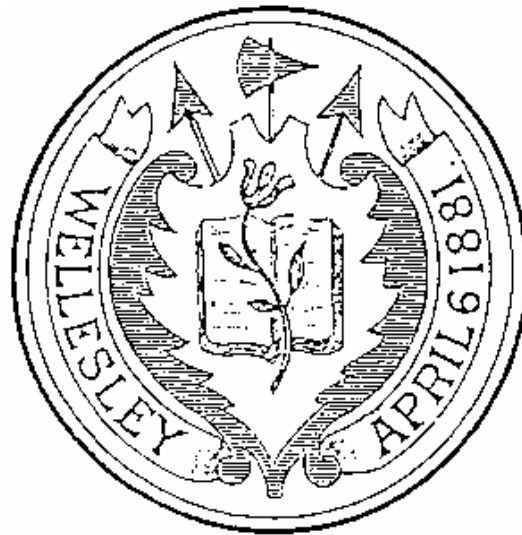


TOWN OF WELLESLEY, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year ended June 30, 2004



Prepared by:

The Office of Financial Services

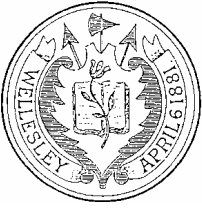
TOWN OF WELLESLEY, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2004

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Town of Wellesley

525 Washington Street
Wellesley, MA 02482

Letter of Transmittal

December 30, 2004

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

State law requires the Town of Wellesley to publish at the close of each fiscal year a complete set of financial statements in conformity with accounting principles 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 Wellesley, Massachusetts, for the fiscal year ending June 30, 2004 for your review.

This report consists of management's representations concerning the finances of the Town. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town'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. 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'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 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 on the Town'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 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'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's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The Town of Wellesley was incorporated in 1881 is located in Norfolk County. It is approximately 15 miles west of Boston and is bordered by Natick on the west, Weston and Newton on the North, Needham on the east and southeast, and Dover on the south. It is approximately 10.51 square miles in area and, according to the 2000 federal census figures, has a population of 26,613 persons.

The principal highways serving the Town are State Routes 9, 16, 135, 128 and the Massachusetts Turnpike. The Massachusetts Bay Transportation Authority (MBTA) provides railroad services to Boston and Framingham.

The Town operates under the Representative Town Meeting form of government with public officers serving as ex-officio members of the town meeting. The legislative body consists of 240 members elected by precincts. Administrative affairs are managed by a five member Board of Selectmen, with the assistance of an executive director.

The administration of the general government is the responsibility of the five-member Board of Selectmen; local school affairs are administered by the five-member School Committee; public works are administered by a three-member Board of Public Works; the Municipal Light Plant is administered by the five-member Municipal Light Board that is comprised of the three-member Board of Public Works and two members appointed by the Board of Selectmen; and library affairs are administered by a six-member Board of Library Trustees.

Municipal Services

The Town provides general governmental services within its boundaries including public education in grades kindergarten through twelve, police and fire protection, collection and treatment of sewage, water distribution, electric services, public works, streets, parks and recreation, veteran's services, health and sanitation, and libraries. The water and sewer enterprise funds are self-supporting. The Town maintains a solid waste recycling and disposal facility.

The Town owns and operates a self-supporting municipal electric plant. A five member Municipal Electric Board carries out the responsibilities of the Municipal Electric Commissioners as dictated by Massachusetts General Laws, Chapter 164. The Board has three elected members and two appointed by the Board of Selectmen.

Principal Officials

Board of Selectmen

Vincent Juliani, Jr. – Chairman
Peter W. Gubellini - Vice Chairman
David J. Himmelberger - Secretary
Harriet S. Warshaw
Laurence D. Shind

<u>Official</u>	<u>Name</u>	<u>Term</u>	<u>Term Exp.</u>
Executive Director of General Governmental Services	Christopher Clark	Appointed	Temporary
Acting Town Accountant	David Nalchahian	Appointed	Temporary
Treasurer/Collector	Marc V. Waldman	Appointed	2005
Town Counsel	Albert S. Robinson	Appointed	2004
Town Clerk	Kathleen Nagle	Elected	2006

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town operates.

The Town 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. The Town remains a very desirable community given its close proximity to Boston and quality of services provided. The residential sales market has been very strong, reflecting the solid interest in the community.

Wellesley is home to urban professionals whose wealth levels are among the highest in the Commonwealth. Median family incomes of \$134,769 and per capita of \$52,866 are 212% and 204% of state values, respectively. Relative wealth is also seen in the owner occupied median housing value, which, at \$817,980 is more than twice that of the state and four times that of the nation. Although the Town is 86.5% residential, commercial activity is diversified and the presence of Wellesley College and Babson College provide for a low unemployment rate and economic stability.

On the Town's operating side, the current state fiscal problems will have some impact on the delivery of Town services. State aid will at best be level funded and most likely reduced in the following years. This will leave the Town in a position of having to rely mainly on property taxes to cover the increasing cost of providing services and replace the revenue lost from the state. As the Town is not highly dependent on state aid, the Town will not be as adversely affected as other communities in the State.

The Town continues to manage its financial affairs in prudent manner. It has maintained its "**excellent**" bond rating of Aaa even with the fiscal crisis our State is currently experiencing. It has been able to do so by incorporating long range planning tools such as a Capital Improvement Program; maintaining reserve balances despite tight budgets; investing in technology to ensure efficient operations; and maintaining an aggressive pay as you go financing strategy for capital improvements.

The Town has also enhanced its revenue flexibility by establishing enterprise funds. This has allowed the Town to shift one hundred percent of the operating cost and capital improvements to the users of electric, water, and sewer services so that no tax support goes towards providing these services. All related debt is funded through user fees. By doing so the Town is able to provide the maximum tax dollars available to all other services.

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 Executive Director 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'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 Executive Director 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. The Finance Committee reviews the budget and makes recommendations to Town Meeting.

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 by the Board of Selectmen, 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 manages its risk through a combination of self-insured programs and premium based coverage with commercial insurance carriers. Workers compensation and unemployment activities are self-insured while exposures to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters are covered through policies purchased from commercial carriers. Third-party coverage is maintained for individual workers' compensation claims in excess of \$250,000. In addition the Town administers a workers compensation internal service fund and has recorded its incurred-but-not-reported liability based on an annual actuarial valuation. Additional information on the Town's risk management activity can be found in the notes to the financial statements.

Pension and Other Post Employment Benefits

The Town contributes to the Wellesley Contributory Retirement System a defined benefit pension plan administered by the Wellesley Contributory Retirement board. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the Town must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a requirement by law, the Town fully funds each year's annual required contribution to the pension plan as determined by the actuary. The System is one of the few in Massachusetts that is fully funded where the funding ratio is 103.5%.

The Town also provides postretirement health care benefits for certain retirees and their dependents. There were 719 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Recently the GASB issued Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Statement #45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which are required to be implemented in fiscal year 2008. The Town recognized early the need to provide for this benefit and Chapter 88 of the Acts of 2004 – An Act Authorizing the Town of Wellesley to Establish a Group Insurance Liability Fund was enacted that allows the Town to begin the process of funding the liability.

Additional information on the Town's pension and post employment benefits can be found in the notes to the financial statements.

Acknowledgements

This Comprehensive Annual Financial Report is dedicated to the memory of R. Arnold Wakelin. He started his long and illustrious career in Wellesley in 1957 as an assistant to the Town Accountant. In 1962 he was appointed Town Comptroller and served until 1978. In 1979, he was appointed Director of Financial Services, and in August 1993, he was appointed Executive Director of General Governmental Services by the Board of Selectmen, a position he held until his death. He had been a valued member of the Town's Contributory Retirement Board.

During the course of the past forty-seven years, Arnold offered the Town of Wellesley unwavering leadership and a deep commitment to enhancing the lives of all Wellesley residents. He will be remembered as a selfless, humble man of deep integrity.

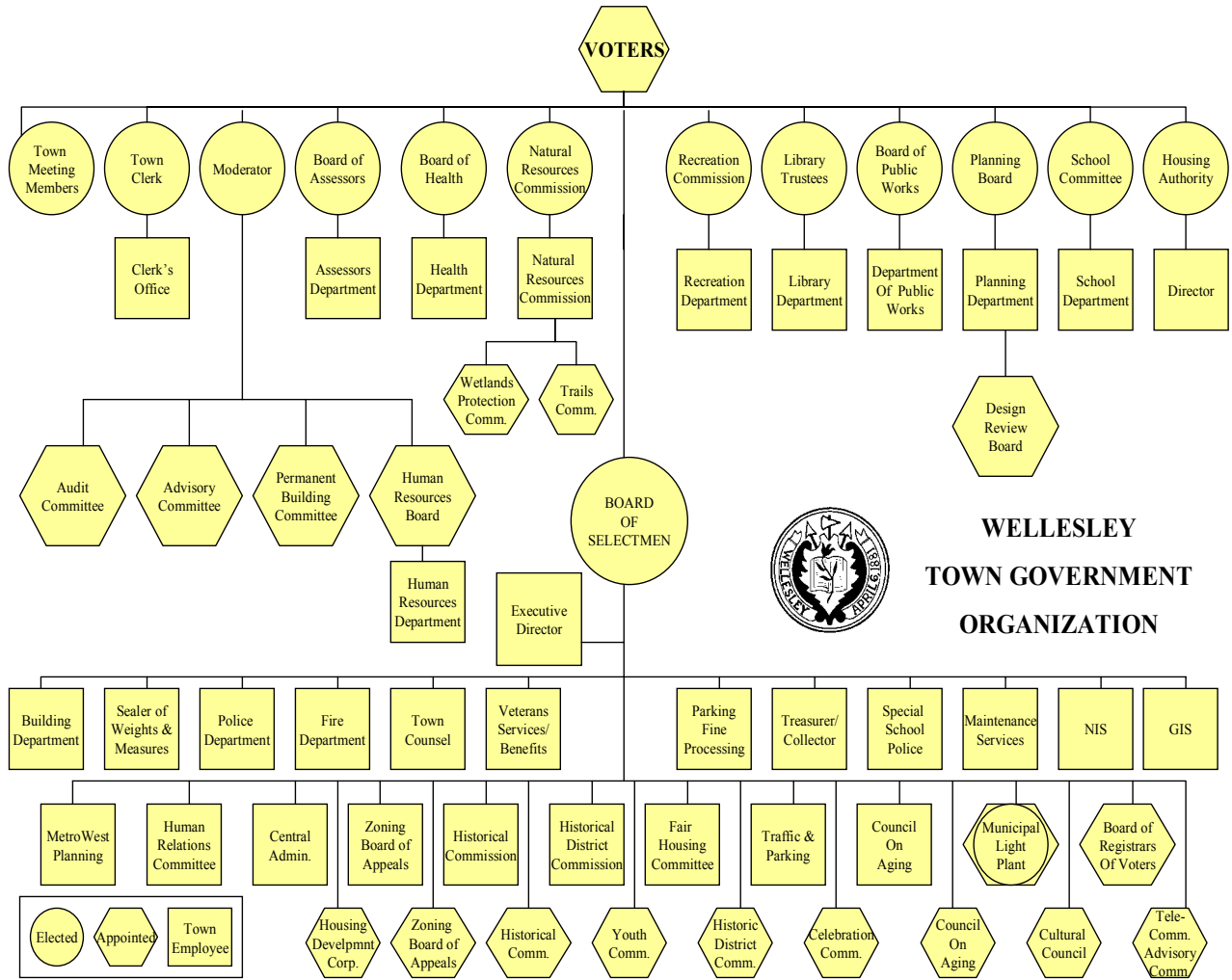
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance departments. We would like to express our appreciation to all the members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Town Selectmen for their unfailing support for maintaining the highest standards of professionalism in the management of the Town's finances.

Respectively submitted,

A handwritten signature in cursive script, appearing to read "Christopher Clark".

