

TOWN OF SUDBURY, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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Independent Auditors' Report



Certified Public Accountants

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Sudbury, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Sudbury, Massachusetts, as of and for the fiscal year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sudbury, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Sudbury, Massachusetts, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison statement for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 14, the Town has restated the beginning net assets of its governmental activities.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005, on our consideration of the Town of Sudbury, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The management's discussion and analysis (located on pages 4 through 13), is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Sullivan, Ry & Co., LLC

November 18, 2005

Management's Discussion and Analysis

As management of the Town of Sudbury, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2005.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$81,699,081 (net assets). Of this amount, \$15,698,085 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by \$2,534,835.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$23,951,605, an increase of \$5,280,634 in comparison with the prior year. Approximately \$18,248,555 represents unreserved fund balance.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$2,115,604 or 3.2 percent of total general fund expenditures.
- The Town's total bonded debt (gross) increased by \$170,000 during the fiscal year; \$3,315,000 of new debt was issued, along with \$17,750,000 of refunding bonds.

Overview of the Basic Financial Statements

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

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

Government-wide financial statements

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

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

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

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

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

Fund financial statements

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

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

Governmental Funds

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

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

The Town maintains 282 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization and community preservation (special revenue), and school construction and public works facilities (capital projects) funds, each of which are considered to be major funds. Data from the other 277 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The Town adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided to demonstrate compliance with the fiscal year 2005 budget.

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

Proprietary funds

The Town maintains one type of proprietary fund.

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

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

Fiduciary funds

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

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

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-53 of this report.

Government-Wide Financial Analysis

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$81,699,081 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2005	2004 *	2005	2004	2005	2004 *
Assets						
Current assets.....	\$ 30,507,958	\$ 30,527,881	\$ 293,083	\$ 219,345	\$ 30,801,041	\$ 30,747,226
Noncurrent assets (excluding capital assets).....	26,123,167	27,093,910	-	-	26,123,167	27,093,910
Capital assets (net).....	78,833,365	80,596,172	825,000	862,425	79,658,365	81,458,597
Total assets.....	135,464,490	138,217,963	1,118,083	1,081,770	136,582,573	139,299,733
Liabilities						
Current liabilities (excluding debt).....	4,580,653	8,622,484	27,817	24,568	4,608,470	8,647,052
Noncurrent liabilities (excluding debt).....	778,470	618,435	-	-	778,470	618,435
Current debt.....	4,155,673	4,710,000	-	-	4,155,673	4,710,000
Noncurrent debt.....	45,340,879	46,160,000	-	-	45,340,879	46,160,000
Total liabilities.....	54,855,675	60,110,919	27,817	24,568	54,883,492	60,135,487
Net Assets						
Invested in capital assets (net of related debt).....	55,026,501	57,435,322	825,000	862,425	55,851,501	58,297,747
Restricted.....	10,149,495	5,998,360	-	-	10,149,495	5,998,360
Unrestricted.....	15,432,819	14,673,362	265,266	194,777	15,698,085	14,868,139
Total net assets.....	\$ 80,608,815	\$ 78,107,044	\$ 1,090,266	\$ 1,057,202	\$ 81,699,081	\$ 79,164,246

* As restated and described in Note 14 (page 53).

A significant portion of the Town's net assets (68.4%) reflects its investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (12.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (19.2% or \$15,698,085) may be used to meet the Town's ongoing obligations to citizens and creditors. Of this amount, \$15,432,819 may be used to support governmental activities and \$265,266 may be used to support business-type activities.

Changes in Net Assets

The Town's total net assets increased by \$2,534,835 during the current fiscal year and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2005	2004 *	2005	2004 *	2005	2004 *
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 3,692,198	\$ 3,142,267	\$ 685,646	\$ 652,698	\$ 4,377,844	\$ 3,794,965
Operating grants and contributions.....	10,402,448	9,738,357	-	-	10,402,448	9,738,357
Capital grants and contributions.....	1,178,729	1,030,840	-	-	1,178,729	1,030,840
<i>General Revenues:</i>						
Real estate and personal property taxes.....	49,428,298	48,507,675	-	-	49,428,298	48,507,675
Motor vehicle and other excise taxes.....	2,854,988	2,606,528	-	-	2,854,988	2,606,528
Tax liens.....	278,570	229,113	-	-	278,570	229,113
Penalties and interest on taxes.....	253,752	183,035	-	-	253,752	183,035
Payments in lieu of taxes.....	70,688	94,772	-	-	70,688	94,772
Community preservation surcharges.....	1,099,476	1,099,776	-	-	1,099,476	1,099,776
Grants and contributions not restricted to specific programs.....	1,618,594	1,551,826	-	-	1,618,594	1,551,826
Unrestricted investment income.....	376,609	171,136	-	-	376,609	171,136
Loss on disposal of capital assets.....	(48,606)	(74,529)	-	-	(48,606)	(74,529)
Other.....	101,783	-	-	-	101,783	-
Total revenues.....	71,307,527	68,280,796	685,646	652,698	71,993,173	68,933,494
Expenses						
General government.....	3,072,582	2,475,079	-	-	3,072,582	2,475,079
Public safety.....	7,443,552	6,661,738	-	-	7,443,552	6,661,738
Education.....	49,159,945	45,885,256	-	-	49,159,945	45,885,256
Public works.....	4,070,244	3,123,901	-	-	4,070,244	3,123,901
Health and human services.....	755,562	780,176	-	-	755,562	780,176
Culture and recreation.....	2,330,661	1,914,782	-	-	2,330,661	1,914,782
Debt service - interest.....	1,979,109	2,263,971	-	-	1,979,109	2,263,971
Swimming pool.....	-	-	404,333	397,976	404,333	397,976
Landfill.....	-	-	242,350	205,861	242,350	205,861
Total expenses.....	68,811,655	63,104,903	646,683	603,837	69,458,338	63,708,740
Change in net assets before transfers.....	2,495,872	5,175,893	38,963	48,861	2,534,835	5,224,754
Transfers, net.....	5,899	67,772	(5,899)	(67,772)	-	-
Change in net assets.....	2,501,771	5,243,665	33,064	(18,911)	2,534,835	5,224,754
Net assets - beginning of year (as restated).....	78,107,044	72,863,379	1,057,202	1,076,113	79,164,246	73,939,492
Net assets - end of year.....	\$ 80,608,815	\$ 78,107,044	\$ 1,090,266	\$ 1,057,202	\$ 81,699,081	\$ 79,164,246

* As restated and described in Note 14 (page 53).

Governmental activities increased the Town's net assets by \$2,501,771. In the prior year, governmental activities increased the Town's net assets by \$5,243,665. The key element of this change is the Town's utilization of approximately \$3,600,000 of general fund reserves for spending in fiscal year 2005.

