

TOWN OF MARBLEHEAD, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Photo by G.B. Snow

**For the Fiscal Year Ended
June 30, 2004**

On the cover: *A view of the Town and Harbor from Marblehead Neck.*

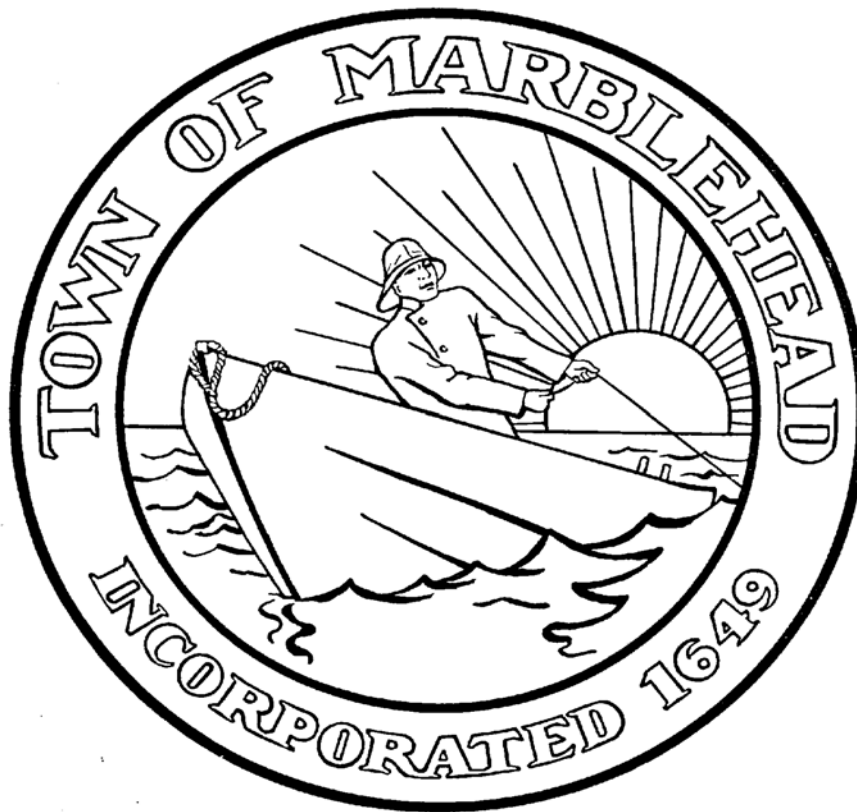


*The Old High School which has
been converted into the
Marblehead Veterans Memorial
Middle School.*



Photos by G.B. Snow

TOWN OF MARBLEHEAD, MASSACHUSETTS



COMPREHENSIVE ANNUAL FINANCIAL REPORT For the Fiscal Year Ended June 30, 2004 Prepared by Finance Department

TOWN OF MARBLEHEAD, MASSACHUSETTS
Comprehensive Annual Financial Report
Year Ended June 30, 2004

TABLE OF CONTENTS

INTRODUCTORY SECTION.....	1
Letter of Transmittal	3
Organizational Chart	9
Principal Officials.....	10
FINANCIAL SECTION	11
Independent Auditors' Report	13
Management's Discussion and Analysis	15
BASIC FINANCIAL STATEMENTS	22
Statement of Net Assets.....	23
Statement of Activities	24
Governmental funds – balance sheet	26
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	27
Governmental funds – statement of revenues, expenditures and changes in fund balances	28
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	29
Proprietary funds – statement of net assets.....	30
Proprietary funds – statement of revenues, expenses and changes in fund net assets	31
Proprietary funds – statement of cash flows	32
Fiduciary funds – statement of fiduciary net assets	33
Fiduciary funds – statement of changes in fiduciary net assets.....	34
Notes to the Basic Financial Statements	35
REQUIRED SUPPLEMENTARY INFORMATION.....	64
GENERAL FUND	65
General fund - schedule of revenues, expenditures and changes in fund balance – budget and actual	66
General fund - schedule of expenditures and encumbrances compared with authorizations	68
Notes to Required Supplementary Information	74
COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS	76
NONMAJOR GOVERNMENTAL FUNDS	77
Nonmajor governmental funds - combining balance sheet	78
Nonmajor governmental funds - combining statement of revenues, expenditures and changes in fund balances	80

INTERNAL SERVICE FUNDS	82
Internal service funds - combining balance sheet	83
Internal service funds - combining statement of revenues, expenditures and changes in retained earnings....	84
Internal service funds - combining statement of cash flows	85
FIDUCIARY FUNDS.....	86
Private purpose trust funds - combining statement of net assets.....	87
Private purpose trust funds - combining statement of changes in net assets	88
Agency funds - statement of changes in assets and liabilities	89
STATISTICAL SECTION	91
General Government Expenditures by Function.....	92
General Revenues by Source.....	93
General Fund Balance Compared to Annual Expenditures.....	94
Assessed and Equalized Values of Taxable Property and Tax Rates	95
Property Tax Levy Limit, Actual Levy and Unused Limit	96
Property Tax Levies and Collections	97
Principal Property Taxpayers.....	98
Computation of Legal Debt Margin	99
Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	100
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures	101
Computation of Overlapping Debt.....	102
Demographic Statistics	103
Population Changes.....	104
Employment Statistics.....	105
Building Permits and Construction Activity	106
Miscellaneous Statistics.....	107

This page left intentionally blank.

Introductory Section



Photo by G.B. Snow

*Marblehead Town House built in 1727
The 3rd oldest Town Hall in the country still in use today.
The Town House is currently used for meetings and exhibits.*

INTRODUCTORY SECTION

This page left intentionally blank.



TOWN OF MARBLEHEAD

FINANCIAL SERVICES

George B. Snow
Finance Director
781-631-1705

Mary Alley Building
7 Widger Road
Marblehead, MA 01945

Letter of Transmittal

December 22, 2004

Honorable Members of the Board of Selectmen and Citizens of
the Town of Marblehead, Massachusetts:

It is with pleasure that the Comprehensive Annual Financial Report of the Town of Marblehead, Massachusetts, for the fiscal year ended June 30, 2004, is presented. The financial statements are presented in conformity with accounting principals generally accepted in the United States of America (GAAP) that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report also complies with the new financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34.

In addition to the fund financial information traditionally presented in the Town's financial statements, this report now includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net assets of the Town including all capital assets (including infrastructure) and the Statement of Activities that shows the cost of providing government services.

The report is designed to be used by the elected and appointed officials of the Town and others who are concerned with its management and progress such as bond analysts, banking institutions and credit raters as well as residents and taxpayers of Marblehead.

This report consists of management's representations concerning the finances of the Town of Marblehead. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making those representations, management has established an internal control framework that is designed to both protect the assets of the Town from loss, theft or misuse and to allow for the compiling of sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Marblehead's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Marblehead for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion the Town of Marblehead's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Marblehead was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Marblehead's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The Town of Marblehead's MD&A can be found immediately following the report of the independent auditors.

This comprehensive annual financial report is presented in three sections:

The Introductory Section, which is unaudited, includes this letter of transmittal and the Town's organization chart.

The Financial section, which includes the MD&A, the basic financial statements, the independent auditor's report on the financial statement, and combining and individual fund statements and schedules.

The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

PROFILE OF THE TOWN

The Town of Marblehead, originally incorporated in 1649, is a picturesque seacoast town steeped in history. In its early years fishing and the shoe industry were its two main sources of income. While Marblehead has been known through the years as the "Birthplace of the American Navy," in recent times the town has also been known as one of the yachting capitals of the world. Pleasure boating is certainly a popular pastime of its residents. Visitors come from all over the world to view the original of the famous painting, "The Spirit of '76", which is housed in Abbot Hall in the office of the Board of Selectmen, as well as to see the beautiful harbor crowded with sailing, fishing, lobster and pleasure boats. Another major attraction for visitors is the Town's historic district, the largest in the State, and the narrow crooked streets lined with Colonial and Victorian buildings, many of which have been placed on the National Register.

With a population of 20,461, Marblehead is located in the Greater Boston Area, 18 miles northeast of Boston, with a land area of 4.53 square miles. Marblehead is situated in eastern Massachusetts, bordered by Swampscott on the south, Salem on the southwest, and the Atlantic Ocean on the west, north, and east. Commuter rail service to North Station in Boston is convenient from the Salem or Swampscott stations and Marblehead is a member of the Massachusetts Bay Transportation Authority which provides bus service to Swampscott, Lynn and Boston.

