

TOWN OF DUXBURY, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



**For the fiscal year ended
June 30, 2004**

On the cover:
The Powder Point Bridge connects the Town to the beach.



Duxbury Harbor

*The Town of
Duxbury, Massachusetts*



**Comprehensive
Annual Financial Report**

**For the Fiscal Year
July 1, 2003 through June 30, 2004**

Prepared by Accounting Department

Town of Duxbury, Massachusetts
Comprehensive Annual Financial Report
For the Year Ended June 30, 2004

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Introductory Section



The 1030-seat Performing Arts Center at the new Alden Elementary School



Town Of Duxbury, Massachusetts

December 1, 2004

Letter of Transmittal

To the Honorable Board of Selectmen and Citizens of the Town of Duxbury:

State law requires the Town of Duxbury to publish at the close of each fiscal year a complete set of financial statements in conformity with accounting principals generally accepted in the United States of America (GAAP) that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the Town of Duxbury, Massachusetts, for the fiscal year ending June 30, 2004 for your review.

The report is designed to be used by the elected and appointed officials of the Town and others who are concerned with its management and progress such as bond analysts, banking institutions and credit raters as well as residents and taxpayers of Duxbury.

This report consists of management's representations concerning the finances of the Town of Duxbury. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Duxbury's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Duxbury for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion the Town of Duxbury's financial statements for the fiscal year ended June 30, 2004, and that they are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Duxbury was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Duxbury's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The Town of Duxbury's MD&A can be found immediately following the report of the independent auditors.

Profile of the Town

Duxbury, incorporated on June 17, 1637, was the home of Captain Myles Standish and John Alden. The Town was originally established as a community with plentiful lands for harvesting crops and other natural resources as well as providing a livelihood for many in the shellfish and fishing industries. Because of its proximity to the ocean and its natural harbor, the harbor became one of the busiest in the world during the "Golden Age of Shipbuilding"

(approximately 1800-1874) and the Town enjoyed a period of great prosperity. During the late 1800's other industries began to develop including shoe manufacturing, cranberry harvesting, charcoal production, and the production of textiles. The first department store in America, "Ford's Store" was established in 1826 and the Franco-American cable was pulled ashore at Duxbury Beach on July 23, 1869, uniting Europe and the United States in the first trans-Atlantic telegraph connection. Duxbury is a town of quiet dignity and stability, with beautiful beaches, tides and marshes combined with Cape Cod homes and Sea Captain's Colonials.

The Town is governed by an open town meeting form of government and is located in Southeastern Massachusetts in Plymouth County approximately 33 miles from Boston. The Town is bordered by the Towns of Pembroke on the west, Marshfield on the north, Kingston on the south and the Atlantic Ocean on the east and southeast. Duxbury occupies an area of approximately 23.76 square miles and its population is 15,127 based on the most recent town census.

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, public education in grades kindergarten through twelve, water, street maintenance, parks, beaches and other recreational facilities

Local legislative decisions are made by an open Town Meeting. Subject to the legislative decisions made by the Town Meeting, the affairs for the Town are generally administered by a board of three selectmen who are supported by the town manager.

Local school affairs are administered by a school committee of five persons, elected for staggered three-year terms on an at large basis. The Water and Sewer Departments are managed by the same three-person board of selectmen. Local taxes are assessed by a board of three assessors, elected for staggered three-year terms.

Factors Affecting Financial Condition

The Town of Duxbury continues to reflect a strong economic condition. The per capita income is significantly higher than state averages, and the unemployment rate has always been extremely low. Duxbury has a primarily residential tax base which has grown through rapidly rising home values.

In 2005 the average price of a home in Duxbury was \$587,000 (based upon 2003 sales data), an increase of over 15% from the previous year. Housing prices have increased an average of 13.85% a year for the last six years because the housing stock is limited and the community is seen as highly desirable. The community has preserved large amounts of open space and has a pristine coastline, as well as having an excellent reputation for academics, athletics, and many cultural and natural amenities. The recent completion of the commuter rail to neighboring Kingston facilitated the commute to Boston.