Business-type activities increased the Town's net assets by \$33,064. In the prior year, business-type activities decreased the Town's net assets by \$18,911. The key element of this change relates to the general fund subsidizing the health insurance costs (approximately \$47,000) of the swimming pool enterprise fund during fiscal year 2005.

Fund Financial Statement Analysis

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

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$23,951,605, an increase of \$5,280,634 in comparison with the prior year. Approximately 70.6% of this total amount, or \$16,905,105, represents undesignated fund balance. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$1,492,127)
- Employee benefits (\$2,914,850)
- Perpetual permanent funds (\$912,730)
- Other specific purposes (\$383,343)
- Fund a portion of the fiscal year 2006 budget (\$1,343,450)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$2,115,604, while total fund balance was \$7,866,031. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 3.2% of total general fund expenditures, while total fund balance represents 11.9% of that same amount.

The fund balance of the Town's general fund increased by \$165,824 during the current fiscal year. This is primarily attributable to the following:

- Unbudgeted collections of outstanding tax liens (\$395,000)
- Unbudgeted collections of real estate and personal property taxes (\$347,000)
- Net increase of self-insurance activities reported in the general fund for GAAP (\$282,000)
- Conservative spending against budgeted appropriations (positive variance of approximately \$1,876,000)
- Use of unreserved fund balance (\$3,617,000)

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

The fund balance of the stabilization fund (special revenue) increased by \$40,693 during the current fiscal year. This is attributable to investment income earned by the fund.

The fund balance of the community preservation fund (special revenue) increased by \$4,155,328 during the current fiscal year. This is primarily attributable to the proceeds of bonds and notes, surcharges and intergovernmental revenues.

The fund balance of the school construction fund (capital project) decreased by \$224,548 during the current fiscal year. This is attributable to expenditures on school construction projects.

The fund balance of the public works facilities fund (capital project) decreased by \$72,648 during the current fiscal year. This is attributable to expenditures on the public works facilities.

Proprietary funds

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

Unrestricted net assets of the swimming pool and landfill enterprise funds at the end of the year amounted to \$66,642 and \$198,624, respectively. The swimming pool and landfill enterprise funds had increases in net assets for the year of \$8,308 and \$24,756, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$64,596,186 was increased by \$110,000 (0.2%) during the fiscal year. The following table summarizes the increase.

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Department of Public Works operating budget....	\$ 55,000	Undesignated fund balance
Various capital improvements.....	30,000	Encumbrance reversion
Various capital improvements.....	<u>25,000</u>	Transfer from nonmajor governmental funds
Total increase.....	<u>\$ 110,000</u>	

During the year, general fund revenues and other financing sources exceeded budgetary estimates and expenditures were less, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$3,477,000.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$79,658,365 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year totaled \$1,800,232, or 2.21% (a 2.16% decrease for governmental activities and a 0.05% decrease for business-type activities).

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

- School construction in progress (\$256,000)
- Purchase of backhoes/loaders (\$206,000)
- Purchase of public safety and public works vehicles (\$146,000)

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2005	2004	2005	2004	2005	2004
Land.....	\$ 22,689,708	\$ 22,689,708	\$ 192,500	\$ 192,500	\$ 22,882,208	\$ 22,882,208
Construction in progress.....	793,270	515,478	-	-	793,270	515,478
Land improvements.....	25,808	-	-	-	25,808	-
Buildings and improvements.....	52,328,061	54,062,936	632,500	661,250	52,960,561	54,724,186
Machinery and equipment.....	803,182	999,019	-	8,675	803,182	1,007,694
Vehicles.....	1,114,610	1,253,841	-	-	1,114,610	1,253,841
Infrastructure.....	1,078,726	1,075,190	-	-	1,078,726	1,075,190
Total capital assets.....	\$ <u>78,833,365</u>	\$ <u>80,596,172</u>	\$ <u>825,000</u>	\$ <u>862,425</u>	\$ <u>79,658,365</u>	\$ <u>81,458,597</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 44-45 of this report.

Long-Term Debt

At the end of the current fiscal year, the total gross bonded debt outstanding of \$50,700,000, which is backed by the full faith and credit of the Town, consists entirely of general obligation bonds.

The Town's total gross bonded debt increased by \$170,000 (0.3%) during the current fiscal year, with new debt issuances (for the purpose of land acquisition and departmental equipment) totaling \$3,315,000. The Town also issued \$17,750,000 of refunding bonds.

The Town has a AAA bond rating from Standard & Poor's.

State statutes limit the amount of general obligation debt the Town may issue to 5% of its total assessed valuation. The current debt limit is \$187,695,530, which is significantly in excess of the Town's outstanding debt.

Additional information on the Town's long-term debt can be found in Note 9 on pages 47-51 of this report.

Economic Factors and Next Year's Budgets and Rates

The development of the FY2006 general fund operating budget continued to be influenced by the lengthy economic slowdown experienced in Massachusetts, as two of the three major own sources revenues for the Town, local receipts and free cash, were projected to be lower in FY2006 than FY2005, leaving the property tax as the only own-source revenue predicted to grow over the prior year. State aid, our only other significant revenue source, was projected to stay at FY2005 levels. Since we had used prior year receipts, one time revenues and significant reductions in spending to balance an FY2005 general fund budget that increased only 1.4% over FY2004, we knew we could not use that approach again without serious reductions in Town and School services.

Property taxes in Massachusetts municipalities are limited to a levy growth of 2 ½% plus a factor for new construction, unless the voters at an election approve an increase for operating expenses or debt service for a specific project. The Board of Selectmen (Board) voted to place a Proposition 2 ½ override question on the Town election ballot, asking voters to raise the property tax levy limit by \$3,050,000. This amount would allow the Town to preserve the current level of services, replace and repair equipment and facilities most in need of upgrades, and keep class sizes at reasonable levels in the schools. This request was approved by the voters by a slim margin, 1744 in favor, 1649 opposed.

With this approval, the FY2006 projections for general fund revenues increased by \$4.8 million, as follow:

- Property taxes, up 10.4% including new growth;
- State aid and local receipts, down 1%;
- One-time revenues and receipts from prior years, down 27%.

Capital needs had been postponed to FY2006, so these items were addressed in the spending plan for FY2006 in a two part strategy. First, as part of the operating budget, funds were requested and approved to repair, improve or upgrade various Town buildings and systems, as well as replace several aged DPW vehicles. Second, we asked voters to approve a bonding authorization for \$650,000. Out of this amount, the Town planned to acquire a new fire engine, a new bucket truck, replace the boilers at our community center and replace the concrete floor at one satellite fire station. Voters approved raising the levy limit to accommodate the debt service for these items by a margin of 2253/1120. Taken together, over \$1 million in capital spending was approved as part of the FY2006 budget process. And, even with this new debt authorization, annual debt service for Town of Sudbury debt continues to decline as we pay off the bonds issued for expansion of the Sudbury Public Schools.

