

# **Town of Wellesley, Massachusetts**

**Independent Auditors' Report**

**General Purpose Financial Statements**

Year Ended June 30, 2002

*Required Supplementary Information and  
Supplementary Schedules*

Year Ended June 30, 2002

# TOWN OF WELLESLEY, MASSACHUSETTS

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## **INDEPENDENT AUDITORS' REPORT**

To the Audit Committee  
Town of Wellesley, Massachusetts:

We have audited the accompanying general purpose financial statements of the Town of Wellesley, Massachusetts (the "Town") as of June 30, 2002 (December 31, 2001 for the Contributory Retirement System) and for the year then ended, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of the Town of Wellesley, Massachusetts, as of June 30, 2002 (December 31, 2001 for the Contributory Retirement System) and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5, the Town has reported a general fixed assets accounts group as part of the general-purpose financial statements in accordance with accounting principles generally accepted in the United States of America. Prior to the fiscal year ended June 30, 2002, a general fixed assets account group had not been reported as such amounts were not known.

The Schedule of Funding Progress of the Town of Wellesley Contributory Retirement System on pages 34 and 35 is not a required part of the basic financial statements but is 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.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements of the Town taken as a whole. The accompanying combining statements and supplemental schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. These combining statements and supplemental schedules are also the responsibility of the Town's management. Such combining statements and supplemental schedules have been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

November 13, 2002  
(June 6, 2002 as to the Contributory Retirement System)

**TOWN OF WELLESLEY, MASSACHUSETTS**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002 (CONTRIBUTORY RETIREMENT SYSTEM AS OF DECEMBER 31, 2001)**

ASSETS	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	Contributory Retirement	General Fixed Assets	General Long-Term Obligations	2002	2001 (As Restated)
CASH AND CASH EQUIVALENTS	\$ 4,817,697	\$ 1,524,838	\$ 7,649,759	\$ 8,133,812	\$ 155,466	\$ 235,389	\$ 231,867	\$ -	\$ -	\$ 22,748,828	\$ 27,171,237
INVESTMENTS	3,795,819	1,224,079	7,066,373	6,229,922	1,957,734	11,486,702	114,920,301	-	-	146,680,930	156,891,310
RECEIVABLES:											
Real estate and personal property taxes (net of allowance for abatements of \$30,263)	29,025,356	-	-	-	-	-	-	-	-	29,025,356	26,465,096
Customer accounts	-	-	-	2,406,019	-	-	-	-	-	2,406,019	3,016,263
Other receivables	240,374	-	-	-	18,319	-	1,487,143	-	-	1,745,836	3,174,966
DUE FROM OTHER GOVERNMENTS	-	540,257	-	-	-	-	-	-	-	540,257	83,719
INVENTORY	-	-	-	617,926	-	-	-	-	-	617,926	703,358
RESTRICTED ASSETS	-	-	-	517,930	-	-	-	-	-	517,930	567,554
FIXED ASSETS (Net, where applicable of accumulated depreciation)	-	-	-	52,061,059	-	-	-	82,320,758	-	134,381,817	114,556,439
OTHER ASSETS	-	-	-	93,245	-	-	-	-	-	93,245	27,492
AMOUNT TO BE PROVIDED FOR:											
Retirement of general long-term debt	-	-	-	-	-	-	-	-	21,485,000	21,485,000	24,510,000
Compensated absences	-	-	-	-	-	-	-	-	836,617	836,617	653,430
Claims and judgements	-	-	-	-	-	-	-	-	215,000	215,000	-
<b>TOTAL ASSETS</b>	<b>\$ 37,879,246</b>	<b>\$ 3,289,174</b>	<b>\$ 14,716,132</b>	<b>\$ 70,059,913</b>	<b>\$ 2,131,519</b>	<b>\$ 11,722,091</b>	<b>\$ 116,639,311</b>	<b>\$ 82,320,758</b>	<b>\$ 22,536,617</b>	<b>\$ 361,294,761</b>	<b>\$ 357,820,864</b>

(Continued)

**TOWN OF WELLESLEY, MASSACHUSETTS**

**COMBINED BALANCE SHEET**

**ALL FUND TYPES AND ACCOUNT GROUPS**

**JUNE 30, 2002 (CONTRIBUTORY RETIREMENT SYSTEM AS OF DECEMBER 31, 2001)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	Contributory Retirement	General Fixed Assets	General Long-Term Obligations	2002	2001
										2002	(As Restated)
<b>LIABILITIES AND FUND EQUITY AND OTHER BALANCES</b>											
<b>LIABILITIES:</b>											
Accounts payable and accrued expenses	\$ 3,685,936	\$ 350,385	\$ 2,963,426	\$ 3,010,461	\$ 83,639	\$ -	\$ 913,364	\$ -	\$ -	\$ 11,007,211	\$ 10,852,829
Bond anticipation notes payable	-	-	15,780,000	240,000	-	-	-	-	-	16,020,000	2,980,000
Deferred revenues	28,478,796	-	-	-	18,319	-	-	-	-	28,497,115	26,406,387
Long-term debt	-	-	-	4,740,000	-	-	-	-	21,485,000	26,225,000	29,690,000
Compensated absences	-	-	-	43,523	-	-	-	-	836,617	880,140	653,430
Workers' compensation liability	-	-	-	-	806,000	-	-	-	-	806,000	778,000
Other liabilities	365,654	-	-	631,912	-	235,389	-	-	215,000	1,447,955	727,930
<b>Total liabilities</b>	<b>32,530,386</b>	<b>350,385</b>	<b>18,743,426</b>	<b>8,665,896</b>	<b>907,958</b>	<b>235,389</b>	<b>913,364</b>	<b>-</b>	<b>22,536,617</b>	<b>84,883,421</b>	<b>72,088,576</b>
<b>FUND EQUITY AND OTHER BALANCES:</b>											
Investment in general fixed assets	-	-	-	-	-	-	-	82,320,758	-	82,320,758	62,604,744
Contributions in aid of construction	-	-	-	12,921,663	-	-	-	-	-	12,921,663	12,618,025
Contributed capital	-	-	-	7,015,786	-	-	-	-	-	7,015,786	7,084,548
Retained earnings:											
Reserved for continued appropriations	-	-	-	703,759	12,721	-	-	-	-	716,480	1,388,798
Unreserved	-	-	-	40,752,809	1,210,840	-	-	-	-	41,963,649	39,544,069
Fund balances:											
Reserved for employees' pension benefits	-	-	-	-	-	-	115,725,947	-	-	115,725,947	127,990,451
Reserved for encumbrances	387,392	411,390	438,562	-	-	-	-	-	-	1,237,344	420,067
Reserved for continued appropriations	3,224,080	329,356	-	-	-	-	-	-	-	3,553,436	2,527,264
Receipts reserved for appropriations	-	-	-	-	-	-	-	-	-	-	371,718
Reserved for construction	-	-	(4,465,856)	-	-	-	-	-	-	(4,465,856)	13,724,319
Reserved for deferred compensation plan benefits	-	-	-	-	-	6,795,250	-	-	-	6,795,250	7,021,047
Overlay deficit	(74,615)	-	-	-	-	-	-	-	-	(74,615)	-
Reserved for nonexpendable trusts	-	-	-	-	-	482,610	-	-	-	482,610	481,335
Unreserved	1,812,003	2,198,043	-	-	-	4,208,842	-	-	-	8,218,888	9,955,903
<b>Total fund equity and other balances</b>	<b>5,348,860</b>	<b>2,938,789</b>	<b>(4,027,294)</b>	<b>61,394,017</b>	<b>1,223,561</b>	<b>11,486,702</b>	<b>115,725,947</b>	<b>82,320,758</b>	<b>-</b>	<b>276,411,340</b>	<b>285,732,288</b>
<b>TOTAL LIABILITIES AND FUND EQUITY AND OTHER BALANCES</b>	<b>\$ 37,879,246</b>	<b>\$ 3,289,174</b>	<b>\$ 14,716,132</b>	<b>\$ 70,059,913</b>	<b>\$ 2,131,519</b>	<b>\$ 11,722,091</b>	<b>\$ 116,639,311</b>	<b>\$ 82,320,758</b>	<b>\$ 22,536,617</b>	<b>\$ 361,294,761</b>	<b>\$ 357,820,864</b>

See notes to general-purpose financial statements.

(Concluded)

# TOWN OF WELLESLEY, MASSACHUSETTS

## COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS), ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS YEAR ENDED JUNE 30, 2002

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	2002	2001
REVENUES:						
Property taxes – net of abatements	\$ 53,717,036	\$ -	\$ -	\$ -	\$ 53,717,036	\$ 48,364,287
Intergovernmental	11,972,684	2,292,726	-	-	14,265,410	14,330,776
Motor vehicle excise tax	3,903,497	-	-	-	3,903,497	3,837,247
Local receipts	3,046,542	-	-	-	3,046,542	3,165,178
Investment income	1,215,187	-	-	201,280	1,416,467	2,190,595
School lunches	-	781,649	-	-	781,649	973,019
Parking meter receipts	-	526,510	-	-	526,510	540,097
Change in fair value of investments	(24,487)	(7,896)	(45,585)	(1,234,188)	(1,312,156)	(1,475,094)
Other	828,961	1,798,418	193,825	905,387	3,726,591	3,462,245
<b>Total revenues</b>	<b>74,659,420</b>	<b>5,391,407</b>	<b>148,240</b>	<b>(127,521)</b>	<b>80,071,546</b>	<b>75,388,350</b>
EXPENDITURES:						
Current:						
General government	3,266,160	96,132	-	-	3,362,292	3,496,629
Protection of persons and property	8,348,825	603,171	-	-	8,951,996	8,554,234
Health and sanitation	484,353	25,453	-	-	509,806	417,514
Public works	6,203,231	442,577	-	-	6,645,808	6,545,059
Public education	36,408,386	3,447,750	-	-	39,856,136	37,205,546
Recreation	704,608	52,705	-	-	757,313	791,723
Traffic and parking management	-	429,821	-	-	429,821	432,492
Veterans' services	45,518	39,269	-	-	84,787	73,337
Libraries	2,149,272	83,234	-	-	2,232,506	2,236,426
State and county assessments	1,021,764	-	-	-	1,021,764	1,019,278
Other	-	27,092	-	199,406	226,498	251,392
Unclassified:						
Pension	5,201,661	-	-	-	5,201,661	5,909,834
Insurance	6,371,015	-	-	-	6,371,015	4,784,500
Miscellaneous	339,020	-	-	-	339,020	581,527
Capital outlay	-	-	18,369,686	-	18,369,686	4,707,429
Debt service (including interest of \$1,177,308)	5,467,308	-	-	-	5,467,308	4,332,350
<b>Total expenditures</b>	<b>76,011,121</b>	<b>5,247,204</b>	<b>18,369,686</b>	<b>199,406</b>	<b>99,827,417</b>	<b>81,339,270</b>
<b>(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>(1,351,701)</b>	<b>144,203</b>	<b>(18,221,446)</b>	<b>(326,927)</b>	<b>(19,755,871)</b>	<b>(5,950,920)</b>

