

TOWN OF DOUGLAS, MASSACHUSETTS  
BASIC FINANCIAL STATEMENTS  
WITH ACCOMPANYING INFORMATION  
YEAR ENDED JUNE 30, 2003  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF DOUGLAS, MASSACHUSETTS

BASIC FINANCIAL STATEMENTS  
WITH ACCOMPANYING INFORMATION

YEAR ENDED JUNE 30, 2003

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INDEPENDENT AUDITORS' REPORT

The Honorable Board of Selectmen  
Town of Douglas, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Douglas, Massachusetts as of and for the year ended June 30, 2003, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Douglas's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, major funds, and remaining fund information of the Town of Douglas, Massachusetts at June 30, 2003, and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in note 1, the Town has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Managements Discussion and Analysis - for State and Local Governments, as of July 1, 2002.

Our audit was conducted for the purpose of forming an opinion on the Town's basic financial statements. The combining and individual fund financial statements and schedules described in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a separate report dated November 18, 2003, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Borgatti Harrison & Co.*

Borgatti Harrison & Co.

Framingham, Massachusetts  
November 18, 2003

## **TOWN OF DOUGLAS, MASSACHUSETTS**

### **Management's Discussion and Analysis**

As management of the Town of Douglas (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Douglas for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements, which begin on page 13 of this report.

Because the Town implemented new reporting standards for the current fiscal year, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful to the Town's financial position and results of operations.

#### **Overview of the Financial Statements**

For the past 20 years, local government financial statements have been presented on a fund-type basis reporting only current financial information. This approach has been modified and for the first time, the Town's financial statements present two types of statements each with a different view of the Town's finances. The new approach focuses on both the Town as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the Town as a whole. The fund financial statements focus on the individual parts of the Town government, reporting the Town's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Town's accountability. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside the government. An additional part of the basic financial statements are the notes in the financial statements. This report also includes other required supplementary information in addition to the basic financial statements.

#### **Government-Wide Statements**

The government-wide statements report information about the Town as a whole, with the exception of Fiduciary activities, and use accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the Town's financial position, which assists in assessing the Town's economic position at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are considered even if cash has not been received or disbursed. The government-wide financial statements include two statements:

***Statement of net assets*** – Presents all the government's assets and liabilities, with the difference being reported as "net assets". The amount of net assets is widely considered a

## TOWN OF DOUGLAS, MASSACHUSETTS

### Management's Discussion and Analysis

good measure of the Town's financial health as increases and decreases in the Town's net assets serves as a useful indicator of whether the financial position is improving or deteriorating. The reader should consider other non-financial factors, such as the condition of the Town's infrastructure and changes to the property tax base, to assess the overall health of the Town.

***Statement of activities*** – Presents the information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods, i.e., uncollected taxes or earned but unused sick and vacation time. This statement also presents a comparison between direct expenses and program revenues for each function of the Town. In the government-wide statements, financial information is presented in three columns to summarize the Town's programs or activities. The types of activities presented are as follows:

**Governmental Activities** – Taxes and intergovernmental revenues primarily support the government and are reported in this section, i.e. federal and state grants. Most of the Town's basic services are reported here including general government, public safety, public works, recreation, library, schools, human services, public health programs, judgment and claims, retirement costs, state and district assessments, debt service and other employee benefits.

**Business-type Activities** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of good and services. The Water and Sewer Fund operation is considered a business-type activity.

### **Fund Financial Statements**

Traditional users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to keep control over resources that have been allocated to specific projects or activities. The Town uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

All of the funds of the Town can be divided into three categories as follows:

**Governmental Funds** – Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near-term inflows and outflows of resources to be spent. The focus is also on

## TOWN OF DOUGLAS, MASSACHUSETTS

### Management's Discussion and Analysis

the balances left at the end of the fiscal year available for spending. This information is useful in evaluating the Town's near-term financing requirements. This approach is the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the Town's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented to governmental activities in the government-wide financial statements. This comparison will assist the reader in understanding the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balance provide reconciliations to facilitate the comparison. The reconciliation is presented on the page immediately following the governmental funds financial statements. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statements of revenues, expenditures and changes in fund balance. The remaining governmental funds are aggregated and shown as other governmental funds.

**Proprietary Fund** – Provides services for which the Town charges customers a fee and operate like a commercial business. The proprietary fund provides the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual method of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

**Fiduciary Funds** – Such funds are used to account for resources held for the benefit of parties outside the Town government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Town's own programs. The full accrual basis of accounting is used for fiduciary funds and is much like that used for proprietary funds.

The Town's fiduciary funds are Agency Funds, which are used to account for assets held in agency capacity.

### **Notes to the financial statements**

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

## **TOWN OF DOUGLAS, MASSACHUSETTS**

### **Management's Discussion and Analysis**

#### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning all legally adopted budgets. The Town adopts an annual appropriation budget for the general, water and sewer funds. Budgetary comparison schedules are presented to demonstrate compliance with the budget on page 19 of this report.

#### **Government-Wide Financial Analysis**

In accordance with GASB Statement No. 34, the Town is not required to restate prior periods for the purposes of providing comparative information. However, in future years, when prior year information is available, a comparative analysis of government-wide information will be presented.

#### **Statement of net assets**

The following table reflects the condensed schedule of net assets based on the statement of net assets found on page 13 of the basic financial statements.

The Town's combined net assets (government and business-type activities) exceeded its liabilities at fiscal year ending June 30, 2003 by \$41.271 million (presented as "net assets"). Of this amount, \$2.554 million was reported as "unrestricted net assets." Unrestricted net assets represent the amount available of to be used to meet the Town's ongoing obligations to citizens and creditors.

The components of net assets include investment in capital assets, such as land, buildings, equipment, and infrastructures (roads, sewer pipes, dams, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is (\$.979) million indicating the amount of capital debt exceeds the net book value of the Town's capital assets. The Town uses these capital assets to service the community; therefore, they are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.



# TOWN OF DOUGLAS, MASSACHUSETTS

## Management's Discussion and Analysis

### Town of Douglas, Massachusetts Statement of Net Assets June 30, 2003

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u> <u>Primary</u> <u>Government</u>
Current and Other Assets	\$ 44,967,321	\$625,497	\$45,592,818
Capital Assets	25,931,253	2,033,198	27,964,451
Total Assets	70,898,574	2,658,695	73,557,269
Current Liabilities	18,589,860	130,909	18,720,769
Noncurrent Liabilities	12,583,630	981,534	13,565,164
Total Liabilities	31,173,490	1,112,443	32,285,933
Net Assets:			
Invested in capital assets, net of related debt	(1,931,361)	951,470	(979,891)
Restricted	39,488,917	208,039	39,696,956
Unrestricted	2,167,528	386,743	2,554,271
Total Net Assets	\$ 39,725,084	\$ 1,546,252	\$41,271,336

### Statement of changes in Net Assets

The Town's total net assets increased by \$1.177 million in fiscal year 2003, of which the governmental activities net assets increased \$1.095 million and the business-type activities increased by \$.081 million.