On the operating side, the Town experienced financial challenges during 2003, 2004 and into the 2005 budget cycle (March 2004) as the Commonwealth's budget difficulties resulted in funding cuts, primarily in education programs, of almost \$1 million. Rising health care costs added to the economic pressures. Proposition 2 ½ capped the Town's ability to raise taxes and excess levy capacity is limited. The Town last approved a Proposition 2 ½ operating override (in the amount of \$1,000,000) in 1989 and it is unclear whether this will be a viable solution in the near future.

Fortunately, the Town enjoys a cooperative working relationship among its many boards, departments, unions and citizens. The community successfully resolved a \$1.3 million health insurance deficit during 2004. All departments, including the schools, reduced budgets in 2004 and into 2005; the community accepted fee increases where practical; and some limited reserves were utilized to help mitigate the impact of the State cuts. The Town continued its longer range outlook through completion of the school expansion, sewer plant project, and water infrastructure enhancements, by continuing to support the Community Preservation surcharge at the 3% maximum.

The economic outlook for the Commonwealth has brightened, with reports of revenue surpluses. The School Building Assistance program has been restructured, and the State Treasurer has indicated that Duxbury will receive its anticipated (67%) school building reimbursement during fiscal 2006. The Town anticipates issuing \$14.5 million in long term tax exempt debt at that time.

The Town continues to manage its financial affairs in a prudent manner. It has maintained its Aa2 bond rating through its affluent and sizable tax base, well-maintained financial operations and strong debt position. Although the Town voted to utilize reserves in planning its 2005 budget, the Town retained reserve balances, including free cash, exceeding 8.5% of the 2005 operating budget.

Financial Summary

Financial and Management Systems

Internal Controls

Management of the Town is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the Town are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Town Accountant is responsible for evaluating the adequacy and effectiveness of the internal control structure and implementing improvements.

Because the cost of internal controls should not outweigh their benefits, the Town of Duxbury's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Budgetary Controls

The Town Manager is responsible for preparing and presenting the budget to the Board of Selectmen. The Selectmen review all requests and Town wide issues and present a budget to Town Meeting for approval. A nine member Finance Committee made up of citizen volunteers appointed by the Town Moderator reviews the budget and makes recommendations to Town Meeting. A separate Fiscal Advisory committee reviews capital expenditure plans.

The level of budgetary control is established by Town Meeting and this approval defines the level at which expenditures may not exceed appropriations. This level is typically at the individual department salary and expense level. The Town Accountant is responsible for ensuring all payroll and invoices are within the budgetary control level before authorizing payment. Additional appropriations may be approved at subsequent Town Meetings. The Finance Committee, upon request of the Town Manager, may approve during the year a transfer from a reserve fund established at Town Meeting. These controls ensure compliance with the budget approved by Town Meeting.

Cash Management

Cash management is handled by the Town Treasurer. The Town Treasurer monitors the Town's cash flow and provides for the investment of Town funds. The Treasurer seeks to maximize the return on Town funds while maintaining adequate protection and liquidity of funds.

Quarterly tax billings and excellent collection rates have eliminated the need to borrow on a short term basis to maintain cash flow. The Town's investment options are governed by Massachusetts General Laws and focus on safety, liquidity and yield.

Risk Management

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 and workers compensation activities.


Debt Administration

The Town Treasurer has oversight of all Town debt, but the Town Manager and Town Accountant also participate in decision-making, with advice from the Town's bankers, as part of a "Fiscal Team". The Town's credit rating was reaffirmed as an Aa2 rating in 2004, a strong positive reflection on the financial condition and excellent management of the Town.

Acknowledgements

This is the Town of Duxbury's first Comprehensive Annual Financial Report. Preparing a document of this magnitude requires a significant investment of time and resources. I would like to thank the Board of Selectmen for supporting this endeavor and I am grateful to Town Accountant, Sheryl Strother for identifying this goal and ultimately making it a reality. This document reflects well upon the professionalism of our organization and provides a wealth of information to the community. Special thanks to John Puopolo for the beautiful photographs.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rocco J. Longo", with a stylized flourish at the end.