The Town operates under a Board of Selectmen/Open Town Meeting/Town Administrator form of government. The five-member Board of Selectmen, elected annually, makes policy decisions. The Town Administrator is responsible for carrying out the policies and direction of the Board of Selectmen and for managing the day-to-day operations of the Town.

THE REPORTING ENTITY AND ITS SERVICE

The financial reporting entity (the Town) of the primary government includes all funds, account groups, and activities considered a part of the Town of Marblehead. Specifically excluded are the Marblehead Housing Authority and The North Shore Regional Vocational School District since they have substantial autonomy and separate governmental entity characteristics.

The Town provides a range of municipal services normally associated with municipal government including education, public safety (police, fire and emergency medical services), recreation and parks, street construction and maintenance, solid waste collection and disposal, library, cemetery, building inspection and general administrative services. The Town also operates electric, water and sewer utilities and harbor and waterfront services as enterprises.

FACTORS AFFECTING FINANCIAL CONDITION

The Town of Marblehead continues to reflect a strong economic condition. The median family income is significantly higher than state averages (29th in State), and the unemployment rate continues to be much lower than the State average (3.9% vs. 5.8% for the state). The Town remains a very desirable community given its close proximity to Boston, and for its tourism, history and boating and the quality of services provided. The residential sales market has been very strong, reflecting the solid interest in the community.

Based in part on its unique geography, which encompasses 14.2 miles of coastline, the Town has been experiencing strong high-end residential waterfront real estate sales (\$1 to \$4 million range). The combination of new development and a strong real estate market has contributed to steady tax base growth and significant growth in residential property value. The tax base (current market valuation \$4.5 billion) has increased a significant 9.0% over fiscal 2003 and 27.0% over fiscal 2002, reflecting strong development and real estate appreciation. Per capita market value of over \$218,000 is also among the highest in the state. This increase in values demonstrates the continued desirability of the Town.

On the Town's operating side, recent state fiscal problems have had some impact on the delivery of Town services. State aid has declined, but is expected to increase in the following years. The Town has been in a position of having to rely mainly on property taxes to cover the increasing cost of providing services and replace the revenue lost from the state. As the Town is not highly dependent on state aid, the Town will not be as adversely affected as other communities in the state.

The Town of Marblehead has also enhanced its revenue flexibility by establishing totally self sufficient enterprise funds for sewer, water, electric and harbor operations. All debt related to the enterprises is funded through user fees and each enterprise pays the Town for its share of general government services and an in lieu of tax payment. By doing so the Town is able to provide the maximum tax dollars available to all other services.

FINANCIAL AND MANAGEMENT SYSTEMS

BUDGETARY CONTROLS

The finance committee is responsible for reviewing departmental budget requests and submits to the town meeting an operating budget for the proposed expenditures and other financing uses for the next fiscal year. The budget, as enacted by the town meeting, also establishes that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings or at the next annual town meeting held prior to the end of the fiscal year. During the fiscal year the finance committee may transfer funds for extraordinary or unforeseen expenditures. The Town appropriated \$213,000 for this purpose in fiscal 2004 and transfers of \$204,203 were made. All unencumbered and unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Capital Projects Fund and the Sewer, Water and Harbor Enterprise Funds. Although formal budgetary integration is not employed for Special Revenue Funds, effective budgetary control is alternatively achieved through provisions of the Massachusetts General Laws and the Town's by-laws.

Appropriations are authorized by the Town meeting for line items within departments. Typical line items are salaries, expense, and local travel. These are the legal levels of budgetary control (level at which expenditures may not exceed budget). However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final legal judgments may exceed the level of spending authorized by majority vote at a Town Meeting.

DEBT ADMINISTRATION

Outstanding general obligation bonds and notes at June 30, 2004 totaled \$71,155,000 of which \$495,000 are harbor bonds which will be paid from enterprise revenues.

The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the Town's debt position to Town management, citizens and investors. These data for the Town at the end of the 2004 Fiscal Year were as follows:

	<u>Amount</u>	<u>Ratio of Debt to Assessed Value</u>	<u>Debt per Capita</u>
General Bonded Debt	\$70,660,000	1.58%	\$3,453.40

The Town's bonds, last issued on June 1, 2001, were rated by the rating agency of Standard & Poor's at 'AA+' which is the same rating which they have carried since being upgraded on June 15, 2000.

The debt section of the notes to financial statements and the statistical tables on long-term debt present more detailed information about the debt position of the Town.

TREASURY MANAGEMENT

The Town utilizes a pooled cash concept in order to invest greater amounts of cash at favorable interest rates. The Town's investment of temporary idle cash excluding trust fund investments as of June 30, 2004 was in the Massachusetts Municipal Depository Trust (a depository for municipal subdivisions of the Commonwealth under the direction of the State Treasurer). Investment income/(loss) for the year ended June 30, 2004 as follows:

General Fund.....	\$ 258,088
Restricted and Enterprise Funds.....	51,225
Pension Trust Funds.....	10,409,432
Nonmajor Governmental Funds.....	229,533
Internal Service Funds.....	6,389
Private Purpose Trust Funds.....	<u>29,844</u>
Total.....	<u>\$ 10,984,511</u>

PROPERTY TAX LIMITATIONS

Chapter 580 of the Massachusetts General Laws, Acts of 1980, known as "Proposition 2 1/2", limits the amount of revenue the Town can derive from property taxes. In any fiscal year the total property taxes assessed cannot exceed 2.5 percent of the full and fair cash valuation of the Town.

Maximum Fiscal 2004 Levy:

<u>Full and Fair Cash Value of Property</u>			<u>Levy Limit</u>
\$4,465,808,984	X	2.5%	\$111,645,225

However, the total property taxes levied in any fiscal year cannot exceed an amount equal to 102.5 percent of the total property taxes levied for the preceding year, except under the override and new growth provisions of the tax limitation legislation.

Fiscal 2004 Levy Limit

Fiscal 2003:

Levy Limit.....	\$ 34,532,692
Less Debt and Capital Exclusions.....	(3,604,388)
Fiscal Year 2003 Base.....	<u>30,928,304</u>
Fiscal Year 2004 Maximum Increase.....	102.5%
Fiscal Year 2004 Levy Limit Base.....	<u>31,701,512</u>

Fiscal 2004:

New Growth Factor.....	285,789
Permanent Overrides.....	1,381,017
Debt and Capital Exclusions.....	<u>4,511,541</u>
Fiscal 2004 Levy Limit.....	<u>\$ 37,879,859</u>

Actual Fiscal 2004 Tax Levy.....	<u>\$ 37,870,060</u>
----------------------------------	----------------------

RISK MANAGEMENT

The Town of Marblehead manages its risk through a combination of self-insured programs and premium-based coverage with commercial insurance carriers. Workers compensation and unemployment activities are self-insured while exposures to various risks of loss related to torts, theft of assets, damage to and destruction of assets, errors and omissions, and natural disasters are covered through policies purchased from commercial carriers. Various control techniques, including employee accident prevention training, have been performed to minimize accident-related losses. The Town administers an insurance reserve fund to help offset the annual cost of its workers compensation program. Additional information on the Town of Marblehead's risk management activity can be found in the notes to the financial statements.

SIGNIFICANT EVENTS

UNDERGROUND WIRES

A major accomplishment was realized this year by the completion of a project to bury all overhead wires in the downtown business district. This project was authorized by the annual town meeting in 1996 and has been ongoing ever since. This involved not only burying the wires in the streets, but burying the cables to all electric, cable television and telephone customers. Independent street lighting poles were installed on all of the streets as well. This project is financed through an increase in telephone rates over a period of 12 years.

GIFT OF TUCKER'S WHARF BUILDING

The Tucker's Wharf Building, dating back to the Revolution, was dismantled and the building's timber framing was gifted to the National Park Service of the United States of America on behalf of the citizens of Marblehead. The framework will be re-erected on their site in Salem as a permanent interpretive exhibit on early American waterfront commerce and architecture. The interpretive presentation will incorporate permanent references crediting the Town of Marblehead as the original site of this building and the town's historic involvement and importance in 17th and 18th century maritime commerce. The dismantling paved the way for the construction of a new visiting boater center on the site which will house the Harbormaster's Office and a public waterfront facility to include public restrooms, shower and laundry facilities.