The summary schedule of activities is based upon the statement found on page 14 of the basic financial statements.

# TOWN OF DOUGLAS, MASSACHUSETTS

## Management's Discussion and Analysis

### Town of Douglas, Massachusetts Summary Statement of Activities For the Year Ended June 30, 2003

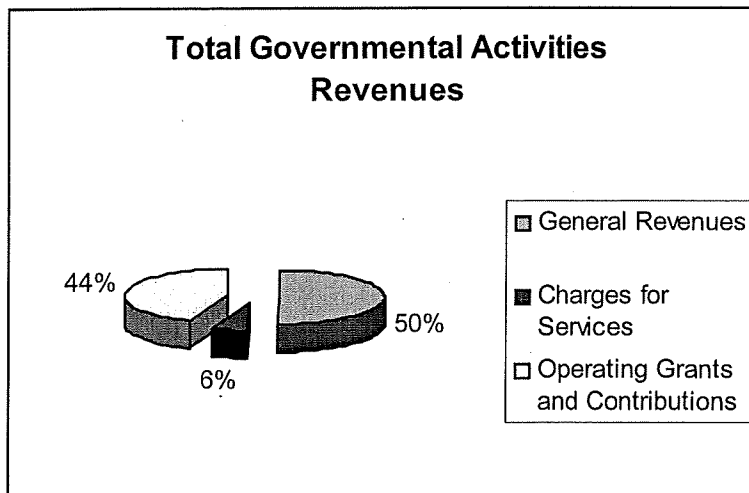
	Governmental Activities	Business-Type Activities	Total
<b><u>Revenues:</u></b>			
Program Revenues:			
Charges for Services	\$ 1,116,202	784,409	1,900,611
Operating Grants and Contributions	8,311,713		8,311,713
General Revenues:			
Property and Excise Taxes	9,116,109		9,116,109
Investment Income	282,941	2,690	285,631
Miscellaneous	123,452	1,945	125,397
Transfers	(5,082)	5,082	-
Total Revenues	18,945,335	794,126	19,739,461
<b><u>Expenses:</u></b>			
General Government	1,044,526		1,044,526
Public Safety	1,611,754		1,611,754
Public Works	1,185,478		1,185,478
Health and Human Services	144,792		144,792
Culture and Recreation	183,728		183,728
Education	10,836,673		10,836,673
Interest of Long-term Debt	450,599		450,599
Employee Pensions	792,383		792,383
Insurance	1,142,610		1,142,610
Water and Sewer Department		473,388	473,388
Transfer Station		238,915	238,915
State and County Charges	457,276		457,276
Total Expenses	17,849,819	712,303	18,562,122
Change in Net Assets	1,095,516	81,823	1,177,339
Net Assets - Beginning	38,629,568	1,464,429	40,093,997
Net Assets - Ending	\$ 39,725,084	1,546,252	41,271,336

## TOWN OF DOUGLAS, MASSACHUSETTS

### Management's Discussion and Analysis

#### **Total Revenues**

Total governmental activities revenues for the Town are comprised of general revenue of \$9.517 million, charges for services of \$1.116 million, and operating grants and contributions of \$8.311 million.



#### **General**

Real estate tax revenues are the Town's largest revenue source at \$8.067 million annually, representing 85% of general revenues. The assessed tax valuation base is \$544 million, up from \$530 million assessed in the prior year, showing a 2.7% increase due to new construction.

Grants and contributions not restricted to specific programs are \$768,503, representing 4 % of general revenues and includes state cherry sheet revenues of \$715,540, and other unrestricted contributions.

#### **Program**

Charges for services are \$1.116 million, representing a variety of department revenues. The public safety portion of \$.435 million includes several types of permit revenues, traffic and moving violation revenues.

#### **Expenses**

For fiscal year ended June 30, 2003 expenses for governmental activities totaled \$17.850 million, which cover a range of services.

## **TOWN OF DOUGLAS, MASSACHUSETTS**

### **Management's Discussion and Analysis**

Education continues to be one of the Town's highest priorities with expenditures representing \$10.836 million, or 61% of total governmental expenses. This includes both grant and general operating expenses.

#### **Business-type Activities**

Business-type activities increased net assets by \$.081 million, accounting for 6% of the total growth of the Town's net assets.

#### **Financial Analysis of the Government's Fund Financial Statements**

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

##### ***Governmental Funds***

As of the end of the current fiscal year, the Town of Douglas's governmental funds reported a combined ending fund balance of \$9.856 million. Of this amount, \$.156 million is reserved for encumbrances and deficits, \$2.327 million is reserved for other purposes and \$.900 million is reserved for subsequent year. This leaves an unreserved/undesignated fund balance of \$6.473 million.

The general fund is the chief operating fund of the Town of Douglas. At the end of the current fiscal year the unreserved fund balance of the general fund was \$1.651 million while the total fund balance was \$2.829 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. The unreserved fund balance represents 9% of total general fund expenditures.

##### ***Proprietary Funds***

The Town of Douglas's proprietary fund provides the same type of information found in the government-wide statements, but in more detail.

Unrestricted net assets of the water/sewer fund at the end of the year were \$.386 million with an investment in capital assets, net of related debt of \$.951 million.

#### **General Fund Budgetary Highlights**

The Town of Douglas submits its budget to the Annual Town Meeting in May, and six months later sets the tax rate at the Massachusetts Department of Revenue. During this process, the Town reviews and revises its revenues and expenditure plan before setting the tax rate, however there were no major changes for FY2003.

## TOWN OF DOUGLAS, MASSACHUSETTS

### Management's Discussion and Analysis

#### Capital Asset and Debt Administration

##### *Capital Assets*

The table below represents a summary of the Town's gross capital assets by category (in millions):

	Governmental Activities		Business-Type Activities		Totals	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	1.589	1.535	0.389	0.389	1.978	1.924
Buildings and Improvements	6.390	6.390	0.480	0.480	6.870	6.870
Machinery and Equipment	2.029	1.854	0.015	0.015	2.044	1.869
Infrastructure	-	-	0.959	0.959	0.959	0.959
Construction in Progress	<u>20.171</u>	<u>2.677</u>	<u>0.866</u>	<u>0.225</u>	<u>21.037</u>	<u>2.902</u>
Totals	\$ 30.179	12.456	2.709	2.068	32.888	14.524

As of June 30, 2003 the Town of Douglas's capital assets for its governmental and business-type activities amounted to \$27.964 million (net of depreciation). Capital assets include land, buildings, improvements, machinery and equipment, open space, roads and highways. The total gross increase in the Town's capital assets for the current fiscal year was \$17.722 million in the governmental activities and \$.641 million in the business-type activities.

Major capital projects that took place during the fiscal year include the following:

- Ongoing construction of a new High School, which are funded through bonds.
- Significant renovations to the roofs of various town owned buildings
- Extension of existing water and sewer lines.