(Continued)

# TOWN OF WELLESLEY, MASSACHUSETTS

## COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICITS), ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS YEAR ENDED JUNE 30, 2002

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	2002	2001
OTHER FINANCING SOURCES (USES):						
Proceeds from issuance of debt	-	-	-	-	-	18,400,000
Operating transfers in	931,650	431,944	672,000	322,500	2,358,094	2,880,267
Operating transfers out	(494,500)	(194,124)	(232,470)	(1,437,000)	(2,358,094)	(2,880,666)
Electric fund distribution	1,000,000	-	-	-	1,000,000	1,000,000
Total other financing sources (uses)	<u>1,437,150</u>	<u>237,820</u>	<u>439,530</u>	<u>(1,114,500)</u>	<u>1,000,000</u>	<u>19,399,601</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	85,449	382,023	(17,781,916)	(1,441,427)	(18,755,871)	13,448,681
FUND BALANCES, Beginning of year	<u>5,263,411</u>	<u>2,556,766</u>	<u>13,754,622</u>	<u>12,445,519</u>	<u>34,020,318</u>	<u>20,571,637</u>
FUND BALANCES, End of year	<u>\$ 5,348,860</u>	<u>\$ 2,938,789</u>	<u>\$ (4,027,294)</u>	<u>\$ 11,004,092</u>	<u>\$ 15,264,447</u>	<u>\$ 34,020,318</u>

(Concluded)

See notes to general-purpose financial statements.



TOWN OF WELLESLEY, MASSACHUSETTS

COMBINED STATEMENT OF REVENUES AND EXPENDITURES, BUDGET AND ACTUAL  
(BUDGETARY BASIS), GENERAL AND SPECIAL REVENUE – TRAFFIC AND PARKING MANAGEMENT FUNDS  
YEAR ENDED JUNE 30, 2002

	General Fund				Special Revenue Fund – Traffic and Parking Management			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:								
Budgeted:								
Property taxes – net of abatements	\$ 53,717,036	\$ 53,717,036	\$ 53,717,036	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	6,870,523	6,870,523	6,848,213	(22,310)	-	-	-	-
Motor vehicle excise tax	4,100,000	4,100,000	3,903,497	(196,503)	-	-	-	-
Local receipts	3,203,495	3,203,495	3,046,542	(156,953)	-	-	-	-
Investment income	1,685,000	1,685,000	1,215,187	(469,813)	-	-	-	-
Parking meter receipts	-	-	-	-	458,514	458,514	526,510	67,996
Change in fair value of investments	-	-	(24,487)	(24,487)	-	-	-	-
Other	132,500	203,752	343,536	139,784	-	-	-	-
Nonbudgeted	-	-	5,609,896	5,609,896	-	-	-	-
Total revenues	<u>69,708,554</u>	<u>69,779,806</u>	<u>74,659,420</u>	<u>4,879,614</u>	<u>458,514</u>	<u>458,514</u>	<u>526,510</u>	<u>67,996</u>
EXPENDITURES:								
Current:								
General government	3,413,137	3,925,840	3,823,751	102,089	-	-	-	-
Protection of persons and property	8,118,820	8,352,500	8,285,161	67,339	-	-	-	-
Health and sanitation	486,931	492,536	455,321	37,215	-	-	-	-
Public works	5,413,385	6,781,603	6,615,319	166,284	-	-	-	-
Public education	36,697,018	37,140,988	36,875,537	265,451	-	-	-	-
Recreation	864,336	869,466	700,649	168,817	-	-	-	-
Veterans' services	55,890	59,650	47,052	12,598	-	-	-	-
Libraries	2,232,898	2,260,520	2,149,525	110,995	-	-	-	-
State and county assessments	980,517	980,517	1,021,764	(41,247)	-	-	-	-
Traffic and parking management	-	-	-	-	389,764	547,264	489,084	58,180
Unclassified	6,661,790	6,754,844	6,587,753	167,091	-	-	-	-
Debt service	5,491,447	5,491,447	5,467,308	24,139	-	-	-	-
Nonbudgeted	-	-	5,435,610	(5,435,610)	-	-	-	-
Total expenditures	<u>70,416,169</u>	<u>73,109,911</u>	<u>77,464,750</u>	<u>(4,354,839)</u>	<u>389,764</u>	<u>547,264</u>	<u>489,084</u>	<u>58,180</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES	<u>(707,615)</u>	<u>(3,330,105)</u>	<u>(2,805,330)</u>	<u>524,775</u>	<u>68,750</u>	<u>(88,750)</u>	<u>37,426</u>	<u>126,176</u>
OTHER FINANCING SOURCES (USES):								
Operating transfers in	68,750	938,220	931,650	(6,570)	-	-	-	-
Operating transfers out	(322,500)	(494,500)	(494,500)	-	(68,750)	(68,750)	(62,180)	6,570
Electric fund distribution	1,000,000	1,000,000	1,000,000	-	-	-	-	-
Total other financing sources (uses)	<u>746,250</u>	<u>1,443,720</u>	<u>1,437,150</u>	<u>(6,570)</u>	<u>(68,750)</u>	<u>(68,750)</u>	<u>(62,180)</u>	<u>6,570</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>38,635</u>	<u>(1,886,385)</u>	<u>\$ (1,368,180)</u>	<u>\$ 518,205</u>	<u>-</u>	<u>(157,500)</u>	<u>\$ (24,754)</u>	<u>\$ 132,746</u>
OTHER BUDGET ITEMS:								
Unreserved fund balance	-	1,690,020	-	-	-	157,500	-	-
Prior year state assessment raised	(38,635)	(38,635)	-	-	-	-	-	-
Overlays surplus	-	235,000	-	-	-	-	-	-
Net budget	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to general purpose financial statements.

**TOWN OF WELLESLEY, MASSACHUSETTS**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS,  
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS  
YEAR ENDED JUNE 30, 2002**

	Enterprise	Internal Service	Nonexpendable Trust Funds	Total (Memorandum Only) 2002	Total (Memorandum Only) 2001
OPERATING REVENUES	\$28,627,080	\$ 11,352,812	\$ -	\$39,979,892	\$37,005,890
OPERATING EXPENSES:					
Production (purchased power)	14,115,832	-	-	14,115,832	16,965,577
Transmission and distribution	2,047,689	-	-	2,047,689	1,701,790
Source of supply	253,352	-	-	253,352	584,993
Pumping and treatment	678,393	-	-	678,393	654,906
Collection	3,839,603	-	-	3,839,603	3,846,937
Customer accounts	538,462	-	-	538,462	550,333
Administrative and general	1,514,597	-	-	1,514,597	1,261,346
Supplies and services	-	11,781,516	-	11,781,516	10,126,314
Depreciation	2,315,352	-	-	2,315,352	2,173,375
Total operating expenses	<u>25,303,280</u>	<u>11,781,516</u>	<u>-</u>	<u>37,084,796</u>	<u>37,865,571</u>
OPERATING INCOME (LOSS)	<u>3,323,800</u>	<u>(428,704)</u>	<u>-</u>	<u>2,895,096</u>	<u>(859,681)</u>
NONOPERATING REVENUES (EXPENSES):					
Change in fair value of investments	(40,189)	(98,028)	250	(137,967)	(69,054)
Interest	88,094	100,446	20	188,560	235,272
Other – net	(198,157)	-	1,005	(197,152)	90,031
Total nonoperating revenues (expenses)	<u>(150,252)</u>	<u>2,418</u>	<u>1,275</u>	<u>(146,559)</u>	<u>256,249</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	3,173,548	(426,286)	1,275	2,748,537	(603,432)
OPERATING TRANSFERS:					
Payment to Town in lieu of taxes	(1,000,000)	-	-	(1,000,000)	(1,000,000)
Transfers from other funds	-	-	-	-	399
NET INCOME (LOSS)	2,173,548	(426,286)	1,275	1,748,537	(1,603,033)
RETAINED EARNINGS, Beginning of year	<u>39,283,020</u>	<u>1,649,847</u>	<u>481,335</u>	<u>41,414,202</u>	<u>43,017,235</u>
RETAINED EARNINGS, End of year	<u>\$41,456,568</u>	<u>\$ 1,223,561</u>	<u>\$482,610</u>	<u>\$43,162,739</u>	<u>\$41,414,202</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION AND CONTRIBUTED CAPITAL, Beginning of year	\$19,702,573	\$ -	\$ -	\$19,702,573	\$19,341,063
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>234,876</u>	<u>-</u>	<u>-</u>	<u>234,876</u>	<u>361,510</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION AND CONTRIBUTED CAPITAL, End of year	<u>\$19,937,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$19,937,449</u>	<u>\$19,702,573</u>

See notes to general-purpose financial statements.