FIBER NETWORK

A contract for the installation of fiber wire connecting town buildings was approved and completed. The buildings connected to the fiber network include Abbot Hall, the Police Station, new Upper Middle School, Abbot Public Library, the Fire Station, the new High School and the Mary Alley Municipal Building. This will increase the speed of data transfer between the buildings and be much more reliable than the old copper wire. In addition, the project enabled students in the Upper Middle School and High School to share servers in the High School rather than having servers located in both schools. Financing for the project came from a grant from Continental Cablevision in the amount of \$94,000 and from construction monies in the amount of \$40,000 appropriated for the conversion of the old High School into the Upper Middle School, which is financed 50% by state school building assistance.

DEFIBRILLATOR PROGRAM

The Board of Selectmen, in conjunction with its Emergency Medical Services Subcommittee, raised enough money to purchase defibrillators for placement in public buildings throughout the Town and in all emergency vehicles.

ABBOT HALL RESTORATION

The restoration and re-pointing of the exterior brickwork and cleaning and refurbishment of the sandstone decorative building elements on Abbot Hall was completed. In addition, the clock located in the tower was restored and new life finishes and more efficient lighting fixtures were installed on the clock faces. The project, costing \$175,621, has been ongoing for several years and was financed through bequests and private donations of \$130,898 and appropriations of \$44,723.

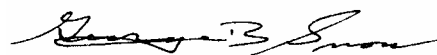
DEBT EXCLUSION SPECIAL ELECTION

On June 21, 2004, a special election was held and eight questions were presented to the voters to exclude appropriations from the limitations of proposition 2 ½. One debt exclusion override was approved by the voters for the purchase of a fire pumper truck in the amount of \$415,000 (2,931 in favor, 2,133 opposed). Two one-time capital improvement overrides were presented to the voters: \$193,050 for the assessment, engineering and remediation of the old ash landfill located in the disposal area at the Town Transfer Station passed (2,730 in favor, 2,318 opposed) and \$482,590 for the purchase of equipment for various departments failed (2,419 in favor, 2,661 opposed). Five permanent overrides were presented to the voters and three passed and two failed: \$422,246 for the expenses of the school department passed (2,857 in favor, 2,289 opposed), \$17,100 for the expenses of the waste collection department passed (2,849 in favor, 2,240 opposed), \$132,500 for the expenses of the police department failed (2,288 in favor, 2,758 opposed) and \$55,000 to fund the reserve fund failed (1,639 in favor, 3,384 opposed).

ACKNOWLEDGMENTS

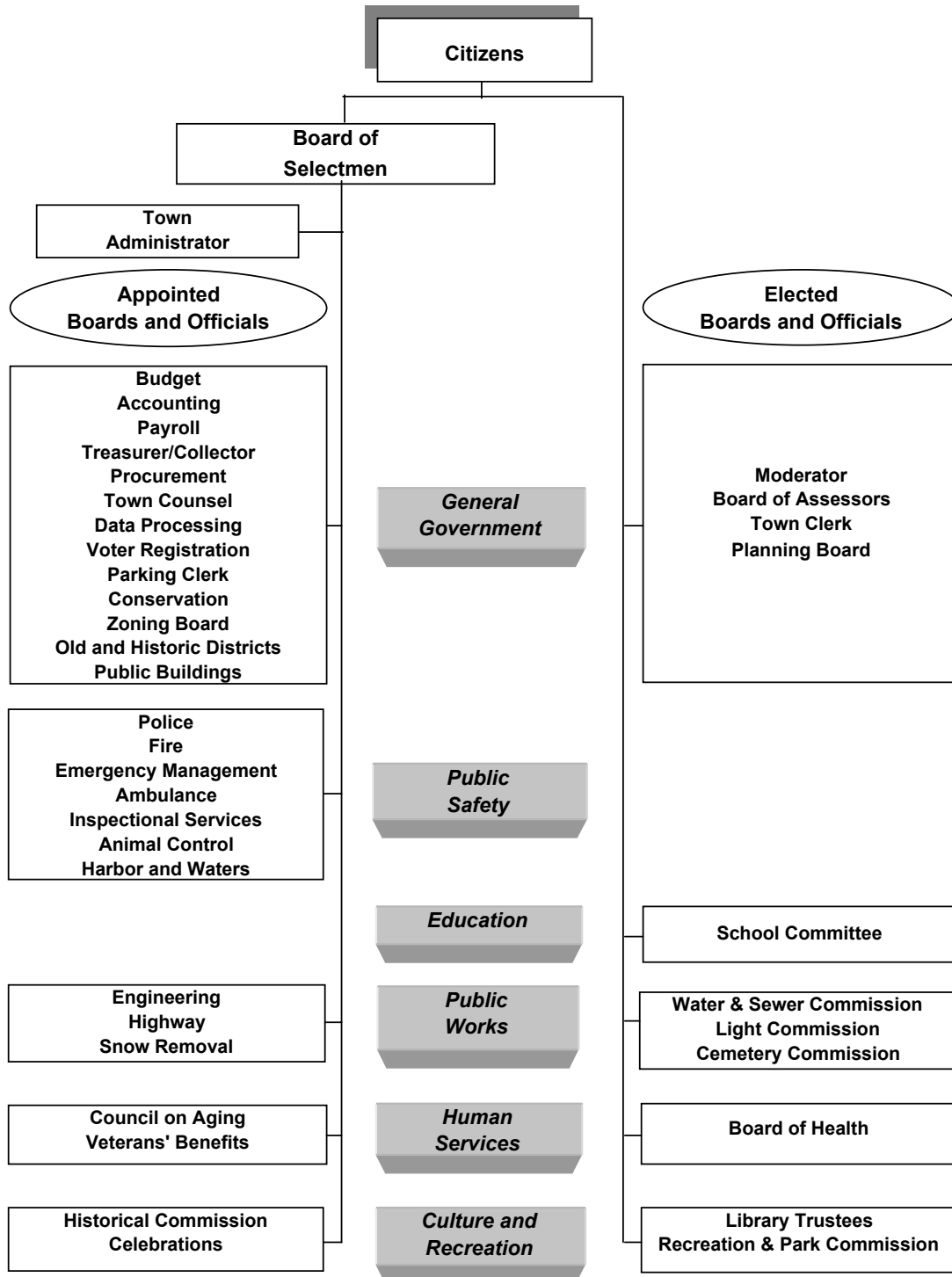
The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated staff of the Finance Department. I would like to express my appreciation to all members of the Department who assisted and contributed to its preparation. I would also like to thank the Board of Selectmen and Town Administrator Anthony Sasso for their interest and support in planning and conducting the financial operation to the Town in a responsible and progressive manner.

Respectfully submitted,



George B. Snow
Finance Director

Town of Marblehead Organization Chart



***Town of Marblehead, Massachusetts
Principal Executive Officers***

<u>Title</u>	<u>Name</u>	<u>Manner of Selection</u>	<u>Term Expires</u>
Selectmen (Chairman)	Judith R. Jacobi	Elected	2005
Selectmen	Harry C. Christensen, Jr.	Elected	2005
Selectmen	John O. Liming	Elected	2005
Selectmen	Thomas A. McNulty	Elected	2005
Selectmen	Jeffrey N. Shribman	Elected	2005
Town Administrator	Anthony Sasso	Appointed	2006
Finance Director/Accountant	George B. Snow	Appointed	2006
Treasurer/Collector	Patricia K. Murray	Appointed	2005
Town Clerk	Thomas a. McNulty	Elected	2007

Financial Section



Photo by G.B. Snow

A view of Abbot Hall from Crocker Park.

FINANCIAL SECTION

This page left intentionally blank.



323 New Boston Street

Woburn, MA 01801

T 781 937 9322

F 781 937 9474

www.powersandsullivan.com

Independent Auditors' Report

To the Honorable Board of Selectmen
Marblehead, 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 Marblehead, Massachusetts, as of and for the fiscal year ended June 30, 2004, 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 Marblehead, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2004, on our consideration of the Town of Marblehead, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance-general fund-budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

October 29, 2004

Management's Discussion and Analysis

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

Overview of the Financial Statements

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of

revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for Town appropriations and employee contributions used to fund Workmen's Compensation Claims, Medical Claims and Medex claims to supplement Medicare. Because these services predominantly benefit the governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

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

Government-wide Financial Analysis

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. Overall net assets of the primary government increased by \$6,626,858 during fiscal year 2004, this is an indication that the financial position of the Town has improved.

Governmental Activities

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the Governmental Activities, Marblehead's assets exceeded liabilities by \$71,460,545, at the close of FY2004.