#### Debt

At year-end, the Town had \$28.832 million in outstanding bonds and notes, compared to 12.224 million last year. This is an increase of 17.46 million, or 143%.

During the year, the Town borrowed 9.9 million in General Obligation bonds to finance to continued construction of the new High School.

## **TOWN OF DOUGLAS, MASSACHUSETTS**

### **Management's Discussion and Analysis**

The Town of Douglas maintains bond ratings with Moody's Investors Service, Inc, of AA. The interest rate for the current year's bond sale was between 3.0 and 4.5%.

Additional information on the Town of Douglas' debt can be found in note 12.

### **Contacting the Town's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you should have any questions on this report or need additional financial information, your inquiries should be addressed to: Town of Douglas, Attn: Town Accountant, 29 Depot Street, Douglas, MA 01516.

**Town of Douglas, Massachusetts**  
**Statement of Net Assets**  
**June 30, 2003**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Equivalents	\$ 12,432,343	\$ 554,786	\$ 12,987,129
Receivables	894,092	70,711	964,803
Due from Other Governmental Agencies	31,640,886	-	31,640,886
Total current assets	44,967,321	625,497	45,592,818
<b>Noncurrent Assets:</b>			
Capital Assets, net of accumulated depreciation	25,931,253	2,033,198	27,964,451
Total noncurrent assets	25,931,253	2,033,198	27,964,451
Total Assets	70,898,574	2,658,695	73,557,269
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	2,799,968	-	2,799,968
Performance bonds	264,941	-	264,941
Accrued interest	74,967	30,715	105,682
Current portion of landfill postclosure care costs	9,000	-	9,000
Current portion of capital lease obligations	56,285	-	56,285
Current portion of bonds payable	15,384,699	100,194	15,484,893
Total current liabilities	18,589,860	130,909	18,720,769
<b>Noncurrent Liabilities:</b>			
Bonds payable, net of current portion	12,365,344	981,534	13,346,878
Landfill postclosure care costs, net of current portion	162,000	-	162,000
Capital lease obligations, net of current portion	56,286	-	56,286
Total current liabilities	12,583,630	981,534	13,565,164
Total liabilities	31,173,490	1,112,443	32,285,933
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(1,931,361)	951,470	(979,891)
Restricted for:			
Capital projects	3,663,110	(66,011)	3,597,099
Stabilization	2,121,803	-	2,121,803
Other purposes	1,521,054	58,199	1,579,253
Debt service	31,282,950	-	31,282,950
Designated for subsequent year	900,000	215,851	1,115,851
Unrestricted	2,167,528	386,743	2,554,271
Total net assets	\$ 39,725,084	\$ 1,546,252	\$ 41,271,336

See accompanying notes to financial statements

**Town of Douglas, Massachusetts**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government				Total
	Expenses	Charges for Services	Program Revenue Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government</b>					
Governmental Activities					
General Government	\$ 1,044,526	\$ 78,848	\$ 768,503	\$ -	\$ (197,175)
Public Safety	1,611,754	435,580	61,298	-	(1,114,876)
Public Works	1,185,478	-	272,135	-	(913,343)
Health and human services	144,792	67,338	5,441	-	(72,013)
Culture and Recreation	183,728	1,128	9,580	-	(173,020)
Education	10,836,673	533,308	6,791,533	-	(3,511,832)
Interest on Long-term debt	450,599	-	-	-	(450,599)
Employee pensions	792,383	-	403,223	-	(389,160)
Insurance	1,142,610	-	-	-	(1,142,610)
State and county charges	457,276	-	-	-	(457,276)
<b>Total governmental activities</b>	<b>17,849,819</b>	<b>1,116,202</b>	<b>8,311,713</b>	<b>-</b>	<b>(8,421,904)</b>
<b>Business-type activities</b>					
Water and sewer enterprise	473,388	532,722	-	-	59,334
Transfer station enterprise	238,915	251,687	-	-	12,772
<b>Total business-type activities</b>	<b>712,303</b>	<b>784,409</b>	<b>-</b>	<b>-</b>	<b>72,106</b>
<b>Total primary government</b>	<b>\$ 18,562,122</b>	<b>\$ 1,900,611</b>	<b>\$ 8,311,713</b>	<b>\$ -</b>	<b>(8,349,798)</b>
<b>General revenues:</b>					
Property and excise taxes					9,116,109
Investment earnings					285,631
Miscellaneous					125,397
Transfers					-
<b>Total general revenues, special items, and transfers</b>					<b>9,527,137</b>
<b>Change in net assets</b>					<b>1,177,339</b>
<b>Net assets - beginning</b>					<b>40,093,997</b>
<b>Net assets - ending</b>					<b>\$ 41,271,336</b>

See accompanying notes to financial statements



Town of Douglas, Massachusetts  
Balance Sheet  
Governmental Funds  
June 30, 2003

	<u>General Fund</u>	<u>Stabilization Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,612,794	\$ 2,121,803	\$ 5,450,320	\$ 1,214,213	\$ 12,399,130
Investments	-	-	-	-	-
Taxes receivable, net	894,092	-	-	-	894,092
Due from other funds	-	-	-	-	-
Receivable from other governments	31,378,207	-	2,465	260,214	31,640,886
Cash - restricted	-	-	-	33,213	33,213
Total assets	<u>\$ 35,885,093</u>	<u>\$ 2,121,803</u>	<u>\$ 5,452,785</u>	<u>\$ 1,507,640</u>	<u>\$ 44,967,321</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 1,010,293	\$ -	\$ 1,789,675	\$ -	\$ 2,799,968
Performance bonds	-	-	-	264,941	264,941
Deferred revenue	32,045,440	-	-	-	32,045,440
Other accrued expenses	-	-	-	-	-
Total liabilities	<u>33,055,733</u>	<u>-</u>	<u>1,789,675</u>	<u>264,941</u>	<u>35,110,349</u>
Fund balances:					
Reserved for:					
Encumbrances	270,878	-	-	-	270,878
Deficits	(114,902)	-	-	-	(114,902)
Other purposes	122,379	2,121,803	-	83,270	2,327,452
Unreserved	1,651,005	-	-	-	1,651,005
Designated for subsequent year	900,000	-	-	-	900,000
Unreserved, reported in non-major:					
Special revenue funds	-	-	-	1,155,274	1,155,274
Capital projects funds	-	-	3,663,110	-	3,663,110
Permanent Endowment Fund	-	-	-	4,155	4,155
Total fund balances	<u>2,829,360</u>	<u>2,121,803</u>	<u>3,663,110</u>	<u>1,242,699</u>	<u>9,856,972</u>
Total liabilities and fund balances	<u>\$ 35,885,093</u>	<u>\$ 2,121,803</u>	<u>\$ 5,452,785</u>	<u>\$ 1,507,640</u>	<u>\$ 44,967,321</u>