These actions have left the Town in a much better position to face the future. The permanent increases to the levy limit allow more flexibility as the Town begins work on the FY2007 budget. The capital spending allowed the Town to reduce the backlog of postponed projects and increase the base allotted for capital projects for the future.

Management undertook several proactive steps to protect the Town's financial health in FY2006. The Board adopted comprehensive financial and budget policies to guide our future decision making. The financial policies require us to avoid making short-term decisions that solve the problems only for today but jeopardize the future. Such actions that have been avoided include using our Stabilization Fund, designated for Emergency Reserves, to cover operating costs, further postponing funds for capital and building maintenance, or "raiding" trust fund balances. These types of actions could be tremendously harmful to the Town over the long-run.

The Board continues working on strategies to increase our tax base by working on alternatives to provide wastewater treatment in the downtown area. This has been identified as the major inhibitor for any growth of our commercial sector.

Finally, elected and appointed officials remain committed to using a forecasting model we developed to project long-range costs as well as adhering to long-term financial principles for decision-making. We believe this approach will serve the Town well in managing our way out of the current financial difficulties and any future ones. The model allows us to focus not just on the balance between revenues and expenditures in the current year but also on those of future years because it isolates the primary drivers of future costs.

The key to maintaining our excellent financial condition and retaining our hard won AAA credit rating from Standard & Poor's is to continue to make decisions with multi-year sustainability in mind, and to respect the voters of the Town as to the service levels and property tax overrides they approve.

Requests for Information

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

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 15,037,546	\$ 293,083	\$ 15,330,629
Restricted cash and cash equivalents.....	9,556,341	-	9,556,341
Investments.....	2,369,136	-	2,369,136
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	594,885	-	594,885
Tax liens.....	732,121	-	732,121
Motor vehicle and other excise taxes.....	181,173	-	181,173
Community preservation surcharges.....	3,357	-	3,357
Intergovernmental.....	1,947,636	-	1,947,636
Tax foreclosures.....	32,267	-	32,267
Working capital deposit.....	53,496	-	53,496
Total current assets.....	30,507,958	293,083	30,801,041
Noncurrent assets:			
Restricted investments.....	809,512	-	809,512
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	418,655	-	418,655
Intergovernmental.....	24,133,000	-	24,133,000
Investment in joint venture.....	762,000	-	762,000
Capital assets not being depreciated.....	23,482,978	192,500	23,675,478
Capital assets, net of accumulated depreciation.....	55,350,387	632,500	55,982,887
Total noncurrent assets.....	104,956,532	825,000	105,781,532
Total assets.....	135,464,490	1,118,083	136,582,573
LIABILITIES			
Current liabilities:			
Warrants payable.....	651,466	19,252	670,718
Accrued payroll.....	1,711,611	8,565	1,720,176
Tax refunds payable.....	201,342	-	201,342
Other liabilities.....	848,595	-	848,595
Abandoned property.....	70,563	-	70,563
Accrued interest.....	173,220	-	173,220
Accrued health claims payable.....	739,668	-	739,668
Capital lease obligations.....	95,668	-	95,668
Workers' compensation claims.....	34,534	-	34,534
Compensated absences.....	53,986	-	53,986
Long-term bonds and notes payable.....	4,155,673	-	4,155,673
Total current liabilities.....	8,736,326	27,817	8,764,143
Noncurrent liabilities:			
Capital lease obligations.....	252,644	-	252,644
Workers' compensation claims.....	39,950	-	39,950
Compensated absences.....	485,876	-	485,876
Long-term bonds and notes payable.....	45,340,879	-	45,340,879
Total noncurrent liabilities.....	46,119,349	-	46,119,349
Total liabilities.....	54,855,675	27,817	54,883,492
NET ASSETS			
Invested in capital assets, net of related debt.....	55,026,501	825,000	55,851,501
Restricted for:			
Investment in joint venture.....	762,000	-	762,000
Community preservation.....	7,765,542	-	7,765,542
Permanent funds:			
Expendable.....	325,880	-	325,880
Nonexpendable.....	912,730	-	912,730
Other specific purposes.....	383,343	-	383,343
Unrestricted.....	15,432,819	265,266	15,698,085
Total net assets.....	\$ 80,608,815	\$ 1,090,266	\$ 81,699,081

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 3,072,582	\$ 1,095,741	\$ 260,875	\$ -	\$ (1,715,966)
Public safety.....	7,443,552	322,500	170,623	45,321	(6,905,108)
Education.....	49,159,945	961,512	8,661,281	-	(39,537,152)
Public works.....	4,070,244	445,570	162,680	42,636	(3,419,358)
Health and human services.....	755,562	-	30,203	-	(725,359)
Culture and recreation.....	2,330,661	866,875	134,580	1,090,772	(238,434)
Debt service - interest.....	1,979,109	-	982,206	-	(996,903)
Total governmental activities...	68,811,655	3,692,198	10,402,448	1,178,729	(53,538,280)
Business-type activities:					
Swimming pool.....	404,333	410,241	-	-	5,908
Landfill.....	242,350	275,405	-	-	33,055
Total business-type activities...	646,683	685,646	-	-	38,963
Total primary government.....	\$ 69,458,338	\$ 4,377,844	\$ 10,402,448	\$ 1,178,729	\$ (33,499,317)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (53,538,280)	\$ 38,963	\$ (53,499,317)
<i>General revenues:</i>			
Real estate and personal property taxes.....	49,428,298	-	49,428,298
Motor vehicle and other excise taxes.....	2,854,988	-	2,854,988
Tax liens.....	278,570	-	278,570
Penalties and interest on taxes.....	253,752	-	253,752
Payments in lieu of taxes.....	70,688	-	70,688
Community preservation surcharges.....	1,099,476	-	1,099,476
Grants and contributions not restricted to specific programs.....	1,618,594	-	1,618,594
Unrestricted investment income.....	376,609	-	376,609
Loss on disposal of capital assets.....	(48,606)	-	(48,606)
Other.....	101,783	-	101,783
Transfers, net.....	5,899	(5,899)	-
Total general revenues and transfers.....	56,040,051	(5,899)	56,034,152
Change in net assets.....	2,501,771	33,064	2,534,835
Net assets - beginning of year (as restated).....	78,107,044	1,057,202	79,164,246
Net assets - end of year.....	\$ 80,608,815	\$ 1,090,266	\$ 81,699,081

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2005

ASSETS	General	Stabilization	Community Preservation
	General	Stabilization	Community Preservation
Cash and cash equivalents.....	\$ 10,439,804	\$ 342,206	\$ -
Investments.....	1,155,480	1,213,656	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	594,885	-	-
Real estate tax deferrals.....	418,655	-	-
Tax liens.....	723,047	-	9,074
Motor vehicle and other excise taxes.....	181,173	-	-
Community preservation surcharges.....	-	-	3,357
Intergovernmental.....	26,038,000	-	-
Tax foreclosures.....	32,267	-	-
Working capital deposit.....	53,496	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	7,849,707
Investments.....	-	-	-
TOTAL ASSETS.....	\$ 39,636,807	\$ 1,555,862	\$ 7,862,138
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 517,153	\$ -	\$ 96,596
Accrued payroll.....	1,711,611	-	-
Tax refunds payable.....	201,342	-	-
Other liabilities.....	848,595	-	-
Abandoned property.....	70,563	-	-
Deferred revenue.....	27,607,360	-	12,431
Accrued health claims payable.....	739,668	-	-
Workers' compensation claims.....	74,484	-	-
TOTAL LIABILITIES.....	31,770,776	-	109,027
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	1,492,127	-	-
Employee benefits.....	2,914,850	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	1,343,450	-	-
Undesignated, reported in:			
General fund.....	2,115,604	-	-
Special revenue funds.....	-	1,555,862	7,753,111
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	7,866,031	1,555,862	7,753,111
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 39,636,807	\$ 1,555,862	\$ 7,862,138

See notes to basic financial statements.