Christopher Clark
Director of General Government Services

Organization Chart





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Woburn, MA 01801

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Independent Auditors' Report

To the Audit Committee
Town of Wellesley, 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 Wellesley, Massachusetts, as of and for the fiscal year ended June 30, 2004 (except for the Wellesley Contributory Retirement System which is as of and for the year ended December 31, 2003), 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 Wellesley, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. The basic financial statements of the Town of Wellesley as of June 30, 2003 were audited by other auditors whose unqualified report was dated March 20, 2004 (December 20, 2003 as to the Contributory Retirement System). As discussed in Note 1, the Town has restated its 2003 basic financial statements. The other auditors reported on the 2003 financial statements before the restatement.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellesley, Massachusetts, as of June 30, 2004 (except for the Wellesley Contributory Retirement System which is as of December 31, 2003), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 1 that were applied to restate the fiscal year 2003 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2004, on our consideration of the Town of Wellesley, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but 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 required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Bowen + Sullivan".

December 30, 2004

Management's Discussion and Analysis

Management's Discussion and Analysis

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

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

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

Financial Highlights

- The government-wide assets of the Town of Wellesley exceeded its liabilities at the close of the most recent fiscal year by \$145 million (net assets).
- Of this amount, 19% or \$31.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Town of Wellesley's general fund reported an ending fund balance of \$5,149,601, an increase of \$1,124,134 in comparison with the prior year. Total fund balance represents 6% of total general fund expenditures. Approximately \$2,430,000 million of this total amount is available for appropriation at the government's discretion.
- The Town of Wellesley's total governmental debt increased by \$12,550,000 during the current fiscal year. This was the net effect of \$3,110,000 in principal payments on debt and the issuance of \$15,660,000 in debt for the New Library, the Warren Building renovation, and various other governmental projects. The Commonwealth of Massachusetts is committed to provide assistance in the form of a capital grant equal to 57% of the approved cost of the project through the state's school building assistance program.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, health and sanitation, library, recreation, traffic and parking management, interest, state and county charges, and other. The business-type activities include the activities of the sewer, water, and electric enterprise funds.

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

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

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

The Town maintains two major governmental funds that are presented separately in the governmental fund financial statements. The remaining non-major funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary funds. The Town maintains two types of proprietary funds.

Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its sewer, water, and electric operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for sewer, water, and electric operations, all of which are considered major funds of the Town.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The Town maintains an internal service fund to account for health insurance, self-insured worker's compensation, information technology services, fleet maintenance and fuel.

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 proprietary funds.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Wellesley, assets exceeded liabilities by \$145.1 million at the close of the fiscal year 2004.

Government-wide net assets of \$112.6 million (78%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Wellesley's net assets \$1.0 million (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$31.4 million (21%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, The Town of Wellesley 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.

Details related to the Town's governmental and business-type activities follow.

Governmental activities. The governmental activities net assets increased by \$27.1 million during the current fiscal year. The major reasons for this increase is attributed to the recognition of \$23.3 million in capital grant revenue, the acquisition of approximately \$800,000 in capital assets from current revenues and the current reduction of debt exceeding depreciation by approximately \$321,000. All of these factors improve the Town's financial position.

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets.....	\$ 28,766,913	\$ 33,197,138
Noncurrent assets (excluding capital).....	19,508,257	2,475,265
Capital assets.....	80,713,739	74,339,427
Total assets.....	<u>128,988,909</u>	<u>110,011,830</u>
Liabilities:		
Current liabilities (excluding debt).....	4,561,983	8,056,865
Noncurrent liabilities (excluding debt).....	1,091,400	1,131,744
Current debt.....	14,135,000	30,610,000
Noncurrent debt.....	33,110,000	21,200,000
Total liabilities.....	<u>52,898,383</u>	<u>60,998,609</u>
Net Assets:		
Capital assets net of related debt.....	60,416,766	28,393,793
Restricted.....	1,035,731	1,753,311
Unrestricted.....	14,638,029	18,866,117
Total net assets.....	<u>\$ 76,090,526</u>	<u>\$ 49,013,221</u>

	<u>2004</u>	<u>2003</u>
Program revenues:		
Charges for services.....	\$ 7,701,402	\$ 6,080,249
Operating grants and contributions.....	15,191,131	14,187,501
Capital grants and contributions.....	23,341,015	3,681,344
General Revenues:		
Real estate and personal property taxes.....	64,070,276	61,585,388
Motor vehicle and other excise taxes.....	4,404,140	4,263,663
Nonrestricted grants, contributions, and other.....	2,001,048	2,101,414
Unrestricted investment income.....	554,593	1,305,019
Total revenues.....	<u>117,263,605</u>	<u>93,204,578</u>
Expenses:		
General Government.....	3,982,041	4,417,008
Public Safety.....	10,576,430	10,231,912
Public Education.....	59,049,160	59,251,315
Public Works.....	8,220,603	7,803,930
Health and sanitation.....	904,649	569,245
Library.....	3,213,639	3,015,690
Recreation.....	1,790,255	1,058,030
Traffic and parking management.....	592,766	561,341
Interest.....	1,363,670	1,520,180
State and county charges.....	1,041,780	1,000,627
Other.....	451,307	1,111,107
Total expenses.....	<u>91,186,300</u>	<u>90,540,385</u>
Excess before transfers.....	26,077,305	2,664,193
Transfers.....	<u>1,000,000</u>	<u>1,000,000</u>
Change in net assets.....	\$ <u>27,077,305</u>	\$ <u>3,664,193</u>

Other financial notes related to governmental activities:

- Charges for services represent about 7% of governmental activities resources. The Town can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by the Town are included in this category.
- Operating and capital grants and contributions accounted for 33% percent of the governmental activities resources. Most of these resources apply to education operations. These resources offset cost within the school department in addition to their General Fund operating budget. The Town recognized one-time school construction grants of \$18.8 million in FY2004 which accounts for the fluctuation between years.
- Property taxes are by far the most significant revenue source for the Town's governmental activities. They comprised 55% of current resources.
- Other taxes and other revenues comprised a total of 6% percent of the governmental activity's resources.
- Education is by far the largest governmental activity of the Town. Approximately \$59.0 million in taxes and other revenue were needed to cover its Fiscal 2004 operating expenses. Approximately \$6.1 million of a pension contribution made by the state on-behalf of Wellesley teachers have been recorded as an expense and grant revenue.
- Public safety and public works are the third and fourth largest activities of the Town. Approximately \$10.6 million and \$8.2 million, respectively, of taxes and other revenue were needed to cover their Fiscal 2004 operating expenses.

Business-type activities. Business-type activities increased the Town's net assets by \$4.6 million, accounting for 15% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Income before transfers totaled \$5.6 million. Of this amount, \$5.4 million was attributable to electric operations mainly as a result of conservative operations, capital grants received and the need to raise an additional \$1.0 million for in lieu of tax payment to the Town. The water and sewer funds essentially recovered virtually all of their costs through rates.
- The electric light activities transferred \$1.0 million of its net operating income to governmental activities to pay for in lieu of taxes.

Sewer Activities

As shown below, sewer business-type activities assets exceeded liabilities by \$13.2 million at the close of fiscal year 2004. Capital assets net of related debt was \$10.5 (80%) while unrestricted net assets were \$2.7 million (20%). There was a decrease of (\$21,204) in net assets compared to a decrease of (\$91,245) in the prior fiscal year. The relatively small changes in net assets reflect management's goal of maintaining the system while only charging users for the cost of operations.

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets.....	\$ 2,807,370	\$ 2,771,850
Capital assets.....	<u>10,656,656</u>	<u>10,566,218</u>
Total assets.....	<u>13,464,026</u>	<u>13,338,068</u>
Liabilities:		
Current liabilities (excluding debt).....	111,300	79,218
Current debt.....	23,016	-
Noncurrent debt.....	<u>92,064</u>	<u>-</u>
Total liabilities.....	<u>226,380</u>	<u>79,218</u>
Net Assets:		
Capital assets net of related debt.....	10,541,576	10,566,218
Unrestricted.....	<u>2,696,070</u>	<u>2,692,632</u>
Total net assets.....	<u>\$ 13,237,646</u>	<u>\$ 13,258,850</u>
	<u>2004</u>	<u>2003</u>
Program revenues:		
Charges for services.....	\$ 4,929,058	\$ 4,813,727
Capital grants and contributions.....	43,625	4,143
General Revenues:		
Unrestricted investment income.....	<u>5,901</u>	<u>3,261</u>
Total revenues.....	<u>4,978,584</u>	<u>4,821,131</u>
Expenses:		
Sewer.....	<u>4,999,788</u>	<u>4,912,376</u>
Total expenses.....	<u>4,999,788</u>	<u>4,912,376</u>
Change in net assets.....	<u>\$ (21,204)</u>	<u>\$ (91,245)</u>

Water Activities

As noted below, water business-type activities assets exceeded liabilities by \$13.3 million at the close of fiscal year 2004. Capital assets net of related debt was \$10.6 million (80%) while unrestricted net assets were \$2.7 million (20%). There was an increase of \$217,857 in net assets compared to an increase of \$259,876 in the prior fiscal year. The relatively small changes in net assets reflect management’s goal of maintaining the system while only charging users for the cost of operations.

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets.....	\$ 2,838,232	\$ 2,741,669
Capital assets.....	14,482,834	14,877,121
Total assets.....	<u>17,321,066</u>	<u>17,618,790</u>
Liabilities:		
Current liabilities (excluding debt).....	145,829	232,232
Noncurrent liabilities (excluding debt).....	8,823	8,001
Current debt.....	430,000	430,000
Noncurrent debt.....	3,440,000	3,870,000
Total liabilities.....	<u>4,024,652</u>	<u>4,540,233</u>
Net Assets:		
Capital assets net of related debt.....	10,612,834	10,577,121
Unrestricted.....	2,683,580	2,501,436
Total net assets.....	<u>\$ 13,296,414</u>	<u>\$ 13,078,557</u>
	<u>2004</u>	<u>2003</u>
Program revenues:		
Charges for services.....	\$ 3,495,874	\$ 3,618,745
Capital grants and contributions.....	-	30,014
General Revenues:		
Unrestricted investment income.....	4,317	1,806
Total revenues.....	<u>3,500,191</u>	<u>3,650,565</u>
Expenses:		
Water.....	3,282,334	3,390,689
Total expenses.....	<u>3,282,334</u>	<u>3,390,689</u>
Change in net assets.....	<u>\$ 217,857</u>	<u>\$ 259,876</u>

Electric Activities

Electric business-type activities assets exceeded liabilities by \$42.5 million at the close of fiscal year 2004. Capital assets net of related debt was \$31.0 million (73%) while unrestricted net assets were \$11.4 million (27%). There was an increase of \$4.4 million in net assets compared to an increase of \$2.9 million in the prior fiscal year. Operating expenses declined approximately \$1.2 million during fiscal year 2004 related to operational savings in production, transmission, and distribution costs.

	2004	2003
Assets:		
Current assets.....	\$ 14,382,878	\$ 13,008,225
Capital assets.....	31,038,289	27,637,916
Total assets.....	45,421,167	40,646,141
Liabilities:		
Current liabilities (excluding debt).....	2,952,498	2,576,618
Noncurrent liabilities (excluding debt).....	13,358	14,715
Total liabilities.....	2,965,856	2,591,333
Net Assets:		
Capital assets net of related debt.....	31,038,289	27,637,916
Unrestricted.....	11,417,022	10,416,892
Total net assets.....	\$ 42,455,311	\$ 38,054,808
	<u>2004</u>	<u>2003</u>
Program revenues:		
Charges for services.....	\$ 20,683,699	\$ 20,372,550
Capital grants and contributions.....	270,456	226,218
General Revenues:		
Unrestricted investment income.....	58,377	44,717
Total revenues.....	21,012,532	20,643,485
Expenses:		
Electric.....	15,612,029	16,813,918
Total expenses.....	15,612,029	16,813,918
Excess before transfers.....	5,400,503	3,829,567
Transfers.....	(1,000,000)	(1,000,000)
Change in net assets.....	\$ 4,400,503	\$ 2,829,567

Financial Analysis of the Government's Major Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8.7 million, an increase of \$15.4 million from the prior year. The increase is mainly related to the proceeds from long term-debt used to acquire capital assets.