	Governmental Activities	
	2004	2003
Assets:		
Current assets.....	\$ 19,247,413	\$ 24,221,138
Noncurrent assets (excluding capital).....	38,409,334	31,545,943
Capital assets.....	92,142,709	81,359,860
Total assets.....	149,799,456	137,126,941
Liabilities:		
Current liabilities (excluding debt).....	6,983,418	6,825,248
Noncurrent liabilities (excluding debt).....	695,493	843,745
Current debt.....	2,269,726	6,710,000
Noncurrent debt.....	68,390,274	57,605,000
Total liabilities.....	78,338,911	71,983,993
Net Assets:		
Capital assets net of related debt.....	62,029,368	54,031,802
Restricted.....	7,367,241	4,718,510
Unrestricted.....	2,063,936	6,392,636
Total net assets.....	\$ 71,460,545	\$ 65,142,948

Governmental net assets of \$62,029,368 (87%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$7,367,241 (10%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$2,063,936 (3%) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities increased the Town's net assets by \$6,317,597 during the current fiscal year which includes the activity of the governmental funds as well as the internal service funds on the full accrual basis of accounting. One of the primary reasons for the increase is the recognition of a capital grant from the state of approximately \$6 million, related to the conversion of the old high school to a middle school. Another factor impacting the governmental net assets was the activity of the internal service funds, which reported a loss of approximately \$1.2 million. Since this is the second year of significant losses for the internal service funds, the Town has voted to raise rates to increase the balances in these funds.

	Governmental Activities	
	2004	2003
Program revenues:		
Charges for services.....	\$ 3,532,315	\$ 4,091,645
Operating grants and contributions.....	10,236,741	9,961,379
Capital grants and contributions.....	6,184,306	6,016,683
General Revenues:		
Real estate and personal property taxes.....	37,663,340	34,614,791
Motor vehicle and other excise taxes.....	2,815,852	2,816,116
Nonrestricted grants.....	1,104,617	1,174,530
Unrestricted investment income.....	494,060	517,360
Other revenues.....	128,811	163,937
Total revenues.....	62,160,042	59,356,441
Expenses:		
General Government.....	2,880,992	2,602,107
Public Safety.....	7,935,214	8,314,523
Education.....	34,947,347	35,149,859
Public Works.....	5,101,138	6,010,493
Human Services.....	929,242	1,201,370
Culture and recreation.....	2,301,611	2,501,720
Interest.....	1,059,107	1,451,423
State and county charges.....	1,714,756	1,824,080
Total expenses.....	56,869,407	59,055,575
Excess before transfers:.....	5,290,635	300,866
Transfers.....	1,026,962	57,508
Change in net assets.....	\$ 6,317,597	\$ 358,374

Business-type Activities

For the Town's business-type activities, assets exceeded liabilities by \$41,550,381 at the close of FY2004.

	Business-type Activities	
	2004	2003
Assets:		
Current assets.....	\$ 13,214,520	\$ 14,094,598
Capital assets.....	30,647,007	29,545,552
Total assets.....	43,861,527	43,640,150
Liabilities:		
Current liabilities (excluding debt).....	1,671,299	1,580,691
Noncurrent liabilities (excluding debt).....	144,847	124,008
Current debt.....	160,000	199,331
Noncurrent debt.....	335,000	495,000
Total liabilities.....	2,311,146	2,399,030
Net Assets:		
Capital assets net of related debt.....	30,152,007	28,851,221
Restricted.....	1,344,690	1,247,659
Unrestricted.....	10,053,684	11,142,240
Total net assets.....	\$ 41,550,381	\$ 41,241,120

Business-type net assets of \$30,152,007 (73%) represent investments in capital assets net of related debt. An additional \$1,344,690 (3%) represents resources that are subject to external restrictions on how they may be used. The remaining \$10,053,684 (24%) is available to be used for the ongoing operation of the Town's Water, Sewer, Harbor and Electric activities.

There was an increase of \$309,261 in net assets reported in connection with the Water, Sewer, Electric and Harbor activities attributable to budgeting revenues sufficient to cover current operational costs and to acquire capital assets.

The Sewer Enterprise Fund's net assets totaled \$10,500,392 at year end; an increase of \$31,476 from the prior year. This balance is approximately 3.5 times the annual operating expenses and has remained consistent over the past several years. Revenues in this fund consist primarily of charges for sewer services and the largest portion of the Fund's expenditures (66%) relate to the annual assessment paid to the South Essex Sewerage District.

The Water Enterprise Fund's net assets totaled \$9,348,949 at year end; an increase of \$33,810 from the prior year. This balance is approximately 4 times the annual operating expenses and has remained consistent over the past several years. Revenues in this fund consist primarily of charges for water service and approximately 46% of the operating expenses consist of assessments paid to the Massachusetts Water Resource Authority.

The Harbor Enterprise Fund's net assets decreased by \$14,965 and totaled \$3,461,517 at year end. Revenues in this fund consist of a combination of charges for services and boat excise taxes assessed.

The Electric Light Enterprise Fund's net assets totaled \$18,239,523 at year end, an increase of \$258,940. The majority of the revenue in this fund consists of charges for services and 78% of the expenditures relate to operational costs.

	Business-type Activities	
	2004	2003
Program revenues:		
Charges for services - Water.....	\$ 2,404,325	\$ 2,357,092
Charges for services - Sewer.....	3,098,366	3,054,481
Charges for services - Electric.....	11,747,745	11,524,933
Charges for services - Harbor.....	709,857	713,552
General Revenues:		
Unrestricted investment income.....	51,225	107,863
Total revenues.....	18,011,518	17,757,921
Expenses:		
Water.....	2,312,442	2,223,297
Sewer.....	2,980,770	3,061,348
Electric.....	10,805,232	10,381,542
Harbor.....	576,851	584,471
Total expenses.....	16,675,295	16,250,658
Excess before transfers.....	1,336,223	1,507,263
Transfers.....	(1,026,962)	(57,508)
Change in net assets.....	\$ 309,261	\$ 1,449,755

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$13,893,209, a decrease of \$3,865,758 from the prior year. Almost \$3 million of the decrease is attributable to the timing of expenditures related to the Upper Middle School Conversion major fund and approximately \$1.5 million of the decrease is attributable to the operations of the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,321,417, while total fund balance was \$3,667,853. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6% of total general fund expenditures, while total fund balance represents 7% of that same amount.

The fund balance of the general fund decreased by \$1,523,704. The Town budgeted to use approximately \$2.1 million to balance the fiscal year 2004 budget. Actual revenues came in approximately \$560,000 over budget and expenditures came in approximately \$260,000 under budget.

The Upper Middle School Conversion fund is used to account for the Town's major school construction project which is converting the old High School building to a new Middle School. This fund had a year end fund balance of \$1,911,168. The Town anticipates reimbursements from the Commonwealth for 50.01% of the costs of the project including interest on debt used to finance the project. Consequently, an intergovernmental receivable has been recorded in the general fund for 50.01% of the project expenditures through the end of the fiscal year. The Town has issued Bond Anticipation Notes to temporarily finance the project until subsidy payments from the Commonwealth's School Building Assistance program commence. For financial reporting, the Bond Anticipation Notes have been classified as long-term obligations and bond proceeds have been recorded in the major capital project fund. Bond proceeds of \$12,285,000 and \$8,000,000 have been recorded in this fund during fiscal years 2003 and 2004, respectively. The ending fund balance consists of the proceeds of the Bond Anticipation Notes which have not been spent at year end.

General Fund Budgetary Highlights

The \$1,307,971 increase between the original budget and the final amended budget included \$1,000,000 to pay additional principal on school bond anticipation notes, \$200,000 in additional contributions to the workman's compensation fund, and \$107,971 in additional appropriations for public buildings, public safety, education, waste collection, cemeteries, public works and parks.

Capital Asset and Debt Administration

In conjunction with the operating budget, each department annually submits a proposed capital budget to the Capital Planning Committee. The Capital Planning Committee is responsible for reviewing the proposed capital budgets and reporting to the annual Town Meeting.

Outstanding long-term debt of the general government, as of June 30, 2004, totaled \$70,660,000, of which \$66,055,000 is related to school projects, \$3,860,000 is for drain projects, \$485,000 is for parks and \$260,000 is for public safety related projects. The enterprise funds have only \$495,000 in outstanding debt which is all related to the harbor enterprise fund.

The major capital additions of the governmental activities during the year consisted of approximately \$12 million in construction in progress for the work done to convert the old High School building to a new Middle School.