School Construction	Public Works Facilities	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 4,255,536	\$ 15,037,546
-	-	-	2,369,136
-	-	-	594,885
-	-	-	418,655
-	-	-	732,121
-	-	-	181,173
-	-	-	3,357
-	-	42,636	26,080,636
-	-	-	32,267
-	-	-	53,496
356,907	172,425	1,177,302	9,556,341
-	-	809,512	809,512
<u>\$ 356,907</u>	<u>\$ 172,425</u>	<u>\$ 6,284,986</u>	<u>\$ 55,869,125</u>
\$ -	\$ -	\$ 37,717	\$ 651,466
-	-	-	1,711,611
-	-	-	201,342
-	-	-	848,595
-	-	-	70,563
-	-	-	27,619,791
-	-	-	739,668
-	-	-	74,484
-	-	37,717	31,917,520
-	-	-	1,492,127
-	-	-	2,914,850
-	-	912,730	912,730
-	-	383,343	383,343
-	-	-	1,343,450
-	-	-	2,115,604
-	-	3,787,245	13,096,218
356,907	172,425	838,071	1,367,403
-	-	325,880	325,880
<u>356,907</u>	<u>172,425</u>	<u>6,247,269</u>	<u>23,951,605</u>
<u>\$ 356,907</u>	<u>\$ 172,425</u>	<u>\$ 6,284,986</u>	<u>\$ 55,869,125</u>

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General	Stabilization	Community Preservation
REVENUES			
Real estate and personal property taxes.....	\$ 49,439,489	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,789,223	-	-
Tax liens.....	395,482	-	-
Payments in lieu of taxes.....	70,688	-	-
Community preservation surcharges.....	-	-	1,108,054
Charges for services.....	-	-	-
Intergovernmental.....	11,368,452	-	1,090,772
Penalties and interest on taxes.....	253,752	-	-
Licenses, permits and fees.....	892,316	-	-
Fines and forfeitures.....	123,779	-	-
Departmental.....	269,496	-	-
Contributions.....	-	-	-
Investment income.....	376,609	40,693	74,624
TOTAL REVENUES.....	65,979,286	40,693	2,273,450
EXPENDITURES			
Current:			
General government.....	2,210,774	-	-
Public safety.....	5,591,016	-	-
Education.....	37,275,684	-	-
Public works.....	2,788,873	-	-
Health and human services.....	483,133	-	-
Culture and recreation.....	923,717	-	189,536
Pension benefits.....	5,218,335	-	-
Employee benefits.....	5,224,482	-	-
Property and liability insurance.....	152,348	-	-
State and county charges.....	187,786	-	-
Debt service:			
Principal.....	3,990,000	-	380,000
Interest.....	1,876,360	-	227,086
TOTAL EXPENDITURES.....	65,922,508	-	796,622
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	56,778	40,693	1,476,828
OTHER FINANCING SOURCES (USES)			
Transfers in.....	362,165	-	-
Proceeds of bonds and notes.....	-	-	2,678,500
Proceeds of refunding bonds.....	-	-	-
Premium from issuance of refunding bonds.....	-	-	-
Transfers out.....	(253,119)	-	-
Payments to refunding bond escrow agent.....	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	109,046	-	2,678,500
NET CHANGE IN FUND BALANCES.....	165,824	40,693	4,155,328
FUND BALANCES AT BEGINNING OF YEAR.....	7,700,207	1,515,169	3,597,783
FUND BALANCES AT END OF YEAR.....	\$ 7,866,031	\$ 1,555,862	\$ 7,753,111

See notes to basic financial statements.

	School Construction	Public Works Facilities	Nonmajor Governmental Funds	Total Governmental Funds
\$	-	\$ -	\$ -	\$ 49,439,489
	-	-	-	2,789,223
	-	-	-	395,482
	-	-	-	70,688
	-	-	-	1,108,054
	-	-	289,337	289,337
	-	-	1,994,476	14,453,700
	-	-	-	253,752
	-	-	2,245,862	3,138,178
	-	-	7,962	131,741
	-	-	58,651	328,147
	-	-	265,523	265,523
	-	-	105,809	597,735
	-	-	4,967,620	73,261,049
	152,469	-	186,227	2,549,470
	-	-	71,659	5,662,675
	255,953	-	2,813,133	40,344,770
	-	72,648	166,594	3,028,115
	-	-	52,846	535,979
	-	-	870,618	1,983,871
	-	-	-	5,218,335
	-	-	-	5,224,482
	-	-	-	152,348
	-	-	-	187,786
	-	-	-	4,370,000
	-	-	-	2,103,446
	408,422	72,648	4,161,077	71,361,277
	(408,422)	(72,648)	806,543	1,899,772
	148,214	-	92,011	602,390
	-	-	636,500	3,315,000
	13,400,000	-	4,350,000	17,750,000
	158,074	-	-	158,074
	-	-	(343,372)	(596,491)
	(13,522,414)	-	(4,325,697)	(17,848,111)
	183,874	-	409,442	3,380,862
	(224,548)	(72,648)	1,215,985	5,280,634
	581,455	245,073	5,031,284	18,670,971
\$	356,907	\$ 172,425	\$ 6,247,269	\$ 23,951,605

