

TOWN OF CONCORD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen
Town of Concord, 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 Concord, Massachusetts, as of and for the year ended June 30, 2004 (except for the Concord Contributory Retirement System and Concord Municipal Light Plant, which are as of and for the year ended December 31, 2003), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Concord's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Electric Enterprise Fund, a major enterprise fund, which also represents 54% and 76% of the assets and operating revenues, respectively, of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the Electric Enterprise Fund and its effects on the business-type activities, is based on the report of the other auditors.

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, and the report of other auditors, provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, 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 Concord,

as of June 30, 2004 (except the Concord Contributory Retirement System and the Concord Municipal Light Plant which are as of December 31, 2003), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information, appearing in the back of this report, are not a required part of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004 on our consideration of the Town's 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 compliances. 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.

Melanson Beal + Company P.C.

Andover, Massachusetts
December 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Concord, we offer readers this narrative overview and analysis of the financial activities of the Town of Concord for the fiscal year ended June 30, 2004. Unless otherwise noted, ***all comments reported in this analysis are expressed in thousands.***

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be

divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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 own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which is required to be disclosed by the *Governmental Accounting Standards Board*.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 147,963 (i.e., net assets), an increase of \$ 6,159 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,636, a decrease of \$ (5,979) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 4,523, an increase of \$ 105 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 19,299, an increase of \$ 4,024 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 25,416	\$ 24,968	\$ 18,502	\$ 19,419	\$ 43,918	\$ 44,387
Capital assets	<u>94,978</u>	<u>83,219</u>	<u>54,079</u>	<u>51,188</u>	<u>149,057</u>	<u>134,407</u>
Total assets	120,394	108,187	72,581	70,607	192,975	178,794
Long-term liabilities outstanding	15,523	10,898	6,896	6,265	22,419	17,163
Other liabilities	<u>18,326</u>	<u>14,627</u>	<u>4,266</u>	<u>5,200</u>	<u>22,592</u>	<u>19,827</u>
Total liabilities	33,849	25,525	11,162	11,465	45,011	36,990
Net assets:						
Invested in capital assets, net	72,258	68,804	46,990	44,659	119,248	113,463
Restricted	3,624	3,287	-	-	3,624	3,287
Unrestricted	<u>10,663</u>	<u>10,571</u>	<u>14,428</u>	<u>14,483</u>	<u>25,091</u>	<u>25,054</u>
Total net assets	\$ <u>86,545</u>	\$ <u>82,662</u>	\$ <u>61,418</u>	\$ <u>59,142</u>	\$ <u>147,963</u>	\$ <u>141,804</u>

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,228	\$ 4,232	\$ 20,239	\$ 21,584	\$ 24,467	\$ 25,816
Operating grants and contributions	8,898	6,528	-	-	8,898	6,528
Capital grants and contributions	333	753	-	-	333	753
General revenues:						
Property taxes	45,916	42,421	-	-	45,916	42,421
Excises	2,348	2,350	-	-	2,348	2,350
Penalties and interest on taxes	333	363	-	-	333	363
Grants and contributions not restricted to specific programs	1,390	1,631	-	-	1,390	1,631
Investment income	1,079	454	227	304	1,306	758
Other	147	-	246	-	393	-
Total revenues	<u>64,672</u>	<u>58,732</u>	<u>20,712</u>	<u>21,888</u>	<u>85,384</u>	<u>80,620</u>
Expenses:						
General government	4,145	3,668	-	-	4,145	3,668
Public safety	9,780	7,276	-	-	9,780	7,276
Education	37,883	35,060	-	-	37,883	35,060
Public works	4,363	3,443	-	-	4,363	3,443
Health and human services	680	552	-	-	680	552
Culture and recreation	3,733	3,506	-	-	3,733	3,506
Interest on long-term debt	636	534	-	-	636	534
Intergovernmental	361	358	-	-	361	358
Miscellaneous	659	1,311	-	-	659	1,311
Wateroperations	-	-	1,896	2,344	1,896	2,344
Sewer operations	-	-	1,407	1,521	1,407	1,521
Electric operations	-	-	<u>14,190</u>	<u>14,886</u>	<u>14,190</u>	<u>14,886</u>
Total expenses	<u>62,240</u>	<u>55,708</u>	<u>17,493</u>	<u>18,751</u>	<u>79,733</u>	<u>74,459</u>
Change in net assets before transfers	2,432	3,024	3,219	3,137	5,651	6,161
Transfers in (out)	<u>1,451</u>	<u>1,425</u>	<u>(943)</u>	<u>(380)</u>	<u>508</u>	<u>1,045</u>
Change in net assets	3,883	4,449	2,276	2,757	6,159	7,206
Net assets - beginning of year	<u>82,662</u>	<u>78,213</u>	<u>59,142</u>	<u>56,385</u>	<u>141,804</u>	<u>134,598</u>
Net assets - end of year	<u>\$ 86,545</u>	<u>\$ 82,662</u>	<u>\$ 61,418</u>	<u>\$ 59,142</u>	<u>\$ 147,963</u>	<u>\$ 141,804</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 147,963, an increase of \$ 6,159 from the prior year.

The largest portion of net assets \$ 119,248 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available

for future spending. Although the investment in 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 net assets, \$ 3,624, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ 25,091 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in an increase in net assets of \$ 3,882. The key elements of this increase are as follows:

General fund revenues and transfers in excess of expenditures and transfers out	\$ 504
Special revenue fund revenues over expenditures	243
Capital project revenues and transfers used for capital projects	2,087
Trust fund revenues and transfers in excess of expenditures and transfers out	336
Principal debt service in excess of depreciation expense	1,232
Recognition of revenue on the accrual basis	(340)
Other	(180)
Total	<u>\$ 3,882</u>

Business-type activities. Business-type activities for the year resulted in an increase in net assets of \$ 2,277. This increase can be attributed to the enterprise funds having program revenues greater than expenses:

- The Water Fund has program revenues of \$ 3,151 and expenses and transfers of \$ 2,348, resulting in net income of \$ 803.
- The Sewer Fund has program revenues of \$ 1,847 and expenses and transfers of \$ 1,558, resulting in net income of \$ 289.
- The Light Fund has program revenues of \$ 15,715 and expenses and transfers of \$ 14,530, resulting in net income of \$ 1,185.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular,

unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,636, a decrease of \$ (5,978) in comparison with the prior year. Key elements of this decrease are as follows:

General fund revenues and transfers in excess of expenditures and transfers out	\$ 504
Special revenue fund expenditures over revenues	(220)
Trust fund revenues over expenditures	464
Excess of current year bond proceeds over current year capital expenditures	(7,062)
Other	<u>335</u>
Total	\$ <u>(5,979)</u>

The principal reason for this decrease is the Alcott School construction-in-progress, which has been funded to date (through June 30, 2004) by the issuance of short-term notes.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 4,523, while total fund balance was \$ 7,380. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Refer to the table below:

GENERAL FUND	6/30/04	6/30/03	change
Total fund balance	\$ 7,380	\$ 6,876	\$ 504
Unreserved fund balance	4,523	4,418	105
Unreserved fund balance as % of total General Fund expenditures	7.8%	8.1%	
Total fund balance as % of total General Fund expenditures	12.8%	12.6%	

The fund balance of the General Fund increased by \$ 504 during the current fiscal year. Key factors in this change are as follows:

Use of unreserved fund balance ("Free Cash" to support the budget)	\$ (810)
Revenues in excess of budget	434
Expenditures less than budget	918
Snow and ice appropriation deficit and overlay deficit	(73)
Use of free cash as a funding source	(263)
Raising of prior year deficits (snow and ice)	250
Difference in year-end encumbrances	(41)
Other	<u>89</u>
Total	\$ <u>504</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 14,429. Total net assets of the enterprise funds at the end of the year amounted to \$ 61,418, an increase of \$ 2,276 in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 263. The reasons for these amendments were:

- A supplemental appropriation of \$ 120 was made at the 2004 Annual Town Meeting (April 2004) from Free Cash to the Reserve Fund in anticipation of being needed for the Concord Public Schools Fiscal Year 2004 budget. These funds were not subsequently requested by the School administration and were unexpended at June 30, 2004.
- A supplemental appropriation of \$ 143 was made at the 2004 Annual Town meeting (April 2004) from Free Cash to the appropriation account for the Town's share of the Concord-Carlisle Regional School District in anticipation of being assessed by the Regional District as an addition to the original assessment for fiscal year 2004. These funds were not subsequently requested by the Regional District to be paid and were unexpended at June 30, 2004.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 149,057 (net of accumulated depreciation). The investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

A comparison to the prior year is as follows:

	Capital Purchases	Depreciation Expense	Net Activity
<i>Governmental activities:</i>			
Fiscal year 2004	\$ 13,617	\$ 1,857	\$ 11,760
Fiscal year 2003	10,540	1,780	8,760

(continued)

(continued)

	Capital Purchases	Depreciation Expense	Net Activity
Business-type activities:			
Water			
Fiscal year 2004	\$ 1,481	\$ 426	\$ 1,055
Fiscal year 2003	832	369	463
Sewer			
Fiscal year 2004	623	571	52
Fiscal year 2003	356	582	(226)
Light			
Fiscal year 2004	2,946	1,163	1,783
Fiscal year 2003	1,587	1,153	434
Capital assets net of Accumulated depreciation	@ 6/30/04	@6/30/03	change
Governmental activities	\$ 94,978	\$ 83,218	\$ 11,760
Business-type activities			
Water	12,564	11,509	1,055
Sewer	11,823	11,771	52
Electric	<u>29,691</u>	<u>27,908</u>	<u>1,783</u>
Subtotal	<u>54,078</u>	<u>51,188</u>	<u>2,890</u>
Grand Total	\$ <u>149,057</u>	\$ <u>134,406</u>	\$ <u>14,650</u>

Major capital asset events during the current fiscal year included the following (*amounts in thousands*):

Governmental activities

- Alcott School (construction in progress), \$ 7,810;
- (Harvey Wheeler Community Center building renovation (construction in progress), \$ 1,733;
- Ammendolia Land acquisition pursuant to the March 22, 2004 Special Town Meeting vote, \$ 1,100;
- Approximately \$ 2,000 for various routine annual capital purposes, including road improvements, sidewalk and drainage improvements, and scheduled public safety and public works equipment replacements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 19,299, all of which was backed by the full faith and credit of the town government. A bond for \$ 4,450 (all for governmental activity purposes) with

serial maturities of 1-12 years was issued on February 15, 2004 at a true interest cost of 2.704%. Bonds with principal maturities in the sum of \$ 4,231 were retired during the fiscal year. (\$3,096 governmental activities; \$ 1,135 business-type activities).

Authorized and unissued debt at June 30, 2004 was \$ 50,150, increased from \$ 22,860 at the prior year-end. This increase reflected various new authorizations voted at the 2004 Annual Town Meeting, including:

Governmental activities:

New Thoreau School	\$ 16,800
Police/Fire Station Improvements	1,850

Business-type activities:

Wastewater Management Plan, Sewer system extensions, phase I	4,190
Water Supply system improvements	5,750

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The adopted FY05 General Fund budget of \$ 58,702 is a 5.6% increase over the prior year. The FY05 budget was balanced with a reduced allocation from the unreserved fund balance (\$ 459) and \$ 1,858 approved by the voters on June 8, 2004 as an increase in the property tax levy limit to fund operating overrides for the town government and school budgets. The tax levy for FY05 (\$ 48,293) represents a 7% increase over the prior year, but the tax rate set in December 2004 for the FY2005 year was reduced from \$ 10.59 to \$ 9.80 as taxable assessed values for the January 1, 2004 assessment date increased 16%.

State aid and other local general fund revenues for FY05 stabilized, in contrast to the reductions experienced in recent years. Revenues are expected to exceed budget estimates by about one percent of the total budget.

The business-type activities (water, sewer, light) are projected to report positive net income for the current fiscal period.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Concord's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Chief Financial Officer
Town of Concord, Massachusetts
22 Monument Square
Concord, Massachusetts 01742

TOWN OF CONCORD, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2004

(Except for the Electric Enterprise Fund, which is as of December 31, 2002)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 19,503,324	\$ 11,897,472	\$ 31,400,796
Investments	4,632,800	1,636,567	6,269,367
Receivables, net of allowance for uncollectibles:			
Property taxes	381,654	-	381,654
Excises	90,012	-	90,012
Inventory	-	34,903	34,903
User fees	-	3,546,896	3,546,896
Departmental and other	133,959	-	133,959
Intergovernmental	411,260	-	411,260
Materials and supplies, at average cost	-	742,359	742,359
Prepaid expenses	-	310,312	310,312
Other assets	57,196	333,348	390,544
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	205,370	-	205,370
Capital assets, net of accumulated depreciation	<u>94,978,396</u>	<u>54,078,683</u>	<u>149,057,079</u>
TOTAL ASSETS	120,393,971	72,580,540	192,974,511
LIABILITIES			
Current:			
Warrants payable	1,833,793	1,595,031	3,428,824
Accrued liabilities	2,461,454	205,314	2,666,768
Customer deposits	-	160,991	160,991
Provision for Boston Edison overcharge	-	238,754	238,754
Provision for purchased power adjustment	-	414,977	414,977
Provision for rate stabilization	-	1,129,322	1,129,322
Notes payable	13,645,000	-	13,645,000
Other current liabilities	386,136	522,454	908,590
Current portion of long-term liabilities:			
Bonds payable	3,245,852	1,000,000	4,245,852
Accrued employee benefits	133,685	18,439	152,124
Estimated landfill closure and postclosure care costs	10,000	-	10,000
Noncurrent:			
Bonds payable, net of current portion	9,323,384	5,730,000	15,053,384
Accrued employee benefits, net of current portion	2,540,021	147,080	2,687,101
Estimated landfill closure and postclosure care costs, net of current portion	<u>270,000</u>	<u>-</u>	<u>270,000</u>
TOTAL LIABILITIES	33,849,325	11,162,362	45,011,687
NET ASSETS			
Invested in capital assets, net of related debt	72,258,462	46,989,519	119,247,981
Restricted for:			
Grants and other statutory restrictions	239,478	-	239,478
Permanent funds:			
Nonexpendable	3,383,794	-	3,383,794
Unrestricted	<u>10,662,912</u>	<u>14,428,659</u>	<u>25,091,571</u>
TOTAL NET ASSETS	\$ <u>86,544,646</u>	\$ <u>61,418,178</u>	\$ <u>147,962,824</u>

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

(Except for the Electric Enterprise Fund, which is for the year ended December 31, 2003.)