Capital additions of the Business-type activities consisted of upgrades to infrastructure in the Sewer and Water activities of \$225,140 and \$1,047,800, respectively; construction on Tuckers Wharf in the Harbor activities of approximately \$330,000; and Electric Light upgrades to plant and equipment of approximately \$1,600,000.

Please refer to the notes to the financial statements for further discussion of the Town's major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Marblehead's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Mary Alley Building, 7 Widger Road, Marblehead, Massachusetts 01945.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2004

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 10,875,806	\$ 685	\$ 10,876,491
Investments.....	10,990,999	2,496,962	13,487,961
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	315,539	-	315,539
Real estate tax deferrals.....	133,327	-	133,327
Tax liens.....	69,683	-	69,683
Motor vehicle and other excise taxes.....	298,380	8,677	307,057
User fees.....	-	2,276,961	2,276,961
Accounts.....	264,850	3,917	268,767
Special assessments.....	-	1,477	1,477
Intergovernmental.....	531,969	-	531,969
Tax foreclosures.....	14,760	-	14,760
Internal balances.....	(5,449,400)	5,449,400	-
Inventory.....	-	51,036	51,036
Investment in joint venture.....	-	1,344,690	1,344,690
Working capital deposit.....	1,201,500	-	1,201,500
Other assets.....	-	1,580,715	1,580,715
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	38,409,334	-	38,409,334
Capital assets, net of accumulated depreciation:			
Depreciable.....	69,134,998	28,113,837	97,248,835
Nondepreciable.....	23,007,711	2,533,170	25,540,881
TOTAL ASSETS.....	149,799,456	43,861,527	193,660,983
LIABILITIES			
CURRENT:			
Warrants payable.....	3,906,195	1,122,896	5,029,091
Accrued liabilities.....	1,049,822	-	1,049,822
Tax refunds payable.....	32,894	-	32,894
Accrued interest.....	601,115	3,340	604,455
Payroll withholdings.....	265,197	477	265,674
Due to agency funds.....	62,969	-	62,969
Other liabilities.....	15,011	308,119	323,130
Customer deposits payable.....	-	33,202	33,202
Compensated absences.....	969,399	203,265	1,172,664
Workers' compensation.....	80,816	-	80,816
Bonds and notes payable.....	2,269,726	160,000	2,429,726
NONCURRENT:			
Compensated absences.....	106,615	144,847	251,462
Workers' compensation.....	588,878	-	588,878
Bonds and notes payable.....	68,390,274	335,000	68,725,274
TOTAL LIABILITIES.....	78,338,911	2,311,146	80,650,057
NET ASSETS			
Invested in capital assets, net of related debt.....	62,029,368	30,152,007	92,181,375
Restricted for:			
Joint Venture.....	-	1,344,690	1,344,690
Permanent funds:			
Expendable.....	742,502	-	742,502
Nonexpendable.....	3,144,083	-	3,144,083
Other purposes.....	3,480,656	-	3,480,656
Unrestricted.....	2,063,936	10,053,684	12,117,620
TOTAL NET ASSETS.....	\$ 71,460,545	\$ 41,550,381	\$ 113,010,926

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2004

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General government.....	\$ 2,880,992	\$ 365,581	\$ 87,153	\$ -	\$ (2,428,258)
Public safety.....	7,935,214	744,398	207,140	94,624	(6,889,052)
Education.....	34,947,347	1,156,322	8,600,537	6,089,682	(19,100,806)
Public works.....	5,101,138	711,153	307,430	-	(4,082,555)
Human services.....	929,242	164,227	154,362	-	(610,653)
Culture and recreation.....	2,301,611	390,634	106,410	-	(1,804,567)
Interest.....	1,059,107	-	773,709	-	(285,398)
State and county charges.....	1,714,756	-	-	-	(1,714,756)
Total Governmental Activities.....	56,869,407	3,532,315	10,236,741	6,184,306	(36,916,045)
Business-Type Activities:					
Water.....	2,312,442	2,404,325	-	-	91,883
Sewer.....	2,980,770	3,098,366	-	-	117,596
Electric.....	10,805,232	11,747,745	-	-	942,513
Harbor.....	576,851	709,857	-	-	133,006
Total Business-Type Activities.....	16,675,295	17,960,293	-	-	1,284,998
Total Primary Government.....	\$ 73,544,702	\$ 21,492,608	\$ 10,236,741	\$ 6,184,306	\$ (35,631,047)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ <u>(36,916,045)</u>	\$ <u>1,284,998</u>	\$ <u>(35,631,047)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	37,663,340	-	37,663,340
Motor vehicle and other excise taxes.....	2,815,852	-	2,815,852
Penalties and interest on taxes.....	128,811	-	128,811
Grants and contributions not restricted to specific programs.....	1,104,617	-	1,104,617
Unrestricted investment income.....	494,060	51,225	545,285
<i>Transfers, net</i>	<u>1,026,962</u>	<u>(1,026,962)</u>	<u>-</u>
Total general revenues and transfers.....	<u>43,233,642</u>	<u>(975,737)</u>	<u>42,257,905</u>
Change in net assets.....	6,317,597	309,261	6,626,858
<i>Net Assets:</i>			
Beginning of year.....	<u>65,142,948</u>	<u>41,241,120</u>	<u>106,384,068</u>
End of year.....	\$ <u>71,460,545</u>	\$ <u>41,550,381</u>	\$ <u>113,010,926</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2004

	General	Upper Middle School Conversion	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 10,874,781	\$ -	\$ 1,025	\$ 10,875,806
Investments.....	4,137,300	-	6,397,886	10,535,186
Receivables, net of uncollectibles:				
Property taxes				
Current year.....	302,678	-	-	302,678
Prior year.....	12,861	-	-	12,861
Real estate tax deferrals.....	133,327	-	-	133,327
Tax liens.....	69,683	-	-	69,683
Motor vehicle and other excise taxes.....	298,380	-	-	298,380
Accounts.....	17,206	-	33,715	50,921
Due from other funds.....	1,235,873	3,375,971	2,437,211	7,049,055
Due from other governments.....	38,423,231	-	518,072	38,941,303
Tax foreclosures.....	14,760	-	-	14,760
TOTAL ASSETS.....	\$ 55,520,080	\$ 3,375,971	\$ 9,387,909	\$ 68,283,960
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 1,154,171	\$ 594,700	\$ 584,440	\$ 2,333,311
Accounts payable.....	139,467	6,732	10,629	156,828
Retainage payable	-	863,371	-	863,371
Accrued payroll and amounts withheld.....	265,197	-	-	265,197
Due to other funds.....	11,358,652	-	28,398	11,387,050
Other liabilities.....	15,011	-	-	15,011
Deferred revenues.....	38,886,835	-	450,254	39,337,089
Tax refunds payable.....	32,894	-	-	32,894
TOTAL LIABILITIES.....	51,852,227	1,464,803	1,073,721	54,390,751
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations.....	346,436	-	-	346,436
Perpetual permanent funds.....	-	-	3,160,017	3,160,017
Unreserved:				
Designated for subsequent year's expenditures.....	2,027,245	-	543,397	2,570,642
Undesignated, reported in:				
General fund.....	1,294,172	-	-	1,294,172
Special revenue funds.....	-	-	3,658,049	3,658,049
Capital projects funds.....	-	1,911,168	226,157	2,137,325
Permanent funds.....	-	-	726,568	726,568
TOTAL FUND BALANCES.....	3,667,853	1,911,168	8,314,188	13,893,209
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 55,520,080	\$ 3,375,971	\$ 9,387,909	\$ 68,283,960

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

Total governmental fund balances.....	\$ 13,893,209
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	92,142,709
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	39,337,089
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities.	
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....	(1,575,333)
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(601,115)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds and notes payable.....	(70,660,000)
Compensated absences.....	<u>(1,076,014)</u>
Net effect of reporting long-term liabilities.....	<u>(71,736,014)</u>
Net assets of governmental activities.....	\$ <u>71,460,545</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