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Total governmental fund balances (page 19).....	\$	23,951,605
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		78,833,365
The equity interest in the assets of the governmental joint venture is not reported in the governmental funds.....		762,000
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		27,619,791
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(173,220)
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.....		(49,496,552)
Capital lease obligations.....		(348,312)
Compensated absences.....		<u>(539,862)</u>
Net assets of governmental activities (page 15).....	\$	<u>80,608,815</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds (page 21).....	\$	5,280,634
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		888,974
Depreciation.....		(2,603,175)
<p>In the statement of activities, the <i>gain</i> or <i>loss</i> on the disposal of capital assets is reported, whereas in the governmental funds the disposal is not reported. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets disposed...</p>		
		(48,606)
<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>		
		(1,904,916)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(3,315,000)
Proceeds of refunding bonds.....		(17,750,000)
Bond maturities.....		4,370,000
Payments to refunding bond escrow agent.....		17,848,111
Amortization of deferred losses on refundings.....		(119,663)
Capital lease obligations.....		(288,894)
Capital lease maturities.....		103,432
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		85,926
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. This amount represents the net change:</p>		
Compensated absences.....		(45,052)
Changes in net assets of governmental activities (page 17).....	\$	<u>2,501,771</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 49,068,166	\$ 49,068,166	\$ 49,415,161	\$ 346,995
Motor vehicle and other excise taxes.....	2,681,298	2,681,298	2,789,223	107,925
Tax liens.....	-	-	395,482	395,482
Payments in lieu of taxes.....	52,380	52,380	70,688	18,308
Intergovernmental.....	7,738,070	7,738,070	7,876,723	138,653
Penalties and interest on taxes.....	121,250	121,250	253,752	132,502
Licenses, permits and fees.....	769,541	769,541	892,316	122,775
Fines and forfeitures.....	75,000	75,000	123,779	48,779
Departmental.....	90,000	90,000	269,496	179,496
Investment income.....	150,000	150,000	240,575	90,575
TOTAL REVENUES.....	60,745,705	60,745,705	62,327,195	1,581,490
EXPENDITURES				
Current:				
General government.....	2,631,356	2,465,248	2,210,774	254,474
Public safety.....	5,479,577	5,654,045	5,591,016	63,029
Education.....	38,364,685	38,312,627	37,275,684	1,036,943
Public works.....	2,750,907	2,818,351	2,788,873	29,478
Health and human services.....	521,502	523,839	483,133	40,706
Culture and recreation.....	941,536	947,899	923,717	24,182
Pension benefits.....	1,780,186	1,751,606	1,726,606	25,000
Employee benefits.....	5,636,908	5,632,636	5,370,340	262,296
Property and liability insurance.....	149,760	155,261	152,348	2,913
State and county charges.....	174,726	174,726	187,786	(13,060)
Debt service:				
Principal.....	3,990,000	3,990,000	3,990,000	-
Interest.....	2,175,043	2,026,829	1,876,360	150,469
TOTAL EXPENDITURES.....	64,596,186	64,453,067	62,576,637	1,876,430
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,850,481)	(3,707,362)	(249,442)	3,457,920
OTHER FINANCING SOURCES (USES)				
Transfers in.....	318,372	343,372	362,165	18,793
Transfers out.....	-	(253,119)	(253,119)	-
TOTAL OTHER FINANCING SOURCES (USES).....	318,372	90,253	109,046	18,793
NET CHANGE IN FUND BALANCE.....	(3,532,109)	(3,617,109)	(140,396)	3,476,713
FUND BALANCE AT BEGINNING OF YEAR.....	4,912,249	4,912,249	4,912,249	-
FUND BALANCE AT END OF YEAR.....	\$ 1,380,140	\$ 1,295,140	\$ 4,771,853	\$ 3,476,713

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS**

JUNE 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>		
ASSETS	<u>Swimming Pool</u>	<u>Landfill</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents.....	\$ 79,132	\$ 213,951	\$ 293,083
Noncurrent assets:			
Capital assets not being depreciated.....	-	192,500	192,500
Capital assets, net of accumulated depreciation.....	632,500	-	632,500
Total noncurrent assets.....	<u>632,500</u>	<u>192,500</u>	<u>825,000</u>
Total assets.....	<u>711,632</u>	<u>406,451</u>	<u>1,118,083</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	7,343	11,909	19,252
Accrued payroll.....	5,147	3,418	8,565
Total current liabilities.....	<u>12,490</u>	<u>15,327</u>	<u>27,817</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	632,500	192,500	825,000
Unrestricted.....	66,642	198,624	265,266
Total net assets.....	<u>\$ 699,142</u>	<u>\$ 391,124</u>	<u>\$ 1,090,266</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>		
	Swimming Pool	Landfill	Total
OPERATING REVENUES			
Charges for services.....	\$ 410,241	\$ 275,405	\$ 685,646
OPERATING EXPENSES			
Cost of service and administration.....	346,453	196,479	542,932
Repairs and maintenance.....	29,130	37,196	66,326
Depreciation.....	28,750	8,675	37,425
TOTAL OPERATING EXPENSES.....	404,333	242,350	646,683
OPERATING INCOME (LOSS).....	5,908	33,055	38,963
TRANSFERS			
Transfers in.....	2,400	10,494	12,894
Transfers out.....	-	(18,793)	(18,793)
TOTAL TRANSFERS.....	2,400	(8,299)	(5,899)
CHANGE IN NET ASSETS.....	8,308	24,756	33,064
NET ASSETS AT BEGINNING OF YEAR.....	690,834	366,368	1,057,202
NET ASSETS AT END OF YEAR.....	\$ 699,142	\$ 391,124	\$ 1,090,266

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Business-Type Activities - Enterprise Funds</u>		
	Swimming Pool	Landfill	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 410,241	\$ 275,405	\$ 685,646
Payments to vendors.....	(170,658)	(142,970)	(313,628)
Payments to employees.....	(206,471)	(85,910)	(292,381)
	33,112	46,525	79,637
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in.....	2,400	10,494	12,894
Transfers out.....	-	(18,793)	(18,793)
	2,400	(8,299)	(5,899)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	35,512	38,226	73,738
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	43,620	175,725	219,345
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 79,132	\$ 213,951	\$ 293,083
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 5,908	\$ 33,055	\$ 38,963
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	28,750	8,675	37,425
Changes in assets and liabilities:			
Warrants payable.....	(2,629)	4,356	1,727
Accrued payroll.....	1,083	439	1,522
Total adjustments.....	27,204	13,470	40,674
NET CASH FROM OPERATING ACTIVITIES.....	\$ 33,112	\$ 46,525	\$ 79,637

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

ASSETS	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Cash and cash equivalents.....	\$ 88,972	\$ 735,674
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	<u>-</u>	<u>147,444</u>
Total assets.....	<u>88,972</u>	<u>883,118</u>
 LIABILITIES		
Liabilities due depositors.....	<u>-</u>	<u>883,118</u>
 NET ASSETS		
Held in trust for other purposes.....	<u><u>\$ 88,972</u></u>	<u><u>\$ -</u></u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private donations.....	\$ 610
Net investment income:	
Interest.....	<u>8,864</u>
TOTAL ADDITIONS.....	9,474
DEDUCTIONS	
Scholarships awarded.....	<u>7,647</u>
CHANGE IN NET ASSETS.....	1,827
NET ASSETS AT BEGINNING OF YEAR.....	<u>87,145</u>
NET ASSETS AT END OF YEAR.....	<u><u>\$ 88,972</u></u>

See notes to basic financial statements.