General Fund

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2.4 million, while total fund balance was \$5.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 3% of total general fund expenditures, while total fund balance represents 6% of that same amount.

The fund balance of the general fund increased by \$1,124,134 during fiscal year 2004. This is due to management's ability to monitor budgetary results during the year and its goal of maintaining the Town's financial position.

Capital Projects Major Fund

Capital funds under the modified accrual basis of accounting normally have significant fluctuations as major capital additions are constructed. Currently there is a temporary deficit of (\$4,637,594) due to \$10,385,000 in bond anticipation notes being outstanding at year-end. When these notes are permanently financed, the deficit will be eliminated.

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide financials statements, but in more detail. Factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between the original general fund budget and the final budget of approximately \$2.3 million relates mainly to increases in public works expenses of \$945,000, state and county charges of \$1,010,000, and a \$208,000 transfer out to the stabilization fund.

General fund revenues exceed budget by approximately \$1,252,000 relating to approximately \$882,000 of tax liens not budgeted for, increased payments in lieu of taxes amounting to approximately \$163,000, and increases in department and other revenues of approximately \$716,000. The Town also experienced lower than expected investment earnings of approximately \$500,000 due to lower interest rates during the year.

Most departments realized budget savings except for the Department of Public Works (DPW). The DPW's budget was over expended as a result of a harsh winter and excessive snow and ice removal costs. This is one area where municipalities are allowed to deficit spend under state law. The deficit is raised on the subsequent year's budget that amounted to \$208,371.

Capital Assets and Debt Management

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

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

Major capital assets are funded by the issuance of long-term debt. The effect on net assets during the construction phase of the project is neutral since the Town increases its assets and associated liability by the same amount. In subsequent years the net assets will be reduced through depreciation and will be increased by the revenues raised to support the debt principal payments. Outstanding long-term debt of the general government, as of June 30, 2004, totaled \$36,860,000, of which, \$19,475,000 is related to school projects, \$7,250,000 is related to the new library, \$6,980,000 is related to the Warren building renovation, leaving a balance of approximately \$3,155,000 for other Town projects.

The enterprise funds have \$115,080 in sewer enterprise debt and \$3,870,000 in water enterprise debt that is fully supported by the rates and do not rely on a general fund subsidy.

The Town's major capital project fund is used to account for the Town's school construction projects which are anticipated to cost approximately \$33,000,000. To fund the projects, the Town issued \$15,995,000 of long term bonds in Fiscal 2001 and \$5,510,000 of long term bonds in Fiscal 2003. The Commonwealth of Massachusetts is committed to provide assistance in the form of a capital grant equal to 57% of the approved cost of the project through the state's school building assistance program. Accordingly, the Town has recorded \$18,778,000 of capital grants during Fiscal 2004 equal to approximately 57% the allowable capital costs expected to be reimbursed.

Please refer to the notes to the financial statements 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'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 information should be addressed to the Office of the Director of General Government Services, 525 Washington Street, Wellesley, MA 02482.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 2,701,059	\$ 10,793,007	\$ 13,494,066
Investments.....	21,042,084	5,810,026	26,852,110
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,907,708	-	1,907,708
Tax liens.....	308,112	-	308,112
Motor vehicle excise taxes.....	454,629	-	454,629
User charges.....	-	2,601,812	2,601,812
Departmental and other.....	120,821	-	120,821
Intergovernmental.....	2,205,479	-	2,205,479
Tax foreclosures.....	27,021	-	27,021
Inventory.....	-	762,069	762,069
Other assets.....	-	61,566	61,566
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	19,508,257	-	19,508,257
Capital assets, non depreciable.....	15,730,680	1,145,246	16,875,926
Capital assets, net of accumulated depreciation.....	64,983,059	55,032,533	120,015,592
TOTAL ASSETS.....	128,988,909	76,206,259	205,195,168
LIABILITIES			
CURRENT:			
Warrants payable.....	957,790	2,390,755	3,348,545
Accrued payroll.....	2,442,032	93,347	2,535,379
Tax refunds payable.....	408,871	-	408,871
Accrued interest.....	84,396	7,426	91,822
Other liabilities.....	312,891	695,109	1,008,000
Compensated absences.....	142,003	22,990	164,993
Workers' compensation.....	214,000	-	214,000
Bonds and notes payable.....	14,135,000	453,016	14,588,016
NONCURRENT:			
Compensated absences.....	594,400	22,181	616,581
Workers' compensation.....	497,000	-	497,000
Bonds and notes payable.....	33,110,000	3,532,064	36,642,064
TOTAL LIABILITIES.....	52,898,383	7,216,888	60,115,271
NET ASSETS			
Invested in capital assets, net of related debt.....	60,416,766	52,192,699	112,609,465
Restricted for:			
Permanent funds:			
Expendable.....	549,688	-	549,688
Nonexpendable.....	221,272	-	221,272
Other purposes.....	264,771	-	264,771
Unrestricted.....	14,638,029	16,796,672	31,434,701
TOTAL NET ASSETS.....	\$ 76,090,526	\$ 68,989,371	\$ 145,079,897

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 3,982,041	\$ 970,034	\$ 578,859	\$ -	\$ (2,433,148)
Public safety.....	10,576,430	2,665,474	196,064	-	(7,714,892)
Public education.....	59,049,160	2,136,661	11,293,770	18,778,000	(26,840,729)
Public works.....	8,220,603	644,333	1,682,242	457,000	(5,437,028)
Health and sanitation.....	904,649	2,100	74,711	-	(827,838)
Library.....	3,213,639	83,589	320,405	4,106,015	1,296,370
Recreation.....	1,790,255	582,901	531,478	-	(675,876)
Traffic and parking management.....	592,766	616,310	-	-	23,544
Interest.....	1,363,670	-	513,602	-	(850,068)
State and county charges.....	1,041,780	-	-	-	(1,041,780)
Other.....	451,307	-	-	-	(451,307)
Total Governmental Activities.....	91,186,300	7,701,402	15,191,131	23,341,015	(44,952,752)
<i>Business-Type Activities:</i>					
Sewer.....	4,999,788	4,929,058	-	43,625	(27,105)
Water.....	3,282,334	3,495,874	-	-	213,540
Electric.....	15,612,029	20,683,699	-	270,456	5,342,126
Total Business-Type Activities.....	23,894,151	29,108,631	-	314,081	5,528,561
Total Primary Government.....	\$ 115,080,451	\$ 36,810,033	\$ 15,191,131	\$ 23,655,096	\$ (39,424,191)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (44,952,752)	\$ 5,528,561	\$ (39,424,191)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	63,187,952	-	63,187,952
Tax liens.....	882,324	-	882,324
Motor vehicle and other excise taxes.....	4,318,708	-	4,318,708
Hotel/motel tax.....	85,432	-	85,432
Penalties and interest on taxes.....	179,860	-	179,860
Payments in lieu of taxes.....	358,798	-	358,798
Grants and contributions not restricted to specific programs.....	1,271,592	-	1,271,592
Unrestricted investment income.....	554,593	68,595	623,188
Miscellaneous.....	190,798	-	190,798
<i>Transfers, net</i>	1,000,000	(1,000,000)	-
Total general revenues and transfers.....	72,030,057	(931,405)	71,098,652
Change in net assets.....	27,077,305	4,597,156	31,674,461
<i>Net Assets:</i>			
Beginning of year, as restated.....	49,013,221	64,392,215	113,405,436
End of year.....	\$ <u>76,090,526</u>	\$ <u>68,989,371</u>	\$ <u>145,079,897</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2004

ASSETS	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments.....	\$ 1,237,984	\$ 143,052	\$ 1,256,670	\$ 2,637,706
Investments.....	7,036,927	5,790,805	7,072,264	19,899,996
Receivables, net of uncollectibles:				
Real estate, personal property and tax deferrals	1,907,708	-	-	1,907,708
Tax liens.....	308,112	-	-	308,112
Motor vehicle excise taxes.....	454,629	-	-	454,629
Departmental and other.....	28,210	-	84,613	112,823
Intergovernmental.....	19,942,015	204,550	1,567,171	21,713,736
Tax foreclosures.....	27,021	-	-	27,021
TOTAL ASSETS.....	\$ 30,942,606	\$ 6,138,407	\$ 9,980,718	\$ 47,061,731
LIABILITIES				
LIABILITIES:				
Warrants payable.....	\$ 367,370	\$ 389,756	\$ 141,668	\$ 898,794
Accrued payroll.....	2,372,388	1,245	44,810	2,418,443
Tax refunds payable.....	408,871	-	-	408,871
Other liabilities.....	312,891	-	-	312,891
Deferred revenues.....	22,331,485	-	1,637,841	23,969,326
Notes payable.....	-	10,385,000	-	10,385,000
TOTAL LIABILITIES.....	25,793,005	10,776,001	1,824,319	38,393,325
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	2,718,614	-	-	2,718,614
Perpetual permanent funds.....	-	-	221,272	221,272
Unreserved:				
Undesignated, reported in:				
General fund.....	2,430,987	-	-	2,430,987
Special revenue funds.....	-	-	7,385,439	7,385,439
Capital projects funds.....	-	(4,637,594)	-	(4,637,594)
Permanent funds.....	-	-	549,688	549,688
TOTAL FUND BALANCES.....	5,149,601	(4,637,594)	8,156,399	8,668,406
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 30,942,606	\$ 6,138,407	\$ 9,980,718	\$ 47,061,731

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

Total governmental fund balances.....		\$	8,668,406
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....			80,713,739
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....			23,969,326
Internal service funds are used by management to account for health insurance activities, workers' compensation activities, and for information technology services and fleet maintenance services.			
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....			419,854
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....			(84,396)
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.....	(36,860,000)		
Compensated absences.....	(736,403)		
Net effect of reporting long-term liabilities.....			<u>(37,596,403)</u>
Net assets of governmental activities.....		\$	<u>76,090,526</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 62,151,256	\$ -	\$ -	\$ 62,151,256
Tax liens.....	882,324	-	-	882,324
Motor vehicle and other excise taxes.....	3,846,238	-	-	3,846,238
Payments in lieu of taxes.....	358,798	-	-	358,798
Penalties and interest on taxes.....	179,860	-	-	179,860
Charges for services.....	-	-	875,507	875,507
Parking meter receipts.....	-	-	616,310	616,310
Intergovernmental.....	11,729,674	2,512,764	2,635,118	16,877,556
Departmental and other.....	4,075,589	-	1,702,687	5,778,276
Community preservation assessments.....	-	-	563,595	563,595
Contributions.....	-	1,516,026	1,067,512	2,583,538
Investment income.....	286,979	-	267,614	554,593
TOTAL REVENUES.....	83,510,718	4,028,790	7,728,343	95,267,851
EXPENDITURES:				
Current:				
General government.....	3,328,625	9,182	38,271	3,376,078
Public safety.....	8,571,245	-	617,503	9,188,748
Public education.....	40,194,403	4,730,972	3,936,961	48,862,336
Public works.....	7,002,693	463,250	180,830	7,646,773
Health and sanitation.....	761,321	-	94,292	855,613
Recreation.....	819,450	2,227,572	305,739	3,352,761
Library.....	2,223,765	303,181	201,721	2,728,667
Teachers pension benefits - state funded.....	6,174,123	-	-	6,174,123
Employee benefits.....	8,229,000	-	119,890	8,348,890
Traffic and parking management.....	-	-	592,766	592,766
Other.....	449,507	-	1,800	451,307
State and county charges.....	1,041,780	-	-	1,041,780
Debt service:				
Principal.....	3,110,000	-	-	3,110,000
Interest.....	1,279,274	-	-	1,279,274
TOTAL EXPENDITURES.....	83,185,186	7,734,157	6,089,773	97,009,116
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	325,532	(3,705,367)	1,638,570	(1,741,265)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	15,660,000	-	15,660,000
Premium from issuance of bonds.....	513,602	-	-	513,602
Transfers in.....	1,463,000	970,000	208,000	2,641,000
Transfers out.....	(1,178,000)	-	(463,000)	(1,641,000)
TOTAL OTHER FINANCING SOURCES (USES).....	798,602	16,630,000	(255,000)	17,173,602
NET CHANGE IN FUND BALANCES.....	1,124,134	12,924,633	1,383,570	15,432,337
FUND BALANCES AT BEGINNING OF YEAR, as restated.....	4,025,467	(17,562,227)	6,772,829	(6,763,931)
FUND BALANCES AT END OF YEAR.....	\$ 5,149,601	\$ (4,637,594)	\$ 8,156,399	\$ 8,668,406