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 4,144,732	\$ 942,649	\$ 76,009	\$ -	\$ (3,126,074)	\$ -	\$ (3,126,074)
Public safety	9,780,491	762,238	2,642,101	5,500	(6,370,652)	-	(6,370,652)
Education	37,882,955	239,482	5,830,120	148,618	(31,664,735)	-	(31,664,735)
Public works	4,363,274	953,662	146,367	178,549	(3,084,696)	-	(3,084,696)
Health and human services	679,583	2,820	130,401	-	(546,362)	-	(546,362)
Culture and recreation	3,733,425	1,326,781	73,447	-	(2,333,197)	-	(2,333,197)
Debt service interest	636,455	-	-	-	(636,455)	-	(636,455)
Intergovernmental	361,361	-	-	-	(361,361)	-	(361,361)
Other	658,714	-	-	-	(658,714)	-	(658,714)
Total Governmental Activities	62,240,990	4,227,632	8,898,445	332,667	(48,782,246)	-	(48,782,246)
Business-Type Activities:							
Water services	1,895,568	3,095,614	-	-	-	1,200,046	1,200,046
Sewer services	1,407,444	1,777,483	-	-	-	370,039	370,039
Electric services	14,190,453	15,366,040	-	-	-	1,175,587	1,175,587
Total Business-Type Activities	17,493,465	20,239,137	-	-	-	2,745,672	2,745,672
Total	\$ 79,734,455	\$ 24,466,769	\$ 8,898,445	\$ 332,667	(48,782,246)	2,745,672	(46,036,574)
General Revenues and Transfers:							
Property taxes					45,916,176	-	45,916,176
Excises					2,348,152	-	2,348,152
Penalties, interest and other taxes					332,634	-	332,634
Grants and contributions not restricted to specific programs					1,389,655	-	1,389,655
Investment income					1,079,919	227,058	1,306,977
Other					146,517	246,938	393,455
Transfers, net					1,451,382	(943,224)	508,158
Total general revenues and transfers					52,664,435	(469,228)	52,195,207
Change in Net Assets					3,882,189	2,276,444	6,158,633
Net Assets:							
Beginning of year					82,662,457	59,141,734	141,804,191
End of year					\$ 86,544,646	\$ 61,418,178	\$ 147,962,824

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2004

ASSETS	<u>General</u>	<u>Alcott School Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 10,423,458	\$ 1,209,389	\$ 7,870,477	\$ 19,503,324
Investments		-	4,632,800	4,632,800
Receivables:				
Property taxes	580,317	-	-	580,317
Excises	100,344	-	-	100,344
Betterments	115,537	-	-	115,537
Departmental	133,959	-	-	133,959
Intergovernmental	30,752	-	380,508	411,260
Accrued interest and other	57,196	-	-	57,196
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 11,441,563</u>	<u>\$ 1,209,389</u>	<u>\$ 12,883,785</u>	<u>\$ 25,534,737</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 1,465,045	\$ -	\$ 368,748	\$ 1,833,793
Accrued liabilities	1,622,265	262,745	469,649	2,354,659
Deferred revenue	679,416	-	-	679,416
Notes payable	-	11,500,000	2,145,000	13,645,000
Other liabilities	294,691	-	91,446	386,137
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	4,061,417	11,762,745	3,074,843	18,899,005
Fund Balances:				
Reserved for:				
Encumbrances	2,398,176	-	-	2,398,176
Expenditures	459,000	-	-	459,000
Perpetual funds	-	-	3,383,794	3,383,794
Unreserved:				
Undesignated, reported in:				
General fund	4,522,970	-	-	4,522,970
Special revenue funds	-	-	6,328,467	6,328,467
Capital project funds	-	(10,553,356)	96,681	(10,456,675)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>7,380,146</u>	<u>(10,553,356)</u>	<u>9,808,942</u>	<u>6,635,732</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,441,563</u>	<u>\$ 1,209,389</u>	<u>\$ 12,883,785</u>	<u>\$ 25,534,737</u>

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Alcott School Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 46,226,038	\$ -	\$ -	\$ 46,226,038
Excise taxes	2,336,406	-	-	2,336,406
Departmental	1,774,458	-	2,964,833	4,739,291
Intergovernmental	5,884,200	-	4,452,999	10,337,199
Investment income	264,172	-	815,746	1,079,918
Other	146,519	-	283,568	430,087
Total Revenues	<u>56,631,793</u>	<u>-</u>	<u>8,517,146</u>	<u>65,148,939</u>
Expenditures:				
Current:				
General government	3,038,016	-	396,121	3,434,137
Public safety	5,917,148	-	2,349,682	8,266,830
Education	34,102,397	-	2,048,453	36,150,850
Public works	3,118,846	-	1,054,058	4,172,904
Health and human services	368,486	-	169,805	538,291
Culture and leisure	1,818,065	-	1,350,420	3,168,485
Employee benefits	4,578,584	-	208,674	4,787,258
Other	658,714	-	-	658,714
Debt service	3,691,606	-	-	3,691,606
Capital outlay	-	7,864,836	3,934,151	11,798,987
Intergovernmental	361,361	-	-	361,361
Total Expenditures	<u>57,653,223</u>	<u>7,864,836</u>	<u>11,511,364</u>	<u>77,029,423</u>
Deficiency of revenues over expenditures	(1,021,430)	(7,864,836)	(2,994,218)	(11,880,484)
Other Financing Sources (Uses):				
Proceeds of bonds	-	-	4,450,000	4,450,000
Operating transfers in	1,616,342	-	601,426	2,217,768
Operating transfers out	(90,910)	-	(675,476)	(766,386)
Total Other Financing Sources (Uses)	<u>1,525,432</u>	<u>-</u>	<u>4,375,950</u>	<u>5,901,382</u>
Changes in fund balances	504,002	(7,864,836)	1,381,732	(5,979,102)
Fund Balances, at Beginning of Year, as restated	<u>6,876,144</u>	<u>(2,688,520)</u>	<u>8,427,210</u>	<u>12,614,834</u>
Fund Balances, at End of Year	<u>\$ 7,380,146</u>	<u>\$ (10,553,356)</u>	<u>\$ 9,808,942</u>	<u>\$ 6,635,732</u>

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2004

Total governmental fund balances	\$ 6,635,732
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	94,978,396
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	560,255
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(106,795)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(15,522,942)</u>
Net assets of governmental activities	<u>\$ 86,544,646</u>

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (5,979,102)

<ul style="list-style-type: none"> • 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: 	
Capital outlay purchases	13,617,187
Depreciation	(1,857,320)
<ul style="list-style-type: none"> • 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. 	(550,312)
<ul style="list-style-type: none"> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: 	
Issuance of debt	(4,450,000)
Repayments of debt	3,089,639
<ul style="list-style-type: none"> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(34,488)
<ul style="list-style-type: none"> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. 	<u>46,585</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>3,882,189</u>

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 46,227,676	\$ 46,227,676	\$ 46,227,676	\$ -
Excise	2,350,000	2,350,000	2,336,406	(13,594)
Departmental	1,482,803	1,482,803	1,920,977	438,174
Intergovernmental	3,241,855	3,241,855	3,373,553	131,698
Investment income	275,000	275,000	264,172	(10,828)
Transfers in	1,727,360	1,727,360	1,616,342	(111,018)
	<u>55,304,694</u>	<u>55,304,694</u>	<u>55,739,126</u>	<u>434,432</u>
Total Revenues and Other Sources				
	55,304,694	55,304,694	55,739,126	434,432
Expenditures and Other Uses:				
General government	3,923,639	3,824,330	3,033,173	791,157
Public safety	5,508,031	5,639,366	5,832,949	(193,583)
Education	31,927,026	32,070,006	31,846,599	223,407
Public works	3,062,257	3,107,207	2,985,271	121,936
Health and human services	171,012	172,759	360,925	(188,166)
Culture and leisure	1,753,290	1,790,319	1,769,742	20,577
Intergovernmental	394,937	394,937	361,361	33,576
Employee benefits	4,812,400	4,816,648	4,578,584	238,064
Debt service	3,691,659	3,691,659	3,691,606	53
Other	621,000	621,000	749,783	(128,783)
Other uses	249,842	249,842	249,842	-
	<u>56,115,093</u>	<u>56,378,073</u>	<u>55,459,835</u>	<u>918,238</u>
Total Expenditures and Other Uses				
	56,115,093	56,378,073	55,459,835	918,238
Excess/(Deficiency) before use of free cash	(810,399)	(1,073,379)	279,291	1,352,670
Use of Free Cash	810,399	1,073,379	-	(1,073,379)
Excess/(Deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,291</u>	<u>\$ 279,291</u>