# TOWN OF WELLESLEY, MASSACHUSETTS

## COMBINED STATEMENT OF CASH FLOWS, ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS YEAR ENDED JUNE 30, 2002

	Enterprise	Internal Service	Nonexpendable Trust Funds	Total (Memorandum Only) 2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ 3,323,800	\$ (428,704)	\$ -	\$ 2,895,096	\$ (859,681)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:					
Depreciation and amortization	2,477,012	-	-	2,477,012	2,291,208
Loss on disposal of fixed assets	80,289	-	-	80,289	87,779
Cash paid to Town in lieu of taxes	(1,000,000)	-	-	(1,000,000)	(1,000,000)
Changes in assets and liabilities:					
Customer accounts receivable	610,246	-	-	610,246	1,488,643
Inventory	85,432	-	-	85,432	(81,213)
Other assets	(12,561)	324,856	-	312,295	594,913
Accounts payable and accrued expenses	(1,290,449)	(31,027)	-	(1,321,476)	1,187,832
Other liabilities	112,412	28,000	-	140,412	23,792
Total adjustments	1,062,381	321,829	-	1,384,210	4,592,954
Net cash flows from operating activities	4,386,181	(106,875)	-	4,279,306	3,733,273
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Proceeds from merchandising, jobbing, damages, equipment operation, installations and other nonoperating activities	1,013,017	-	1,025	1,014,042	969,040
Payments for merchandising, jobbing, damages, equipment operation, installations and other nonoperating activities	(978,027)	-	-	(978,027)	(589,133)
Net cash flows from noncapital financing activities	34,990	-	1,025	36,015	379,907
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from bond anticipation note	240,000	-	-	240,000	425,000
Principal payments on bond anticipation note	-	-	-	-	-
Principal payments on general obligation bonds	(865,000)	-	-	(865,000)	(1,050,000)
Interest paid	(231,012)	-	-	(231,012)	(289,477)
Capital expenditures	(2,666,666)	-	-	(2,666,666)	(4,230,484)
Contributions in aid of construction	234,876	-	-	234,876	361,510
Net cash flows from capital and related financing activities	(3,287,802)	-	-	(3,287,802)	(4,783,451)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Change in short-term investments	(569,480)	-	-	(569,480)	4,284,048
Change in fair value of investments	(40,189)	(98,028)	250	(137,967)	(69,054)
Purchase of investments	-	-	(482,610)	(482,610)	-
Interest received	85,958	100,446	-	186,404	235,272
Net cash flows from investing activities	(523,711)	2,418	(482,360)	(1,003,653)	4,450,266
CHANGE IN CASH AND CASH EQUIVALENTS	609,658	(104,457)	(481,335)	23,866	3,779,995
CASH AND CASH EQUIVALENTS, Beginning of year	7,524,154	259,923	481,335	8,265,412	4,485,417
CASH AND CASH EQUIVALENTS, End of year	\$ 8,133,812	\$ 155,466	\$ -	\$ 8,289,278	\$ 8,265,412

See notes to general-purpose financial statements.

# TOWN OF WELLESLEY, MASSACHUSETTS

## STATEMENT OF CHANGES IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS) YEAR ENDED DECEMBER 31, 2001

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### ADDITIONS:

#### Contributions:

Participant contributions	\$ 1,856,592
Housing authority and other contributions	<u>759,896</u>

Total contributions	<u>2,616,488</u>
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#### Net investment income:

Net depreciation in fair value of investments	(12,568,010)
Interest and dividend income	<u>4,940,456</u>

Total investment income	(7,627,554)
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Less administrative expenses	<u>(607,326)</u>
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Net investment income	<u>(8,234,880)</u>
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Total additions	<u>(5,618,392)</u>
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### DEDUCTIONS:

Benefits	6,388,377
Pension reimbursements	<u>257,735</u>

Total deductions	<u>6,646,112</u>
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NET DECREASE	(12,264,504)
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### NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,

Beginning of year (Fund balance reserved for employees' pension benefits)	<u>127,990,451</u>
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### NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,

End of year (Fund balance reserved for employees' pension benefits)	<u><u>\$115,725,947</u></u>
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See notes to general-purpose financial statements.

# TOWN OF WELLESLEY, MASSACHUSETTS

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUND YEAR ENDED JUNE 30, 2002

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	Balance, June 30, 2001	Additions	Deductions	Balance, June 30, 2002
<b>ASSETS</b>				
CASH	<u>\$204,385</u>	<u>\$49,074</u>	<u>\$18,070</u>	<u>\$235,389</u>
TOTAL ASSETS	<u>\$204,385</u>	<u>\$49,074</u>	<u>\$18,070</u>	<u>\$235,389</u>
<b>LIABILITIES</b>				
OTHER LIABILITIES	<u>\$204,385</u>	<u>\$49,074</u>	<u>\$18,070</u>	<u>\$235,389</u>
TOTAL LIABILITIES	<u>\$204,385</u>	<u>\$49,074</u>	<u>\$18,070</u>	<u>\$235,389</u>

See notes to general-purpose financial statements.

# TOWN OF WELLESLEY, MASSACHUSETTS

## NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of the Town of Wellesley, Massachusetts (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below:

- a. **Reporting Entity** – GAAP requires that the accompanying general-purpose financial statements present the Town (the primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. Pursuant to this criteria, the Town of Wellesley's Contributory Retirement System (the "System") has been identified as a component unit. The System was established under the authority of Chapter 32 of the Massachusetts General Laws, as amended, and is an independent contributory retirement system available to employees of the Town. The powers of the System are vested in the Retirement Board. The System has been blended into the Town's Fiduciary Funds for reporting purposes. Audited financial statements for the System have been issued in a separate report. A copy of this report can be obtained from the Board of Selectmen's Office (the "Selectmen").

The Town was incorporated in 1881 under the statutes of the Commonwealth of Massachusetts (the "Commonwealth"). The Town operates under a representative town meeting form of government and provides the following services: general and administrative services, individual and community protection, education, health, culture, leisure time, environmental preservation, community development, planning and zoning, electric, water and sewer, and highway and street construction and maintenance. This report includes the fund types and account groups required to account for these activities.

- b. **Basis of Presentation** – The accounts of the Town are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements into three broad fund categories composed of seven fund types and two account groups as follows:

#### Governmental Funds

*General Fund* is the principal fund of the Town and is used to account for financial transactions not properly accounted for in another fund.

*Special Revenue Funds* are used to provide separate accountability for revenues that are restricted to expenditures for specified purposes (other than major capital projects or expendable trusts).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### b. *Basis of Presentation (Continued)* –

#### Governmental Funds (Continued)

*Capital Projects Funds* are used to account for resources used for the acquisition of major capital assets except those financed entirely by the General or Proprietary Funds.

#### Proprietary Funds

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

*Internal Service Fund* is used to account for the financing of goods or services provided by one department to other departments of the Town on a cost-reimbursement basis. The Town's Internal Service Funds are used to account for the financing of medical claims of all covered town employees and their covered dependents, the financing of the self-insured workers' compensation plan, information technology services, fleet maintenance and various inventories. Amounts are charged to other funds and covered employees for services provided.

#### Fiduciary Funds

*Trust and Agency Funds* are used to account for assets held by the Town in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

*The Contributory Retirement System Fund* is used to account for the assets, liabilities, and changes in net assets available for benefits of the Town-administered retirement system.

#### Account Groups

*The General Fixed Assets Account Group* is used to account for fixed assets not accounted for in the proprietary fund.

*The General Long-Term Obligations Account Group* is used to account for general obligation bonds and other forms of long-term obligations of the Town that are backed by the full faith and credit of the Town and not recorded within Proprietary Funds.

- c. ***Measurement Focus*** – All Governmental Funds and Expendable Trust Funds are accounted for on a spending or “financial flow” measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheets. The reported fund balance is considered a measure of “available spendable resources.” Governmental Fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Accordingly, such statements present a summary of sources and uses of “available spendable resources” during a period.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- c. **Measurement Focus (Continued)** – Receivables payable to the Town’s Governmental Funds represent property tax receivables recognized in advance of the year for which they are levied. These receivables are recorded as deferred revenues and recognized as revenue in the year for which they are levied.

Because of its spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as Governmental Fund type expenditures or fund liabilities, but are reported as liabilities in the General Long-Term Obligations Account Group.

Proprietary Funds are accounted for on a cost of services or “capital maintenance” measurement focus. With this measurement focus, all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary Fund-type operating statements present increases (revenues) and decreases (expenses) in net total assets.

- d. **Basis of Accounting** – Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the general-purpose financial statements. Basis of accounting relates to the timing of measurements made regardless of the measurement focus applied.

Governmental Funds and Expendable Trust Funds are accounted for using the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise taxes, amounts due under grants, charges for services, and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) principal and interest on general long-term debt which are recognized when due.

Agency Fund assets and liabilities are accounted for on the modified accrual basis of accounting.

Proprietary Funds, Nonexpendable Trust Funds, and the Contributory Retirement System are accounted for using the accrual basis of accounting. These revenues are recognized when they are earned, and these expenses are recognized when they are incurred.

Expenditures are generally recorded when goods or services are received. An exception is that principal and interest on obligations reflected in the General Long-Term Debt Account Group are recorded as expenditures when due. Additional exceptions are that expenditures for compensated absences and claims and judgments reflected in the General Long-Term Debt Account Group are recorded when paid.



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- d. Basis of Accounting (Continued)* – In accordance with GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,” the Town applies all Financial Accounting Standards Board (“FASB”) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case GASB prevails. The Town has elected not to adopt the FASB statements and interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.”
- e. Budgets and Appropriations* – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all Governmental Funds, except as noted below in the discussion of continued appropriations. Appropriations for the General and Internal Service Funds of the Town are made at the Annual Town Meeting, which is held each March. Appropriations may also be voted at special Town Meetings. The Town has an advisory committee which submits reports on proposed appropriations at Town Meetings. The Town does not vote on annual appropriations for the Special Revenue and Capital Projects Funds.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations among departments require the approval of the Town Meeting.

All annual appropriations lapse at fiscal year end. Appropriations for certain projects and specific items not fully expended at fiscal year end are carried forward as continued appropriations to the new fiscal year and are reported as a component of fund balance. Expenditures from continued appropriations are recorded as current year expenditures of the General Fund in the combined statement of revenues, expenditures, and changes in fund balance, budget and actual (budgetary basis).

The school budget included within the General Fund is limited to the amount appropriated by the Town Meeting, but the School Committee retains full power to allocate the funds appropriated.

The Town Meeting does not vote general operating appropriations for Enterprise Funds (Electric, Water and Sewer Funds), but rather authorizes these self-supporting enterprises to incur expenses from receipts. In the case of the Electric Fund, this is done without limit as to amount. (The Municipal Light Board may appropriate Electric Funds without Town Meeting approval.) In the case of the Water and Sewer Funds, a cap on the level of expenditures is generally voted on at the Town Meeting.

It is unlawful to authorize an expenditure in excess of the amounts which have been appropriated by Town Meetings.

The combined statement of revenues, expenditures, and changes in fund balance, budget and actual (budgetary basis), General and Special Revenue – Traffic and Parking Management Funds has been prepared on a budgetary basis, which is substantially the same as a GAAP basis.