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

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

B. Reporting Entity

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

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

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete. It has been determined that there are no component units that require inclusion in the basic financial statements.

Joint Ventures

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

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

Wayland-Sudbury Septage Disposal Facility (Facility)

The Town is a participant in a joint venture with the Town of Wayland for the operation of a septage disposal facility. The Towns of Sudbury and Wayland each appoint five members of the Operational Review Committee who oversee the operations. Each town has a 50 percent interest in the venture. The Town of Sudbury is the custodian of the Facility's cash and investments, which is reported in the Agency Fund. As of June 30, 2005, the Town's equity interest in the operation of the Facility totaled \$762,000 and is reported in governmental activities.

Lincoln Sudbury Regional High School District (LSRHSD)

The LSRHSD is governed by a six member school district committee consisting of three elected representatives of the Town. The Town is indirectly liable for the LSRHSD debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2005, the Town's assessment totaled \$14,401,683. Separate financial statements may be obtained by writing to the Treasurer of the LSRHSD at 390 Lincoln Road, Sudbury, MA 01776.

Minuteman Regional High School (MRHS)

The MRHS is governed by a seventeen member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the MRHS debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2005, the Town's assessment totaled \$290,588. Separate financial statements may be obtained by writing to the Treasurer of the MRHS at 758 Marrett Road, Lexington, MA 02421-7313.

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

The government-wide financial statements (statement of net assets and the statement activities) report information on all non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees.

Fund Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

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

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

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

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

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

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

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than capital projects funds or permanent funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the governmental programs.

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

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

The following major proprietary funds are reported:

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

The *landfill enterprise fund* is used to account for landfill activities.

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

The following fiduciary fund types are reported:

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

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

E. Cash and Investments

Government-Wide and Fund Financial Statements

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

Motor Vehicle and Other Excise Taxes

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

Community Preservation Surcharges

Community preservation surcharges are levied annually and at a rate of 3% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors (60+) with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on August 1st, November 1st, February 1st, and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

Departmental and Other

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

Intergovernmental

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

G. Allowance for Uncollectible Accounts

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

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

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

- Real estate taxes
- Tax liens
- Community preservation surcharges

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

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

I. Restricted Assets

Government-Wide and Fund Financial Statements

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

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements. Pursuant to GASB Statement No. 34, the Town is eligible to defer, until fiscal year 2007, the requirement to record and depreciate its governmental funds infrastructure assets acquired before the effective implementation date. Therefore, infrastructure acquired prior to July 1, 2003 has not been recorded.

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

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

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

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

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

Governmental Fund Financial Statements

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

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Deferred Revenue

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

*N. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)

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

Net assets have been "restricted" for the following:

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

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

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

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

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been "reserved for" the following:

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

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

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

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

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2006 operating budget.

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

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

Governmental Fund Financial Statements

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

P. Investment Income

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

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

Q. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations.

R. Post Retirement BenefitsGovernment-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's 50% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2005, this expenditure totaled approximately \$623,000. There were approximately 237 participants eligible to receive benefits at June 30, 2005.

S. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

T. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

Increases or transfers between and within appropriations at the functional level subsequent to the approval of the annual budget, requires majority approval via Special Town Meeting, unless otherwise allowable by Municipal Law.

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2005 approved budget for the general fund authorized \$64,596,186 in appropriations and other amounts to be raised. During fiscal year 2005, supplemental appropriations totaling \$110,000 were authorized.

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

B. Reconciliation of Budgetary and GAAP Results

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2005, is presented as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis as reported on the statement of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 62,327,195	\$ 62,576,637
<u>Perspective difference:</u>		
Activity of health insurance and workers' compensation trusts recorded in the general fund for GAAP purposes.....	136,034	(145,858)
<u>Adjustments</u>		
Net change in recording 60-day receipts.....	147,170	-
Net change in recording tax refunds payable.....	(122,842)	-
To record activity for MTRS on-behalf payments.....	<u>3,491,729</u>	<u>3,491,729</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 65,979,286</u>	<u>\$ 65,922,508</u>

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2005, expenditures exceeded appropriations for state and county charges. This over-expenditure will be funded by taxes during fiscal year 2006.

NOTE 3 - CASH AND INVESTMENTS

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds and private purpose trust funds are held separately from other town funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy for custodial credit risk is to rely on FDIC and DIF insurance coverage. As of June 30, 2005, \$10,332,846 of the Town's bank balance of \$21,200,329 was uninsured, uncollateralized and exposed to custodial credit risk.

Investments Summary

The Town's investments at June 30, 2005 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 - 5
<u>Debt Securities:</u>			
U.S. Treasuries.....	\$ 845,831	\$ 290,524	\$ 555,307
U.S. Agencies.....	1,875,844	728,544	1,147,300
Corporate bonds.....	197,267	98,931	98,336
Total debt securities.....	2,918,942	\$ 1,117,999	\$ 1,800,943
<u>Other Investments:</u>			
External investment pools.....	2,531,863		
Equity securities.....	75,496		
Equity mutual funds.....	753,967		
Real estate investments.....	184,210		
Total other investments.....	3,545,536		
Total investments.....	\$ 6,464,478		

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town's policy for interest rate risk of debt securities is to follow the municipal finance laws of the Commonwealth, which requires (with the exception of certain trust funds) the Town to limit investments to U.S. backed securities with a maturity of one year or less.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2005, \$3,932,615 of the Town's investments of \$6,464,478 was uninsured, not registered in the name of the Town, held by counterparty and exposed to custodial credit risk, as follows:

Investment Type	Fair Value
U.S. Treasuries.....	\$ 845,831
U.S. Agencies.....	1,875,844
Corporate bonds.....	197,267
Equity securities.....	75,496
Equity mutual funds.....	753,967
Real estate investments.....	184,210
Total.....	<u>\$ 3,932,615</u>

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. As of June 30, 2005, the credit quality ratings of the Town's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *	
		AAA	Unrated
Corporate bonds.....	\$ 197,267	\$ 197,267	\$ -
External investment pools.....	2,531,863	-	2,531,863
Total.....	<u>\$ 2,729,130</u>	<u>\$ 197,267</u>	<u>\$ 2,531,863</u>

* Per the rating scale of Standard and Poor's (a national credit rating organization)

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The Town does not have a policy for foreign currency risk. As of June 30, 2005, the Town was not exposed to foreign currency risk.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2005, the Town was not exposed to concentration of credit risk.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2005, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 673,397	\$ (78,512)	\$ 594,885
Real estate tax deferrals.....	418,655	-	418,655
Tax liens.....	732,121	-	732,121
Motor vehicle and other excise taxes.....	408,749	(227,576)	181,173
Community preservation surcharges.....	3,357	-	3,357
Departmental and other.....	147,444	-	147,444
Intergovernmental.....	26,080,636	-	26,080,636
	<u>\$ 28,464,359</u>	<u>\$ (306,088)</u>	<u>\$ 28,158,271</u>

