for various wastewater projects of the Town's capital improvements program. The remaining scheduled loan repayments total \$1,028,284, including interest. It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$130,958 and interest costs for \$273,060. Thus net loan repayments including interest are scheduled to be \$624,266. Since the Town is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying general purpose financial statements. The fiscal year 2002 principal and interest subsidy totaled approximately \$5,000 and \$31,000 respectively.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. As of June 30, 2002, the Town's authorized and unissued debt consisted of the following:

| <u>Purpose</u> | <u>Amount</u> |
|-------------------------------------|----------------------|
| Sewer Projects..... | \$ 1,231,600 |
| Fire Alarm..... | 500,000 |
| New School Facilities..... | 39,436,000 |
| Fire Engine..... | 285,000 |
| Percy Walker Pool (Recreation)..... | 153,000 |
| Pipe Replacement..... | 408,000 |
| New Water Main Installation..... | 153,000 |
| Land Acquisition..... | 656,000 |
| Sewer Treatment Plant..... | 3,100,000 |
| Ladder Truck..... | 625,000 |
| Water Line Replacement..... | 400,000 |
| Delano Land Purchase..... | 1,544,000 |
| Total..... | <u>\$ 48,491,600</u> |

General Long-Term Obligations Account Group

The Town records its liability for long-term bonds and notes in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the Town are its obligations for capital lease obligations and vacation and sick pay benefits. These liabilities will be liquidated in the future from governmental funds.

During the fiscal year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group.

| | <u>Balance June 30, 2001</u> | <u>Bonds and Notes Issued</u> | <u>Bonds and Notes Redeemed</u> | <u>Other Net Increase (Decrease)</u> | <u>Balance June 30, 2002</u> |
|--------------------------------|--------------------------------------|---------------------------------------|---|--|--------------------------------------|
| Long-Term Bonds and Notes..... | \$ 9,500,404 | \$ 1,029,000 | \$ (1,253,478) | \$ - | \$ 9,275,926 |
| Capital Lease..... | 1,202,962 | - | - | (381,814) | 821,148 |
| Compensated Absences..... | 766,000 | - | - | 55,000 | 821,000 |
| Total..... | <u>\$ 11,469,366</u> | <u>\$ 1,029,000</u> | <u>\$ (1,253,478)</u> | <u>\$ (326,814)</u> | <u>\$ 10,918,074</u> |

NOTE 8 – CAPITAL LEASE

The Town has a lease purchase agreement for an energy management system used by the school system. The lease payments are paid monthly from appropriated funds. In connection with this lease, the Town has recorded a liability of \$821,148 in the General Long-Term Obligations Account Group as of June 30, 2002. The cost of the system acquired under the capital lease totaled approximately \$2,844,000.

The future minimum lease payments are as follows:

| <u>Fiscal Years Ending June 30,</u> | <u>Amount</u> |
|--|-------------------|
| 2003..... | \$ 371,860 |
| 2004..... | 371,860 |
| 2005..... | <u>154,943</u> |
| Total minimum lease payments..... | 898,663 |
| Less: amounts representing interest..... | <u>(77,515)</u> |
| Present value of minimum lease payments..... | <u>\$ 821,148</u> |

NOTE 9 - STABILIZATION AND PENSION TRUST FUNDS

Stabilization Trust Fund - The Town has \$1,434,364 in a Stabilization Fund classified in the Expendable Trust Fund at June 30, 2002. The Stabilization Fund may be used for general and/or capital purposes upon Town Meeting approval.

Pension Trust Fund – The Town has \$1,542,812 in a Pension Trust Fund classified in the Expendable Trust Fund at June 30, 2002. The Pension Trust Fund is distinct and separate from the System information in Note 5. The purpose of the Fund is to provide a reserve to meet future annual contributions to the System.

NOTE 10 – COMMUNITY PRESERVATION FUNDS

In March of 2001, the Town approved the Community Preservation Act (CPA) which allows the Town to impose a surcharge on property taxes and to receive matching state funds for specified uses related to the acquisition, creation, preservation and support of open space, historic resources, land for recreational use and community housing. The CPA requires that the Town spend or set aside for later spending a minimum of ten percent of these annual revenues for open space, a minimum of ten percent for historic resources and a minimum of ten percent for community housing.

In accordance with the CPA, the Town has approved a new bylaw establishing a Community Preservation Committee (CPC) to study the needs, possibilities and resources of the Town regarding community preservation and to make recommendations for Town Meeting approval to fund eligible projects using CPA funds.

The Town began collecting funds in accordance with the CPA in fiscal year 2002 and will be eligible to receive state matching funds in fiscal year 2003. As of June 30, 2002, the CPA fund has a balance of approximately \$839,000 and is reported as a special revenue fund.

NOTE 11 – 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 employee health insurance activities. These activities are accounted for in the Town's Internal Service Fund where revenues are recorded when earned and expenditures are recorded when the liability is incurred.

(a) *Employee Health Insurance*

The Town estimates its Incurred But Not Reported (IBNR) claims based on a three-month claims paid average. At June 30, 2002, the amount of the liability for health insurance claims was \$1,108,000. This liability is the Town's best estimate based on available information. Changes in the reported liability since July 1, 2000, 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 2001..... | \$ 875,000 | \$ 4,231,877 | \$ (4,148,877) | \$ 958,000 |
| Fiscal Year 2002..... | 958,000 | 4,582,624 | (4,432,624) | 1,108,000 |

The Town is also self-insured for its workers' compensation insurance activities. These claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. At June 30, 2002, the amount of the liability for workers' compensation claims was immaterial and is therefore not reported.

NOTE 12 - CONTINGENCIES

The Town participates in a number of federal financial assistance programs. Although the Town grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2002, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2002, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town.

NOTE 13 - COMMITMENTS

The Town has authorized \$39,436,000 to be borrowed for major renovations to school facilities. The project is expected to be completed in fiscal year 2004. The Town has expended approximately \$18,100,000 on this project as of June 30, 2002. The Town anticipates receiving construction assistance equal to 67% of approved costs.

NOTE 14 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following pronouncements:

- Statement #34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and*

Local Governments (Statement #34).

- Statement #37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus*
- Statement #38, *Certain Financial Statement Note Disclosures*

The significant changes related to the implementation of these statements include the following:

- For the first time the financial statements will include:
 - A Management Discussion and Analysis (MD&A) section that provides an analysis of the overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the non-fiduciary activities, including reporting all capital assets.
 - A change in the fund financial statements to focus on the major funds.

The Town's implementation date is fiscal year 2003.

During fiscal year 2002, the GASB issued Statement #39, *Determining Whether Certain Organizations are Component Units, and amendment of GASB Statement No. 14*, Which is required to be implemented during fiscal year 2004. It is expected that this pronouncement will not significantly impact the basic financial statements.