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2004

(DECEMBER 31, 2003 FOR THE MUNICIPAL LIGHT PLANT ENTERPRISE FUND)

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Sewer Fund	Electric Fund	
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 2,686,096	\$ 5,359,706	\$ 3,851,670	\$ 11,897,472
Investments	-	-	1,636,567	1,636,567
User fees, net of allowance for uncollectibles	614,720	291,240	2,640,936	3,546,896
Materials and supplies, at average cost	-	-	742,359	742,359
Prepaid expenses	-	-	310,312	310,312
Other assets	-	-	333,348	333,348
Inventory	34,903	-	-	34,903
Total current assets	3,335,719	5,650,946	9,515,192	18,501,857
Noncurrent:				
Capital assets, net of accumulated depreciation	12,564,297	11,823,047	29,691,339	54,078,683
Total noncurrent assets	12,564,297	11,823,047	29,691,339	54,078,683
TOTAL ASSETS	15,900,016	17,473,993	39,206,531	72,580,540
<u>LIABILITIES</u>				
Current:				
Warrants payable	359,563	77,014	1,158,454	1,595,031
Accrued liabilities	37,314	-	168,000	205,314
Customer deposits	-	-	160,991	160,991
Provision for Boston Edison overcharge	-	-	238,754	238,754
Provision for purchased power adjustment	-	-	414,977	414,977
Provision for rate stabilization	-	-	1,129,322	1,129,322
Other current liabilities	-	-	522,454	522,454
Current portion of long-term liabilities:				
Bonds payable	420,000	-	580,000	1,000,000
Accrued employee benefits	14,751	3,688	-	18,439
Total current liabilities	831,628	80,702	4,372,952	5,285,282
Noncurrent:				
Bonds payable, net of current portion	2,010,000	-	3,720,000	5,730,000
Accrued employee benefits, net of current portion	59,003	14,751	73,326	147,080
Total noncurrent liabilities	2,069,003	14,751	3,793,326	5,877,080
TOTAL LIABILITIES	2,900,631	95,453	8,166,278	11,162,362
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	10,134,297	11,823,047	25,032,175	46,989,519
Unrestricted	2,865,088	5,555,493	6,008,078	14,428,659
TOTAL NET ASSETS	\$ 12,999,385	\$ 17,378,540	\$ 31,040,253	\$ 61,418,178

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2004

(DECEMBER 31, 2003 FOR THE MUNICIPAL LIGHT PLANT ENTERPRISE FUND)

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Sewer Fund	Electric Fund	
Operating Revenues:				
Charges for services	\$ 3,095,614	\$ 1,777,483	\$ 15,366,040	\$ 20,239,137
Total Operating Revenues	3,095,614	1,777,483	15,366,040	20,239,137
Operating Expenses:				
Personnel services	720,663	652,283	-	1,372,946
Non-personnel services	624,439	184,180	-	808,619
Depreciation	426,223	570,981	1,162,564	2,159,768
Electric operations	-	-	12,813,639	12,813,639
Total Operating Expenses	1,771,325	1,407,444	13,976,203	17,154,972
Operating Income	1,324,289	370,039	1,389,837	3,084,165
Nonoperating Revenues (Expenses):				
Investment income	55,321	69,603	102,134	227,058
Interest expense	(124,243)	-	(214,250)	(338,493)
Other nonoperating income, net	-	-	246,938	246,938
Total Nonoperating Revenues (Expenses), Net	(68,922)	69,603	134,822	135,503
Income Before Transfers	1,255,367	439,642	1,524,659	3,219,668
Transfers:				
Operating transfers out	(452,210)	(151,014)	(340,000)	(943,224)
Change in Net Assets	803,157	288,628	1,184,659	2,276,444
Net Assets at Beginning of Year	12,196,228	17,089,912	29,855,594	59,141,734
Net Assets at End of Year	\$ 12,999,385	\$ 17,378,540	\$ 31,040,253	\$ 61,418,178

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2004

(DECEMBER 31, 2003 FOR THE MUNICIPAL LIGHT PLANT ENTERPRISE FUND)

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Sewer Fund	Electric Fund	
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 3,055,073	\$ 1,773,320	\$ 15,459,503	\$ 20,287,896
Payments to vendors and employees	(1,070,194)	(839,979)	(13,567,302)	(15,477,475)
Receipts from noncurrent deposits	-	-	937,154	937,154
Payments of refunds to customers	-	-	390,787	390,787
Net Cash Provided By Operating Activities	1,984,879	933,341	3,220,142	6,138,362
<u>Cash Flows From Noncapital Financing Activities:</u>				
Operating transfers out	(452,210)	(151,014)	(340,000)	(943,224)
Net Cash Used for Noncapital Financing Activities	(452,210)	(151,014)	(340,000)	(943,224)
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Proceeds from issuance of bonds and notes	-	-	600,000	600,000
Acquisition and construction of capital assets	(1,481,204)	(622,913)	-	(2,104,117)
Acquisition and construction of utility plant	-	-	(889,644)	(889,644)
Net additions to construction in progress	-	-	(2,176,372)	(2,176,372)
Principal payments on bonds and notes	(555,000)	-	(500,000)	(1,055,000)
Interest expense	(124,243)	-	(215,084)	(339,327)
Net reductions to customer advances for construction	-	-	14,200	14,200
Net Cash (Used For) Capital and Related Financing Activities	(2,160,447)	(622,913)	(3,166,900)	(5,950,260)
<u>Cash Flows From Investing Activities:</u>				
Investment income	55,321	69,603	108,963	233,887
Net Cash Provided By Investing Activities	55,321	69,603	108,963	233,887
Net Change in Cash and Short-Term Investments	(572,457)	229,017	(177,795)	(521,235)
Cash and Short-Term Investments, Beginning of Year (1)	3,258,553	5,130,689	3,488,516	11,877,758
Cash and Short-Term Investments, End of Year	\$ 2,686,096	\$ 5,359,706	\$ 3,310,721	\$ 11,356,523
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>				
Operating income	\$ 1,324,289	\$ 370,039	\$ 1,389,837	\$ 3,084,165
Adjustments to reconcile operating income to net cash provided by operating activities:				
Other Income	-	-	371,018	371,018
Depreciation	426,223	570,981	1,162,564	2,159,768
Changes in assets and liabilities:				
User fees receivables	(40,541)	(4,163)	(277,555)	(322,259)
Inventory	(3,839)	-	-	(3,839)
Materials and supplies	-	-	(58,819)	(58,819)
Prepaid Expenses	-	-	(113,289)	(113,289)
Noncurrent deposits with Town Treasurer	-	-	937,154	937,154
Warrants and accounts payable	226,480	(7,255)	-	219,225
Accrued liabilities	52,267	3,739	(581,555)	(525,549)
Provisions	-	-	390,787	390,787
Net Cash Provided By Operating Activities	\$ 1,984,879	\$ 933,341	\$ 3,220,142	\$ 6,138,362

(1) Adjusted with the allocation of prior year due to / from accounts.