Encumbrance accounting is employed in Governmental Funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- f. Cash and Cash Equivalents* – Cash and cash equivalents consist substantially of interest-bearing deposits with financial institutions and investments with original maturities of three months or less.

The Town follows the practice of pooling cash and cash equivalents for all funds, except the Fiduciary Fund types. Interest earned on pooled cash and cash equivalents is allocated primarily to the General Fund. Interest earned on pooled cash from the Enterprise Funds is primarily retained by the Governmental Fund types.

- g. Investments* – Investments in equity securities with readily determinable fair values and all investments in debt securities, which are held by governmental entities other than external investment pools and defined benefit pension plans, are reported at fair value based on quoted market prices. In accordance with authorized investment regulations, the Contributory Retirement System invests in various structured notes, floating rate bonds, mortgage-backed securities, and mutual funds with investments in derivative financial instruments in order to maximize the investment yield from the portfolio.

The defined contribution plan and the deferred compensation plan invest in mutual funds, which are recorded at their quoted market value.

- h. Inventory* – Materials and supplies held by the Enterprise Funds are generally recorded at the lower of cost or market, using the first-in, first-out method.

- i. Restricted Assets* – Assets within the individual funds, which can be designated by the Town for any use within the fund's purpose, are considered to be unrestricted assets. Assets which are restricted for specific use by bonded debt requirements, grant provisions, state law, or other requirements are classified as restricted assets.

- j. Fixed Assets* – Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in Governmental Funds. Public domain general fixed assets (infrastructure) consisting of certain improvements other than buildings including; roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and other assets that are immovable and of value only to the Town, are not capitalized along with other general fixed assets. Fixed assets are valued at historical costs or estimated fair market value on the date donated. Assets in the general fixed assets account group are not depreciated.

Fixed assets of the proprietary funds are recorded at cost, if purchased, and at fair value at date of gift, if donated, except in the Electric Fund, where in accordance with the Federal Energy Regulatory Commission contributed assets are recorded at zero cost. Depreciation of all exhaustable property, plant, and equipment used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- j. Fixed Assets (Continued)* – Buildings with a cost greater than \$100,000, improvements other than buildings with a cost greater than \$50,000, and equipment with a cost greater than \$25,000 and an estimated useful life of greater than five years are capitalized and reported in the accompanying general-purpose financial statements. Fixed asset costs include the purchase price or construction cost, plus those costs necessary to place the asset in its intended location and condition for use. In Governmental Funds, interest costs on self-constructed assets are not capitalized. In Proprietary Funds, interest costs (if material) on self-constructed assets are included in the cost. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset.

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

Buildings	10-40 years
Improvements other than buildings	20-30 years
Equipment	5-21 years

The cost of maintenance and repairs that do not add to the value of the asset or materially extend the assets life are not included in the general fixed assets account group or capitalized in the proprietary funds.

- k. Revenues of Enterprise Funds* – Customers’ meters are read and bills are rendered on a cycle basis.
- l. Accumulated Unpaid Vacation and Sick Pay* – Compensated absences incurred by Governmental and Enterprise Fund types are recorded in the funds if they normally will be liquidated with then-expendable available resources; otherwise, they are recorded in the General Long-Term Obligations Account Group. Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rates of pay. Firefighters are paid for 100% of their sick leave days up to a maximum of 520 hours upon termination of employment. Similarly, uniformed police personnel are paid for 50% of their sick leave days upon termination of employment. Employees may not accumulate vacation days for subsequent use. Employees separated from employment are paid for unused vacation days earned.
- m. Transfers* – Transfers of resources from a fund-receiving revenue to the fund through which the resources are to be expended are recorded as operating transfers and are reported as other financing sources (uses).
- n. Fund Equity* – Contributed capital is recorded in Enterprise Funds within Proprietary Fund types that have received capital grants or contributions from developers, customers, or other funds. Reserves represent those portions of fund equity not able to be appropriated for expenditure or which are legally segregated for a specific future use.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- o. Total Columns on Combined Statements* – The total columns on the combined statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with GAAP. Additionally, such data is not comparable to a consolidation. Interfund eliminations have not been considered in the aggregation of this data.
- p. On-Behalf Payments* – During fiscal year 1996, the Town was required to adopt GASB Statement No. 24, “Accounting and Financial Reporting for Certain Grants and Other Financial Assistance.” GASB Statement No. 24 requires the Town to recognize, as income, certain payments made on behalf of the Town by the Commonwealth. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers’ Retirement Board (the “State Plan”) on behalf of the Town’s teaching employees; the Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2002, the Commonwealth provided the Town with the amounts paid to the State Plan on behalf of employees of the Town, or with information for the Town to use in estimating the amounts paid by the Commonwealth on behalf of the Town’s teaching employees. Accordingly, the accompanying general-purpose financial statements include the required adjustments, which have increased both intergovernmental revenues and pension expenditures by \$5,124,471.

- q. Use of Estimates* – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

The Town and the System invest in various securities including U.S. Government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the general purpose financial statements.

- r. Comparative Data/Reclassifications* – Comparative total data for the prior year have been presented in selected sections of the accompanying general-purpose financial statements in order to provide an understanding of the changes in the Town’s financial position and operations.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- s. **Future Adoption of Accounting Pronouncements** – The GASB has issued the following statements which the Town has not yet adopted and which require adoption subsequent to June 30, 2002:

Statement No.		Adoption Required in Fiscal Year
34	“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”	June 30, 2003
37	“Basic Financial Statements and Management Discussion and Analysis for State and Local Governments; Omnibus”	June 30, 2003
38	“Certain Financial Statement Note Disclosures”	June 30, 2003
39	“Determining Whether Certain Organizations Are Component Units – An Amendment of GASB Statement 14”	June 30, 2003

The implications of these statements on the Town’s fiscal practices and financial reports are being evaluated.

## 2. PROPERTY TAXES

**Levy** – Property taxes are levied each July for the following fiscal year ending June 30. The taxes for each fiscal year are due in four quarterly installments and are payable upon receipt of notice. Property taxes are recorded as receivables and deferred revenues at the time quarterly installments are billed. Interest accrues on delinquent taxes at the rate of 14% per annum and is recognized as revenue when received.

The assessed value for the tax roll, upon which the original fiscal year 2002 levy was based, was \$6,668,864,100.

**Lien** – Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and bankruptcy and insolvency laws. In addition, real property is subject to a lien for certain unpaid municipal charges or fees. If the property has been transferred, an unenforced lien expires on the third October 1, after the fiscal year levied. If the property has not been transferred by the third October 1, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment.

**Personal Liability** – The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property by the Town.

**Limitations** – The Town is subject to certain limitations on the amount of property taxes it may levy. A statewide property tax limitation statute known as “Proposition 2½” limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2½ limits the total levy to an amount not greater than 2½% of the total assessed value of all taxable property within the Town. Secondly, the tax levy cannot increase by more than 2½% of the prior year’s levy limit plus the taxes on property newly added to the tax rolls. During fiscal years 2001 and 2002, voters approved operating overrides of \$750,000 and \$1,967,821, respectively.

## 2. PROPERTY TAXES (CONTINUED)

**Limitations (Continued)** – Certain provisions of Proposition 2½ can be overridden by a Town-wide referendum. The voters have authorized that the amounts required to pay for certain bonds issued be exempt from the Proposition 2½ limitations, including: 1990 for school renovations; 1996 for improvements to a recycling and disposal facility; and 2000 for two school expansion/renovation projects.

## 3. CASH AND INVESTMENTS

The Town maintains a cash and investments pool that is available for use by all funds, except the Fiduciary Fund types. Each fund type's portion of this pool is classified as "cash and cash equivalents," "investments," or "restricted assets" on the combined balance sheet. The cash and investments of the Fiduciary Fund types are held separately from other Town funds.

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, money market deposits, term deposits, and certificates of deposit) in any one financial institution may not exceed certain levels defined by statute. Investments may only be made in securities issued or unconditionally guaranteed by the United States Government or its agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust.

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

**Deposits** – The Town maintains deposits in several financial institutions which are subject to federal depository insurance.

Deposits, including restricted amounts (see Note 4) of \$517,930 at June 30, 2002 (December 31, 2001 as to the Contributory Retirement System), are summarized as follows:

	<b>Bank Balance</b>	<b>Carrying Amount</b>	<b>Insured Amount</b>
Financial institutions	\$ 5,875,459	\$ 5,877,708	\$600,000
Massachusetts Municipal Depository Trust	<u>17,389,050</u>	<u>17,389,050</u>	<u>-</u>
Total	<u>\$23,264,509</u>	<u>\$23,266,758</u>	<u>\$600,000</u>

**Investments** – The following tables summarize the fair value and risk characteristics (categories) of the Town's and the Contributory Retirement System's investments as of year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the name of the Town or the Contributory Retirement System.

### 3. CASH AND INVESTMENTS (CONTINUED)

*Investments (Continued)* – Investments (excluding Contributory Retirement System amounts, see below) at June 30, 2002 are summarized as follows:

	Category			Fair Value
	1	2	3	
U.S. Government obligations	\$1,612,583	\$ -	\$ -	\$ 1,612,583
U.S. Government agency obligations	638,594	18,344,480	-	18,983,074
Equity securities	3,458,579	-	-	3,458,579
Other	<u>292,425</u>	<u>-</u>	<u>-</u>	<u>292,425</u>
	<u>\$6,002,181</u>	<u>\$18,344,480</u>	<u>\$ -</u>	24,346,661
Mutual funds				<u>7,413,968</u>
Total				<u>\$31,760,629</u>

Investments of the Contributory Retirement System at December 31, 2001 are summarized as follows:

	Category			Fair Value
	1	2	3	
U.S. Government obligations	\$ -	\$ -	\$ 7,883,239	\$ 7,883,239
U.S. Government agency obligations	-	-	9,124,679	9,124,679
Equity securities	-	-	53,705,339	53,705,339
Corporate debt	-	-	24,292,051	24,292,051
Short-term investment fund	<u>-</u>	<u>-</u>	<u>2,217,754</u>	<u>2,217,754</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$97,223,062</u>	97,223,062
Mutual funds				<u>17,697,239</u>
Total				<u>\$114,920,301</u>

At June 30, 2001, the System held investments in four mutual funds, which include in their portfolios various derivative financial instruments, including structured notes, options, futures, currency transactions, swaps, caps, floors, collars, and Eurodollar contracts. The mutual funds are part of a family of funds organized by the System's investment advisor. The System's investment in these funds is carried at market fair value, which is \$17,697,239 at December 31, 2001.