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds.....		\$ 15,432,337
<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.</p>		
Capital outlay.....	9,163,716	
Depreciation expense.....	<u>(2,789,404)</u>	
Net effect of reporting capital assets.....		6,374,312
<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>		
		19,073,403
<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 effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....	(15,660,000)	
Debt service principal payments.....	<u>3,110,000</u>	
Net effect of reporting long-term debt.....		(12,550,000)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	11,864	
Net change in accrued interest on long-term debt.....	<u>84,396</u>	
Net effect of recording long-term liabilities.....		96,260
<p>Internal service funds are used by management to account for health insurance activities, workers' compensation activities, and for information technology services and fleet maintenance services.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>(1,349,007)</u>
Change in net assets of governmental activities.....		<u>\$ 27,077,305</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Electric Department	Total	
ASSETS					
CURRENT:					
Cash and short-term investments.....	\$ 1,503,842	\$ 1,474,266	\$ 7,814,899	\$ 10,793,007	\$ 63,353
Investments.....	907,437	917,401	3,985,188	5,810,026	1,142,088
Receivables, net of allowance for uncollectibles:					
User charges.....	396,091	363,938	1,841,783	2,601,812	-
Departmental and other.....	-	-	-	-	7,998
Inventory.....	-	82,627	679,442	762,069	-
Other assets.....	-	-	61,566	61,566	-
Total current assets.....	2,807,370	2,838,232	14,382,878	20,028,480	1,213,439
NONCURRENT:					
Nondepreciable capital assets.....	176,202	154,860	814,184	1,145,246	-
Depreciable capital assets, net of accumulated depreciation.....	10,480,454	14,327,974	30,224,105	55,032,533	-
Total noncurrent assets.....	10,656,656	14,482,834	31,038,289	56,177,779	-
TOTAL ASSETS.....	13,464,026	17,321,066	45,421,167	76,206,259	1,213,439
LIABILITIES					
CURRENT:					
Warrants payable.....	95,181	60,768	2,234,806	2,390,755	58,996
Accrued payroll.....	14,044	30,325	48,978	93,347	23,589
Accrued interest.....	-	7,426	-	7,426	-
Other liabilities.....	2,075	35,820	657,214	695,109	-
Compensated absences.....	-	11,490	11,500	22,990	-
Workers' compensation.....	-	-	-	-	214,000
Bonds and notes payable.....	23,016	430,000	-	453,016	-
Total current liabilities.....	134,316	575,829	2,952,498	3,662,643	296,585
NONCURRENT:					
Compensated absences.....	-	8,823	13,358	22,181	-
Workers' compensation.....	-	-	-	-	497,000
Bonds and notes payable.....	92,064	3,440,000	-	3,532,064	-
Total noncurrent liabilities.....	92,064	3,448,823	13,358	3,554,245	497,000
TOTAL LIABILITIES.....	226,380	4,024,652	2,965,856	7,216,888	793,585
NET ASSETS					
Invested in capital assets, net of related debt.....	10,541,576	10,612,834	31,038,289	52,192,699	-
Unrestricted.....	2,696,070	2,683,580	11,417,022	16,796,672	419,854
TOTAL NET ASSETS.....	\$ 13,237,646	\$ 13,296,414	\$ 42,455,311	\$ 68,989,371	\$ 419,854

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2004

	<u>Business-type Activities - Enterprise Funds</u>				Governmental Activities - Internal Service Funds
	Sewer	Water	Electric Department	Total	
<u>OPERATING REVENUES:</u>					
Charges for services	\$ 4,929,058	\$ 3,495,874	\$ 20,399,494	\$ 28,824,426	\$ 9,793,514
Employee contributions	-	-	-	-	4,684,142
Other.....	-	-	284,205	284,205	-
TOTAL OPERATING REVENUES	<u>4,929,058</u>	<u>3,495,874</u>	<u>20,683,699</u>	<u>29,108,631</u>	<u>14,477,656</u>
<u>OPERATING EXPENSES:</u>					
Production.....	-	-	10,708,031	10,708,031	-
Transmission and distribution.....	-	675,444	2,455,789	3,131,233	-
Source of supply.....	-	327,079	-	327,079	-
Pumping and treatment.....	177,047	597,461	-	774,508	-
Collection.....	4,127,902	-	-	4,127,902	-
Customer accounts.....	99,421	195,956	277,081	572,458	-
Supplies and services.....	-	-	-	-	15,899,039
Administration and general.....	333,955	510,569	611,353	1,455,877	-
Depreciation.....	261,463	771,674	1,528,789	2,561,926	-
TOTAL OPERATING EXPENSES	<u>4,999,788</u>	<u>3,078,183</u>	<u>15,581,043</u>	<u>23,659,014</u>	<u>15,899,039</u>
OPERATING INCOME (LOSS).....	<u>(70,730)</u>	<u>417,691</u>	<u>5,102,656</u>	<u>5,449,617</u>	<u>(1,421,383)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>					
Investment income.....	5,901	4,317	58,377	68,595	72,376
Interest expense.....	-	(204,151)	(30,986)	(235,137)	-
Capital grants.....	43,625	-	270,456	314,081	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>49,526</u>	<u>(199,834)</u>	<u>297,847</u>	<u>147,539</u>	<u>72,376</u>
INCOME (LOSS) BEFORE TRANSFERS.....	<u>(21,204)</u>	<u>217,857</u>	<u>5,400,503</u>	<u>5,597,156</u>	<u>(1,349,007)</u>
<u>TRANSFERS:</u>					
Transfers out.....	-	-	(1,000,000)	(1,000,000)	-
CHANGE IN NET ASSETS.....	<u>(21,204)</u>	<u>217,857</u>	<u>4,400,503</u>	<u>4,597,156</u>	<u>(1,349,007)</u>
NET ASSETS AT BEGINNING OF YEAR, as restated.....	<u>13,258,850</u>	<u>13,078,557</u>	<u>38,054,808</u>	<u>64,392,215</u>	<u>1,768,861</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 13,237,646</u>	<u>\$ 13,296,414</u>	<u>\$ 42,455,311</u>	<u>\$ 68,989,371</u>	<u>\$ 419,854</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Electric Department	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users.....	\$ 4,882,058	\$ 3,427,593	\$ 20,659,069	\$ 28,968,720	\$ 4,681,792
Receipts from interfund services provided.....	-	-	-	-	9,793,514
Payments to vendors.....	(4,124,960)	(1,300,366)	(12,414,320)	(17,839,646)	-
Payments to employees.....	(581,283)	(1,108,213)	(1,211,338)	(2,900,834)	(1,216,534)
Payments for interfund services used.....	-	-	-	-	(14,708,679)
NET CASH FROM OPERATING ACTIVITIES.....	175,815	1,019,014	7,033,411	8,228,240	(1,449,907)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers out.....	-	-	(1,000,000)	(1,000,000)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	-	-	(1,000,000)	(1,000,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from the issuance of bonds and notes.....	115,080	-	-	115,080	-
Capital contributions.....	43,625	-	270,456	314,081	-
Acquisition and construction of capital assets.....	(351,901)	(377,387)	(4,929,162)	(5,658,450)	-
Principal payments on bonds and notes.....	-	(430,000)	-	(430,000)	-
Interest expense.....	-	(196,725)	(30,986)	(227,711)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(193,196)	(1,004,112)	(4,689,692)	(5,887,000)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Proceeds from sales and maturities of investments.....	554,004	561,658	2,413,637	3,529,299	1,465,896
Purchase of investments.....	(907,437)	(917,401)	(3,985,188)	(5,810,026)	(424,355)
Investment income.....	5,901	4,317	58,377	68,595	72,376
NET CASH FROM INVESTING ACTIVITIES.....	(347,532)	(351,426)	(1,513,174)	(2,212,132)	1,113,917
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	(364,913)	(336,524)	(169,455)	(870,892)	(335,990)
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR.....	1,868,755	1,810,790	7,984,354	11,663,899	399,343
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR.....	\$ 1,503,842	\$ 1,474,266	\$ 7,814,899	\$ 10,793,007	\$ 63,353
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ (70,730)	\$ 417,691	\$ 5,102,656	\$ 5,449,617	\$ (1,421,383)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	261,463	771,674	1,528,789	2,561,926	-
Changes in assets and liabilities:					
Accounts Receivable.....	(47,000)	(68,281)	(91,860)	(207,141)	(2,350)
Inventory.....	-	(9,063)	(91,454)	(100,517)	-
Other assets.....	-	-	210,757	210,757	-
Warrants payable.....	17,688	(131,858)	260,397	146,227	2,237
Accrued payroll.....	14,044	30,325	48,978	93,347	23,589
Other liabilities.....	350	2,400	67,230	69,980	-
Compensated absences.....	-	6,126	(2,082)	4,044	-
Workers' compensation.....	-	-	-	-	(52,000)
Total adjustments.....	246,545	601,323	1,930,755	2,778,623	(28,524)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 175,815	\$ 1,019,014	\$ 7,033,411	\$ 8,228,240	\$ (1,449,907)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	Pension Trust Fund (as of December 31, 2003)	Private Purpose Trust Funds	Agency Fund
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 196,025	\$ 22,406	\$ 321,579
Investments.....	116,405,844	328,172	-
Interest and dividends receivable.....	247,908	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other receivables.....	619,450	-	-
TOTAL ASSETS.....	117,469,227	350,578	321,579
LIABILITIES			
Warrants payable.....	676,863	-	-
Liabilities due depositors.....	-	-	321,579
TOTAL LIABILITIES.....	676,863	-	321,579
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ <u>116,792,364</u>	\$ <u>350,578</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Pension Trust Fund (as of December 31, 2003)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employee.....	\$ 2,087,338	\$ -
Private donations.....	-	50,205
Total contributions.....	2,087,338	50,205
Net investment income:		
Net change in fair value of investments.....	20,201,534	-
Interest.....	1,952,352	37,246
Dividends.....	962,941	-
Total investment income.....	23,116,827	37,246
Less: investment expense.....	(201,592)	(8,467)
Net investment income.....	22,915,235	28,779
Intergovernmental.....	33,946	-
Transfers from other systems.....	229,674	-
TOTAL ADDITIONS.....	25,266,193	78,984
DEDUCTIONS:		
Administration.....	523,347	-
Transfers to other systems.....	389,390	-
Retirement benefits and refunds.....	7,182,462	-
Educational scholarships.....	-	25,979
TOTAL DEDUCTIONS.....	8,095,199	25,979
CHANGE IN NET ASSETS.....	17,170,994	53,005
NET ASSETS AT BEGINNING OF YEAR.....	99,621,370	297,573
NET ASSETS AT END OF YEAR.....	\$ 116,792,364	\$ 350,578

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Wellesley, 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 accounting policies are described herein.

A. Reporting Entity

The Town was incorporated in 1881 under the statutes of the Commonwealth of Massachusetts (the “Commonwealth”). The Town is a municipal corporation governed by an elected Board of Selectmen.

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 basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Blended Component Units – Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The following component unit is blended within the primary government:

In the Fiduciary Funds:

- (1) The Wellesley Contributory Retirement System (the System) was established to provide retirement benefits to Town employees, the Wellesley Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Executive Director of General Government Services (ex-officio), two members elected by the System’s participants, one member appointed by the Board of Selectmen and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Availability of Financial Information for Component Units

The System issues a publicly available audited financial report in accordance with guidelines established by the Commonwealth of Massachusetts’ (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 525 Washington Street, Wellesley, MA 02482.

