

Management's Discussion and Analysis

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As management of the Town of Duxbury, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2003. This is the first year our financial statements have been prepared under the Governmental Accounting Standards Board Statement Number 34 – Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This new reporting model represents a major change when compared to prior financial statements. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all 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 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 and earned but unused vacation leave).

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

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance

sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Duxbury adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund as required supplementary information after the notes to the financial statements to demonstrate compliance with this budget.

Proprietary funds. The Town maintains two different types of propriety funds.

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 municipal water department activities.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for employees' health insurance. Because this service predominantly benefits the governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements

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

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.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Duxbury's general fund budgeted and actual revenues and expenditures.

	Governmental Activities	Business-type Activities
Assets:		
Current assets.....	\$ 27,145,331	\$ 1,870,279
Noncurrent assets (excluding capital).....	21,728,899	-
Capital assets.....	85,692,828	9,505,447
Total assets.....	134,567,058	11,375,726
Liabilities:		
Current liabilities (excluding debt).....	7,216,511	112,440
Noncurrent liabilities (excluding debt).....	176,402	5,150
Current debt.....	44,688,799	748,000
Noncurrent debt.....	8,981,987	2,945,000
Total liabilities.....	61,063,699	3,810,590
Net Assets:		
Capital assets net of related debt.....	60,550,060	5,812,447
Restricted.....	3,664,001	-
Unrestricted.....	9,289,298	1,752,689
Total net assets.....	73,503,359	7,565,136
Program revenues:		
Charges for services.....	8,481,493	2,058,068
Operating grants and contributions.....	8,286,268	-
Capital grants and contributions.....	10,746,357	-
General Revenues:		
Real estate and personal property taxes.....	31,571,815	-
Tax liens.....	167,821	-
Motor vehicle and other excise taxes.....	1,898,153	-
Penalties and interest on taxes.....	190,307	-
Nonrestricted grants.....	44,901	-
Unrestricted investment income.....	511,843	-
Other revenues.....	463,544	-
Total revenues.....	62,362,502	2,058,068
Expenses:		
General government.....	1,932,404	-
Public safety.....	4,977,899	-
Education.....	26,939,193	-
Public works.....	3,819,387	-
Human services.....	406,116	-
Culture and recreation.....	1,903,147	-
Community preservation.....	55,620	-
Pension benefits-Town.....	1,069,489	-
Pension benefits-School.....	2,190,000	-
Property and liability insurance.....	206,191	-
Employee benefits.....	6,667,312	-
Interest.....	1,193,807	-
State and county charges.....	364,458	-
Other.....	24,936	-
Water.....	-	1,539,972
Total expenses.....	51,749,959	1,539,972
Transfers.....	156,000	(170,000)
Change in net assets.....	\$ 10,768,543	\$ 348,096

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities for governmental activities by \$73,503,359 at the close of FY2003.

Net assets of \$60,550,060 (82%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental activities' net assets \$3,664,001 (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$9,289,298 (13%) may be used to meet the government's ongoing obligations to citizens and creditors.

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

Net assets for the Town's water department business-type activities exceeded liabilities by \$7,565,136 at the close of FY2003. There was an increase in net assets for business-type activities of \$348,096 during the year. This was partially due to the payment on bonds and notes exceeding the current depreciation expense charged.

The governmental activities net assets increased by \$10,768,543 during the current fiscal year which was primarily due to capital grants earned from the School Building Assistance Bureau of \$9,643,672, and from the Community Preservation Act of \$845,267 and from taxes assessed in relation to the Community Preservation Act of \$869,018, which have been used to acquire and construct capital assets. Since this is the first year of reporting under GASB #34 no meaningful historical trends have been established to draw further conclusions.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of (\$22,969,682), a decrease of \$15,950,934 from the prior year. Most of the decrease is attributable to the Town's School Renovations Project which has been financed with temporary bond anticipation notes until the School Building Assistance (SBAB) reimbursements begin. The Town has approximately \$39,000,000 in bond anticipation notes outstanding related to this project at year end. Bond Anticipation Notes are considered temporary financing and are not considered revenue in the fund based statements.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,569,479, while total fund balance reached \$6,382,639. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund

expenditures. Unreserved fund balance represents 8% of total general fund expenditures, while total fund balance represents 14% of that same amount.

The fund balance of the general fund increased by \$434,194. A key reason for this increase was a one-time voluntary spending reduction initiated by Town Management to resolve a deficit in the Health Insurance Trust Fund.

The Community Preservation Act fund had a fund balance at June 30, 2003 of \$409,514. These funds are attributable to the Town's acceptance of the Community Preservation Act, 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 (\$429,183) decrease in the fund during fiscal year 2003 is primarily the result of several land purchases.

The School Renovations fund is used to account for the Town's major school renovation and construction project related to expanding and renovating the Chandler and Alden schools, including building a performing arts center. This fund had a year end fund balance of (\$32,960,025). The negative balance results from funding the project with temporary debt until SBAB payments are received. The estimated year for SBAB payments to begin is currently 2007.

The Stabilization fund is used to accumulate resources to be used for future general and/or capital purposes upon approval of Town Meeting. The \$40,064 increase in the Stabilization fund was due to investment income.

The Pension Trust fund is used to accumulate resources to meet future annual contributions to the County Retirement System. The net increase of \$76,758 was due to investment income of \$151,758 and transfers out of \$75,000 to offset a portion of the fiscal year 2003 required contributions to the County Retirement System.

General Fund Budgetary Highlights

The \$146,802 increase between the original budget and the final amended budget was due collective bargaining agreements reached after the budget was balanced and therefore funded from undesignated fund equity "free cash". Agreements were reached between the Town and the laborer's union, clerical union and dispatcher's union for approximately \$79,000, \$53,000, and \$14,000, respectively.

Capital Asset and Debt Administration

In conjunction with the operating budget, the Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The Town of Duxbury's governmental funds had total bonded debt outstanding of \$9,958,423 at the end of the current fiscal year. Of this amount, \$2,200,000 is related to the renovation of the library, \$2,025,000 is related to the senior center project, \$1,933,423 relates to sewer projects, \$1,240,000 relates to land purchases and \$1,205,000 is related to school equipment and improvements. The remaining \$1,355,000 relates to other capital related projects. Additionally, the Town's short-term borrowing is at \$43,213,207, of which approximately \$39,000,000 is related to the School Construction Project. The School Construction Project includes the construction of a Performing Arts Center and renovations to the Alden and Chandler Schools. The Town anticipates a reimbursement for 67% of the costs of the school projects from the School Building Assistance Bureau.

The enterprise funds have \$3,693,000 in water fund debt that is fully supported by the rates and do not rely on a general fund subsidy.

Please refer to notes 5, 8 and 9 for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Duxbury's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Hall, 878 Tremont Street, Duxbury, Massachusetts 02332