#### 4. RESTRICTED ASSETS

**Electric System** – A Depreciation Fund is maintained in accordance with Section 57 of Chapter 164 of the General Laws of the Commonwealth for the restricted use of making property additions, replacements, and renewals in excess of ordinary repairs for the Town’s Electric System. At June 30, 2002, the Depreciation Fund maintained a balance of \$517,930.

In accordance with Section 57, the Depreciation Fund is required to be increased annually by the transfer of available funds in an amount approximately equal to the depreciation provision for the current year and by income earned on the invested funds or such smaller or larger amount as the Massachusetts Department of Public Utilities may approve.

#### 5. FIXED ASSETS

During the year ended June 30, 2002, the Town completed a project for accumulating general fixed assets, including valuation of those assets and developing capitalization methodologies. Prior to that time, the Town did not have sufficient information to report a general fixed assets account group in the general-purpose financial statements. This project resulted in the reporting of a net increase of approximately \$62,605,000 in beginning general fixed assets. The prior year memorandum only column on the combined balance sheet has been restated to reflect this adjustment. A summary of changes in the general fixed asset account group for the Town for the year ended June 30, 2002 is as follows:

	<b>Balance July 1, 2001 (As restated)</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2002</b>
Land	\$ 2,939,536	\$ -	\$ -	\$ 2,939,536
Buildings	45,904,000	600,000	-	46,504,000
Improvements other than buildings	930,252	-	-	930,252
Machinery and equipment	<u>5,630,045</u>	<u>301,052</u>	<u>176,980</u>	<u>5,754,117</u>
	55,403,833	901,052	176,980	56,127,905
Construction in-progress	<u>7,200,911</u>	<u>19,591,942</u>	<u>600,000</u>	<u>26,192,853</u>
Total fixed assets	<u>\$62,604,744</u>	<u>\$20,492,994</u>	<u>\$776,980</u>	<u>\$82,320,758</u>

Fixed assets for the Town’s Enterprise Funds at June 30, 2002 are summarized as follows:

Transmission	\$ 11,335,841
Distribution, collection and other plant	69,408,996
Vehicles and other equipment	2,039,610
Construction in progress	457,840
Less accumulated depreciation	<u>(31,181,228)</u>
Total	<u>\$ 52,061,059</u>



**5. FIXED ASSETS (CONTINUED)**

Total depreciation and amortization expense in the Proprietary Fund types for the year ended June 30, 2002 aggregated \$2,477,012 of which \$161,660 is included with other operating expenses in the accompanying combined statement of revenues, expenses, and changes in retained earnings, all Proprietary Fund types and nonexpendable trust funds.

**6. LONG-TERM OBLIGATIONS**

**General Long-Term Debt** – General long-term debt at June 30, 2002 is summarized as follows:

General Obligation Bonds:

1994 corporate bond issue for school renovations, due in semiannual installments through 2004, 4.80% – 4.90%	\$ 1,100,000
1994 corporate bond issue for street reconstructions, due in semiannual installments through 2004, 4.80% – 4.90%	130,000
1995 corporate bond issue for police station construction, oil tank removal, platform aerial truck, and redesign plans, due in semiannual installments through 2005, 4.40% – 4.55%	1,500,000
1996 corporate bond issue for storm drain improvements, oil tank removal, and solid waste facility improvements, due in semiannual installments through 2006, 4.85% – 5.90%	1,505,000
2001 corporate bond issue for Sprague School, due in semiannual installments through 2016, 4.00% – 4.75%	15,220,000
2001 corporate bond issue for Street Improvement, due in semiannual installments through 2008, 4.00% – 4.75%	1,695,000
2001 corporate bond issue for Street Improvement, due in semiannual installments through 2006, 4.00% – 4.75%	<u>335,000</u>
Total	<u><u>\$21,485,000</u></u>

The annual debt service requirements of all outstanding general long-term debt of the Town at June 30, 2002 are summarized as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2003	\$ 2,685,000	\$ 929,806	\$ 3,614,806
2004	2,555,000	812,215	3,367,215
2005	1,945,000	698,276	2,643,276
2006	1,440,000	610,599	2,050,599
2007	1,890,000	548,313	2,438,313
Thereafter	<u>10,970,000</u>	<u>2,128,244</u>	<u>13,098,244</u>
	<u><u>\$21,485,000</u></u>	<u><u>\$5,727,453</u></u>	<u><u>\$27,212,453</u></u>

**6. LONG-TERM OBLIGATIONS (CONTINUED)**

*General Long-Term Debt (Continued)* – General obligation bonds authorized and unissued at June 30, 2002 are summarized as follows:

<b>Purpose</b>	<b>Year Authorized</b>	
Hunnewell Field/Tennis Courts	2002	\$ 485,000
Weston Road Improvements	2002	500,000
Middle School Planning	2002	460,000
Street Layout – Upson Road	2002	180,000
Warren School Renovation	2002	6,800,000
Bates School Addition/Renovation	2002	11,970,000
Sprague School Addition/Renovation	2002	255,000
Bates School Repairs/Improvements	2001	225,000
Central Fire Station	2001	110,000
Street/Sidewalk Reconstruction	2001	300,000
H.S. Bleachers/Hunnewell Field Lighting	2001	200,000
New Wellesley Free Library	2001	12,910,000
Warren School Final Design	2001	455,000
Glen Road Sidewalk	2001	115,000
Pond Restoration	2000	175,000
Intersection Improvements – Linden/Crest	2000	185,000
Street Improvements – Barton	2000	310,000
Library Construction Plans	1999	215,000
Fire Station Repairs	1999	125,000
Police Station Improvements	1999	140,000
Water System Improvements	1999	240,000
Town Hall Improvements	1998	<u>90,000</u>
 Total		 <u>\$36,445,000</u>

Changes in general long-term debt for the year ended June 30, 2002 are summarized as follows:

	<b>Bonds</b>		<b>Total</b>
	<b>Inside the Debt Limit</b>	<b>Outside the Debt Limit</b>	
Balance, June 1, 2001	\$ 22,780,000	\$ 6,910,000	\$ 29,690,000
Additions	-	-	-
Retirements	<u>(2,679,000)</u>	<u>(786,000)</u>	<u>(3,465,000)</u>
Balance, June 30, 2002	<u>\$ 20,101,000</u>	<u>\$ 6,124,000</u>	<u>\$ 26,225,000</u>

**6. LONG-TERM OBLIGATIONS (CONTINUED)**

*General Long-Term Debt (Continued) –*

	<b>Other Long-Term Obligations</b>
Balance, June 1, 2001	\$ 653,430
Additions	183,187
Net decrease	<u>          -</u>
Balance, June 30, 2002	<u><u>\$ 836,617</u></u>

On June 6, 2002, the Town obtained a bond anticipation note (the “Note”) to cover certain short-term financing requirements relating to the general obligation bonds which are authorized and unissued at June 30, 2002. The Note, in the amount of \$16,020,000, is payable on June 5, 2003 and bears interest at the rate of 1.77%.

*Enterprise Fund Debt* – Enterprise Fund debt at June 30, 2002 is summarized as follows:

1998 corporate bond issue for water system improvements, due in semiannual installments through 2013, 4.20% – 4.85%	<u>\$4,740,000</u>
Total	<u><u>\$4,740,000</u></u>

The annual debt service requirements of all outstanding Enterprise Fund debt of the Town at June 30, 2002 are summarized as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2003	\$ 440,000	\$ 215,205	\$ 655,205
2004	430,000	196,725	626,725
2005	430,000	178,235	608,235
2006	430,000	159,315	589,315
2007	430,000	140,395	570,395
Thereafter	<u>2,580,000</u>	<u>429,570</u>	<u>3,009,570</u>
	<u><u>\$4,740,000</u></u>	<u><u>\$1,319,445</u></u>	<u><u>\$6,059,445</u></u>

**6. LONG-TERM OBLIGATIONS (CONTINUED)**

*Enterprise Fund Debt (Continued)* – Changes in Enterprise Fund debt for the year ended June 30, 2002 are summarized as follows:

	<b>Bonds</b>		<b>Total</b>
	<b>Inside the Debt Limit</b>	<b>Outside the Debt Limit</b>	
Balance, June 30, 2001	\$ -	\$5,180,000	\$5,180,000
Additions	-	-	-
Retirements	-	(440,000)	(440,000)
	<u>-</u>	<u>(440,000)</u>	<u>(440,000)</u>
Balance, June 30, 2002	<u>\$ -</u>	<u>\$4,740,000</u>	<u>\$4,740,000</u>

**7. COMPONENTS OF GENERAL FUND BALANCE**

The fund balance shown in the General Fund financial statements includes “Surplus Revenue” and other accounts maintained by the Town in accordance with the Commonwealth’s statutes and requirements prescribed by the Bureau of Accounts. At the time the annual budget is approved by the Town Meeting, the amounts of the fund balances, which will be utilized to finance the succeeding fiscal year’s operations, are transferred from unappropriated fund balances to appropriated fund balances. The components of the General Fund balance at June 30, 2002 are as follows:

Reserved for continued appropriations	\$3,224,080
Reserved for encumbrances	387,392
Appropriated fund balance:	
Appropriations budgeted for succeeding year	\$73,126,556
Revenue budgeted for succeeding year – tax levy and other	(73,126,556)
	<u>-</u>
Reserved for continued appropriation and encumbrances	3,611,472
Overlay deficit	(74,615)
Unappropriated fund balance – undesignated	<u>1,812,003</u>
General Fund balance	<u>\$5,348,860</u>

## 8. CONTINUED APPROPRIATIONS

The changes in the combined General Fund and Special Revenue Fund continued appropriations for the year ended June 30, 2002 are summarized as follows:

	Balance, June 30, 2001	Encumbrances and Expenditures	Additions, Net of Transfers	Balance, June 30, 2002
General Fund:				
General government	\$ 364,218	\$ 111,161	\$ 441,143	\$ 694,200
Protection of persons and property	328,665	311,231	148,790	166,224
Public works	1,699,849	1,045,669	1,376,534	2,030,714
Public education	50,355	15,884	140,737	175,208
Health and sanitation	35,000	29,032	-	5,968
Recreation	19,877	17,835	11,118	13,160
Libraries	32,105	17,839	18,092	32,358
Other	<u>(2,805)</u>	<u>1,812</u>	<u>110,865</u>	<u>106,248</u>
Subtotal	2,527,264	1,550,463	2,247,279	3,224,080
Special Revenue Fund – Traffic and parking management	<u>270,093</u>	<u>143,237</u>	<u>202,500</u>	<u>329,356</u>
Total	<u>\$2,797,357</u>	<u>\$1,693,700</u>	<u>\$2,449,779</u>	<u>\$3,553,436</u>

## 9. CONTRIBUTORY RETIREMENT SYSTEM

- a. **System Description** – The following brief description of the Town of Wellesley Contributory Retirement System (the “System”), a component unit of the Town, is provided for general information purposes only. Participants should refer to the General Laws of the Commonwealth (principally Chapter 32) and the rules, regulations, and procedures adopted by the Public Employee Retirement Administration Commission of the Commonwealth of Massachusetts (“PERAC”) and by the Town of Wellesley Retirement Board (the “Board”) for more complete information.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Town Accountant, Town of Wellesley, Town Hall, Wellesley, Massachusetts.