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

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

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *capital projects fund* is used to account for financial resources used for the acquisition of major capital assets except those financed entirely by the general or the proprietary funds.

The nonmajor governmental funds consist of other special revenue 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 provide separate accountability for revenues that are restricted to expenditures for specified purposes (other than major capital projects). The special revenue funds are reported in the nonmajor funds column of the governmental fund financial statements.

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs. The permanent funds are also reported in the nonmajor funds column of the governmental funds financial statements.

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

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

The following major proprietary funds are reported:

The *electric fund* is used to account for operations of the municipal light department that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The *water fund* is used to account for water distribution operations of the department of public works that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The *sewer fund* is used to account for sewage treatment operations of the department of public works that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of goods or services provided by one department to other departments of the town on a cost-reimbursement basis. The Town's internal service fund is used to account for the financing of medical claims of all covered town employees and their covered dependents, the financing of the self-insured workers' compensation plan, information technology services, fleet maintenance and fuel.

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

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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

The *agency fund* is used to account for payroll withholding and other assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

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

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

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

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

Motor Vehicle Excise

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

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

User Charges

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Liens are processed in December of every year and included as a lien on the property owner's tax bill.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables are recorded nets of an allowance for uncollectible accounts. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

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

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

F. Inventories***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.

Materials and supplies held by the Enterprise Funds are generally recorded at the lower of cost or market, using the weighted average method.

G. Restricted Assets

Certain assets of the permanent fund are classified as restricted since their use is prohibited by trust agreements.

H. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

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

For the Town of Wellesley capital assets are defined as buildings and infrastructure with a cost greater than \$100,000, improvements other than buildings with a cost greater than \$50,000, and equipment with a cost greater than \$25,000 and an estimated useful life of greater than five years. The Town has elected not to consider books and other materials purchased for the library as capital assets.

As allowed by GASB Statement #34, the Town has elected to delay the retroactive reporting of all major general governmental infrastructure assets that were acquired prior to the implementation of GASB Statement #34. Consequently, infrastructure assets that were acquired, or significantly reconstructed or improved prior to fiscal year 2003 are not included in these financial statements. The Town expects to be in full compliance by June 30, 2007.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Public domain infrastructure.....	50
Buildings.....	10-40
Improvements other than buildings.....	20-30
Equipment.....	5-21

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.

I. Interfund Receivables and Payables

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

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service 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.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service 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.

K. Deferred Revenue

Deferred revenue at the governmental 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 (full accrual) financial statements.

L. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

The Town reports Net assets as reserved where legally segregated for a specific future use.

Net assets have been "restricted for" the following:

"Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

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

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

"Other 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.

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

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

N. 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.

O. Investment Income

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

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

P. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2004, this expense/expenditure totaled approximately \$2,556,000. There were 719 participants eligible to receive benefits at June 30, 2004.

Q. Individual Fund Deficits

The Capital Projects Fund is in a deficit position at year end that is expected to be funded through the issuance of long-term debt.

R. 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.

S. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

T. Restatement

The beginning net assets of the governmental activities have been increased by approximately \$1,304,000, \$1,067,000, and \$699,000 to properly record capital assets, restate revenues previously deferred, and to record market value adjustments on certain investments, respectively.

The following funds restated the beginning balances. The capital projects major fund increased the beginning fund balance by \$1,304,000. The internal service fund increased beginning net assets by the \$699,000. The nonmajor governmental funds beginning fund balance was reduced by \$298,000 and the private purpose trust funds were increased by the same amount.

NOTE 2 – CASH AND INVESTMENTS

The Town maintains a cash and investment pool that is available for use by all funds, except the Fiduciary Fund types. 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 Fiduciary Funds are held separately from other Town funds.

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.

The Town's Contributory Retirement System (the "System") has additional investment powers, most notably the ability to invest in common stocks, corporate bonds, and other specified investments.

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 \$8,771,284 and the bank balance totaled \$10,411,735. Of the bank balance, \$747,914 was covered by Federal Depository Insurance and \$9,663,821 was uninsured and uncollateralized.

At December 31, 2003, the carrying amount of deposits for the System totaled \$196,025 and the bank balance totaled \$476,056 which was covered by Federal Depository Insurance.

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

	Cash and Short-term Investments	Investments	Total
<i>Cash balances (excluding the System) at June 30, 2004:</i>			
Checking, savings and NOW accounts.....	\$ 1,667,659	\$ -	\$ 1,667,659
Money market deposits.....	7,103,625	-	7,103,625
	<u>8,771,284</u>	<u>-</u>	<u>8,771,284</u>
<u>Investments not subject to categorization:</u>			
MMDT.....	5,066,767	-	5,066,767
<u>Investments subject to categorization (Category 3):</u>			
U.S. government securities.....	-	4,783,636	4,783,636
Fixed income securities.....	-	22,396,646	22,396,646
	<u>5,066,767</u>	<u>27,180,282</u>	<u>32,247,049</u>
Total cash and short-term investments and investments of the Town at June 30, 2004.....	<u>13,838,051</u>	<u>27,180,282</u>	<u>41,018,333</u>
<i>System cash balances at December 31, 2003:</i>			
Checking, savings and NOW accounts.....	8,828	-	8,828
Money market deposits.....	187,197	-	187,197
	<u>196,025</u>	<u>-</u>	<u>196,025</u>
<u>Investments subject to categorization (Category 3):</u>			
U.S. government securities.....	-	7,470,867	7,470,867
Equity securities.....	-	70,241,676	70,241,676
Fixed income securities.....	-	19,208,616	19,208,616
International securities.....	-	19,484,685	19,484,685
	<u>-</u>	<u>116,405,844</u>	<u>116,405,844</u>
Total cash and short-term investments and investments of the System at December 31, 2003.....	<u>196,025</u>	<u>116,405,844</u>	<u>116,601,869</u>
<i>Total cash and short-term investments and investments of the Town at June 30, 2004.....</i>	<u>\$ 14,034,076</u>	<u>\$ 143,586,126</u>	<u>\$ 157,620,202</u>

NOTE 3 – RECEIVABLES

At June 30, 2004, receivables for the individual major, non-major governmental funds and internal service 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, personal property and tax deferrals	\$ 2,171,011	\$ (263,303)	\$ 1,907,708
Tax liens.....	308,112	-	308,112
Motor vehicle and other excise taxes.....	454,629	-	454,629
Departmental and other.....	408,367	(287,546)	120,821
Intergovernmental.....	21,713,736	-	21,713,736
Total.....	<u>\$ 25,055,855</u>	<u>\$ (550,849)</u>	<u>\$ 24,505,006</u>

At June 30, 2004, receivables for the electric, water, and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer fees.....	400,691	(4,600)	396,091
Water fees.....	370,038	(6,100)	363,938
Electric light fees.....	1,858,947	(17,164)	1,841,783
Total.....	<u>\$ 2,629,676</u>	<u>\$ (27,864)</u>	<u>\$ 2,601,812</u>

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

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 1,640,128	\$ -	\$ 1,640,128
Departmental.....	28,210	84,613	112,823
Motor vehicle and other excise.....	454,629	-	454,629
Tax liens & foreclosure.....	335,133	-	335,133
Intergovernmental.....	19,873,385	1,553,228	21,426,613
Total.....	<u>\$ 22,331,485</u>	<u>\$ 1,637,841</u>	<u>\$ 23,969,326</u>

NOTE 4 – CAPITAL ASSETS

A summary of changes in capital asset activity for the fiscal year ended June 30, 2004, is as follows:

Governmental Activities

	Balance (As restated)	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,658,656	\$ -	\$ -	\$ 3,658,656
Construction in progress.....	15,336,230	2,875,267	(6,139,473)	12,072,024
	<u>18,994,886</u>	<u>2,875,267</u>	<u>(6,139,473)</u>	<u>15,730,680</u>
 <u>Capital assets being depreciated:</u>				
Improvements other than Buildings.....	930,252	181,049	-	1,111,301
Buildings.....	75,755,215	8,863,610	-	84,618,825
Machinery and equipment.....	6,570,955	971,544	-	7,542,499
Public Domain Infrastructure.....	897,077	2,411,719	-	3,308,796
	<u>84,153,499</u>	<u>12,427,922</u>	<u>-</u>	<u>96,581,421</u>
 <u>Less accumulated depreciation for:</u>				
Improvements other than Buildings.....	(192,295)	(32,085)	-	(224,380)
Buildings.....	(25,455,105)	(2,238,376)	-	(27,693,481)
Machinery and equipment.....	(3,152,587)	(508,875)	-	(3,661,462)
Public Domain Infrastructure.....	(8,971)	(10,068)	-	(19,039)
	<u>(28,808,958)</u>	<u>(2,789,404)</u>	<u>-</u>	<u>(31,598,362)</u>
Total capital assets being depreciated, net.....	<u>55,344,541</u>	<u>9,638,518</u>	<u>-</u>	<u>64,983,059</u>
Total governmental activities capital assets, net.....	<u>\$ 74,339,427</u>	<u>\$ 12,513,785</u>	<u>\$ (6,139,473)</u>	<u>\$ 80,713,739</u>

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land and land rights.....	\$ 267,946	\$ -	\$ -	\$ 267,946
Construction in progress.....	1,053,326	755,447	(931,473)	877,300
Total capital assets not being depreciated.....	<u>1,321,272</u>	<u>755,447</u>	<u>(931,473)</u>	<u>1,145,246</u>
<u>Capital assets being depreciated:</u>				
Plant in service.....	81,077,818	\$ 5,397,896	(46,898)	86,428,816
Vehicles and other equipment.....	4,294,854	454,056	(152,209)	4,596,701
Total capital assets being depreciated.....	<u>85,372,672</u>	<u>5,851,952</u>	<u>(199,107)</u>	<u>91,025,517</u>
<u>Less accumulated depreciation for:</u>				
Plant in service.....	(31,308,313)	(2,232,576)	29,421	(33,511,468)
Vehicles and other equipment.....	(2,304,376)	(329,350)	152,210	(2,481,516)
Total accumulated depreciation.....	<u>(33,612,689)</u>	<u>(2,561,926)</u>	<u>181,631</u>	<u>(35,992,984)</u>
Total capital assets being depreciated, net.....	<u>51,759,983</u>	<u>3,290,026</u>	<u>(17,476)</u>	<u>55,032,533</u>
Total business-type activities capital assets, net.....	<u>\$ 53,081,255</u>	<u>\$ 4,045,473</u>	<u>\$ (948,949)</u>	<u>\$ 56,177,779</u>

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

Governmental Activities:

General government.....	\$ 358,123
Public safety.....	181,423
Education.....	1,163,173
Public works.....	437,302
Library.....	378,337
Recreation.....	<u>271,046</u>
Total depreciation expense - governmental activities.....	<u>\$ 2,789,404</u>

Business-Type Activities:

Water.....	\$ 771,674
Sewer.....	261,463
Electric light.....	<u>1,528,789</u>
Total depreciation expense - business-type activities.....	<u>\$ 2,561,926</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The Town did not have any receivables and payables between funds at June 30, 2004. Interfund transfers for the fiscal year ended June 30, 2004, are summarized as follows:

Transfers Out:	Transfers In:			
	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 970,000	\$ 208,000	\$ 1,178,000 (1)
Nonmajor Governmental Funds.....	-	-	-	- (2)
Electric Light Department.....	1,000,000	-	-	1,000,000 (3)
Total.....	\$ 1,000,000	\$ 970,000	\$ 208,000	\$ 2,178,000

(1) Represents budgeted transfers from the general fund to the capital projects fund for debt service and to the stabilization nonmajor fund.

(2) Transfers in from nonmajor funds for additional expenditures.

(3) Transfer in from the electric fund as a payment in lieu of taxes.

NOTE 6 – 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 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 and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund.