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	Pension Trust Fund (As of <u>December 31, 2003</u>)	Private Purpose Trust Funds	Agency Funds
<u>ASSETS</u>			
Cash and short-term investments	\$ 1,143,833	\$ -	\$ 91,464
Investments	61,542,745	1,050,695	-
Accounts receivable	<u>380,671</u>	<u>-</u>	<u>46,514</u>
Total Assets	63,067,249	1,050,695	137,978
<u>LIABILITIES AND NET ASSETS</u>			
Other liabilities	<u>117</u>	<u>-</u>	<u>137,978</u>
Total Liabilities	117	-	137,978
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	<u>\$ 63,067,132</u>	<u>\$ 1,050,695</u>	<u>\$ -</u>

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2004

	Pension Trust Fund (For the Year Ended <u>December 31, 2003</u>)	Private Purpose <u>Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 2,728,786	\$ -
Other systems and Commonwealth of Massachusetts	255,958	-
Plan members	1,579,394	-
Other	<u>144,118</u>	-
Total contributions	4,708,256	-
Investment Loss:		
Increase in fair value of investments	9,580,848	108,802
Less: management fees	<u>(225,359)</u>	-
Net investment loss	9,355,489	<u>108,802</u>
Total additions	14,063,745	108,802
Deductions:		
Benefit payments to plan members and beneficiaries	3,844,055	-
Refunds to plan members	173,857	-
Administrative expenses	275,475	-
Other:	-	<u>28,254</u>
Total deductions	<u>4,293,387</u>	<u>28,254</u>
Net increase	9,770,358	80,548
Net assets:		
Beginning of year	<u>53,296,774</u>	<u>970,147</u>
End of year	<u>\$ 63,067,132</u>	<u>\$ 1,050,695</u>

See notes to financial statements.

TOWN OF CONCORD, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Concord (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

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

In the Fiduciary Funds: The Concord Contributory Retirement System, which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 22 Monument Square, Concord, Massachusetts 01742.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given 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 (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter 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.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60

days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Alcott School Project Fund* accounts for the construction costs related to the new Alcott School.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water Enterprise Fund.
- Sewer Enterprise Fund.
- Electric Enterprise Fund.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent

fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2004 tax levy reflected an excess capacity of approximately \$ 184,143.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Water/sewer/electric infrastructure	50 - 75
Vehicles	5
Office equipment	5
Computer equipment	5

I. Compensated Absences

The government's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

At the annual town meeting, the Board of Selectmen and School Committee present an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances, which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 56,631,793	\$ 57,653,223
Other financing sources/uses (GAAP basis)	<u>1,616,342</u>	<u>90,910</u>
Subtotal (GAAP Basis)	58,248,135	57,744,133
Adjust tax revenue to accrual basis	1,638	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,647,522)
Add end of year appropriation carryforwards to expenditures	-	1,688,646
		(continued)

(continued)

To record raising of prior year deficits	-	249,842
To reverse the effect of non-budgeted State contributions for teachers retirement	(2,510,647)	(2,510,647)
To reverse non-budgeted accrual	<u>-</u>	<u>(64,617)</u>
Budgetary basis	\$ <u>55,739,126</u>	\$ <u>55,459,835</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Public Safety	\$ (193,583)
Health and Human Services	(188,166)
Other	(128,783)

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2004 (in thousands):

Major governmental funds:

Alcott School Project Fund	\$ (10,553)
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Nonmajor governmental funds:

Land Acquisition	\$ (900)
School Design	(1,200)
Police/Fire Station	(27)
Ripley Roof	(16)

Agency funds:

Police off-duty details	\$ (15)
School off-duty details	(3)

The Governmental fund deficits result from the financing of projects with bond anticipation notes that are recorded as liabilities at the fund level. These deficit fund balances will be fully eliminated when the bond anticipation notes are replaced with long-term bonds.

The Agency fund deficits will be eliminated through future departmental revenues and transfers from other funds.

3. Cash and Short-Term Investments

The carrying amount of the Town's and Retirement System's deposits with financial institutions at June 30, 2004 and December 31, 2003 was \$ 32,636,093 and \$ 1,143,833, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows (in thousands):

	<u>Town Deposits June 30, 2004</u>	<u>Retirement System Deposits December 31, 2003</u>
Amount insured by the FDIC and DIF, Or collateralized with securities held by the Town in its name	\$ 11,095	\$ 100
Uncollateralized	6,336	298
State investment pool	<u>14,916</u>	<u>911</u>
Total Bank Balance	\$ <u>32,347</u>	\$ <u>1,309</u>

4. Investments

Investments are categorized into the following three categories of credit risk:

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

At year-end, the government's investment balances were as follows (in thousands):

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government securities	\$ 1,975	\$ -	\$ -	\$ 1,975
Other	<u>3,332</u>	<u>-</u>	<u>-</u>	<u>3,332</u>
Subtotal	\$ <u>5,307</u>	\$ <u>-</u>	\$ <u>-</u>	5,307
Investments not subject to categorization:				
Mutual funds				<u>2,013</u>
Total Investments				\$ <u>7,320</u>

At December 31, 2003, the Concord Retirement System's investment balances were as follows (in thousands):

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. Government securities	\$ 6,396	\$ -	\$ -	\$ 6,396
Municipal obligations	150	-	-	150
Corporate equity	23,706	-	-	23,706
Corporate bonds	<u>18,413</u>	<u>-</u>	<u>-</u>	<u>18,413</u>
Subtotal	<u>\$ 48,665</u>	<u>\$ -</u>	<u>\$ -</u>	48,665
Investments not subject to categorization:				
State investment pool				<u>12,878</u>
Total Investments				<u>\$ 61,543</u>

5. Taxes Receivable

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 a quarterly basis 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 they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2004 consist of the following (in thousands):

Real Estate		
2004	\$ 327	
2003	11	
Prior	<u>96</u>	
		434
Personal Property		
2004	8	
2003	11	
2002	6	
2001	2	
Prior	<u>9</u>	
		36
Tax Liens, Municipal Liens and Foreclosures		27
Deferred Taxes		<u>83</u>
Total		<u>\$ 580</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>
Property taxes	\$ 109
Excises	10

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2004.

8. Interfund Transfers In and (Out)

Although the total of interfund transfers balance throughout the year, the Balance Sheet of the Municipal Light Plant Enterprise Fund is presented at December 31, 2003, not June 30, 2004. Therefore, a timing difference of \$ 508,158 exists in the accompanying Statement of Activities and Statements of Revenues and Expenditures/Expenses.

9. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 23,032	\$ 77	\$ -	\$ 23,109
Machinery, equipment, and furnishings	7,918	754	-	8,672
Infrastructure	<u>14,290</u>	<u>987</u>	<u>-</u>	<u>15,277</u>
Total capital assets, being depreciated	45,240	1,818	-	47,058
Less accumulated depreciation for:				
Buildings and improvements	(6,049)	(557)	-	(6,606)
Machinery, equipment, and furnishings	(5,405)	(642)	-	(6,047)
Infrastructure	<u>(4,494)</u>	<u>(660)</u>	<u>-</u>	<u>(5,154)</u>
Total accumulated depreciation	<u>(15,948)</u>	<u>(1,859)</u>	<u>-</u>	<u>(17,807)</u>
Total capital assets, being depreciated, net	29,292	(41)	-	29,251

(continued)

(continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	43,484	1,101	-	44,585
Construction in progress	<u>10,443</u>	<u>10,699</u>	<u>-</u>	<u>21,142</u>
Total capital assets, not being depreciated	<u>53,927</u>	<u>11,800</u>	<u>-</u>	<u>65,727</u>
Governmental activities capital assets, net	\$ <u>83,219</u>	\$ <u>11,759</u>	\$ <u>-</u>	\$ <u>94,978</u>

Note: The Town has not yet fully capitalized all infrastructure assets for governmental activities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 19,051	\$ 590	\$ -	\$ 19,641
Machinery, equipment, and furnishings	2,368	508	-	2,876
Infrastructure	7,440	906	-	8,346
Light plant	<u>39,449</u>	<u>523</u>	<u>-</u>	<u>39,972</u>
Total capital assets, being depreciated	68,308	2,527	-	70,835
Less accumulated depreciation for:				
Buildings and improvements	(6,206)	(560)	-	(6,766)
Machinery, equipment, and furnishings	(681)	(211)	-	(892)
Infrastructure	(1,962)	(226)	-	(2,188)
Light plant	<u>(13,812)</u>	<u>(916)</u>	<u>-</u>	<u>(14,728)</u>
Total accumulated depreciation	<u>(22,661)</u>	<u>(1,913)</u>	<u>-</u>	<u>(24,574)</u>
Total capital assets, being depreciated, net	45,647	614	-	46,261
Capital assets, not being depreciated:				
Land	3,270	100	-	3,370
Light plant construction in progress	<u>2,271</u>	<u>2,177</u>	<u>-</u>	<u>4,448</u>
Total capital assets, not being depreciated	<u>5,541</u>	<u>2,277</u>	<u>-</u>	<u>7,818</u>
Business-type activities capital assets, net	\$ <u>51,188</u>	\$ <u>2,891</u>	\$ <u>-</u>	\$ <u>54,079</u>

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

Governmental Activities:	
General government	\$ 134,463
Public safety	256,599
Education	483,620
Public works	901,501
Culture and recreation	50,226
Health and human services	<u>30,911</u>
Total depreciation expense - governmental activities	\$ <u>1,857,320</u>

Business-Type Activities:	
Water	\$ 426,223
Sewer	570,981
Electric	<u>1,162,564</u>
Total depreciation expense - business-type activities	<u>\$ 2,159,768</u>

10. Warrants Payable

Warrants payable represent 2004 expenditures paid by July 15, 2004 as permitted by law.

11. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2004 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

12. Anticipation Notes Payable

The Town had the following notes outstanding at June 30, 2004:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2004</u>
Bond anticipation	1.75%	09/30/03	09/30/04	\$ 6,500,000
Bond anticipation	1.75%	02/26/04	09/30/04	6,200,000
Bond anticipation	3.00%	06/24/04	06/23/05	<u>945,000</u>
Total				<u>\$ 13,645,000</u>

The following summarizes activity in notes payable during fiscal year 2004:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ <u>7,350,000</u>	\$ <u>14,745,000</u>	\$ <u>(8,450,000)</u>	\$ <u>13,645,000</u>
Total	\$ <u>7,350,000</u>	\$ <u>14,745,000</u>	\$ <u>(8,450,000)</u>	\$ <u>13,645,000</u>

13. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds

have been issued for both governmental and business-type activities.
 General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2004</u>
Land Acquisition	2005	3.50 - 3.80	10,000
School	2005	4.70 - 5.00	120,000
School	2005	4.50 - 4.70	50,000
School	2005	5.20	30,000
Building Renovation	2005	4.70 - 5.00	10,000
Road Improvements	2005	4.70 - 5.00	20,000
Road Improvements	2005	4.50 - 4.70	50,000
Equipment	2005	5.20	20,000
School	2006	2.00 - 4.50	45,000
Road Improvements	2006	4.45 - 4.85	60,000
Equipment	2006	3.70 - 4.00	230,000
School Building Design	2006	2.00 - 2.125	1,830,000
School	2007	4.45 - 5.00	365,000
Building Renovations	2007	4.00	65,000
Road Improvements	2007	3.70 - 4.00	600,000
Modular Classrooms	2007	2.00 - 2.25	90,000
School	2008	3.50 - 3.60	305,000
Road Improvements	2008	4.35	220,000
Building Renovations	2008	4.35	80,000
Building Renovations	2008	4.10	440,000
Road Improvements	2008	4.10	200,000
Police and Fire Station	2008	2.00 - 2.40	180,000
School	2009	1.50 - 4.50	25,000
Planning	2009	1.50 - 4.50	300,000
Modular Classrooms	2009	1.50 - 4.50	205,000
Equipment	2009	1.50 - 4.50	400,000
Land Acquisition	2009	4.00 - 4.40	600,000
Road Improvements	2010	5.10 - 5.20	300,000
Building	2010	5.10 - 5.20	210,000
Building Renovations	2010	5.10 - 5.20	100,000
Building Renovations	2010	5.10 - 5.20	90,000
School Remodeling	2011	2.00 - 3.30	985,000
Drainage	2011	1.50 - 4.50	100,000
Road Improvements	2011	2.00 - 3.30	675,000
Road Improvements	2014	1.50 - 4.50	600,000
Building Renovation (School)	2016	1.50 - 4.50	425,000
Title V Loans	2020	-	184,236
Building Renovation	2016	1.50 - 4.50	1,200,000
Building Renovation	2016	1.50 - 4.50	<u>1,150,000</u>
Total Governmental Activities:			\$ <u>12,569,236</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2004</u>
Light	2005	6.00 - 6.10	100,000
Water	2007	3.50 - 4.00	150,000
Light	2008	5.20 - 5.30	120,000
Light	2008	5.20 - 5.30	280,000
Water	2008	4.45 - 5.00	495,000
Water	2010	5.10 - 5.20	185,000
Light	2011	2.00 - 3.30	520,000
Water	2012	3.70 - 4.00	1,600,000
Light	2014	4.10 - 5.00	<u>3,000,000</u>
Total Business-Type Activities:			\$ <u>6,450,000</u>
Grand Total:			\$ <u>19,019,236</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2004 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 3,245,852	\$ 398,896	\$ 3,644,748
2006	2,805,852	287,267	3,093,119
2007	1,690,852	206,755	1,897,607
2008	1,305,852	155,124	1,460,976
2009	930,852	114,641	1,045,493
2010 - 2014	2,018,954	283,663	2,302,617
2015 - 2019	549,144	41,613	590,757
2020 - 2024	<u>21,878</u>	<u>1,646</u>	<u>23,524</u>
Total	\$ <u>12,569,236</u>	\$ <u>1,489,605</u>	\$ <u>14,058,841</u>

The general fund has been designated as the sole source to repay the government-type obligation debt outstanding as of June 30, 2004.