The System is a single employer contributory defined benefit plan covering Town employees deemed eligible by the Board, with the exception of School Department employees who serve in a teaching capacity. The pensions of such school employees are administered by the State Teachers’ Retirement Board.

The System was organized on July 1, 1937 in accordance with the provisions of Chapter 32 of the General Laws of the Commonwealth. Participation in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. Nonteaching employees of the Town who are employed on a basis which anticipates work at an annual rate to exceed 1,000 hours are eligible to participate in the System. Full-time employees are eligible immediately and part-time employees are eligible six months after the date of employment. In addition, employees of the Wellesley Housing Authority are included as participants.

## 9. CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)

- a. **System Description (Continued)** – Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification. By vote of the Town Meeting, the System does not cap at \$30,000, the level of compensation upon which benefits are calculated as permitted under the Commonwealth's Pension Reform Act of 1987.

Contributions by the Town for participants vest at a rate of 10% per year and become fully vested after 10 years of creditable service. Participants' contributions are fully vested at all times. A superannuation allowance may be received upon completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. Participants' accumulated total contributions and a portion of the interest those contributions generate constitute the annuity. The differential between the total retirement benefit and the annuity benefit is the pension benefit. The average retirement benefit is approximately 80% – 85% pension and 15% – 20% annuity.

Active participants contribute 5%, 7%, 8%, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's participation commenced. Active participants who were hired on or after January 1, 1979 contribute an additional 2% of salary in excess of \$30,000. All deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary (1.9% during calendar year 2001). When a participant's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund.

From time to time, the Massachusetts Legislature may grant cost-of-living increases to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. From 1981 until fiscal year 1999, cost-of-living increases granted to members of local retirement systems were the financial responsibility of the Commonwealth. Effective for fiscal year 1999 and subsequent fiscal years, the responsibility for funding and approving cost-of-living adjustments for nonteacher systems is the responsibility of the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The Town annually appropriates and contributes an amount determined by its actuary.

Administrative expenses are paid from investment earnings of the System.

Participants who become permanently and totally disabled may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran's status, and group classification.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive 0%, 50%, or 100% of the regular interest which has accrued upon those contributions.

**9. CONTRIBUTORY RETIREMENT SYSTEM (CONTINUED)**

- a. **System Description (Continued)** – Survivor benefits are extended to eligible beneficiaries of participants whose deaths occur prior to or following retirement.

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of the Commonwealth, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

- b. **Annual Pension Cost** – The Town’s annual pension cost for the current and two preceding years was as follows:

	<b>2001</b>	<b>2000</b>	<b>1999</b>
Annual pension cost (“APC”)	\$ -	\$ -	\$ -
Contributions made	<u>-</u>	<u>-</u>	<u>-</u>
Change in net pension obligation	-	-	-
Net pension obligation, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Net pension obligation, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Percentage of APC contributed	<u>100</u> %	<u>100</u> %	<u>100</u> %

The annual required contribution for the current year was determined as part of the January 1, 2001 actuarial valuation using the individual entry-age normal cost method. The actuarial assumptions included (a) 7.5% investment rate of return, and (b) projected salary increases ranging from 4.0% to 5.0% per year. Both (a) and (b) included a blended inflation rate of 3.0%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period.

The payroll for teaching employees of the Town’s School Department covered by the Massachusetts State Teachers Retirement System (see Note 10) for the year ended December 31, 2001 was \$21,213,532.

**10. OTHER RETIREMENT PLANS**

The Town has a noncontributory pension plan for certain retirees who elected not to become members of the System at its inception. Benefits are paid by the Town on a pay-as-you-go basis. Total pension expense of this plan for the year ended June 30, 2002 was \$77,190. The unfunded vested benefit as of December 31, 2000 (latest information available) was \$559,896.

The majority of the teaching employees of the School Department participate in a contributory retirement plan administered by the Commonwealth of Massachusetts. The Town does not contribute to this plan (see Note 2).

Teaching employees of the School Department who meet certain requirements and are employed on a basis which anticipates work at an annual rate to exceed 1,000 hours are required to participate in the State Plan.

## **10. OTHER RETIREMENT PLANS (CONTINUED)**

For participants who became members of the State Plan prior to January 1, 1978, benefits become vested after 20 or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who became members of the State Plan subsequent to December 31, 1977 become vested after 20 or more years of creditable service or after 10 or more years of creditable service and having reached the age of 55.

Teaching employees contribute 5% of regular compensation if they became a member of the State Plan prior to January 1, 1975, 7% if they became a member from January 1, 1975 to December 31, 1983, 8% if they became a member from January 1, 1984 to December 31, 1995, or 9% if they became a member on or after January 1, 1996.

In addition, if they became a member on or after January 1, 1979, employees are required to contribute an additional 2% of regular compensation in excess of \$30,000.

The Commonwealth is obligated to fund the State Plan. State law requires that public employee retirement systems in the Commonwealth be funded on a pay-as-you-go basis, that is, an amount necessary to pay pensions actually falling due must be funded each year. The amount funded by the Commonwealth to the State Plan is not analyzed by community; funding is made in total for participating employees throughout the Commonwealth.

In addition to the pension benefits described in Note 10, the Town provides postretirement health care benefits to all employees who retire from the Town on or after attaining age 55 with at least 20 years of service and who were receiving health care benefits from the Town at retirement. The Town provides health insurance premium assistance at a lower level than the employee received when employed. This currently averages 50%. If Medicare covers the individual, 50% of the Medicare supplement is provided. The Town's expenditures for these benefits were approximately \$1,905,000 for the year ended June 30, 2002.

The Town also maintains a plan providing coverage for governmental employees not covered by Social Security in compliance with the Omnibus Budget Reconciliation Act of 1990, effective January 1, 1992. The plan is a deferred compensation plan identical in nature to the Section 457 plan described in Note 11.

## **11. DEFERRED COMPENSATION PLAN**

The Town has a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code (the "Code"). The Section 457 plan, available to all Town employees, permits them to defer a portion of their current salary to future years. The deferred compensation is not available to the participants until termination, retirement, death, or unforeseeable emergency.

During fiscal year 1998, the Town amended its Plan-Trust Declaration relating to the Section 457 plan to conform with changes made to the Code. The amendments to the Plan-Trust Declaration are such that the Section 457 plan's assets are held in trust and reported as an expendable trust fund for the exclusive benefit of participants and their beneficiaries.

The Town and its agent have no liability for losses under the plan, but do have the duty of care that would be required of an ordinary prudent investor.



## 12. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has purchased commercial insurance for these risks, except for those risks identified in the following paragraphs, which the Town accounts for in its Internal Service Fund.

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

In the event of the dissolution of the Group or if the assets of the Group are insufficient to pay claims which occur, the Town remains liable. As of June 30, 2002, the Group had a fund balance of approximately \$639,000. The Town's liability is not based on its participants' claims but on the pro rata shares of the deficit based on the ratio of the Town's members to total participants at the time of dissolution. At June 30, 2002, the Town's mandatory deposit, discussed above, is sufficient to cover the Town's projected liability as of that date.

The Town is self-insured for workers' compensation claims. An actuary, Tillinghast-Towers Perrin, was hired to estimate the losses which the Town would have to pay under the self-insured plan. The Town recorded a liability in its Internal Service Fund to reserve against future losses in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5. This liability includes a provision for estimated claims incurred but not reported. In addition to these reserves, the Town retains insurance against claims in excess of \$250,000 per employee.

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

	<b>2002</b>	<b>2001</b>
Balance, beginning of year	\$ 778,000	\$ 706,000
Current claims and changes in estimates	399,459	329,167
Claims/payments	<u>(371,459)</u>	<u>(257,167)</u>
Balance, end of year	<u>\$ 806,000</u>	<u>\$ 778,000</u>

### 13. COMMITMENTS AND CONTINGENCIES

In June 2001, the Town was notified that it had been named by the Environmental Protection Agency ("EPA") as a potentially responsible party ("PRP") in the Beede Waste Oil Superfund lawsuit. Contractors in Massachusetts and New England disposed of contaminated waste oil at this site. The Town was designated as a PRP on the basis of the EPA determination that approximately 7,500 gallons of contaminated waste oil were attributable to the Town. In May 2002, the Town entered into an Exit Strategy settlement offer from TRC Companies, Inc. ("TRC"). Under this agreement, the Town has committed to pay TRC \$4.85 per gallon for each gallon of waste oil attributable to the Town, or approximately \$36,000. In return, TRC will assume the Town's responsibility for all future payments to the EPA and other related to the cleanup of the Beede Oil site.

In February 2001, the EPA notified the Town that it, along with two other parties, had been named as a PRP with regard to an environmental matter involving property owned by the Town adjacent to and beneath Morses Pond. According to the EPA and the Massachusetts Department of Environmental Protection, contaminated fill material containing chromium and other metals was used as fill around a culvert beneath a railroad embankment adjacent to Morses Pond, and that contaminants from this fill came to be located on Town property beneath and adjacent to Morses Pond. Removal actions to correct this problem were completed in or about June 2002. The EPA has estimated the total cost of this project to date at \$3,800,000. In this matter, the EPA has noted its intention to pursue recovery of these costs from the PRPs. To date, no litigation has been commenced and no settlement negotiations have taken place with regard to this matter. The Town believes that it may have meritorious defenses to EPA's claims but could face some potential liability in connection with this matter.