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

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2003	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2004
BAN	School/Planning Renovation	2.49	06/02/05	\$ 6,920,000	\$ 2,935,000	\$ 460,000	\$ 9,395,000
BAN	DPW Improvement Projects.....	1.15	06/03/04	1,390,000	-	1,390,000	-
BAN	Fire Planning/Renovation.....	2.49	06/02/05	110,000	540,000	110,000	540,000
BAN	Police Department.....	1.15	06/03/04	70,000	-	70,000	-
BAN	Library Notes.....	1.15	06/03/04	11,310,000	-	11,310,000	-
BAN	Warren Building.....	2.49	06/02/05	7,525,000	-	7,075,000	450,000
BAN	Pond Restoration.....	1.15	06/03/04	175,000	-	175,000	-
Total.....				\$ 27,500,000	\$ 3,475,000	\$ 20,590,000	\$ 10,385,000

NOTE 7 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law 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". In addition, 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:

Project	Interest Rate (%)	Outstanding at June 30, 2003	Issued	Redeemed	Outstanding at June 30, 2004
Elementary School Improvement Construction.....	5.00%	\$ 545,000	\$ -	\$ 545,000	\$ -
Street Reconstruction/Improvement.....	5.00%	65,000	-	65,000	-
Police Station Renovation.....	5.05%	1,000,000	-	500,000	500,000
Storm Drain Improvements.....	3.75%	87,000	-	29,000	58,000
Street Improvements.....	4.00%	720,000	-	180,000	540,000
Street Amenities/Sidewalk Program.....	4.00%	650,000	-	130,000	520,000
Land Acquisition-63 Hastings Street.....	4.00%	250,000	-	85,000	165,000
Bates School Renovation/Expansion.....	2.50%	5,510,000	-	555,000	4,955,000
Pond Restoration.....	2.50%	-	115,000	-	115,000
Barton Road Improvements.....	2.50%	-	180,000	-	180,000
Streets & Traffic.....	2.50%	-	60,000	-	60,000
Street Improvements.....	2.50%	-	170,000	-	170,000
Fields & Bleachers.....	2.50%	-	100,000	-	100,000
New Library.....	2.50%	-	7,250,000	-	7,250,000
Warren Building Design.....	2.50%	-	180,000	-	180,000
Glen Road Sidewalk.....	2.50%	-	35,000	-	35,000
Hunnewell Field/Courts.....	2.50%	-	285,000	-	285,000
Streets.....	2.50%	-	120,000	-	120,000
Middle School Plans.....	2.50%	-	365,000	-	365,000
Warren Renovation.....	2.50%	-	6,800,000	-	6,800,000
Sprague School Renovation/Expansion.....	4.00%	14,445,000	-	675,000	13,770,000
Solid Waste Improvements.....	3.75%	1,038,000	-	346,000	692,000
Total.....		<u>\$ 24,310,000</u>	<u>\$ 15,660,000</u>	<u>\$ 3,110,000</u>	<u>\$ 36,860,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 3,750,000	\$ 1,420,038	\$ 5,170,038
2006	3,240,000	1,290,012	4,530,012
2007	3,690,000	1,179,226	4,869,226
2008	3,475,000	1,055,125	4,530,125
2009	3,345,000	936,276	4,281,276
2010	3,340,000	811,587	4,151,587
2011	3,320,000	677,783	3,997,783
2012	2,660,000	548,620	3,208,620
2013	2,660,000	445,180	3,105,180
2014	2,110,000	339,730	2,449,730
2015	2,060,000	249,870	2,309,870
2016	2,060,000	158,225	2,218,225
2017	<u>1,150,000</u>	<u>57,500</u>	<u>1,207,500</u>
Total	\$ <u>36,860,000</u>	\$ <u>9,169,169</u>	\$ <u>46,029,169</u>

Bonds and Notes Payable Schedule – Enterprise Funds

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2003</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2004</u>
Water System Improvements.....	5.25%	\$ 4,300,000	\$ -	\$ 430,000	\$ 3,870,000
MWRA Sewer Bond.....	0%	<u>-</u>	<u>115,080</u>	<u>-</u>	<u>115,080</u>
Total.....		\$ <u>4,300,000</u>	\$ <u>115,080</u>	\$ <u>430,000</u>	\$ <u>3,985,080</u>

Debt service requirements for principal and interest for enterprise fund 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	\$ 453,016	\$ 178,235	\$ 631,251
2006	453,016	159,315	612,331
2007	453,016	140,395	593,411
2008	453,016	121,260	574,276
2009	453,016	101,910	554,926
2010	430,000	82,130	512,130
2011	430,000	61,920	491,920
2012	430,000	41,495	471,495
2013	<u>430,000</u>	<u>20,855</u>	<u>450,855</u>
Total	\$ <u>3,985,080</u>	\$ <u>907,515</u>	\$ <u>4,892,595</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a grant and non-interest bearing loan. During fiscal year 2004, \$153,440 was received from this program. Of this amount, \$38,360 was a grant and \$115,080 was a loan. The loan portion is payable in five equal annual installments. At June 30, 2004, the outstanding principal amount of these loans totaled \$115,080.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the School Building Assistance Authority, provides resources for approved construction costs and debt service interest. During fiscal year 2004, approximately \$895,000 of such assistance was received. Approximately \$19,873,000 will be received in future fiscal years. Of this amount, approximately \$2,159,000 represents reimbursement of long-term interest costs, and approximately \$17,714,000 represents reimbursement of approved construction costs. Accordingly, a \$19,873,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

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

Purpose	Amount
Town Hall Renovations.....	\$ 90,000
Water Meters.....	400,000
Weston Road Improvements.....	500,000
Total.....	<u>\$ 990,000</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	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases	Other Decreases	Balance June 30, 2004	Current Amount Due
Governmental Activities:							
Long-Term Bonds and Notes.....	\$ 24,310,000	\$ 15,660,000	\$ (3,110,000)	\$ -	\$ -	\$ 36,860,000	\$ 3,750,000
Workers' Compensation.....	763,000	-	-	176,000	(228,000)	711,000	214,000
Compensated Absences.....	724,539	-	-	162,116	(146,208)	740,447	142,003
Total Governmental Activities.....	<u>25,797,539</u>	<u>15,660,000</u>	<u>(3,110,000)</u>	<u>338,116</u>	<u>(374,208)</u>	<u>38,311,447</u>	<u>4,106,003</u>
Business Type Activities:							
Long-Term Bonds and Notes.....	4,300,000	115,080	(430,000)	-	-	3,985,080	453,016
Compensated Absences.....	41,127	-	-	22,457	(18,413)	45,171	22,990
Total Business Type Activities....	<u>4,341,127</u>	<u>115,080</u>	<u>(430,000)</u>	<u>22,457</u>	<u>(18,413)</u>	<u>4,030,251</u>	<u>476,006</u>
Total.....	<u>\$ 30,138,666</u>	<u>\$ 15,775,080</u>	<u>\$ (3,540,000)</u>	<u>\$ 360,573</u>	<u>\$ (392,621)</u>	<u>\$ 42,341,698</u>	<u>\$ 4,582,009</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above. At fiscal year end, \$711,000 of internal service funds accrued workers compensation liability is included above. Except for the amounts related to the internal service funds, the governmental activities long-term liabilities are generally liquidated by the general fund. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures.

NOTE 8 – 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; injuries to employees; and natural disasters. The Town has purchased commercial insurance for these risks, except for those risks identified in the following paragraphs, which the Town accounts for in its Internal Service Fund. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

During 1991, the Town entered into an agreement with certain suburban communities and other governmental units forming the West Suburban Health Group (the "Group). The purpose of the Group is for the joint negotiation and purchase of health coverage with an insurance carrier. Under these agreements, the insurance claims of the covered employees are paid for by the insurance carrier and are subsequently reimbursed by the Group. The Group charges monthly premiums to each governmental unit based upon requirements established through underwriting or actuarial estimates. The Group also maintains a deposit with the insurance carrier which is sufficient to cover two months of claims paid by the carrier for the Group. In addition, the Group provides full reinsurance coverage for all claim costs in excess of \$75,000 per covered employee.

In the event of a dissolution of the Group or if the assets of the Group are insufficient to pay claims which occur, the Town remains liable. As of June 30, 2004, the Group had an unaudited fund balance of approximately \$7,558,000. The Town's liability is not based on its participants' claims but on the pro rata share of any deficit based on the ratio of the Town's members to total participants at the time of dissolution. At June 30, 2004, the Town's mandatory deposit, discussed above, is sufficient to cover the Town's projected liability as of that date.

The Town is self-insured for workers' compensation claims. An actuary, Tillinghast-Towers Perrin, was hired to estimate the losses which the Town would have to pay under the self-insured plan. The Town recorded a liability in its Internal Service Fund to reserve against future losses. This liability includes a provision for estimated claims incurred but not reported. In addition to these reserves, the Town retains insurance against claims in excess of \$250,000 per employee.

Changes in the Workers' Compensation Fund claims liability amount for the fiscal years ended June 30 were as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2003.....	\$ 806,000	\$ 441,629	\$ (484,629)	\$ 763,000	\$ 228,000
Fiscal Year 2004.....	763,000	296,795	(348,795)	711,000	214,000

NOTE 9 – CONTRIBUTORY RETIREMENT SYSTEM

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Wellesley Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$6,174,000 for the fiscal year ended June 30, 2004, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Wellesley Contributory Retirement Board and are borne by the System.

At December 31, 2003, the System’s membership consists of the following:

Active members.....	596
Inactive members.....	165
Disabled members.....	26
Retirees and beneficiaries currently receiving benefits.....	<u>387</u>
Total.....	<u><u>1,174</u></u>

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. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 99%, 99% and 98%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town’s contributions to the System for the fiscal years ended June 30, 2004, 2003, and 2002 were \$0, \$741,412 and \$77,190, respectively, which equaled its required contribution for each fiscal year. At June 30, 2004, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.0% investment rate of return and projected salary increases of 4.0% per year. The actuarial value of the System’s assets was determined using techniques that smooth the short-term volatility in the market value of investments over a three year period.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/04	\$ 116,792,365	\$ 112,846,159	\$ (3,946,206)	\$ 103.5%	\$ 23,172,848	\$ -17.0%
01/01/03	119,033,662	114,811,026	(4,222,636)	103.7%	22,572,703	-18.7%
01/01/01	123,291,025	92,278,891	(31,012,134)	133.6%	21,561,329	-143.8%
01/01/99	106,295,893	81,975,372	(24,320,521)	129.7%	17,694,603	-137.4%
01/01/97	78,665,972	69,141,005	(9,524,967)	113.8%	17,800,326	-53.5%
01/01/95	62,744,371	62,680,623	(63,748)	100.1%	16,138,898	-0.4%

The UAAL amounts in brackets in the column above represents an overfunding of the actuarial accrued liability.

Noncontributory Retirement Allowance – The Town pays the entire retirement allowance for certain retirees who are available for benefits but are not members of the System. Benefits are paid by the Town on a pay-as-you-go basis. Total pension expense of this plan for the year ended June 30, 2004 was \$78,470.

NOTE 10 – COMMITMENTS

The Town's major capital projects have been related to school renovations and expansions, the construction of the new library, and the renovation of the Warren building. At June 30, 2004, these projects have been virtually completed and the Town has not committed to any other significant projects.

In July of 2001, the Wellesley Municipal Light Plant (MLP) entered into a Power Supply Agreement with Constellation Power Source, Inc., of Baltimore, Maryland to acquire all of its electricity requirements. The agreement is defined as an "All Requirements Service" contract where all of its requirements mean "the quantity of electricity sufficient to meet the needs of MLP's ultimate customers for the Town of Wellesley". The term of the Agreement is from June 1, 2002 through September 30, 2007. Contract prices are fixed for the entire period of the agreement. The cost of power acquired under this agreement for the fiscal year ended June 30, 2004 was approximately \$10,367,000.