	General	Upper Middle School Conversion	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes.....	\$ 37,536,410	\$ -	\$ -	\$ 37,536,410
Motor vehicle and other excise taxes.....	2,809,905	-	-	2,809,905
Penalties and interest on taxes.....	128,811	-	-	128,811
Charges for services.....	651,057	-	1,615,154	2,266,211
Licenses and permits.....	557,746	-	-	557,746
Fines and forfeitures.....	184,034	-	-	184,034
Intergovernmental.....	7,601,761	-	2,759,380	10,361,141
Departmental and other.....	1,500	-	349,721	351,221
Contributions.....	-	-	366,484	366,484
Investment income.....	258,088	-	229,533	487,621
Miscellaneous.....	37,188	-	151,318	188,506
TOTAL REVENUES.....	49,766,500	-	5,471,590	55,238,090
EXPENDITURES:				
Current:				
General government.....	1,734,464	-	139,720	1,874,184
Public safety.....	5,610,156	-	384,235	5,994,391
Education.....	22,023,524	11,983,064	3,039,822	37,046,410
Public works.....	3,818,681	-	833,168	4,651,849
Human services.....	360,636	-	363,618	724,254
Culture and recreation.....	1,442,632	-	391,477	1,834,109
Pension benefits.....	6,137,142	-	-	6,137,142
Property and liability insurance.....	304,088	-	-	304,088
Employee benefits.....	4,844,001	-	-	4,844,001
State and county charges.....	1,714,756	-	-	1,714,756
Debt service:				
Principal.....	1,655,000	-	-	1,655,000
Interest.....	1,622,294	-	-	1,622,294
TOTAL EXPENDITURES.....	51,267,374	11,983,064	5,152,040	68,402,478
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,500,874)	(11,983,064)	319,550	(13,164,388)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	8,000,000	-	8,000,000
Premium from issuance of notes.....	-	-	471,668	471,668
Transfers in.....	1,252,096	1,000,000	262,470	2,514,566
Transfers out.....	(1,274,926)	-	(412,678)	(1,687,604)
TOTAL OTHER FINANCING SOURCES (USES).....	(22,830)	9,000,000	321,460	9,298,630
NET CHANGE IN FUND BALANCES.....	(1,523,704)	(2,983,064)	641,010	(3,865,758)
FUND BALANCES AT BEGINNING OF YEAR.....	5,191,557	4,894,232	7,673,178	17,758,967
FUND BALANCES AT END OF YEAR.....	\$ 3,667,853	\$ 1,911,168	\$ 8,314,188	\$ 13,893,209

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds.....	\$	(3,865,758)
---	----	-------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	13,481,291	
Depreciation expense.....	<u>(2,698,442)</u>	
Net effect of reporting capital assets.....		10,782,849

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

6,915,563

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Proceeds from bonds and notes.....	(8,000,000)	
Premium from issuance of bonds.....		
Debt service principal payments.....	<u>1,655,000</u>	
Net effect of reporting long-term debt.....		(6,345,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(99,798)	
Net change in accrued interest on long-term debt.....	<u>91,519</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(8,279)

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities.....		<u>(1,161,778)</u>
--	--	--------------------

Change in net assets of governmental activities.....	\$	<u><u>6,317,597</u></u>
--	----	-------------------------

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2004

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Harbor	Electric	Total	
ASSETS						
CURRENT:						
Cash and cash equivalents.....	\$ 50	\$ 135	\$ -	\$ 500	\$ 685	\$ -
Short term investments.....	-	-	777,117	1,719,845	2,496,962	455,813
Receivables, net of allowance for uncollectibles:						
Excises.....	-	-	8,677	-	8,677	-
User fees.....	619,491	415,197	-	1,242,273	2,276,961	-
Accounts.....	-	-	3,917	-	3,917	213,929
Special assessments.....	1,477	-	-	-	1,477	-
Due from other funds.....	1,545,775	1,434,013	-	2,529,883	5,509,671	-
Inventory.....	-	-	-	51,036	51,036	-
Investment in joint venture.....	1,344,690	-	-	-	1,344,690	-
Working capital deposit.....	-	-	-	-	-	1,201,500
Other assets.....	-	-	-	1,580,715	1,580,715	-
Total current assets.....	3,511,483	1,849,345	789,711	7,124,252	13,274,791	1,871,242
NONCURRENT:						
Capital assets, net of accumulated depreciation:						
Depreciable.....	7,005,078	7,741,912	1,216,257	12,150,590	28,113,837	-
Nondepreciable.....	115,466	49,427	2,333,001	35,276	2,533,170	-
Total noncurrent assets.....	7,120,544	7,791,339	3,549,258	12,185,866	30,647,007	-
TOTAL ASSETS.....	10,632,027	9,640,684	4,338,969	19,310,118	43,921,798	1,871,242
LIABILITIES						
CURRENT:						
Warrants payable.....	80,442	228,054	94,963	719,437	1,122,896	552,685
Accrued liabilities.....	-	-	-	-	-	1,049,822
Accrued interest.....	-	-	3,340	-	3,340	-
Payroll withholdings.....	-	-	-	477	477	-
Compensated absences.....	33,523	36,563	24,891	108,288	203,265	-
Other liabilities.....	-	-	185,465	122,654	308,119	-
Customer deposits payable.....	-	645	-	32,557	33,202	-
Workers' compensation.....	-	-	-	-	-	80,816
Due to other funds.....	-	-	60,271	-	60,271	1,174,374
Bonds and notes payable.....	-	-	160,000	-	160,000	-
Total current liabilities.....	113,965	265,262	528,930	983,413	1,891,570	2,857,697
NONCURRENT:						
Compensated absences.....	17,670	26,473	13,522	87,182	144,847	-
Workers' compensation.....	-	-	-	-	-	588,878
Bonds and notes payable.....	-	-	335,000	-	335,000	-
Total noncurrent liabilities.....	17,670	26,473	348,522	87,182	479,847	588,878
TOTAL LIABILITIES.....	131,635	291,735	877,452	1,070,595	2,371,417	3,446,575
NET ASSETS						
Invested in capital assets, net of related debt.....	7,120,544	7,791,339	3,054,258	12,185,866	30,152,007	-
Restricted for:						
Joint venture.....	1,344,690	-	-	-	1,344,690	-
Unrestricted.....	2,035,158	1,557,610	407,259	6,053,657	10,053,684	(1,575,333)
TOTAL NET ASSETS.....	\$ 10,500,392	\$ 9,348,949	\$ 3,461,517	\$ 18,239,523	\$ 41,550,381	\$ (1,575,333)