The Town has been named as a defendant in a number of additional lawsuits at June 30, 2002. In the opinion of Town officials, the ultimate resolution of these legal actions will not result in a material loss to the Town.

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grants. Town officials are not aware of any potential disallowances.

**14. SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The Town maintains Enterprise Funds that provide electric, water, and sewer services. Segment information for the year ended June 30, 2002 is as follows:

	<b>Electric Fund</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total Enterprise Funds</b>
Operating revenue	\$20,364,618	\$ 3,602,569	\$ 4,659,893	\$28,627,080
Depreciation	1,514,339	717,874	244,799	2,477,012
Operating income	2,467,697	754,207	101,896	3,323,800
Net income	1,536,544	518,933	118,071	2,173,548
Net additions to fixed assets	2,099,878	312,408	36,093	2,448,379
Net working capital	7,993,778	2,581,136	2,980,114	13,555,028
Total assets	38,705,982	17,947,942	13,405,989	70,059,913
Bonds and other long-term liabilities – payable from operating revenues	-	4,740,000	-	4,740,000
Total equity	35,225,241	12,818,681	13,350,095	61,394,017

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## TOWN OF WELLESLEY, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF FUNDING PROGRESS OF THE  
TOWN OF WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM (UNAUDITED)  
YEARS ENDED DECEMBER 31, 2001, 1999, 1997 AND 1995**

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<b>Actuarial Valuation Date</b>	<b>(1) Actuarial Value of Assets</b>	<b>(2) Actuarial Accrued Liability ("AAL")</b>	<b>(3) Funded (Unfunded) AAL ("UAAL") (1) Minus (2)</b>	<b>(4) Funded Ratio (1) Divided by (2)</b>	<b>(5) Covered Payroll</b>	<b>(6) UAAL as a Percentage of Covered Payroll (3) Divided by (5)</b>
January 1, 1995	\$ 62,744,371	\$ 62,680,623	\$ 63,748	100.1 %	\$ 16,138,898	0.4 %
January 1, 1997	78,665,972	69,141,005	9,524,967	113.8	17,800,326	53.5
January 1, 1999	106,295,893	81,975,372	24,320,521	129.7	17,694,603	137.4
January 1, 2001	123,291,025	92,278,891	31,012,134	133.6	21,561,329	143.8

See note to required supplementary information.

# TOWN OF WELLESLEY, MASSACHUSETTS

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) YEARS ENDED DECEMBER 31, 2001, 1999, 1997 AND 1995

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### 1. ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

- *Valuation Date* – January 1, 2001
- *Actuarial Cost Method* – Individual Entry Age Normal Cost Method
- *Amortization Method* – Not applicable; plan fully funded
- *Remaining Amortization Period* – Not applicable; plan fully funded
- *Asset Valuation Method* – Three-year smoothed market
- *Actuarial Assumptions:*
  - Investment rate of return – 7.5%
  - Projected salary increases\* – 4.0%-5.0%
  - Cost-of-living adjustments – 3.0%

\*Includes inflation at 3.5%.

# TOWN OF WELLESLEY, MASSACHUSETTS

## COMBINING BALANCE SHEET – ENTERPRISE FUNDS JUNE 30, 2002

<b>ASSETS</b>	<b>Electric Fund</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Total</b>
CASH AND CASH EQUIVALENTS	\$ 5,221,597	\$ 1,416,293	\$ 1,495,922	\$ 8,133,812
INVESTMENTS	3,805,263	1,207,082	1,217,577	6,229,922
CUSTOMER ACCOUNTS RECEIVABLE (Net of allowance of \$13,500)	1,786,640	296,870	322,509	2,406,019
INVENTORY	567,774	50,152	-	617,926
RESTRICTED ASSETS	517,930	-	-	517,930
FIXED ASSETS, Net	26,713,533	14,977,545	10,369,981	52,061,059
OTHER ASSETS	<u>93,245</u>	<u>-</u>	<u>-</u>	<u>93,245</u>
<b>TOTAL ASSETS</b>	<b><u>\$38,705,982</u></b>	<b><u>\$17,947,942</u></b>	<b><u>\$13,405,989</u></b>	<b><u>\$70,059,913</u></b>
<b>LIABILITIES AND RETAINED EARNINGS AND OTHER BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued expenses	\$ 2,851,825	\$ 104,142	\$ 54,494	\$ 3,010,461
Bond anticipation note	-	240,000	-	240,000
Long-term debt	-	4,740,000	-	4,740,000
Compensated absences	31,749	11,774	-	43,523
Other liabilities	<u>597,167</u>	<u>33,345</u>	<u>1,400</u>	<u>631,912</u>
Total liabilities	<u>3,480,741</u>	<u>5,129,261</u>	<u>55,894</u>	<u>8,665,896</u>
<b>RETAINED EARNINGS AND OTHER BALANCES:</b>				
Contribution in aid of construction	5,097,648	3,182,485	4,641,530	12,921,663
Contributed capital	83,569	1,355,463	5,576,754	7,015,786
Retained earnings – reserved for continuing appropriations	-	260,211	443,548	703,759
Retained earnings – unreserved	<u>30,044,024</u>	<u>8,020,522</u>	<u>2,688,263</u>	<u>40,752,809</u>
Total retained earnings and other balances	<u>35,225,241</u>	<u>12,818,681</u>	<u>13,350,095</u>	<u>61,394,017</u>
<b>TOTAL LIABILITIES AND RETAINED EARNINGS AND OTHER BALANCES</b>	<b><u>\$38,705,982</u></b>	<b><u>\$17,947,942</u></b>	<b><u>\$13,405,989</u></b>	<b><u>\$70,059,913</u></b>

# TOWN OF WELLESLEY, MASSACHUSETTS

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS – ENTERPRISE FUNDS YEAR ENDED JUNE 30, 2002

	Electric Fund	Water Fund	Sewer Fund	Total
OPERATING REVENUES	<u>\$20,364,618</u>	<u>\$3,602,569</u>	<u>\$ 4,659,893</u>	<u>\$28,627,080</u>
OPERATING EXPENSES:				
Production (purchased power)	14,115,832	-	-	14,115,832
Transmission and distribution	1,373,680	674,009	-	2,047,689
Source of supply	-	253,352	-	253,352
Pumping and treatment	-	566,468	111,925	678,393
Collection	-	-	3,839,603	3,839,603
Customer accounts	259,155	191,252	88,055	538,462
Administrative and general	745,910	482,946	285,741	1,514,597
Depreciation	<u>1,402,344</u>	<u>680,335</u>	<u>232,673</u>	<u>2,315,352</u>
Total operating expenses	<u>17,896,921</u>	<u>2,848,362</u>	<u>4,557,997</u>	<u>25,303,280</u>
OPERATING INCOME	<u>2,467,697</u>	<u>754,207</u>	<u>101,896</u>	<u>3,323,800</u>
NONOPERATING REVENUES (EXPENSES):				
Change in fair value of investments	(25,800)	(6,998)	(7,391)	(40,189)
Interest	59,821	9,834	18,439	88,094
Other – net	<u>34,826</u>	<u>(238,110)</u>	<u>5,127</u>	<u>(198,157)</u>
Total nonoperating revenues (expenses)	<u>68,847</u>	<u>(235,274)</u>	<u>16,175</u>	<u>(150,252)</u>
INCOME BEFORE OPERATING TRANSFERS	2,536,544	518,933	118,071	3,173,548
OPERATING TRANSFERS – Payment to Town in lieu of taxes	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>
NET INCOME	1,536,544	518,933	118,071	2,173,548
RETAINED EARNINGS, Beginning of year	<u>28,507,480</u>	<u>7,761,800</u>	<u>3,013,740</u>	<u>39,283,020</u>
RETAINED EARNINGS, End of year	<u>30,044,024</u>	<u>8,280,733</u>	<u>3,131,811</u>	<u>41,456,568</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION AND CONTRIBUTED CAPITAL, Beginning of year	4,992,315	4,496,929	10,213,329	19,702,573
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>188,902</u>	<u>41,019</u>	<u>4,955</u>	<u>234,876</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION AND CONTRIBUTED CAPITAL, End of year	<u>\$ 5,181,217</u>	<u>\$4,537,948</u>	<u>\$10,218,284</u>	<u>\$19,937,449</u>

# TOWN OF WELLESLEY, MASSACHUSETTS

## COMBINING STATEMENT OF CASH FLOWS – ENTERPRISE FUNDS YEAR ENDED JUNE 30, 2002

	Electric Fund	Water Fund	Sewer Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Operating income	\$ 2,467,697	\$ 754,207	\$ 101,896	\$ 3,323,800
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation and amortization	1,514,339	717,874	244,799	2,477,012
Loss on disposal of fixed assets	62,664	17,028	597	80,289
Cash paid to Town in lieu of taxes	(1,000,000)	-	-	(1,000,000)
Changes in assets and liabilities:				
Customer accounts receivable	351,729	141,736	116,781	610,246
Inventory	78,500	6,932	-	85,432
Other assets	(12,561)	-	-	(12,561)
Accounts payable and accrued expenses	(1,281,693)	3,339	(12,095)	(1,290,449)
Other liabilities	122,452	(10,040)	-	112,412
Total adjustments	(164,570)	876,869	350,082	1,062,381
Net cash flows from operating activities	<u>2,303,127</u>	<u>1,631,076</u>	<u>451,978</u>	<u>4,386,181</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Proceeds from merchandising, jobbing, damages, equipment operation, installations, and other nonoperating activities	800,147	180,484	32,386	1,013,017
Payments for merchandising, jobbing, damages, equipment operation, installations, and other nonoperating activities	<u>(739,634)</u>	<u>(212,112)</u>	<u>(26,281)</u>	<u>(978,027)</u>
Net cash flows from noncapital financing activities	<u>60,513</u>	<u>(31,628)</u>	<u>6,105</u>	<u>34,990</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from bond anticipation note	-	240,000	-	240,000
Principal payments on general obligation bonds	-	(865,000)	-	(865,000)
Interest paid	(25,687)	(205,325)	-	(231,012)
Capital expenditures	(2,190,431)	(365,720)	(110,515)	(2,666,666)
Contributions in aid of construction	188,902	41,019	4,955	234,876
Net cash flows from capital and related financing activities	<u>(2,027,216)</u>	<u>(1,155,026)</u>	<u>(105,560)</u>	<u>(3,287,802)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Change in short-term investments	(465,417)	(135,511)	31,448	(569,480)
Change in fair value of investments	(25,800)	(6,998)	(7,391)	(40,189)
Interest received	59,821	8,676	17,461	85,958
Net cash flows from investing activities	<u>(431,396)</u>	<u>(133,833)</u>	<u>41,518</u>	<u>(523,711)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(94,972)	310,589	394,041	609,658
CASH AND CASH EQUIVALENTS, Beginning of year	<u>5,316,569</u>	<u>1,105,704</u>	<u>1,101,881</u>	<u>7,524,154</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 5,221,597</u>	<u>\$ 1,416,293</u>	<u>\$ 1,495,922</u>	<u>\$ 8,133,812</u>