See accompanying notes to financial statements

**Town of Douglas, Massachusetts**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net**  
**Assets**  
**June 30, 2003**

Total fund balance, governmental funds	\$ 9,856,972
--	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	25,931,253
---	------------

In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in governmental funds, interest is not reported until due	(74,967)
---	----------

Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis	32,045,440
---	------------

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(28,033,614)
--	--------------

Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 39,725,084</u>
--	----------------------

See accompanying notes to financial statements

Town of Douglas, Massachusetts  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2003

	<u>General Fund</u>	<u>Stabilization Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes and assessments	\$ 9,140,928	\$ -	\$ -	\$ -	\$ 9,140,928
Fees and fines	130,392	-	-	21,386	151,778
Licenses and permits	69,302	-	-	17,750	87,052
Intergovernmental	7,256,856	-	-	1,054,857	8,311,713
Charges for services	63,658	-	-	813,714	877,372
Investment earnings	251,627	29,940	-	1,374	282,941
Miscellaneous	-	-	32,050	91,402	123,452
<b>Total revenues</b>	<b>16,912,763</b>	<b>29,940</b>	<b>32,050</b>	<b>2,000,483</b>	<b>18,975,236</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,031,329	-	-	28,323	1,059,652
Public safety	1,447,707	-	-	211,483	1,659,190
Public works	851,407	-	-	272,135	1,123,542
Health and human services	140,408	-	-	4,384	144,792
Culture and recreation	174,486	-	-	7,336	181,822
Education	9,447,817	-	17,076,094	1,159,493	27,683,404
Employee pensions	792,383	-	-	-	792,383
Insurance	1,142,610	-	-	-	1,142,610
Debt Service:					
Principal	852,144	-	-	-	852,144
Interest and other charges	424,560	-	-	-	424,560
State and county charges	457,276	-	-	-	457,276
Capital Outlay	-	-	417,828	-	417,828
<b>Total Expenditures</b>	<b>16,762,127</b>	<b>-</b>	<b>17,493,922</b>	<b>1,683,154</b>	<b>35,939,203</b>
Excess (deficiency) of revenues over expenditures	150,636	29,940	(17,461,872)	317,329	(16,963,967)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from long-term debt, net	-	-	17,460,000	-	17,460,000
Transfers in	111,019	-	-	-	111,019
Transfers out	(5,082)	-	(29,470)	(81,549)	(116,101)
<b>Total other financing sources and uses</b>	<b>105,937</b>	<b>-</b>	<b>17,430,530</b>	<b>(81,549)</b>	<b>17,454,918</b>
<b>Net change in fund balances</b>	<b>256,573</b>	<b>29,940</b>	<b>(31,342)</b>	<b>235,780</b>	<b>490,951</b>
Fund balances - beginning	2,572,787	2,091,863	3,694,452	1,006,919	9,366,021
<b>Fund balances - ending</b>	<b>\$ 2,829,360</b>	<b>\$ 2,121,803</b>	<b>\$ 3,663,110</b>	<b>\$ 1,242,699</b>	<b>\$ 9,856,972</b>

See accompanying notes to financial statements

**Town of Douglas, Massachusetts**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2003**

Net change in fund balances - total governmental funds: \$ 490,951

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays (\$17,722,420) exceeded depreciation (\$459,141) in the current period. 17,263,279

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (24,819)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. (16,711,097)

Long-term debt payments for sewer fund made by general government 103,241

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected on Governmental funds (26,039)

Change in net assets of governmental activities \$ 1,095,516

See accompanying notes to financial statements

Town of Douglas, Massachusetts  
Budget and Actual (with Variances)  
General Fund  
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes and assessments	\$ 8,839,508	\$ 8,839,508	\$ 9,136,301	\$ 296,793
Fees and fines	83,000	83,000	130,392	47,392
Licenses and permits	71,000	71,000	69,302	(1,698)
Intergovernmental	6,842,176	6,842,176	6,853,633	11,457
Charges for services	40,000	40,000	63,658	23,658
Investment earnings	121,000	121,000	251,627	130,627
Miscellaneous	-	-	-	-
Total revenues	15,996,684	15,996,684	16,504,913	508,229
<b>EXPENDITURES</b>				
Current:				
General government	1,090,611	1,091,164	981,925	109,239
Public safety	1,373,641	1,373,641	1,310,413	63,228
Public works	788,865	788,865	850,657	(61,792)
Health and human services	135,420	135,420	128,725	6,695
Culture and recreation	174,160	174,160	172,398	1,762
Education	9,318,125	9,318,125	9,294,702	23,423
Debt Service	1,367,386	1,367,386	1,276,704	90,682
Employee pensions	400,396	400,396	389,160	11,236
Insurance	1,227,968	1,227,968	1,142,610	85,358
State and county charges	431,654	431,654	457,276	(25,622)
Total Expenditures	16,308,226	16,308,779	16,004,570	304,209
Excess (deficiency) of revenues over expenditures	(311,542)	(312,095)	500,343	812,438
<b>OTHER FINANCING SOURCES (USES)</b>				
Other available sources	-	-	-	-
Transfers in	111,019	111,019	111,019	-
Transfers out	(5,082)	(5,082)	(5,082)	-
Total other financing sources and uses	105,937	105,937	105,937	-
Net change in fund balances	(205,605)	(206,158)	606,280	812,438
Budgetary fund balances - beginning of year	1,820,500	1,820,500	1,820,500	-
Budgetary fund balances - ending of year	\$ 1,614,895	\$ 1,614,342	\$ 2,426,780	\$ 812,438

See accompanying notes to financial statements

**Town of Douglas, Massachusetts**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2003**

	<u>Enterprise Funds</u>		
	<u>Water &amp; Sewer</u> <u>Enterprise Fund</u>	<u>Transfer Station</u> <u>Enterprise Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 504,179	\$ 50,607	\$ 554,786
Accounts Receivable, net	70,711	-	70,711
Total current assets	574,890	50,607	625,497
Non-current assets:			
Capital Assets, net of accumulated depreciation	2,033,198	-	625,497
Total non-current assets	2,033,198	-	625,497
Total assets	<u>2,608,088</u>	<u>50,607</u>	<u>1,250,994</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accrued interest	30,715	-	30,715
Bonds payable	100,194	-	100,194
Total current liabilities	130,909	-	130,909
Non-current liabilities:			
Bonds payable	981,534	-	981,534
Total non-current liabilities	981,534	-	981,534
Total liabilities	<u>1,112,443</u>	<u>-</u>	<u>1,112,443</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	951,470	-	951,470
Designated for subsequent year	215,851	-	215,851
Restricted for capital projects	(66,011)	-	(66,011)
Restricted for other purposes	50,544	7,655	58,199
Unrestricted	343,791	42,952	386,743
Total net assets	<u>\$ 1,495,645</u>	<u>\$ 50,607</u>	<u>\$ 1,546,252</u>