NOTE 11 - CONTINGENCIES

In February 2001, the EPA notified the Town that it, along with two other parties, had been named as a Potentially Responsible Party (PRP) with regard to an environmental matter involving property owned by the Town adjacent to and beneath Morses Pond. According to the EPA and the Massachusetts Department of Environmental Protection, contaminated fill material containing chromium and other metal was used as fill around a culvert beneath a railroad embankment adjacent to Morses Pond, and that contaminants from this fill came to be located on Town property beneath and adjacent to Morses Pond. Removal actions to correct this problem were completed in or about June 2003. The EPA has estimated the total cost of this project to date at \$3,800,000. In this matter, the EPA has noted its intention to pursue recovery of these costs from the PRP's. To date, no litigation has been commenced and no settlement negotiations have taken place with regard to this matter. The Town believes that it may have meritorious defenses to the EPA's claims but could face some potential liability in connection with this matter.

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 it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. 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 at June 30, 2004.

NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2004, the following GASB pronouncements were implemented:

The GASB issued Statement #39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement #14*. Management has determined that no additional component units were required to be presented in the basic financial statements.

Other Future GASB Pronouncements:

The GASB issued Statement #40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3*, which is required to be implemented during fiscal year 2005. This pronouncement will only require changes to the note disclosure.

The GASB issued Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented in Fiscal 2006. Management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2008. Since the Town has established a separate trust for the funding of postemployment benefits management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented in Fiscal 2006. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section. The presentation of a statistical section is not required by this pronouncement. This pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2008. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 63,402,245	\$ 63,402,245	\$ 63,413,475	\$ -	\$ 11,230
Tax liens.....	-	-	882,324	-	882,324
Motor vehicle and other excise taxes.....	3,875,000	3,875,000	3,846,238	-	(28,762)
Penalties and interest on taxes.....	150,000	150,000	179,860	-	29,860
Payments in lieu of taxes.....	196,000	196,000	358,798	-	162,798
Intergovernmental.....	5,575,587	5,575,587	5,555,551	-	(20,036)
Departmental and other.....	3,360,535	3,360,535	4,075,589	-	715,054
Investment income.....	700,000	700,000	199,330	-	(500,670)
TOTAL REVENUES.....	77,259,367	77,259,367	78,511,165	-	1,251,798
EXPENDITURES:					
Current:					
Human Resources Board.....	88,000	25,410	-	-	25,410
General and Financial Maintenance Services:					
Personal Services.....	1,283,410	1,299,340	1,294,912	-	4,428
Expenses.....	771,725	790,975	616,252	164,297	10,426
	<u>2,055,135</u>	<u>2,090,315</u>	<u>1,911,164</u>	<u>164,297</u>	<u>14,854</u>
Human Services:					
Personal Services.....	185,753	186,653	162,996	-	23,657
Expenses.....	115,889	115,889	101,055	147	14,687
Benefits.....	4,500	4,500	2,375	-	2,125
	<u>306,142</u>	<u>307,042</u>	<u>266,426</u>	<u>147</u>	<u>40,469</u>
Public safety and Protective Services.....					
Personal Services.....	7,599,049	7,622,719	7,469,633	-	153,086
Expenses.....	1,298,108	1,376,379	1,175,281	90,555	110,543
	<u>8,897,157</u>	<u>8,999,098</u>	<u>8,644,914</u>	<u>90,555</u>	<u>263,629</u>
Historical Commission.....	250	250	90	-	160
Historical District Commission.....	250	250	157	-	93
Zoning Board of Appeals:					
Personal Services.....	41,606	42,446	42,438	-	8
Expenses.....	8,715	8,715	4,915	-	3,800
	<u>50,321</u>	<u>51,161</u>	<u>47,353</u>	<u>-</u>	<u>3,808</u>
Advisory Committee:					
Personal Services.....	6,400	6,400	1,892	-	4,508
Expenses.....	19,000	20,225	19,840	-	385
	<u>25,400</u>	<u>26,625</u>	<u>21,732</u>	<u>-</u>	<u>4,893</u>
Auditing.....	115,950	115,950	51,120	64,830	-
Permanent Building Committee:					
Personal Services.....	4,023	4,113	4,130	-	(17)
Expenses.....	7,200	7,294	1,146	-	6,148
	<u>11,223</u>	<u>11,407</u>	<u>5,276</u>	<u>-</u>	<u>6,131</u>
Human Resources Board:					
Personal Services.....	204,678	206,933	173,456	-	33,477
Expenses.....	26,635	26,635	18,269	-	8,366
	<u>231,313</u>	<u>233,568</u>	<u>191,725</u>	<u>-</u>	<u>41,843</u>
Assessors:					
Personal Services.....	145,942	148,217	148,298	-	(81)
Expenses.....	189,835	189,835	162,896	19,973	6,966
	<u>335,777</u>	<u>338,052</u>	<u>311,194</u>	<u>19,973</u>	<u>6,885</u>
Board of Health:					
Personal Services.....	264,519	268,499	258,640	-	9,859
Expenses.....	71,812	71,812	63,068	3,279	5,465
Mental Health Services.....	185,808	185,808	178,310	7,498	-
	<u>522,139</u>	<u>526,119</u>	<u>500,018</u>	<u>10,777</u>	<u>15,324</u>
Natural Resources Commission:					
Personal Services.....	140,569	142,539	141,023	-	1,516
Expenses.....	426,030	437,181	286,721	149,767	693
	<u>566,599</u>	<u>579,720</u>	<u>427,744</u>	<u>149,767</u>	<u>2,209</u>

(Continued)

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
Planning Board:					
Personal Services.....	125,443	131,708	131,538	-	170
Expenses.....	63,770	63,770	22,702	34,602	6,466
	<u>189,213</u>	<u>195,478</u>	<u>154,240</u>	<u>34,602</u>	<u>6,636</u>
Recreation Commission:					
Personal Services.....	604,705	609,185	534,323	-	74,862
Expenses.....	405,708	408,708	273,955	10,829	123,924
Teen Center Program.....	7,500	7,500	-	-	7,500
	<u>1,017,913</u>	<u>1,025,393</u>	<u>808,278</u>	<u>10,829</u>	<u>206,286</u>
Town Clerk/Election and Registration:					
Personal Services.....	245,976	252,399	239,275	-	13,124
Expenses.....	52,233	52,233	38,010	13,140	1,083
	<u>298,209</u>	<u>304,632</u>	<u>277,285</u>	<u>13,140</u>	<u>14,207</u>
Legal Services and Expenses.....	406,056	406,056	143,206	126,333	136,517
Reserve Fund.....	175,000	100,745	-	-	100,745
Risk Management.....	323,600	323,600	306,354	10,000	7,246
Employee Group Life and Health Insurance.....	8,154,500	8,154,500	8,154,500	-	-
Unemployment Compensation.....	75,000	75,000	75,000	-	-
Pensions and Annuities.....	63,750	63,750	78,470	-	(14,720)
Workers Compensation.....	37,125	37,125	37,125	-	-
Comprehensive Building Maintenance.....	164,200	164,200	87,648	75,892	660
Compensated Absences.....	128,696	143,696	27,558	101,138	15,000
Wellesley Free Library and branches thereof:					
Personal Services.....	1,624,525	1,628,340	1,627,890	-	450
Expenses.....	582,013	617,013	595,875	21,088	50
	<u>2,206,538</u>	<u>2,245,353</u>	<u>2,223,765</u>	<u>21,088</u>	<u>500</u>
Public works.....					
Personal Services.....	3,095,535	3,174,500	3,365,036	59,828	(250,364)
Expenses.....	3,967,203	4,912,364	3,053,108	1,063,304	795,952
	<u>7,062,738</u>	<u>8,086,864</u>	<u>6,418,144</u>	<u>1,123,132</u>	<u>545,588</u>
Fire and Traffic Signal Systems.....	116,770	116,770	51,293	65,477	-
Education.....	42,725,522	42,855,542	40,297,905	2,383,345	174,292
State and county charges.....	-	1,009,580	1,041,780	-	(32,200)
Debt service:					
Principal.....	3,895,000	4,080,000	4,080,000	-	-
Interest.....	1,783,490	1,298,314	1,279,274	-	19,040
	<u>5,678,490</u>	<u>5,378,314</u>	<u>5,359,274</u>	<u>-</u>	<u>19,040</u>
TOTAL EXPENDITURES.....	<u>82,028,976</u>	<u>83,991,565</u>	<u>77,920,738</u>	<u>4,465,322</u>	<u>1,605,505</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	<u>(4,769,609)</u>	<u>(6,732,198)</u>	<u>590,427</u>	<u>(4,465,322)</u>	<u>2,857,303</u>
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds.....	-	-	513,602	-	513,602
Transfers in.....	1,063,000	1,463,000	1,463,000	-	-
Transfers out.....	-	(208,000)	(208,000)	-	-
	<u>1,063,000</u>	<u>1,255,000</u>	<u>1,768,602</u>	<u>-</u>	<u>513,602</u>
NET CHANGE IN FUND BALANCE.....	<u>(3,706,609)</u>	<u>(5,477,198)</u>	<u>2,359,029</u>	<u>(4,465,322)</u>	<u>3,370,905</u>
BUDGETARY FUND BALANCE, Beginning of year.....	<u>4,007,795</u>	<u>4,007,795</u>	<u>4,007,795</u>	<u>-</u>	<u>-</u>
BUDGETARY FUND BALANCE, End of year.....	<u>\$ 301,186</u>	<u>\$ (1,469,403)</u>	<u>\$ 6,366,824</u>	<u>\$ (4,465,322)</u>	<u>\$ 3,370,905</u>

(Concluded)

See notes to required supplementary information.

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYA. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved at the Annual Town Meeting. The Town has an advisory committee submits reports on proposed appropriations at Town Meetings.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations among departments require the approval of 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 legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2004 budget consists of approximately \$77,397,000 in appropriations and other amounts to be raised and approximately \$4,632,000 in amounts carried over from previous fiscal years. During fiscal year 2004, the original budget was increased for state and county assessments of \$1,009,580 and additional appropriations totaling approximately \$1,161,000.

The Accounting Office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal 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 below:

Net change in fund balance, budgetary basis.....	\$	2,359,029
<u>Basis of accounting differences:</u>		
Net change in revenue accrual.....		(783,371)
Net change in expenditure accrual.....		(42,653)
Tax refunds payable.....		(408,871)
Recognition of revenue for on-behalf payments.....		6,174,123
Recognition of expenditures for on-behalf payments.....		<u>(6,174,123)</u>
Net change in fund balance, gaap basis.....	\$	<u>1,124,134</u>

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Combining Statements

Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

School Lunch Fund – This fund accounts for the cafeteria activities and is funded by user fees and grants.

Highway Fund - This fund accounts for the State Chapter 90 grants for road construction.

Community Preservation Fund – This fund is used to account for funds received in accordance with the Community Preservation Act (the CPA). Funds are received under the CPA through a surcharge of up to 3% of the real property tax levy and matching state grants. The funds are spent for the acquisition, creation and preservation of open space, historic resources and affordable housing.

Grant Fund – This fund accounts for federal and state grants which are designated for specific programs.

Receipts Reserved Fund – This fund accounts for specific receipts identified by the Commonwealth that are to be held until appropriated.

Revolving Fund – This fund accounts for self-supporting programs sponsored by the Town.

Governmental Trust – This fund accounts for statutory trusts where the funds are spent on governmental purposes.

Other – This fund accounts for all other legally established special revenues where the funds are spent on governmental purposes.