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

	General Fund	Community Preservation Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 214,218	\$ -	\$ 214,218
Real estate tax deferrals.....	418,655	-	418,655
Tax liens.....	723,047	9,074	732,121
Motor vehicle and other excise taxes.....	181,173	-	181,173
Community preservation surcharges.....	-	3,357	3,357
Intergovernmental (state school construction).....	26,038,000	-	26,038,000
Tax foreclosures.....	32,267	-	32,267
Total.....	<u>\$ 27,607,360</u>	<u>\$ 12,431</u>	<u>\$ 27,619,791</u>

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2005, approximately \$2,816,000 of such assistance was received. Approximately \$40,083,000 will be received in future fiscal years. Of this amount, approximately \$14,045,000 represents reimbursement of long-term interest costs, and approximately \$26,038,000 represents reimbursement of approved construction costs. Accordingly, a \$26,038,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 22,689,708	\$ -	\$ -	\$ 22,689,708
Construction in progress.....	515,478	277,792	-	793,270
Total capital assets not being depreciated.....	<u>23,205,186</u>	<u>277,792</u>	<u>-</u>	<u>23,482,978</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	375,000	26,395	-	401,395
Buildings and improvements.....	65,226,967	101,600	-	65,328,567
Machinery and equipment.....	3,943,517	294,711	(38,845)	4,199,383
Vehicles.....	3,531,441	145,840	(150,480)	3,526,801
Infrastructure.....	1,130,367	42,636	-	1,173,003
Total capital assets being depreciated.....	<u>74,207,292</u>	<u>611,182</u>	<u>(189,325)</u>	<u>74,629,149</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(375,000)	(587)	-	(375,587)
Buildings and improvements.....	(11,164,031)	(1,836,475)	-	(13,000,506)
Machinery and equipment.....	(2,944,498)	(490,548)	38,845	(3,396,201)
Vehicles.....	(2,277,600)	(236,465)	101,874	(2,412,191)
Infrastructure.....	(55,177)	(39,100)	-	(94,277)
Total accumulated depreciation.....	<u>(16,816,306)</u>	<u>(2,603,175)</u>	<u>140,719</u>	<u>(19,278,762)</u>
Total capital assets being depreciated, net.....	<u>57,390,986</u>	<u>(1,991,993)</u>	<u>(48,606)</u>	<u>55,350,387</u>
Total governmental activities capital assets, net.....	<u>\$ 80,596,172</u>	<u>\$ (1,714,201)</u>	<u>\$ (48,606)</u>	<u>\$ 78,833,365</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 192,500	\$ -	\$ -	\$ 192,500
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	1,150,000	-	-	1,150,000
Machinery and equipment.....	230,373	-	(86,735)	143,638
Total capital assets being depreciated.....	1,380,373	-	(86,735)	1,293,638
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(488,750)	(28,750)	-	(517,500)
Machinery and equipment.....	(221,698)	(8,675)	86,735	(143,638)
Total accumulated depreciation.....	(710,448)	(37,425)	86,735	(661,138)
Total capital assets being depreciated, net.....	669,925	(37,425)	-	632,500
Total business-type activities capital assets, net.....	\$ 862,425	\$ (37,425)	\$ -	\$ 825,000

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

Governmental Activities:

General government.....	\$ 13,423
Public safety.....	209,793
Education.....	1,626,491
Public works.....	612,381
Health and human services.....	12,445
Culture and recreation.....	128,642

Total depreciation expense - governmental activities..... \$ 2,603,175

Business-Type Activities:

Swimming pool.....	\$ 28,750
Landfill.....	8,675

Total depreciation expense - business-type activities..... \$ 37,425

NOTE 6 - CAPITAL LEASES

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

The following schedule presents future minimum lease payments as of June 30, 2005:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2006.....	\$ 111,519
2007.....	111,519
2008.....	111,519
2009.....	<u>52,160</u>
Total minimum lease payments.....	386,717
Less: amounts representing interest.....	<u>(38,405)</u>
Present value of minimum lease payments.....	<u>\$ 348,312</u>

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

	<u>Governmental Activities</u>
Vehicles.....	\$ 504,121
Less: accumulated amortization.....	<u>(155,809)</u>
Total.....	<u>\$ 348,312</u>

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

NOTE 7 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2005, are summarized as follows:

<u>Transfers Out:</u>	<u>Transfers In:</u>						<u>Total</u>
	<u>General Fund</u>	<u>School Construction Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Swimming Pool Enterprise Fund</u>	<u>Landfill Enterprise Fund</u>		
General Fund.....	\$ -	\$ 148,214	\$ 92,011	\$ 2,400	\$ 10,494	\$ 253,119	(1)
Nonmajor Governmental Funds...	343,372	-	-	-	-	343,372	(2)
Landfill Enterprise Fund.....	18,793	-	-	-	-	18,793	(3)
	<u>\$ 362,165</u>	<u>\$ 148,214</u>	<u>\$ 92,011</u>	<u>\$ 2,400</u>	<u>\$ 10,494</u>	<u>\$ 615,284</u>	

- (1) Represents budgeted transfers to fund costs associated with the refunding of school construction debt (\$148,214); fund prior year deficits in the storm escrow special revenue (\$9,784), Chapter 90 capital projects (\$44,441) and Dutton/Landham Road capital projects (\$8,646); and to fund the retirement trust fund (\$29,140), swimming pool enterprise (\$2,400) and landfill enterprise (\$10,494) funds

- (2) Represents budgeted transfers from DPW mining revolving special revenue (\$100,000), ambulance receipts special revenue (\$193,372), library expansion capital project (\$25,000) and retirement trust special revenue (\$25,000) funds to fund the fiscal year 2005 operating budget
- (3) Represents budgeted indirect cost transfer

NOTE 8 - SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2005, are as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2004	Increases	Decreases	Balance at June 30, 2005
BAN	Land Acquisition.....	5/21/04	7/21/04	1.38%	\$ 340,000	\$ -	\$ (340,000)	\$ -

NOTE 9 - LONG-TERM OBLIGATIONS

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

Details related to the outstanding indebtedness at June 30, 2005, and the debt service requirements are as follows:

Bonds and Notes Payable – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2004	Additions	Reductions	Outstanding at June 30, 2005
Municipal Purpose.....	4.74	\$ 1,965,000	-	\$ (660,000)	\$ 1,305,000
Municipal Purpose.....	5.24	250,000	-	(250,000)	-
Land Acquisition.....	4.63	6,300,000	-	(4,540,000)	1,760,000
School Construction.....	5.00	5,601,094	-	(3,597,238)	2,003,856
School Construction.....	5.00	15,753,906	-	(10,117,762)	5,636,144
School Construction.....	4.44	8,914,000	-	(553,000)	8,361,000
Municipal Purpose.....	4.00	155,000	-	(25,000)	130,000
Municipal Purpose.....	4.00	102,000	-	(15,000)	87,000
Municipal Purpose.....	3.75	150,000	-	(75,000)	75,000
Municipal Purpose.....	4.00	140,000	-	(20,000)	120,000
Municipal Purpose.....	3.75	24,000	-	(12,000)	12,000
Land Acquisition Refunding.....	3.50	805,000	-	(120,000)	685,000
School & Public Works Construction....	2.89	4,730,000	-	(530,000)	4,200,000
Land Acquisition.....	4.18	5,640,000	-	(380,000)	5,260,000
School Construction Refunding.....	3.81	-	13,400,000	-	13,400,000
Land Acquisition Refunding.....	3.60	-	4,350,000	-	4,350,000
Municipal Purpose.....	3.93	-	3,315,000	-	3,315,000
Sub-total.....		50,530,000	21,065,000	(20,895,000)	50,700,000
Deferred loss on refundings.....		-	(1,323,111)	119,663	(1,203,448)
Total governmental funds (net).....		\$ 50,530,000	\$ 19,741,889	\$ (20,775,337)	\$ 49,496,552

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

Fiscal Year	Principal	Interest	Total
2006....	\$ 4,395,000	\$ 1,997,259	\$ 6,392,259
2007....	4,265,000	1,856,395	6,121,395
2008....	3,585,000	1,680,449	5,265,449
2009....	3,500,000	1,537,133	5,037,133
2010....	3,540,000	1,396,039	4,936,039
2011....	3,585,000	1,254,000	4,839,000
2012....	3,420,000	1,106,738	4,526,738
2013....	3,305,000	980,863	4,285,863
2014....	2,755,000	857,663	3,612,663
2015....	2,680,000	752,679	3,432,679
2016....	2,565,000	647,842	3,212,842
2017....	2,490,000	545,664	3,035,664
2018....	2,470,000	442,652	2,912,652
2019....	2,230,000	343,822	2,573,822
2020....	2,310,000	253,646	2,563,646
2021....	2,380,000	125,396	2,505,396
2022....	365,000	54,584	419,584
2023....	365,000	38,458	403,458
2024....	365,000	22,050	387,050
2025....	130,000	5,526	135,526
Total... \$	<u>50,700,000</u>	<u>\$ 15,898,858</u>	<u>\$ 66,598,858</u>

During fiscal year 2005, the Town issued bonds in the amount of \$3,315,000 to purchase land for conservation purposes and to purchase departmental equipment. The future debt service related to the bonds to be used for land purchases will be paid from the community preservation fund.

Advanced Refunding - February 1, 2005 and June 15, 2005

The Town issued \$17,750,000 of general obligation refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$16,525,000 of outstanding school construction and land acquisition general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$1,323,111. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next sixteen years by \$639,075 and resulted in an economic gain of \$642,881.

Details of the advanced refunding are as follows:

<u>Description</u>	<u>Governmental Funds</u>
Refunding bonds issued.....	\$ 17,750,000
Refunded bonds defeased.....	(16,525,000)
Bond issuance costs.....	<u>98,111</u>
Net loss on refunding.....	<u>\$ 1,323,111</u>

<u>Description</u>	<u>Total</u>
Net change in debt service payments.....	<u>\$ 639,075</u>

<u>Description</u>	<u>Total</u>
Economic gain.....	<u>\$ 642,881</u>

Authorized and Unissued Debt

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2005, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Septic System.....	\$ 200,000
Public Works Facility.....	3,800
Wastewater Feasibility Study.....	90,000
Dickson Land.....	6,500
Libby Land.....	30,000
Capital Equipment/Renovation.....	<u>13,500</u>
Total.....	<u>\$ 343,800</u>

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2005, the following changes occurred in long-term liabilities:

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005	Current Portion
Governmental Activities:					
Bonds and notes payable (net).....	\$ 50,530,000	\$ 19,741,889	\$ (20,775,337)	\$ 49,496,552	\$ 4,155,673
Capital lease obligations.....	162,850	288,894	(103,432)	348,312	95,668
Workers' compensation claims.....	57,000	71,592	(54,108)	74,484	34,534
Compensated absences.....	494,810	45,052	-	539,862	53,986
Total.....	<u>\$ 51,244,660</u>	<u>\$ 20,147,427</u>	<u>\$ (20,932,877)</u>	<u>\$ 50,459,210</u>	<u>\$ 4,339,861</u>

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

NOTE 10 - RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

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

A. Health Insurance

The estimated "Incurred But Not Reported (IBNR)" claims are based on a two month claims paid average. The liability at June 30, 2005 totaled \$739,668. Changes in the reported liability since July 1, 2003, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2004.....	\$ 648,000	\$ 4,221,787	\$ (4,156,787)	\$ 713,000
Fiscal year 2005.....	713,000	5,399,876	(5,373,208)	739,668

B. Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The Town has recorded a liability of \$74,484 at June 30, 2005, which represents an estimate of all outstanding claims as of that date. Changes in the reported liability since July 1, 2003, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2004.....	\$ 76,000	\$ 16,544	\$ (35,544)	\$ 57,000
Fiscal year 2005.....	57,000	71,592	(54,108)	74,484

NOTE 11 - PENSION PLAN

Plan Description - The Town contributes to the Middlesex Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement Board. Substantially all employees of the Town are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts' Teachers Retirement System (MTRS), to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$3,491,729 for the fiscal year ended June 30, 2005, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Middlesex Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 25 Linnell Circle, Billerica, Massachusetts 01865.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Chapter 32 of MGL governs the contributions of plan members. The Town's contributions to the System for the fiscal years ended June 30, 2005, 2004, and 2003 were \$1,726,606, \$1,583,994, and \$1,209,216, respectively, which equaled its required contribution for each fiscal year.

NOTE 12 - COMMITMENTS

On April 11, 2005, the Town voted to authorize the purchase of land for conservation purposes in the amount of \$2,690,000. As part of this authorization, the Town issued \$2,660,000 of general obligation bonds on June 15, 2005. The actual purchase of land is expected to occur during fiscal year 2006.

NOTE 13 - CONTINGENCIES

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2005, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2005.

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, 2005, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 14 - PRIOR PERIOD ADJUSTMENT

The beginning net assets of the governmental activities have been restated from \$77,345,044 to \$78,107,044 to reflect the Town's investment in joint venture in the Facility (see Note 1).

NOTE 15 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

During fiscal year 2005, the Town implemented GASB Statement #40 – *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, which established and modified disclosure requirements for deposit and investment risks (see Note 3).

NOTE 16 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented during fiscal year 2006.
- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2008.
- Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented during fiscal year 2006.
- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2009.
- Statement #46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*, which is required to be implemented during fiscal year 2006.
- Statement #47, *Accounting for Termination Benefits*, which is required to be implemented during fiscal year 2006.

These pronouncements will be implemented by their respective due dates.