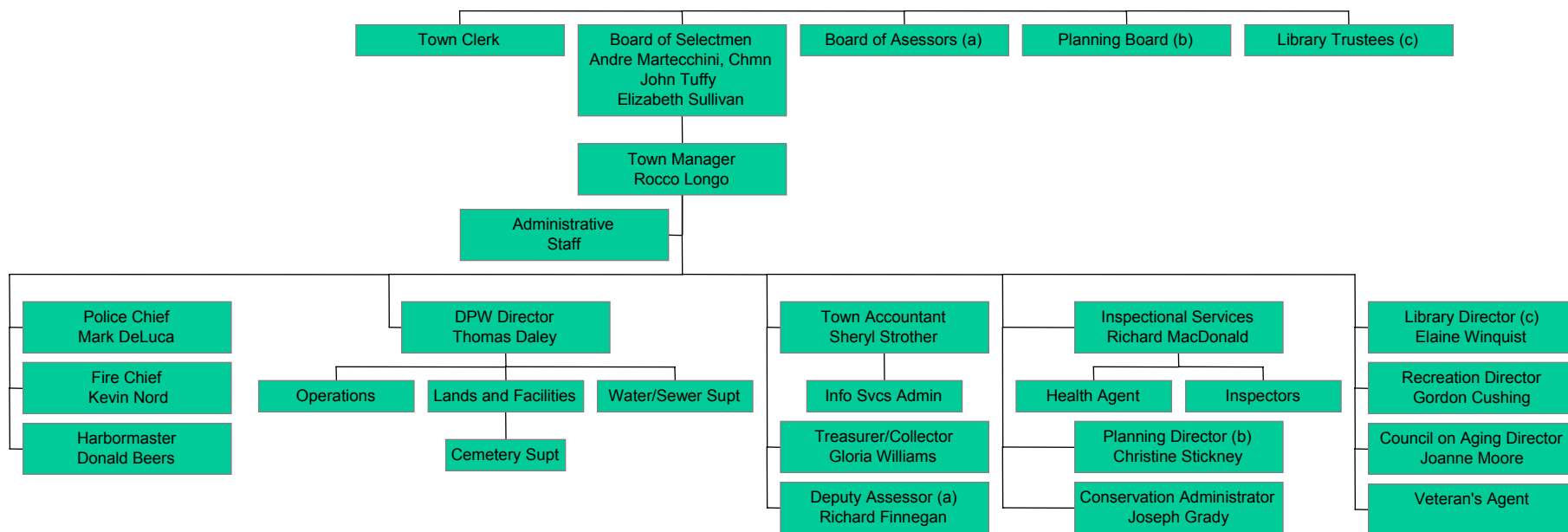
Rocco J. Longo
Town Manager, CFO

Town of Duxbury, Massachusetts

Principal Executive Officers

<u>Title</u>	<u>Name</u>	<u>Manner of Selection</u>	<u>Length of Term</u>	<u>Expiration of Term</u>
Chairman-Board of Selectmen	Andre P. Martecchini	Elected	3 Years	2006
Selectman	John T. Tuffy	Elected	3 Years	2007
Selectman	Elizabeth H. Sullivan	Elected	3 Years	2005
Town Manager	Rocco J. Longo	Appointed	Indefinite	N/A
Town Accountant	Sheryl D. Strother	Appointed	Indefinite	N/A
Treasurer/Collector	Gloria M. Williams	Appointed	Indefinite	N/A
Town Clerk	Nancy M. Oates	Elected	3 Years	2007
Assessor	James G. McNab	Elected	3 Years	2007
Assessor	J. Thomas Marquis	Elected	3 Years	2006
Assessor	June Albritton	Elected	3 Years	2005
Superintendent of Schools	Dr. Eileen Williams	Appointed	Indefinite	N/A
School Business Manager	Daniel McGonagle	Appointed	Indefinite	N/A
Superintendent of Public Works	Thomas Daley	Appointed	Indefinite	N/A
Town Moderator	Allen N. Bornheimer	Elected	1 Year	2005
Town Counsel	Robert S. Troy	Appointed	Indefinite	N/A

Town of Duxbury, Massachusetts Organizational Chart



(a), (b) and (c) positions report also to elected boards