See accompanying notes to financial statements

Town of Douglas, Massachusetts  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2003

	Enterprise Funds		
	<u>Water &amp; Sewer</u>	<u>Transfer Station</u>	
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Charges for services	\$ 532,722	\$ 251,687	\$ 784,409
Miscellaneous	1,945	-	1,945
Total operating revenues	534,667	251,687	786,354
<b>OPERATING EXPENSES</b>			
Personal services	171,239	28,138	199,377
Contractual services	62,093	203,428	265,521
Utilities	43,580	1,947	45,527
Repairs and maintenance	18,155	-	18,155
Other supplies and expenses	39,274	5,402	44,676
Fringe benefits	27,419	-	27,419
Depreciation	45,569	-	45,569
Total Operating Expenses	407,329	238,915	646,244
Operating income (loss)	127,338	12,772	140,110
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	2,690	-	2,690
Operating grants and contributions	-	-	-
Interest expense	(66,059)	-	(66,059)
Miscellaneous expenses	-	-	-
Total non-operating revenue (expenses)	(63,369)	-	(63,369)
Income (loss) before contributions and transfers	63,969	12,772	76,741
Capital contributions	-	-	-
Transfers in	-	5,082	5,082
Transfers out	-	-	-
Change in net assets	63,969	17,854	81,823
Total net assets - beginning	1,431,676	32,753	1,464,429
Total net assets - ending	\$ 1,495,645	\$ 50,607	\$ 1,546,252

See accompanying notes to financial statements

**Town of Douglas, Massachusetts**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**30-Jun-03**

	<u>Water and Sewer</u> <u>Enterprise Fund</u>	<u>Transfer Station</u> <u>Enterprise Fund</u>	<u>Total</u>
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and users	\$ 534,667	\$ 251,687	\$ 786,354
Payments to vendors	(206,192)	(210,777)	(416,969)
Payments to employees	(171,239)	(28,138)	(199,377)
Net cash from operating activities	<u>157,236</u>	<u>12,772</u>	<u>170,008</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Net transfers in (out)	<u>-</u>	<u>5,082</u>	<u>5,082</u>
Net cash from operating activities	<u>-</u>	<u>5,082</u>	<u>5,082</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Proceeds from issuance of bonds and notes	-	-	-
Acquisition and construction of capital assets	(641,349)	-	(641,349)
Principal payments on bonds and notes	(103,241)	-	(103,241)
Operating grants	-	-	-
Interest expense	(67,691)	-	(67,691)
Net cash from capital and related financing activities	<u>(812,281)</u>	<u>-</u>	<u>(812,281)</u>
<b>Cash Flows from Investing Activities</b>			
Investment income	<u>2,690</u>	<u>-</u>	<u>2,690</u>
Net cash from investing activities	<u>2,690</u>	<u>-</u>	<u>2,690</u>
Net Change in Cash	(652,355)	17,854	(634,501)
Cash, beginning of year	<u>1,156,534</u>	<u>32,753</u>	<u>1,189,287</u>
Cash, end of year	<u><u>504,179</u></u>	<u><u>50,607</u></u>	<u><u>554,786</u></u>
 <b>Reconciliation of Operating Income to Net Cash</b>			
<b>Provided by (Used for) Operating Activities:</b>			
Operating income	63,969	12,772	76,741
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	45,569	-	45,569
Changes in assets and liabilities:			
User fees receivable	49,327	-	49,327
Accrued interest	(1,629)	-	(1,629)
Net Cash Provided by (used for) Operating Activities	<u><u>157,236</u></u>	<u><u>12,772</u></u>	<u><u>170,008</u></u>

See accompanying notes to financial statements



**Town of Douglas, Massachusetts**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2003**

	<u>Private Purpose Trust Fund - Simple</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 49,857	\$ 61,047
Total assets	<u>49,857</u>	<u>61,047</u>
<b>LIABILITIES</b>		
Accounts payable	-	-
Due to student groups		61,047
Total liabilities	<u>-</u>	<u>61,047</u>
<b>NET ASSETS</b>		
Held in trust for benefits and other purposes	<u>\$ 49,857</u>	<u>\$ -</u>

See accompanying notes to financial statements

**Town of Douglas, Massachusetts**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2003**

	<u>Private Purpose</u> <u>Trust Fund -</u> <u>Simple</u>
<b>ADDITIONS</b>	
Contributions	\$ -
Investment earnings	<u>806</u>
Total additions	<u>806</u>
<b>DEDUCTIONS</b>	
Scholarships awarded	<u>900</u>
Total deductions	<u>900</u>
Change in net assets	(94)
Net assets - beginning	<u>49,951</u>
Net assets - ending	<u><u>\$ 49,857</u></u>

See accompanying notes to financial statements

TOWN OF DOUGLAS, MASSACHUSETTS

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TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The Town of Douglas, Massachusetts (the "Town") was incorporated in 1746. The Town has an Open Town Meeting form of government and an executive five-member Board of Selectmen. The Executive Administrator is responsible for the day-to-day administration of the Town.

The Town provides general governmental services, including Public Safety - Police and Fire Protection, Highways and Streets, Sanitation, Health and Social Services, Recreation and Cultural, Public Education for grades K through 12, and General Administrative Services.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

B. Implementation of New Accounting Standards

In fiscal year 2003, the Town implemented the Government Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Accordingly, the financial statements include, for the first time, a Management's Discussion and Analysis, Government-Wide, and Fund Financial Statements, with the focus on major funds, as more fully described in other sections of Note 1.

C. Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- \* the organization is legally separate (can sue and be sued in their own name)
- \* the Town holds the corporate powers of the organization
- \* the Town appoints a voting majority of the organization's board
- \* the Town is able to impose its will on the organization
- \* the organization has the potential to impose a financial benefit/burden on the Town
- \* there is fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the Town of Douglas has no component units.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

D. Basis of Presentation

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Town. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements:

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental activities typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The Town has presented the following major governmental funds:

General Fund - This fund is the main operating fund of the Town. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General fund.

Special Revenue Fund - This fund is used to account for the proceeds of specific revenue sources (other than major capital projects or expendable trusts) that are legally restricted to expenditures for specific purposes.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Fiduciary Funds (Not included in District-Wide statements)

Private-Purpose Trust Funds - This fund is used to account for resources legally held in trust for student scholarships.

Agency Funds - This fund is used to account for assets held by the Town as an agent for individuals, private organizations, and/or other governmental units. The Town reports Student Activity Funds in the Agency Fund.

E. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement costs, landfill postclosure care costs, claims, and judgments are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenue are recognized when received.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

F. Budgetary Control

The Town follows the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to the Annual Town Meeting, the Executive Administrator submits a proposed operating budget to the Finance Committee for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. At the Annual Town Meeting, the Finance Committee makes the recommendation to the voters of their concurrence or non-concurrence with the articles. The voters at the Annual Town Meeting then vote to accept or reject the proposed budget articles.
- c. On July 1, the budget is legally enacted.
- d. The Board of Assessors will submit to the Commonwealth of Massachusetts' Department of Revenue the Town's Tax Recapitulatory Sheet. The sheet denotes the appropriations passed by the Town voters, sources of estimated revenues and the proposed tax revenues to be raised. The Commonwealth's Department of Revenue will then certify the tax rate to be used in the assessment of taxes to the local property owners (real and personal).
- e. If a need arises, the Town will convene a special town meeting to act on the recommendations of the Finance Committee for additional appropriations.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effect of encumbrances and continuing appropriations, which are adjusted to the actual results for comparison.

G. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled Cash and Cash Investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with a maturity of ninety days or less are also considered to be "cash equivalents".

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Inventories of Supplies

Supplies are considered to be expenditures at the time of purchase and are not included in the statement of net assets as inventories.

J. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances".

K. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

L. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$25,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-40 Years
Water and Sewer System	30-40 Years
Machinery and Equipment	5-10 Years



TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

M. Net Assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations on their use either through the enabling legislations adopted by the town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

N. Encumbrances and Continuing Appropriations

Encumbrance accounting, under which purchase orders, contracts and other commitments for fund expenditures are recorded in order to reserve portions of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Certain unexpended and unencumbered appropriations for incomplete projects are carried over to succeeding years. Such continuing appropriations are accounted for similar to encumbrances. Other unencumbered appropriations lapse at year-end.

O. Claims and Judgments

Estimated losses from judgments and claims are recorded in the Government-Wide financial statements as a liability and as an expense if the loss is probable and amounts can be reasonably estimated.

P. Reconciliation of Government-Wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net assets (deficit) for governmental activities as shown on the government-wide statement of net assets is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements, which comprise the reconciliation difference, stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

2 - PROPERTY TAXES

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent August 1, November 1, February 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to interest and penalties.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy. Property tax revenues are recorded in accordance with the modified accrual basis of accounting as previously described.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the Town. A secondary limitation is that the levy in a fiscal year may not exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a town-wide referendum vote.

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-property tax revenues projected to be received by the Town, including available funds.

3 - BUDGETARY BASIS OF ACCOUNTING

The Town of Douglas prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the Town's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis in the General Fund are that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).

Adjustments necessary to convert the General Fund's excess of revenues and other sources over expenditures and other uses on the budget basis to a GAAP basis are provided below:

Excess of revenues and other sources over expenditures and other uses - budget basis	\$ 606,280
Adjustment of property tax revenues to modified accrual basis	4,627
Beginning of year adjustment for encumbrances recognized as expenditures	(625,312)
End of year adjustment for encumbrances not recognized as expenditures	<u>270,978</u>
Excess of revenues and other sources over expenditures and other uses - GAAP basis	\$ 256,573
	=====

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

4 - DEPOSITS AND INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization or insurance protection by the financial institutions involved. Investments can be made in securities unconditionally guaranteed by the U.S. Government with maturities of 90 days or less which are collateralized by such securities. The Town also has the authority to purchase units in the Massachusetts Municipal Depository Trust (MMDT), a pooled fund managed for the Commonwealth.

The composition of the Town's deposits and investments fluctuates throughout the year depending primarily on the timing of property tax receipts, water and sewer revenues, proceeds from borrowings, collections of state and federal aid, and capital outlays.

Deposits

The following summary presents the amount of deposits at June 30, 2003. Deposits that are fully insured or collateralized with securities held by the Town or its agent in the Town's name are shown in Category 1. Deposits collateralized with securities held by the pledging institution's trust department or agent in the Town's name are shown in Category 2. Deposits that are not insured or collateralized are shown in Category 3.

	<u>Bank Balance</u>			<u>Total</u>	
	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Cash	\$ <u>609,141</u>	\$ <u>-</u>	\$ <u>11,758,450</u>	\$ <u>12,367,591</u>	\$ <u>10,894,924</u>
Total	\$ <u>609,141</u>	\$ <u>-</u>	\$ <u>11,758,450</u>	\$ <u>12,367,591</u>	\$ <u>10,894,924</u>
	=====	=====	=====	=====	=====

Investments

The following summary presents the amount of investments at June 30, 2003. Investments are categorized according to the level of risk assumed by the Town. Category 1 includes investments that are insured, registered or held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered securities held by the counterparty's trust department or its agent but not in the Town's name. MMDT, pooled funds, international equity funds, real estate funds, and venture capital funds are not categorized because they are managed investment pools.

THE TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

	<u>Carrying Amount</u>			<u>Not</u> <u>Categorized</u>	<u>Fair</u> <u>Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
MMDT	\$ -	\$ -	\$ -	\$2,203,109	\$2,203,109
	=====	=====	=====	=====	=====

5 - PENSION PLANS

Worcester Regional Contributory Retirement System

Plan Description and Provisions

The Town provides pension benefits for substantially all employees except School Department employees through the Worcester Regional Contributory Retirement System (WRCRS), a Cost-Sharing Multiple Employer Employee Retirement System established under the Massachusetts Contributory Retirement Law. Benefit provisions and contribution requirements are established by state law.

The system provides for retirement benefits up to a maximum of two and one-half times (2-1/2x) the number of years of service, expressed as a percentage, times a member's average annual compensation for the past three years. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

Members of the system become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The plan also provides for early retirement at age 55 if the Participant (1) has a record of 10 years of creditable service, (2) was on the Town payroll on January 1, 1978, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Plan members who become permanently and totally disabled may be eligible to receive a disability retirement allowance.

The County of Worcester issues a publicly available financial report that includes financial statements and required supplementary information for WRCRS.

Funding Policy

Active plan members contribute either 5, 7, 8, or 9% of their gross regular compensation depending on the date upon which their membership began, on a pre-tax basis. The Town is required to contribute at an actuarially determined rate; the current rate is 8.0% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the WRCRS board of Trustees.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Annual Pension Cost

For 2003, the Town's annual pension cost of \$272,038 was equal to the Town's required and actual contributions. The periodic employer contributions to the retirement system are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded on a schedule that ends no later than the year 2028. The annual amortization of the unfunded actuarial liability increases each year by 4.5%. The funding strategy for normal cost and the unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The significant actuarial assumptions used in the determination of the standardized measure of the pension benefit obligation and contribution are summarized below:

- \* The rate of return on the investment of present and future assets is 8% per year, compounded annually.
- \* Future pension payments reflect an assumption of a 5.5% salary increase per year.
- \* Future pension payments reflect no post-retirement benefit increases.