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Harbor	Electric	Total	
OPERATING REVENUES:						
Boat excise.....	\$ -	\$ -	\$ 137,920	\$ -	\$ 137,920	\$ -
Charges for services	3,093,041	2,369,821	572,173	11,747,745	17,782,780	6,494,477
Licenses and permits.....	4,925	-	-	-	4,925	-
Miscellaneous.....	-	34,504	400	-	34,904	278,863
TOTAL OPERATING REVENUES	3,097,966	2,404,325	710,493	11,747,745	17,960,529	6,773,340
OPERATING EXPENSES:						
Cost of services and administration	-	-	-	-	-	8,141,507
Personal services.....	458,936	470,023	254,550	1,389,716	2,573,225	-
Other.....	269,284	469,546	215,186	8,516,742	9,470,758	-
Intergovernmental expenses.....	1,974,216	1,069,691	-	-	3,043,907	-
Depreciation.....	278,334	303,182	78,281	898,774	1,558,571	-
TOTAL OPERATING EXPENSES	2,980,770	2,312,442	548,017	10,805,232	16,646,461	8,141,507
OPERATING INCOME (LOSS).....	117,196	91,883	162,476	942,513	1,314,068	(1,368,167)
NONOPERATING REVENUES (EXPENSES):						
Investment income.....	-	-	9,798	41,427	51,225	6,389
Special assessments.....	400	-	-	-	400	-
Interest expense.....	-	-	(28,834)	-	(28,834)	-
Gain/(loss) on disposal of capital assets.....	-	-	(636)	-	(636)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	400	-	(19,672)	41,427	22,155	6,389
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	117,596	91,883	142,804	983,940	1,336,223	(1,361,778)
TRANSFERS:						
Transfers in.....	-	11,926	63,000	-	74,926	200,000
Transfers out.....	(86,120)	(69,999)	(220,769)	(725,000)	(1,101,888)	-
TOTAL TRANSFERS.....	(86,120)	(58,073)	(157,769)	(725,000)	(1,026,962)	200,000
CHANGE IN NET ASSETS.....	31,476	33,810	(14,965)	258,940	309,261	(1,161,778)
NET ASSETS AT BEGINNING OF YEAR.....	10,468,916	9,315,139	3,476,482	17,980,583	41,241,120	(413,555)
NET ASSETS AT END OF YEAR.....	\$ 10,500,392	\$ 9,348,949	\$ 3,461,517	\$ 18,239,523	\$ 41,550,381	\$ (1,575,333)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Harbor	Electric	Total	Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>						
Receipts from customers and users.....	\$ 3,091,816	\$ 2,385,952	\$ 709,745	\$ 11,753,639	17,941,152	\$ -
Receipts from interfund services provided.....	-	-	-	-	-	6,374,144
Payments to vendors.....	(2,280,620)	(1,523,692)	(117,112)	(8,576,291)	(12,497,715)	(8,298,090)
Payments to employees.....	(458,936)	(470,023)	(254,550)	(1,389,854)	(2,573,363)	-
NET CASH FROM OPERATING ACTIVITIES.....	352,260	392,237	338,083	1,787,494	2,870,074	(1,923,946)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>						
Transfers in.....	-	11,926	63,000	-	74,926	200,000
Transfers out.....	(86,120)	(69,999)	(220,769)	(725,000)	(1,101,888)	-
Advances from other funds.....	-	-	61,271	-	61,271	1,616,957
Advances to other funds.....	(8,674)	810,202	-	(110,235)	691,293	-
Miscellaneous financing sources.....	400	-	-	-	400	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(94,394)	752,129	(96,498)	(835,235)	(273,998)	1,816,957
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>						
Acquisition and construction of capital assets.....	(257,866)	(1,105,035)	(331,842)	(976,600)	(2,671,343)	-
Principal payments on bonds and notes.....	-	(39,331)	(160,000)	-	(199,331)	-
Interest expense.....	-	-	(30,333)	-	(30,333)	-
Proceeds from sale of capital assets.....	-	-	10,681	-	10,681	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(257,866)	(1,144,366)	(511,494)	(976,600)	(2,890,326)	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>						
Investment income.....	-	-	9,798	41,427	51,225	6,389
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	-	-	(260,111)	17,086	(243,025)	(100,600)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	50	135	1,037,228	1,703,259	2,740,672	556,413
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	\$ 50	\$ 135	\$ 777,117	\$ 1,720,345	\$ 2,497,647	\$ 455,813
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>						
Operating income (loss).....	\$ 117,196	\$ 91,883	\$ 162,476	\$ 942,513	\$ 1,314,068	\$ (1,368,167)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation.....	278,334	303,182	78,281	898,774	1,558,571	-
Changes in assets and liabilities:						
Excise taxes.....	-	-	(191)	-	(191)	-
User fees.....	(5,950)	(17,476)	-	(56,468)	(79,894)	-
Departmental and other.....	-	-	(557)	-	(557)	(137,695)
Special assessments.....	(200)	-	-	-	(200)	-
Inventory.....	-	-	-	194	194	-
Investment in joint venture.....	(97,031)	-	-	-	(97,031)	-
Working capital deposit.....	-	-	-	-	-	(261,501)
Other assets.....	-	-	-	62,168	62,168	-
Warrants payable.....	50,884	25,240	81,747	(72,140)	85,731	(118,907)
Accrued liabilities.....	-	-	-	-	-	12,357
Liabilities due depositors.....	-	(897)	-	2,312	1,415	-
Payroll withholdings.....	-	-	-	(138)	(138)	-
Other liabilities.....	-	-	(407)	(493)	(900)	-
Accrued compensated absences.....	9,027	(9,695)	16,734	10,772	26,838	-
Workers' compensation.....	-	-	-	-	-	(50,033)
Total adjustments.....	235,064	300,354	175,607	844,981	1,556,006	(555,779)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 352,260	\$ 392,237	\$ 338,083	\$ 1,787,494	\$ 2,870,074	\$ (1,923,946)

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	Pension Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 11,149	\$ -	\$ -
Investments.....	61,723,292	2,947,647	104,877
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	122,116	-	-
Due from other funds.....	-	-	62,969
NONCURRENT:			
Capital assets, net of accumulated depreciation.....	-	22,766	-
TOTAL ASSETS	61,856,557	2,970,413	167,846
LIABILITIES			
Warrants payable.....	-	331	-
Liabilities due depositors.....	-	-	167,846
TOTAL LIABILITIES	-	331	167,846
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 61,856,557	\$ 2,970,082	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Pension Trust Fund	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 2,420,142	\$ -
Employee.....	1,198,286	-
Private donations.....	-	8,320
	<hr/>	<hr/>
Total contributions.....	3,618,428	8,320
Investment income.....	10,409,432	29,844
Intergovernmental.....	255,525	-
Transfers from other systems.....	69,201	-
	<hr/>	<hr/>
TOTAL ADDITIONS.....	14,352,586	38,164
	<hr/>	<hr/>
DEDUCTIONS:		
Administration.....	353,270	23,151
Depreciation.....	-	2,615
Transfers to other systems.....	91,704	-
Retirement benefits and refunds.....	4,799,063	-
Educational scholarships.....	-	12,250
	<hr/>	<hr/>
TOTAL DEDUCTIONS.....	5,244,037	38,016
	<hr/>	<hr/>
CHANGE IN NET ASSETS.....	9,108,549	148
NET ASSETS AT BEGINNING OF YEAR.....	52,748,008	2,969,934
	<hr/>	<hr/>
NET ASSETS AT END OF YEAR.....	\$ 61,856,557	\$ 2,970,082
	<hr/>	<hr/>

See notes to basic financial statements.

Town of Marblehead
Notes to the Basic Financial Statements
Fiscal Year Ended June 30, 2004

1. Summary of Significant Accounting Policies

The accompanying summary of the Town of Marblehead's more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements. The financial statements and notes are representations of the Town's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principals (GAAP), as applicable to governments, and have been consistently applied in the preparation of the financial statements. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Town of Marblehead is a municipal corporation that is governed by an elected five member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the Town is considered to be financially accountable. Component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. Specifically excluded from the Town's financial statements because they are autonomous entities or agencies are the Marblehead Housing Authority and North Shore Regional Vocational School District.

Blended component units are entities which are legally separate from the Town, but are so related to the Town that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The Marblehead Contributory Retirement System (the System) is blended within the Primary Government as a Pension Trust Fund within the Fiduciary Fund financial statements. The System is governed by a five member board comprised of the Town's Finance Director (ex-officio), two elected members and one member appointed by the Board of Selectmen and one member appointed by the Board members. The System is a legally separate entity, but the nature and significance of its relationship with the Town warrants inclusion in the combined financial statements. The system is presented using the accrual basis of accounting

The Town is a member of the South Essex Sewerage District (the District), a joint venture with the Cities of Salem, Marblehead and Beverly and the Town of Danvers, for the operation of a septage disposal facility. The members share in overseeing the operations of the District. Each member is responsible for its proportionate share of the operational costs of the District, which are paid in the form of assessments. As of June 30, 2004, the Town's equity interest in the operations of the District is \$1,344,690, which is recorded in the sewer enterprise fund. Complete financial statements can be obtained directly from their administrative offices located at 50 Fort Avenue, Salem, MA 01970.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

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

Government-Wide Financial Statements

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

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

Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

Grants and contributions that are restricted to meeting the operation requirements of a particular function or segment.

Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

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

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

Fund Financial Statements

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

Property taxes, excise taxes, departmental and governmental revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

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

The following major governmental funds are reported:

The General Fund - to account for all financial resources, except those required to be accounted for in another fund.

The Upper Middle School Conversion Fund - to account for financial resources to be used for the conversion of the old high school to a middle school.

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

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than permanent trusts or for major capital projects) that are legally restricted to expenditures for specified purposes.

Other Capital Projects Funds - to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Permanent Funds - to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary Funds – Proprietary funds are accounted for using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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

Enterprise Funds - to account for operations:

- Financed and operated in a manner similar to private 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; or
- Where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The following enterprise funds are reported:

The water enterprise fund is used to account for the Town's water activities.

The sewer enterprise fund is used to account for the Town's sewer activities

The electric enterprise fund is used to account for the Town's electricity activities.

The harbor enterprise fund is used to account for the Town's harbor activities.

Internal Service Funds - to account for the financing of services provided by one department to other departments or governmental units.

The following activities within the internal service fund are reported:

The medical claims activity is used to account for Town and employee contributions and investment earnings which are used to pay medical claims of the Town's employees and covered dependents.

The medex claims activity is used to account for Town and employee contributions and investment earnings which are used to pay medical claims of the Town's retired employees over the age of 65 as a supplement to medicare.

The workmen's compensation activity is used to account for Town appropriations and investment earnings which are expended for the payment of injury claims, resulting from on-the-job accidents of Town employees.