PERMANENT FUND

Governmental Nonexpendable Trust Fund – The Town maintains one fund to account for nonexpendable contributions and expendable earnings that can be spent on governmental purposes,

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2004

Special Revenue Funds					
ASSETS	School Lunch	Highway	Community Preservation	Grants	Receipts Reserved
Cash and short-term investments.....	\$ 469,719	\$ 167,766	\$ 146,785	\$ 358,359	\$ 107,718
Investments.....	-	-	1,440,150	-	603,003
Receivables, net of uncollectibles:					
Departmental and other.....	-	-	445	-	-
Intergovernmental.....	-	1,560,000	-	7,171	-
TOTAL ASSETS.....	\$ 469,719	\$ 1,727,766	\$ 1,587,380	\$ 365,530	\$ 710,721
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	-	29,459	-	11,657	4,767
Accrued payroll.....	6,433	-	-	11,753	4,949
Deferred revenues.....	-	1,560,000	445	-	-
TOTAL LIABILITIES.....	6,433	1,589,459	445	23,410	9,716
 FUND BALANCES:					
Reserved for:					
Perpetual permanent funds.....	-	-	-	-	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds.....	463,286	138,307	1,586,935	342,120	701,005
Permanent funds.....	-	-	-	-	-
TOTAL FUND BALANCES.....	463,286	138,307	1,586,935	342,120	701,005
TOTAL LIABILITIES AND FUND BALANCES....	\$ 469,719	\$ 1,727,766	\$ 1,587,380	\$ 365,530	\$ 710,721

Special Revenue Funds				Permanent Fund	Total Nonmajor Governmental Funds
<u>Revolving</u>	<u>Governmental Trust</u>	<u>Other</u>	<u>Sub-total</u>	<u>Governmental Nonexpendable Trust Fund</u>	
\$ 6,323	\$ -	\$ -	\$ 1,256,670	\$ -	\$ 1,256,670
848,802	2,650,301	754,612	6,296,868	775,396	7,072,264
84,168	-	-	84,613	-	84,613
-	-	-	1,567,171	-	1,567,171
<u>\$ 939,293</u>	<u>\$ 2,650,301</u>	<u>\$ 754,612</u>	<u>\$ 9,205,322</u>	<u>\$ 775,396</u>	<u>\$ 9,980,718</u>
\$ 469	\$ -	\$ 90,880	\$ 137,232	\$ 4,436	\$ 141,668
19,511	-	2,164	44,810	-	44,810
<u>77,396</u>	<u>-</u>	<u>-</u>	<u>1,637,841</u>	<u>-</u>	<u>1,637,841</u>
<u>97,376</u>	<u>-</u>	<u>93,044</u>	<u>1,819,883</u>	<u>4,436</u>	<u>1,824,319</u>
-	-	-	-	221,272	221,272
841,917	2,650,301	661,568	7,385,439	-	7,385,439
-	-	-	-	549,688	549,688
<u>841,917</u>	<u>2,650,301</u>	<u>661,568</u>	<u>7,385,439</u>	<u>770,960</u>	<u>8,156,399</u>
<u>\$ 939,293</u>	<u>\$ 2,650,301</u>	<u>\$ 754,612</u>	<u>\$ 9,205,322</u>	<u>\$ 775,396</u>	<u>\$ 9,980,718</u>

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FISCAL YEAR ENDED JUNE 30, 2004

	Special Revenue Funds				
	School Lunch	Highway	Community Preservation	Grants	Receipts Reserved
REVENUES:					
Charges for services.....	\$ 875,507	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures.....	-	-	-	-	616,310
Intergovernmental.....	100,505	-	511,283	2,023,330	-
Departmental and other.....	-	-	-	(44,801)	-
Special assessments.....	-	-	563,595	-	-
Contributions.....	-	-	-	-	-
Investment income.....	-	-	-	-	-
TOTAL REVENUES.....	976,012	-	1,074,878	1,978,529	616,310
EXPENDITURES:					
Current:					
General government.....	-	-	-	9,544	-
Public safety.....	-	-	-	73,622	-
Education.....	907,983	-	-	1,626,395	-
Public works.....	-	46,959	-	120,726	-
Human services.....	-	-	-	58,947	-
Library.....	-	-	-	35,928	-
Culture and recreation.....	-	-	-	974	-
Employee benefits.....	-	-	-	-	-
Claims and judgments.....	-	-	-	-	592,766
Other.....	-	-	1,800	-	-
TOTAL EXPENDITURES.....	907,983	46,959	1,800	1,926,136	592,766
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	68,029	(46,959)	1,073,078	52,393	23,544
OTHER FINANCING SOURCES (USES):					
Operating transfers in.....	-	-	-	-	-
Transfers out.....	-	(200,000)	-	-	(63,000)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(200,000)	-	-	(63,000)
NET CHANGE IN FUND BALANCES.....	68,029	(246,959)	1,073,078	52,393	(39,456)
FUND BALANCES AT BEGINNING OF YEAR.....	395,257	385,266	513,857	289,727	740,461
FUND BALANCES AT END OF YEAR.....	\$ 463,286	\$ 138,307	\$ 1,586,935	\$ 342,120	\$ 701,005

Special Revenue Funds				Permanent Fund	Total
Revolving	Governmental Trust	Other	Sub-total	Governmental Nonexpendable Trust Fund	Nonmajor Governmental Funds
\$ -	\$ -	-	\$ 875,507	\$ -	\$ 875,507
-	-	-	616,310	-	616,310
-	-	-	2,635,118	-	2,635,118
1,732,121	-	15,367	1,702,687	-	1,702,687
-	-	-	563,595	-	563,595
17,414	-	972,873	990,287	77,225	1,067,512
-	152,904	-	152,904	114,710	267,614
<u>1,749,535</u>	<u>152,904</u>	<u>988,240</u>	<u>7,536,408</u>	<u>191,935</u>	<u>7,728,343</u>
-	-	28,727	38,271	-	38,271
540,277	-	3,604	617,503	-	617,503
1,036,745	-	365,838	3,936,961	-	3,936,961
6,294	-	6,851	180,830	-	180,830
-	-	35,345	94,292	-	94,292
-	35,254	126,714	197,896	3,825	201,721
-	-	304,765	305,739	-	305,739
8,852	-	-	8,852	111,038	119,890
-	-	-	592,766	-	592,766
-	-	-	1,800	-	1,800
<u>1,592,168</u>	<u>35,254</u>	<u>871,844</u>	<u>5,974,910</u>	<u>114,863</u>	<u>6,089,773</u>
<u>157,367</u>	<u>117,650</u>	<u>116,396</u>	<u>1,561,498</u>	<u>77,072</u>	<u>1,638,570</u>
-	208,000	-	208,000	-	208,000
-	(200,000)	-	(463,000)	-	(463,000)
-	8,000	-	(255,000)	-	(255,000)
<u>157,367</u>	<u>125,650</u>	<u>116,396</u>	<u>1,306,498</u>	<u>77,072</u>	<u>1,383,570</u>
<u>684,550</u>	<u>2,524,651</u>	<u>545,172</u>	<u>6,078,941</u>	<u>693,888</u>	<u>6,772,829</u>
<u>\$ 841,917</u>	<u>\$ 2,650,301</u>	<u>\$ 661,568</u>	<u>\$ 7,385,439</u>	<u>\$ 770,960</u>	<u>\$ 8,156,399</u>

Internal Service Funds

Network Information Services Fund – This fund is used to control the cost of providing network services to all Town departments.

Vehicle Maintenance Fund – This fund is used to account for the maintenance and fuel costs of all Town vehicles.

Health Insurance Fund – This fund is used to account for the payment of health and other employee benefit programs.

Workers Compensation Fund – This fund is used to account for self-insured activities of providing workers compensation benefits to Town employees.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2004

	Network Information Services	Fleet Maintenance	Health Insurance	Worker's Compensation	Total Internal Service Funds
ASSETS					
CURRENT:					
Cash and short-term investments..... \$	46,349	\$ 17,004	\$ -	\$ -	\$ 63,353
Investments.....	93,203	-	305,070	743,815	1,142,088
Receivables, net of allowance for uncollectibles:					
Departmental and other.....	-	-	7,998	-	7,998
Total current assets.....	<u>139,552</u>	<u>17,004</u>	<u>313,068</u>	<u>743,815</u>	<u>1,213,439</u>
TOTAL ASSETS.....	<u>139,552</u>	<u>17,004</u>	<u>313,068</u>	<u>743,815</u>	<u>1,213,439</u>
LIABILITIES					
CURRENT:					
Warrants payable.....	58,996	-	-	-	58,996
Accrued payroll.....	23,589	-	-	-	23,589
Workers' compensation.....	-	-	-	214,000	214,000
Total current liabilities.....	<u>82,585</u>	<u>-</u>	<u>-</u>	<u>214,000</u>	<u>296,585</u>
NONCURRENT:					
Workers' compensation.....	-	-	-	497,000	497,000
TOTAL LIABILITIES.....	<u>82,585</u>	<u>-</u>	<u>-</u>	<u>711,000</u>	<u>793,585</u>
NET ASSETS					
Unrestricted..... \$	<u>56,967</u>	<u>\$ 17,004</u>	<u>\$ 313,068</u>	<u>\$ 32,815</u>	<u>\$ 419,854</u>

INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Network Information Services	Fleet Maintenance	Health Insurance	Worker's Compensation	Total Internal Service Funds
OPERATING REVENUES:					
Employee contributions	\$ -	\$ -	\$ 4,684,142	\$ -	\$ 4,684,142
Charges for services	784,663	800,879	8,154,500	53,472	9,793,514
TOTAL OPERATING REVENUES	784,663	800,879	12,838,642	53,472	14,477,656
OPERATING EXPENSES:					
Supplies and services.....	739,128	891,590	12,860,381	1,407,940	15,899,039
TOTAL OPERATING EXPENSES	739,128	891,590	12,860,381	1,407,940	15,899,039
OPERATING INCOME (LOSS).....	45,535	(90,711)	(21,739)	(1,354,468)	(1,421,383)
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	-	-	14,899	57,477	72,376
CHANGE IN NET ASSETS.....	45,535	(90,711)	(6,840)	(1,296,991)	(1,349,007)
NET ASSETS AT BEGINNING OF YEAR.....	11,432	107,715	319,908	1,329,806	1,768,861
NET ASSETS AT END OF YEAR.....	\$ 56,967	\$ 17,004	\$ 313,068	\$ 32,815	\$ 419,854

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2004

	Network Information Services	Fleet Maintenance	Health Insurance	Worker's Compensation	Total Internal Service Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>					
Receipts from customers and users.....	\$ -	\$ -	\$ 4,681,792	\$ -	\$ 4,681,792
Receipts from interfund services provided.....	784,663	800,879	8,154,500	53,472	9,793,514
Payments to employees.....	(453,454)	(406,811)	-	(356,269)	(1,216,534)
Payments for interfund services used.....	(259,848)	(484,779)	(12,860,381)	(1,103,671)	(14,708,679)
NET CASH FROM OPERATING ACTIVITIES.....	71,361	(90,711)	(24,089)	(1,406,468)	(1,449,907)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>					
Proceeds from sales and maturities of investments.....	-	107,715	9,190	1,348,991	1,465,896
Purchase of investments.....	(424,355)	-	-	-	(424,355)
Investment income.....	-	-	14,899	57,477	72,376
NET CASH FROM INVESTING ACTIVITIES.....	(424,355)	107,715	24,089	1,406,468	1,113,917
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	(352,994)	17,004	-	-	(335,990)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	399,343	-	-	-	399,343
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 46,349	\$ 17,004	\$ -	\$ -	\$ 63,353
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>					
Operating income (loss).....	\$ 45,535	\$ (90,711)	\$ (21,739)	\$ (1,354,468)	\$ (1,421,383)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Changes in assets and liabilities:					
Departmental and other.....	-	-	(2,350)	-	(2,350)
Warrants payable.....	2,237	-	-	-	2,237
Accrued payroll.....	23,589	-	-	-	23,589
Workers' compensation.....	-	-	-	(52,000)	(52,000)
Total adjustments.....	25,826	-	(2,350)	(52,000)	(28,524)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 71,361	\$ (90,711)	\$ (24,089)	\$ (1,406,468)	\$ (1,449,907)

Fiduciary Funds

Agency Fund – This fund is used to account for payroll withholdings and other amounts held in a fiduciary capacity for nongovernmental purposes.

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Agency Accounts July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Agency Accounts June 20, 2004</u>
ASSETS				
Cash and short-term investments.....	\$ 706,254	\$ 19,418,229	\$ (19,802,904)	\$ 321,579
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
LIABILITIES				
Liabilities due depositors.....	\$ 1,273,370	\$ 19,418,229	\$ (19,802,904)	\$ 321,579
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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