Three Year Trend Information

<u>Fiscal</u> <u>Year</u> <u>Funding</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>
2001	\$217,318	100%
2002	256,480	100%
2003	272,038	100%

Massachusetts Teachers' Retirement System, a Noncontributing Employer Plan

The majority of the employees of the School Department participate in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board. Benefit provisions and contribution requirements are established by state law. Eligibility requirements for participation are as follows:

- \* The employee must be employed on at least a half-time basis in a contracted professional position within a public school system located in Massachusetts.
- \* The employee must be certified by the Massachusetts Department of Education for a position which requires certification.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Participation in the plan requires that members contribute a fixed percentage of their compensation (either 5%, 7%, 8%, or 9%) each pay period. This percentage varies depending upon the date of employment. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Employee contributions vest immediately. After 10 years of service employee benefits become fully vested. After 20 years of service, or upon having attained the age of 55 with at least 10 years of service, employees are eligible to receive benefits under the plan. Benefits are based on the average of the three highest-salaried years of employee service and are determined in a manner similar to the provisions of WRCRS.

The Town has no obligation to contribute to this plan. All pension benefits and expenses paid by the Teachers Retirement Board are funded by the Commonwealth of Massachusetts. Payments made by the Commonwealth of Massachusetts on behalf of the Town amounted to \$403,223 and are reflected as revenues and corresponding expenditure in the Town's financial statements.

6 - POST RETIREMENT BENEFITS

The Town pays 50 percent of the cost of insurance premiums for health benefits for all personnel who attain retirement age while in the employment of the Town. These costs are appropriated and expended in the fiscal year incurred. For fiscal year ended June 30, 2003, there were 52 retirees receiving benefits and the approximate cost to the Town was \$89,166.

7 - DEFERRED COMPENSATION PLAN

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

8 - LANDFILL POSTCLOSURE CARE COSTS

State and Federal laws and regulations require landfill closures to meet certain standards. The Town's landfill was closed and capping was completed December 1991. The liability for postclosure care is estimated based on current cost. This estimate is subject to change due to inflation, deflation, technology or applicable laws and regulations. Such costs are recognized as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources; the remaining liability is reported in the governmental activities statement of net assets. Expenditures related to postclosure care in fiscal 2003 were \$7,120.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

9 - LEASES

The Town is obligated under leases for equipment accounted for as capital leases. The lease obligations are accounted for as a liability in the governmental activities statement of net assets. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2003:

Year Ending <u>June 30,</u>	General Long-Term <u>Obligations Account Group</u>
2004	\$ 61,675
2005	<u>61,675</u>
Minimum lease payments for all capital leases	123,350
Less: Amount representing interest at the Town's incremental borrowing rate of interest	<u>10,779</u>
Present value of minimum lease payments	\$ 112,571 =====

10 - ADJUSTMENT TO PRIOR YEAR FUND BALANCE

Financial statements for the year ended June 30, 2002 were issued in conformance with generally accepted accounting principles in effect at that date. GASB 34 requires certain amounts be restated. The following is a reconciliation of restated amounts to the June 30, 2002 year end balance:

Fund balance at June 30, 2002, as previously reported	\$ 9,366,021
Adjustment for June 30, 2002 capital assets	12,458,105
Accumulated depreciation for capital assets through June 30, 2002	(3,790,131)
Debt obligations at June 30, 2002	(11,322,517)
Accrued interest on long-term obligations at June 30, 2002	(48,928)
SBAB receivable at June 30, 2002	31,282,950
Taxes receivable at June 30, 2002	787,309
Other	<u>(103,241)</u>
Fund balance at June 30, 2002, as restated	\$38,629,568 =====

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

11 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 1,535,585	\$ 54,100	\$ -	\$ 1,589,685
Construction in Progress	<u>2,677,240</u>	<u>17,493,922</u>	<u>-</u>	<u>20,171,162</u>
Total capital assets, not being depreciated	<u>4,212,825</u>	<u>17,548,022</u>	<u>-</u>	<u>21,760,847</u>
Capital assets, being depreciated				
Buildings	6,390,592	-	-	6,390,592
Equipment	<u>1,854,688</u>	<u>174,398</u>	<u>-</u>	<u>2,029,086</u>
Total capital assets, being depreciated	<u>8,245,280</u>	<u>174,398</u>	<u>-</u>	<u>8,419,678</u>
Less accumulated depreciation for:				
Buildings	2,886,084	203,656	-	3,089,740
Equipment	<u>904,047</u>	<u>255,485</u>	<u>-</u>	<u>1,159,532</u>
Total accumulated depreciation	<u>3,790,131</u>	<u>459,141</u>	<u>-</u>	<u>4,249,272</u>
Total capital assets, being depreciated, net	<u>4,455,149</u>	<u>(284,743)</u>	<u>-</u>	<u>4,170,406</u>
Governments activities capital assets, net	\$ 8,667,974	\$17,263,279	\$ -	\$ 25,931,253
	=====	=====	=====	=====
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 389,384	\$ -	\$ -	\$ 389,384
Construction in Progress	<u>225,194</u>	<u>641,349</u>	<u>-</u>	<u>866,543</u>
Total capital assets, not being depreciated	<u>614,578</u>	<u>641,349</u>	<u>-</u>	<u>1,255,927</u>
Capital assets, being depreciated				
Buildings	480,007	-	-	480,007
Equipment	15,400	-	-	15,400
Infrastructure	<u>959,700</u>	<u>-</u>	<u>-</u>	<u>959,700</u>
Total capital assets, being depreciated	<u>1,455,107</u>	<u>-</u>	<u>-</u>	<u>1,455,107</u>
Less accumulated depreciation for:				
Buildings	353,472	12,039	-	365,511
Equipment	13,860	1,540	-	15,400
Infrastructure	<u>264,935</u>	<u>31,990</u>	<u>-</u>	<u>296,925</u>
Total accumulated depreciation	<u>632,267</u>	<u>45,569</u>	<u>-</u>	<u>677,836</u>
Total capital assets, being depreciated, net	<u>822,840</u>	<u>(45,569)</u>	<u>-</u>	<u>777,271</u>
Business-type activities capital assets, net	\$ 1,437,418	\$ 595,780	\$ -	\$ 2,033,198
	=====	=====	=====	=====



TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Depreciation expense was charged as direct expenses to programs of the primary government as follows:

Governmental activities:	
General government	\$ 38,974
Public safety	126,962
Public works	61,936
Education	229,363
Culture and recreation	<u>1,906</u>
Total depreciation expense - governmental activities	\$ 459,141
	=====
Business-type activities:	
Water and sewer	\$ 45,569
Transfer station	<u>-</u>
Total depreciation expense - business-type activities	\$ 45,569
	=====

12 - LONG-TERM DEBT

Unmatured general obligation bonds payable consist of the following:

<u>Purpose of Issue</u>	<u>Governmental</u>	<u>Business-type</u>
Sewer project, serial issue maturities through 2005, bearing interest rate of 5.0%	\$ -	\$ 32,000
School construction, serial issue maturities through 2022, bearing interest rates of 3.0% to 4.5%	9,640,000	-
Cafetorium, serial issue maturities through 2011, bearing interest rates of 3.5% to 4.25%	190,000	-
Municipal purpose, serial issue maturities through 2010, bearing interest rates of 4.3% to 7.0%	460,000	-
New well project, serial issue maturities through 2014, bearing interest rate of 5.2%	-	612,311
New well project, serial issue maturities through 2034, bearing interest rate of 5.12%	-	97,417
Old Town Hall renovation, serial issue maturities through 2017, bearing interest rate of 5.25%	257,543	-
Sewer design, serial issue maturities through 2011, bearing interest rates of 3.5% to 4.25%	-	340,000
Refunded municipal purpose, serial issue maturities through 2018, bearing interest rates of 4.25% to 6.0%	1,380,000	-

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Portable classrooms, serial issue maturities through 2004, bearing interest rates of 4.3% to 7.0%	75,000	-
Fire/EMS, serial issue maturities through 2010, bearing interest rates of 4.3% to 7.0%	70,000	-
School Land Acquisition, serial issue maturities through 2011, bearing interest rates of 3.5% to 4.25%	830,000	-
School construction, bond anticipation note, due April 2004, bearing interest rate of 2.0%	14,000,000	-
Capital equipment, bond anticipation note, due April 2004, bearing interest rate of 2.0%	560,000	-
Police station, serial issue maturities through 2013, bearing interest rate of 5.63%	<u>287,500</u>	<u>-</u>
	\$27,750,043	\$ 1,081,728
	=====	=====

Transactions for the year ended June 30, 2003 are summarized as follows:

	<u>Balance</u> <u>July 1</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>June 30</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Type Activities</u>					
General Obligation Bonds	\$ 11,038,946	\$ 17,460,000	\$ 748,903	\$ 27,750,043	\$ 15,384,699
Landfill postclosure care-costs	180,000	-	9,000	171,000	9,000
Capital lease obligations	<u>130,230</u>	<u>52,138</u>	<u>69,797</u>	<u>112,571</u>	<u>56,285</u>
Total governmental activities	<u>11,349,176</u>	<u>17,512,138</u>	<u>827,700</u>	<u>28,033,614</u>	<u>15,449,984</u>
<u>Business Type Activities</u>					
General Obligation Bonds	<u>1,184,969</u>	<u>-</u>	<u>103,241</u>	<u>1,081,728</u>	<u>100,194</u>
Total business-type activities	<u>1,184,969</u>	<u>-</u>	<u>103,241</u>	<u>1,081,728</u>	<u>100,194</u>
Total government	\$ 12,534,145	\$ 17,512,138	\$ 930,941	\$ 29,115,342	\$ 15,550,178
	=====	=====	=====	=====	=====

General Obligation Bonds -

General obligation bonds are backed by the full faith and credit of the Town. The state has approved school construction assistance subject to annual appropriation by the legislature to partially provide resources for future principal and interest requirements.

Bond anticipation notes are classified as general obligation bonds when the criteria established by FASB-6 (Classification of Short-term Obligations Expected to be Refinanced) are satisfied.

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the Town to rebate excess arbitrage earnings from bond proceeds to the federal government.

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

Annual Requirements to Retire Debt Obligations -

The annual aggregate maturities for each bond type for the years subsequent to June 30, 2003 are as follows:

General Obligation Bonds

Year Ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2004	\$15,384,699	\$ 856,218	\$ 100,194	\$ 51,782	\$15,832,893
2005	765,536	534,827	102,250	47,306	1,449,919
2006	781,418	505,073	88,414	43,054	1,417,959
2007	787,345	474,010	90,692	39,021	1,391,068
2008	798,321	442,182	88,088	34,825	1,363,416
2009-2013	3,413,141	1,742,674	401,038	110,667	5,667,520
2014-2018	3,114,583	1,023,000	141,175	30,029	4,308,787
2019-2023	2,705,000	308,135	14,823	16,462	3,044,420
2024-2028	-	-	19,031	12,254	31,285
2029-2033	-	-	24,434	6,851	31,285
2034-2035	-	-	11,589	897	12,486
	<u>\$27,750,043</u>	<u>\$ 5,886,119</u>	<u>\$ 1,081,728</u>	<u>\$ 393,148</u>	<u>\$34,551,038</u>
	=====	=====	=====	=====	=====

Bonds Authorized and Unissued -

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 2-1/2% and 5%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there may be categories of general obligation debt which are exempt from the debt limit but are subject to other limitations, including debt incurred under the Funding Loan Act of 1971.

Bonds authorized and unissued at June 30, 2003 is as follows:

New High School	\$ 9,139,790
High School - Supplemental Approp.	1,309,523
High School - Supplemental Equipment Approp.	620,000
Francis St. Water Main	580,000
Capital Expenditures	605,000
Wastewater Treatment Facility	<u>6,500,000</u>
	\$18,754,313
	=====

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

13 - TEMPORARY BORROWINGS

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow on a temporary basis to fund the following:

1. Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANs or TANs).
2. Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs).
3. Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of Federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the Town and carry maturity dates which are limited by statute.

14 - CONTINGENCIES

The Town is a party to numerous legal proceedings, many of which normally occur in governmental operations. The legal proceedings, in the opinion of Town Counsel, are not likely to have a material adverse impact on the Town's financial position.

The Town is contingently liable for its proportionate share of debt of the Blackstone Valley Vocational Regional School District.

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

15 - RESERVATIONS OF FUND BALANCES FOR COMBINED NONMAJOR FUNDS

Reservations of fund balances for combined nonmajor funds in the Governmental Funds Balance Sheet are as follows:

Federal and state grants	\$ 146,412
Revolving accounts	798,127
Other Trust funds	87,425
Ambulance fund	<u>210,735</u>
	\$1,242,699
	=====

TOWN OF DOUGLAS, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

16 - RESTRICTED NET ASSETS

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

Included in restricted net assets is a reserve for debt service in the amount of \$31,282,950 representing anticipated future receipts from School Building Assistance Bureau (SBAB).

ACCOMPANYING INFORMATION

INDEPENDENT AUDITOR'S REPORT ON ACCOMPANYING INFORMATION

The Honorable Board of Selectmen  
Town of Douglas, Massachusetts

Our report on our audit of the financial statements of the Town of Douglas for June 30, 2003 appears on pages 1 and 2. That audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of treasurer's cash is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Borgatti Harrison & Co.*

Borgatti Harrison & Co.

Framingham, Massachusetts  
November 18, 2003

TOWN OF DOUGLAS, MASSACHUSETTS

SCHEDULE OF TREASURER'S CASH

JUNE 30, 2003

Non-Interest bearing accounts:

State Street Bank	\$ <u>2,490</u>
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Interest bearing bank accounts:

Fleet Bank	201,398
Milford National Bank	101,149
Commerce Bank	7,189,436
Unibank For Savings	<u>3,400,451</u>

10,892,434

Pooled Investments:

Massachusetts Municipal Depository Trust	<u>2,203,109</u>
--	------------------

Total treasurer's cash

\$13,098,033  
=====

See accompanying auditor's report on accompanying information