# TOWN OF WELLESLEY, MASSACHUSETTS

## SUPPLEMENTAL SCHEDULE OF RECONCILIATION OF TREASURER'S CASH AND CASH EQUIVALENTS AND INVESTMENTS JUNE 30, 2002

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AS OF JUNE 30, 2002, CASH AND CASH EQUIVALENTS AND INVESTMENTS  
ARE COMPOSED OF THE FOLLOWING BALANCES:

Massachusetts Municipal Depository Trust	\$17,151,361
Boston Safe Deposit and Trust	3,042,488
Fleet Bank	1,360,954
Century Bank and Trust	1,220,545
Citizens Bank	1,136,350
State Street Bank and Trust	133,461
First Tennessee – short-term investments	17,435,889
Citizens Bank – short-term investments	1,027,700
State Street Bank and Trust – short-term investments	<u>6,506,912</u>
	49,015,660
ADD – Cash on hand	1,375

LESS:

Outstanding checks	\$(1,026,090)	
Other miscellaneous reconciling items	<u>9,325</u>	<u>(1,016,765)</u>

CASH AND CASH EQUIVALENTS AND INVESTMENTS ON THE COMBINED  
BALANCE SHEET AT JUNE 30, 2002

\$48,000,270

PRESENTATION OF CASH AND CASH EQUIVALENTS AND INVESTMENTS  
ON THE COMBINED BALANCE SHEET AT JUNE 30, 2002:

General Fund	\$ 8,613,516
Special Revenue Funds	2,748,917
Capital Projects Funds	14,716,132
Enterprise Funds, including \$517,930 of restricted assets	14,881,664
Internal Service Fund	2,113,200
Trust Funds, excluding deferred compensation plan mutual funds of \$6,795,250 not presented in Treasurer's cash	<u>4,926,841</u>
TOTAL	<u>\$48,000,270</u>

# TOWN OF WELLESLEY, MASSACHUSETTS

## SUPPLEMENTAL SCHEDULE OF TAXES YEAR ENDED JUNE 30, 2002

	Uncollected, June 30, 2001	Add Commitments	Less Abatements	Add Cash Refunds	Other (Deductions) Additions	Less Collections	Uncollected, June 30, 2002	
REAL ESTATE	\$26,518,628	\$55,639,752	\$403,673	\$326,339	\$(235,828)	\$53,089,683	\$28,755,535	(1)
PERSONAL PROPERTY	276,807	450,455	21,781	5,167	79	410,643	300,084	(1)
MOTOR VEHICLE EXCISE	<u>371,487</u>	<u>4,093,733</u>	<u>152,418</u>	<u>26,888</u>	<u>(79)</u>	<u>3,921,355</u>	<u>418,256</u>	(2)
TOTAL	<u>\$27,166,922</u>	<u>\$60,183,940</u>	<u>\$577,872</u>	<u>\$358,394</u>	<u>\$(235,828)</u>	<u>\$57,421,681</u>	<u>\$29,473,875</u>	

(1) Amounts are before the allowance for uncollected taxes and abatements of \$30,263.

(2) Amounts are before allowances of \$418,256.

# TOWN OF WELLESLEY, MASSACHUSETTS

## SUPPLEMENTAL SCHEDULE OF BOND INDEBTEDNESS, BY ISSUE JUNE 30, 2002

Description	Original Amount	Interest Rate (%)	Fiscal Year of Issue	Fiscal Year of Maturity	Balance Outstanding, June 30, 2001	Additions	Retirements	Balance Outstanding, June 30, 2002
GENERAL FUND – Inside the debt limit:								
Senior high school renovations construction – Phases 2 and 3	\$ 3,750,000	5.15 %	1992	2002	\$ 375,000	\$ -	\$ 375,000	\$ -
Elementary school improvement construction	5,250,000	4.80-4.90	1994	2004	1,655,000	-	555,000	1,100,000
Street reconstruction/improvement	650,000	4.80-4.90	1994	2004	195,000	-	65,000	130,000
Police station construction/other	3,900,000	4.40-4.55	1995	2005	2,000,000	-	500,000	1,500,000
Storm drain improvements/other	320,000	4.85-5.90	1996	2006	155,000	-	34,000	121,000
Sprague school renovation/expansion	15,995,000	4.00-4.75	2001	2016	15,995,000	-	775,000	15,220,000
Street improvements	1,155,000	4.00-4.75	2001	2007	1,155,000	-	240,000	915,000
Street amenities/sidewalk program	830,000	4.00-4.75	2001	2008	830,000	-	50,000	780,000
Land acquisition – 63 Hastings Street	420,000	4.00-4.75	2001	2006	420,000	-	85,000	335,000
Subtotal					22,780,000	-	2,679,000	20,101,000
GENERAL FUND – Outside the debt limit – RDF improvements								
	3,460,000	4.85-5.90	1996	2006	1,730,000	-	346,000	1,384,000
ENTERPRISE FUND – Outside the debt limit – Water system improvements								
	6,500,000	4.20-4.85	1998	2013	5,180,000	-	440,000	4,740,000
<b>TOTAL BOND INDEBTEDNESS</b>					<b>\$29,690,000</b>	<b>\$ -</b>	<b>\$ 3,465,000</b>	<b>\$26,225,000</b>

**TOWN OF WELLESLEY, MASSACHUSETTS**

**SUPPLEMENTAL SCHEDULE OF BOND MATURITIES AND BOND INTEREST  
JUNE 30, 2002**

	Inside					Outside		Total
	School	Storm Drain Improvements	Police Station	Street Reconstruction	Land Acquisition	RDF Improvements	Water Treatment	
<b>PRINCIPAL PAYMENT DUE FOR THE FISCAL YEAR ENDING JUNE 30, 2002</b>								
2003	\$ 1,330,000	\$ 34,000	\$ 500,000	\$ 390,000	\$ 85,000	\$ 346,000	\$ 440,000	\$ 3,125,000
2004	1,220,000	29,000	500,000	375,000	85,000	346,000	430,000	2,985,000
2005	675,000	29,000	500,000	310,000	85,000	346,000	430,000	2,375,000
2006	675,000	29,000	-	310,000	80,000	346,000	430,000	1,870,000
2007	1,580,000	-	-	310,000	-	-	430,000	2,320,000
2008	1,575,000	-	-	130,000	-	-	430,000	2,135,000
2009	1,575,000	-	-	-	-	-	430,000	2,005,000
2010	1,570,000	-	-	-	-	-	430,000	2,000,000
2011	1,570,000	-	-	-	-	-	430,000	2,000,000
2012	910,000	-	-	-	-	-	430,000	1,340,000
2013	910,000	-	-	-	-	-	430,000	1,340,000
2014	910,000	-	-	-	-	-	-	910,000
2015	910,000	-	-	-	-	-	-	910,000
2016	910,000	-	-	-	-	-	-	910,000
TOTAL	<u>\$16,320,000</u>	<u>\$121,000</u>	<u>\$1,500,000</u>	<u>\$1,825,000</u>	<u>\$ 335,000</u>	<u>\$1,384,000</u>	<u>\$4,740,000</u>	<u>\$26,225,000</u>
<b>INTEREST PAYMENT DUE FOR THE FISCAL YEAR ENDING JUNE 30, 2002</b>								
2003	\$ 696,058	\$ 6,333	\$ 67,250	\$ 74,105	\$ 13,400	\$ 72,660	\$ 215,205	\$ 1,145,011
2004	638,417	4,684	45,250	57,985	10,000	55,879	196,725	1,008,940
2005	584,713	3,234	22,750	42,400	6,600	38,579	178,235	876,511
2006	557,712	1,522	-	30,000	3,200	18,165	159,315	769,914
2007	530,713	-	-	17,600	-	-	140,395	688,708
2008	467,512	-	-	5,200	-	-	121,260	593,972
2009	404,513	-	-	-	-	-	101,910	506,423
2010	340,724	-	-	-	-	-	82,130	422,854
2011	275,570	-	-	-	-	-	61,920	337,490
2012	208,845	-	-	-	-	-	41,495	250,340
2013	168,805	-	-	-	-	-	20,855	189,660
2014	127,855	-	-	-	-	-	-	127,855
2015	85,995	-	-	-	-	-	-	85,995
2016	43,225	-	-	-	-	-	-	43,225
TOTAL	<u>\$ 5,130,657</u>	<u>\$ 15,773</u>	<u>\$ 135,250</u>	<u>\$ 227,290</u>	<u>\$ 33,200</u>	<u>\$ 185,283</u>	<u>\$1,319,445</u>	<u>\$ 7,046,898</u>

# TOWN OF WELLESLEY, MASSACHUSETTS

## SUPPLEMENTAL SCHEDULE OF COMPUTATION OF LEGAL DEBT MARGIN JUNE 30, 2002

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EQUALIZED VALUATION – Personal property and real estate, January 1, 2001		<u>\$7,153,728,900</u>
DEBT LIMIT – 5% of equalized valuation		\$ 357,686,445
AMOUNT OF DEBT APPLICABLE TO DEBT LIMIT:		
Total bonded debt	\$26,225,000	
Less bonded debt not included in computation of legal debt margin as defined in Massachusetts Statutes	<u>6,124,000</u>	<u>20,101,000</u>
LEGAL DEBT MARGIN		<u>\$ 337,585,445</u>