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,000,000	\$ 277,599	\$ 1,277,599
2006	880,000	233,767	1,113,767
2007	880,000	196,318	1,076,318
2008	830,000	158,013	988,013
2009	610,000	121,476	731,476
2010 - 2014	<u>2,250,000</u>	<u>241,605</u>	<u>2,491,605</u>
Total	\$ <u>6,450,000</u>	\$ <u>1,228,778</u>	\$ <u>7,678,778</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2004 are as follows:

<u>Purpose</u>	<u>Amount</u>
Design funds for elementary and middle schools	\$ 1,245,000
Modular classrooms, Thoreau school	15,000
Road improvements	650,000
Willard school playground resurfacing	30,000
Land acquisition – Ammendolia	900,000
Police/Fire station renovations	1,850,000
Design of phase 1, CWMP	4,190,000
CPS building renovations	500,000
New Thoreau school	16,800,000
Land acquisition – Wagner property	25,000
Ripley school roof	395,000
Septic betterment loan (Title V)	1,000,000
Water supply system improvements	5,750,000
Ripley building parking lot	5,000
Alcott school	16,695,000
Wagners pond dam, engineering & design	<u>100,000</u>
Total	\$ <u>50,150,000</u>

D. Overlapping Debt

The Town is a member community of other governmental agencies which are authorized to issue debt. The Town is not directly responsible for the payment or guarantee of these debts; however, annual debt service costs are included in the operating budgets of these agencies, and are funded through user charges and/or assessments to the Town. The following summarizes the debt of these other agencies and the Town's related participation percentages:

<u>Related Entity</u>	<u>Total Principal</u>	<u>Town's Percent</u>	<u>Town's Share</u>
CCRS	\$ 2,435,000	70.68%	\$ <u>1,721,058</u>
Total			\$ <u>1,721,058</u>

This liability is appropriately not reported in the accompanying financial statements.

E. Changes in General Long-Term Liabilities

During the year ended June 30, 2004, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>7/1/03</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/04</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/04</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 11,209	\$ 4,450	\$ (3,090)	\$ 12,569	\$ (3,246)	\$ 9,323
Other:						
Accrued employee benefits	2,637	37	-	2,674	(134)	2,540
Landfill closure	<u>290</u>	<u>-</u>	<u>(10)</u>	<u>280</u>	<u>(10)</u>	<u>270</u>
Governmental Activities	14,136	4,487	(3,100)	15,523	(3,390)	12,133
<u>Business-Type Activities</u>						
Bonds payable	7,585	-	(1,135)	6,450	(1,000)	5,450
Other:						
Accrued employee benefits	<u>165</u>	<u>1</u>	<u>-</u>	<u>166</u>	<u>(18)</u>	<u>148</u>
Business-Type Activities	<u>7,750</u>	<u>1</u>	<u>(1,135)</u>	<u>6,616</u>	<u>(1,018)</u>	<u>5,598</u>
Grand total	\$ <u>21,886</u>	\$ <u>4,488</u>	\$ <u>(4,235)</u>	\$ <u>22,139</u>	\$ <u>(4,408)</u>	\$ <u>17,731</u>

14. **Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require the Town to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The Town's landfill has stopped accepting waste, therefore, the Town reports these closure and postclosure care costs as a liability in the government-wide financial statements.

The \$ 280,000 reported as landfill closure and postclosure care liability at June 30, 2004 represents that cumulative amount reported to date based on the use of 100% of the estimated capacity of landfill. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

15. **Restricted Net Assets**

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

16. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2004:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

17. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Massachusetts general laws include provisions to allow municipalities to over-expend certain appropriations if they are incurred in an emergency situation and for the safety of the public. The most common example involves the “snow and ice” appropriation. All such over-expenditures, however, must be funded in the subsequent year’s tax rate.

Massachusetts General Laws require that non-property tax revenue budget shortfalls, net of appropriation turnbacks, be funded in the subsequent year. The same treatment is also applied to the excess of actual property tax abatements and exemptions over the provision for abatements and exemptions (overlay).

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 4,522,970
Public safety appropriation deficit	193,583
Health and human services appropriation deficit	188,166
Other deficits	<u>128,783</u>
Statutory (UMAS) Balance	\$ <u>5,033,502</u>

18. Subsequent Events

Debt

Subsequent to June 30, 2004, the Town has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bonds	\$ 7,000,000	2.50-4.25%	9/15/04	9/15/24

19. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

20. Post-Employment Health Care and Life Insurance Benefits

The Town has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the Town's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2004 was not available.

21. Contributory Retirement System

A. Plan Description and Contribution Information

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) are members of the Concord Contributory Retirement System (CCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the CCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the CCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits

paid. The CCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	265
Terminated plan members entitled to but not yet receiving benefits	78
Active plan members	<u>450</u>
Total	<u>793</u>
Number of participating employers	3

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employees are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

C. Teachers

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

In fiscal year 2004, the Commonwealth of Massachusetts contributed \$ 2,510,647 to the MTRS on behalf of the Town. This is included in the employee benefit expenditures and intergovernmental revenues in the general fund.

22. Risk Management

The government 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 government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

23. Beginning Fund Balance Reclassification

The Town's major governmental funds for fiscal year 2004, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity June 30, 2003 (as previously reported)	Reclassification	Fund Equity June 30, 2003 (as restated)
Alcott School Fund	\$ -	\$ (2,688,520)	\$ (2,688,520)
Non-major funds	<u>5,738,690</u>	<u>2,688,520</u>	<u>8,427,210</u>
Total	\$ <u>5,738,690</u>	\$ <u>-</u>	\$ <u>5,738,690</u>

TOWN OF CONCORD, MASSACHUSETTS
MUNICIPAL LIGHT PLANT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Town of Concord - Municipal Light Plant ("Light Plant") is presented to assist in understanding the Light Plant's financial statements. The financial statements and notes are representations of the Light Plant's management who is responsible for their integrity and objectivity. The Light Plant is an enterprise fund of the Town of Concord.

A. Regulation and Basis of Accounting

Under Massachusetts law, electric rates of the Light Plant are set by the Municipal Light Board and may be changed once every three months. Rate schedules are filed with the Massachusetts Department of Telecommunications and Energy (DTE), formerly known as the Massachusetts Department of Public Utilities (DPU). While the DTE exercises general supervisory authority over the Light Plant, the Light Plant's rates are not subject to DTE approval. The Light Plant's policy is to prepare its financial statements in conformity with the accounting practices prescribed by the DTE which require that certain items be charged or credited directly to surplus. Generally accepted accounting principles would require the same items to be charged or credited to operating income. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

B. Business Activity

The Light Plant purchases electricity which it distributes to consumers within the Town of Concord.

C. Concentrations

Industry - The Light Plant operates within the electric utility industry, which has undergone significant restructuring and deregulation. Legislation was enacted by the Commonwealth of Massachusetts, effective March 1, 1998, which changed the electric utility industry. The basic intent of the law is to introduce competition and provide consumers with choices and lower prices while assuring continued reliable service. Although municipal

utilities are not currently subject to the legislation, the financial impact the changes in the industry will have on the Light Plant is not yet known.

D. Risks and Uncertainties

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

E. Utility Plant

The provision for depreciation of utility plant was computed in 2002 at 3% of the cost of plant in service at the beginning of the year, exclusive of land and land rights. Therefore, no depreciation is taken in the year of plant additions. Massachusetts law stipulates that the Light Plant may change its depreciation rate from the statutory 3% only with the approval of the DTE.

The Light Plant charges maintenance to expense when incurred. Replacements and betterments are charged to utility plant. At the time properties are retired, the cost of property retired less accumulated depreciation, salvage value, and any cash proceeds is charged to unappropriated earned surplus.

F. Materials and Supplies

Materials and supplies are inventories of parts and accessories purchased for use in the utility business for construction, operation and maintenance purposes and are stated at cost.

G. Nonutility Property

Nonutility property consists of the cost of property owned by the Light Plant, that is neither used nor held for future use in utility service. The property was purchased in order to build a sub-station. The sub-station was subsequently built at another location. The Light Plant is currently examining options of disposing the property. No estimate on the gain or loss on disposal can be made at this time.

H. Operating Revenues

Revenues, including revenues from the Town of Concord, are based on rates established by the Light Board and filed with the DTE, which are applied to customers' consumption of electricity.

It is the Light Plant's policy to record an amount which reflects the over (liability) or under (receivable) collected power costs at the end of the year. These amounts will be returned to customers or collected from

customers during the subsequent year. The amount due to customers was \$ 183,865 at December 31, 2002.

I. Taxes

The Light Plant is exempt from federal and state income taxes as well as local property taxes, but pays amounts in lieu of property taxes to the Town of Concord general fund.

J. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Light Plant considers both unrestricted and special deposits on deposit with the Town Treasurer as cash and cash equivalents.

K. Compensated Absences

The Light Plant's employment benefit plan, consistent with the Town's policy, provides that employees are entitled to a minimum of ten days vacation per year up to twenty-five days per year, depending on years of service and employment classification.

L. Post-employment Benefits

In accordance with state statutes and Town policy, post-employment health care and life benefits are provided to all employees who retire from the Town. These benefits are provided through the Town's group plans.

M. Deferred Compensation Plan

The employees of the Department are eligible to participate in the Town's deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Participation in the plan is optional. All amounts of compensation deferred under the plan, all property or rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

2. Investment in Associated Companies

Under agreements with the New England Hydro-Transmission Electric Company, Inc. (NEH) and the New England Hydro-Transmission Corporation (NHH), the Light Plant has funded its equity requirements for the Hydro-Quebec phase II interconnection. The Light Plant's ownership interest is less than one quarter of one percent in both projects. The balance, reflected at cost, was \$ 61,497 for 2002.

3. Long-Term Debt

A summary of the long-term debt at December 31, 2002:

\$ 1,000,000, 5.9% electric bonds, issued April 15, 1991, with annual payments of principal and interest due through April 15, 2005.	\$ 300,000
\$ 2,000,000, 5.3% electric bonds, issued April 15, 1993, with annual payments of principal and interest due through April 15, 2008.	420,000
\$ 500,000, 5.3% electric bonds, issued April 15, 1993, with annual payments of principal and interest through April 15, 2008.	180,000
\$ 6,000,000, 4.7% electric bonds, issued July 15, 1994, with annual payments of principal and interest through July 15, 2013.	<u>3,300,000</u>
Total Long-Term Debt	4,200,000
Less Current Installments of Long-Term Debt	<u>500,000</u>
Long-Term Debt, Excluding Current Installments	\$ <u>3,700,000</u>

The future payments on the long-term debt are as follows:

2003	\$ 500,000
2004	500,000
2005	500,000
2006	400,000
2007	400,000
Later years	<u>1,900,000</u>
Total	\$ <u>4,200,000</u>

Total interest cost was \$ 219,123 in 2002.

4. Deposits with Town Treasurer

The Light Plant is required to establish cash funds to be used for purposes established by either town meeting vote or state statute. The funds subject to restrictions are as follows:

Worker's Compensation Insurance Fund - The Light Plant transfers annual amounts to this fund equal to .09% to 1.66% of certain payroll costs. These transfers amounted to \$ 12,705 in 2002. Claims and premiums of \$ 5,558 were paid from the Fund in 2002.

Depreciation Fund - An amount equivalent to annual depreciation expense is transferred from operating fund cash to the Depreciation Fund. Certain additions to utility plant were paid from this fund. Interest earned by this fund has been applied to increase the fund balance.

Underground Fund - The Light Plant funds this fund, for the purpose of placing existing lines underground, from dividends, purchase power refunds, current operations, and effective June 1, 1999, a 2% charge on all electric bills. Interest earned by this fund has been applied to increase the fund balance.

5. Special Deposits

Special deposits represent cash funds held by the Light Plant for specific purposes. A summary of these funds follows:

Customer advances for construction	\$ 22,596
Customer deposits	154,730
Funds held to retire long-term debt	395,197
Rate stabilization	<u>1,129,322</u>
Total Deposits	\$ <u>1,701,845</u>

6. Power Sales Agreements

In 1993, the Light Plant entered into a power purchase contract (the Agreement) with Boston Edison Company (the Company) in which the Company supplies the Light Plant Full Requirements Service as defined under the Agreement until May 31, 2004. As a result of deregulation, certain provisions in the Agreement could no longer be applied in calculating the Light Plant's wholesale power bill. After several filings at the Federal Energy Regulatory Commission, state court and US District Court, the Company and the Light Plant reached a settlement on modifying the Agreement. The amended agreement contains a changed fuel adjustment clause, a provision allowing the Company to assign the amended agreement, an 11% reduction in the demand and energy base costs and a termination date of May 31, 2002.

The Light Plant has entered into a partial requirements power supply agreement with Constellation Power Source, Inc., a major power supplier in ISO-New England, effective June 1, 2002.

Payments owed by the Light Plant under the Agreement are an electric operating expense paid solely from the Light Plant's electric revenues.

In addition, the Light Plant is required to pay its share of the annual operation, maintenance and tax (OM&T) expenses as provided for under the terms of the Interconnection Agreement with Boston Edison. The Light Plant's total OM&T charges were \$ 67,200 for the year ended December 31, 2002.

Purchased power expense under the Boston Edison agreement was \$ 4,044,808 in 2002. Purchased power expense under the Constellation Power agreement was \$ 5,235,562 in 2002.

7. Pension Plan

The employees of the Light Plant participate in the Town of Concord Contributory Retirement System (the "System") covering Concord Town employees. Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). In addition to investments made by the System, there is a separate trust fund maintained by the Town to provide supplemental funding of the Town's unfunded past service cost. Under an actuarial method, the cost of pension benefits is borne by the Town at the time employee services are rendered. Each year, the Light Plant is assessed by the Town for its share of such pension costs. The Light Plant's contribution to the plan amounted to approximately \$ 249,948 in 2002.

TOWN OF CONCORD, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

Required Supplementary Information
(Unaudited)

Schedules of Funding Progress and Employer Contributions

The following schedules are presented in accordance with Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress
(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
1/01/04	\$ 63,067	\$ 76,564	\$ 13,497	\$ 82.4%	\$ 17,996	75.0%
1/01/02	\$ 56,748	\$ 67,763	\$ 11,015	83.7%	\$ 16,776	65.6%
1/01/00	\$ 56,251	\$ 59,720	\$ 3,469	94.2%	\$ 14,807	23.4%
1/01/98	\$ 43,221	\$ 51,392	\$ 8,171	84.1%	\$ 13,676	59.7%
1/01/96	\$ 33,678	\$ 42,701	\$ 9,023	78.9%	\$ 11,930	75.6%
1/01/94	\$ 27,603	\$ 38,207	\$ 10,604	72.2%	\$ 11,314	93.7%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2004	\$ 2,728,786	100%
2003	\$ 2,654,545	100%
2002	\$ 2,516,203	114%
2001	\$ 2,185,595	118%
2000	\$ 2,120,769	117%
1999	\$ 2,220,255	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/04
Actuarial cost method	Entry age normal
Amortization method	Approximate level percent of payroll
Remaining amortization period	11 years
Asset valuation method	Market value adjusted by payables and receivables
Actuarial assumptions:	
Investment Rate of Return	7.75% per year
Projected Salary Increases	5.00% per year

See Independent Auditors' Report.