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

The following Fiduciary funds are reported:

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income are used for educational scholarships, and assistance to benefit the needy.

The *agency fund* is used to account for assets held in a purely custodial capacity. Agency funds apply the accrual basis of accounting but do not have a measurement focus. The Town's agency funds consist of off-duty work details, performance bonds, student activity accounts and fees collected on behalf of other governments.

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

Government-Wide and Fund Financial Statements

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

D. Cash

Government-Wide and Fund Financial Statements

Cash balances from all funds except petty cash, pension trust fund cash and private purpose trust fund savings accounts are combined to form a pool of cash and investments to maximize investment earnings.

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

E. Investments

Government-Wide and Fund Financial Statements

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

F. Allowance for Uncollectible Accounts

Government-Wide and Fund Financial Statements

The allowance for uncollectible accounts has been estimated based on historical trends and is reflected as a decrease to the receivables in the asset section of the financial statements.

G. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase except in the Electric Enterprise Fund where inventories of parts and accessories purchased for use in the utility business are stated at cost. Such inventories of both the Governmental Funds and Enterprise Funds, except the Electric Fund, are not material in total to the basic financial statements and therefore are not reported.

H. Capital Assets

Government-Wide and Fund Financial Statements

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

In the Electric Enterprise Fund, capital assets are recorded net of accumulated depreciation. Depreciation is recorded on a straight line basis.

In Fiduciary Funds, assets are recorded at their estimated fair market value on the date of the gift.

All purchases and construction costs in excess of \$5,000, and with the expected useful lives of greater than one year, are capitalized at the date of acquisition or construction. Capital assets (excluding land, and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

Capital Asset Type	Estimated Useful Life (in years)
Building improvements.....	6-20
Buildings.....	40
Infrastructure.....	5-50
Land improvements.....	10-30
Machinery and equipment.....	3-15

I. Accounts Payable and Warrants Payable

Government-Wide and Fund Financial Statements

As required by Massachusetts General Laws, disbursements made during the fifteen days immediately following the close of each fiscal year, which pertain to the prior year, are recorded as warrants payable and expenditures as of June 30th. Disbursements made after fifteen days following the close of the fiscal year, which pertain to the prior fiscal year, are recorded as accounts payable and expenditures as of June 30th.

J. Accrued Vacation and Sick Leave

Government-Wide and Fund Financial Statements

Under the terms of union contracts, Town employees are granted vacation and sick leave benefits in varying amounts. In the event of termination, an employee is paid for all accumulated vacation. Vacation earned in one year may be carried forward to be used in the following year. Town employees are granted a varying proportion of their unused sick leave upon death or retirement. Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when incurred in proprietary funds (using the accrual basis of accounting).

K. Deferred Revenues

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

L. Long-Term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net Assets has been “restricted for” the following:

Joint Venture - the balance in this account represents the Town’s equity interest in joint ventures.

Permanent Funds - Expendable - the balance in this account represents amounts held in trust for which the expenditures are restricted by various trust agreements.

Permanent Funds - Nonexpendable - the balance in this account represents amounts held in trust for which only investment earnings may be expended.

Other Purposes – the balance in this account represents amounts restricted from outside parties.

Fund Financial Statements (Fund Balance)

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

Fund balances have been “reserved for” the following:

Reserved for Encumbrances and Continuing Appropriations - the balance in this account is made up of appropriations for special purposes and uncompleted at year end.

Reserved for Perpetual Permanent Funds - the balance in this account represents amounts held in trust for which the only investment earnings may be expended.

Fund balances have been “designated for” the following:

Subsequent Years Expenditures - the balance in this account are amounts budgeted to reduce the tax levy or to be used for specific appropriations.

N. Investment Income

Investment income from Special Revenue, Capital Projects, Enterprise, and Agency Funds is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL). The following are some examples of funds where investment income is recorded in the fund:

Grants in Special Revenue Funds when the grant agreement specifically stipulates that interest on the grant funds may remain with the fund.
Specific designated revolving funds in Special Revenue Funds.
Electric depreciation fund, consumer deposit and certain insurance funds in the Electric Enterprise Fund.
Harbor Enterprise Fund.
School activity funds in Agency Funds.

Investment income from the nonexpendable portion of a Permanent Fund is legally assigned to the expendable portion of the Permanent Fund.

O. Total Columns

Government-Wide Financial Statements

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

Fund Financial Statements

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

P. On-Behalf Payments

Government-Wide and Fund Financial Statements

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, 2004, the Commonwealth provided the Town with the amounts paid in benefits from the State Plan on behalf of the Town's retired teaching employees as \$3,958,383. The accompanying basic financial statements include the required adjustments, which have increased both intergovernmental revenue and pension expenditures by the same amount. The effect of such an adjustment have not changed the excess of revenues and other financing sources over expenditures and other financing uses or fund balances.

Q. Fund Deficits

In the Internal Service Fund, the Medical Claims Fund deficit of \$1,319,936 will be funded by insurance premium increases and the Workers' Compensation Fund deficit of \$320,486 will be funded by Town appropriations.

R. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. Cash 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 prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or its agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by the U.S. 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 (MMDT), an external investment pool established by the Treasurer of the Commonwealth of Massachusetts, who serves as a Trustee. The fair value of the position in the MMDT is the same as the value of the MMDT shares. The Town did not participate in repurchase agreements or reverse repurchase agreements during the current fiscal year.

The Town's trust funds and retirement system have expanded investment powers including the ability to invest in equity securities, corporate bonds, annuities and other specified investments. The retirement system participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as a Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

A. Deposits

The following summary presents the amount of Town bank deposits as of June 30, 2004 as recorded by various banks, with the corresponding total per the Town's books as reflected as cash in the accompanying balance sheet, categorized as follows:

	<u>General Treasury</u>	<u>Retirement System</u>
Category 1 (fully insured deposits, or deposits collateralized with securities held by the Town or its agent in the Town's name)	\$ 841,714	\$ 158,043
Category 3 (deposits neither fully insured nor collateralized as per criteria in above categories)	<u>10,548,737</u>	<u>5,324</u>
Total bank recorded balances	11,390,451	163,367
Reconciling items (deposits in transit, outstanding checks, etc.), net	<u>(513,960)</u>	<u>(152,218)</u>
Total cash and cash equivalents per Town	\$ <u><u>10,876,491</u></u>	\$ <u><u>11,149</u></u>

The composition of the Town's bank recorded deposits fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collections of state and federal aid, and capital outlays throughout the year.

B. Investments

The Town categorizes investments according to the level of risk assumed by the Town. Category 1 includes investments that are insured, registered or held by the Town or the Town's 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 investments held by the counterparty, its trust department or its agent, but not in the Town's name. The carrying amount and corresponding market values of Town investments as of June 30, 2004 is as follows:

	Carrying Amount	Market Value
Not Subject to Categorization:		
Investment in Mutual Funds:		
Retirement System - PRIT	\$ 61,723,292	\$ 61,723,292
Town - MMDT	15,662,100	15,662,100
Category 1:		
Equity Securities	878,385	878,385
Total Investments	\$ <u>78,263,777</u>	\$ <u>78,263,777</u>

3. Property Taxes

Real and personal property taxes are based upon values assessed as of January 1 and are levied each July for the following fiscal year ending June 30. Taxes for each year are due in quarterly installments and are normally payable August 1, November 1, February 1 and May 1. Interest accrues on delinquent taxes at the rate of 14% per annum and is recognized as revenue when received. Tax liens are processed within twelve months after the close of the valuation year on delinquent properties.

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 the sale or taking of the property by the Town.

The Town is subject to certain limitations on the amount of property taxes it may levy. Levies are generally limited to 2½ of the Town's total assessed valuation of real property. In addition, the assessed valuation of real property is limited to an annual increase of 2½%.

By law, all taxable property in the Commonwealth is assessed at 100% of fair cash value. Since fiscal 1991 all property assessments have been updated by in house staff on an annual basis as indicated by market trends and we expect to continue this process in the future.

4. Accounts Receivable and Allowance for Uncollectible Receivables

Governmental Activities:

	Receivables	60 Days Collections	Receivable Less Collections	%	Allowance	Net Receivable
Property Taxes:						
Current Year:						
2004	\$ 302,678	\$ 136,969	\$ 165,709		\$ -	\$ 302,678
Prior Year:						
2003	16,449	(1,282)	17,731	Various	4,313	12,136
2002	9,027	725	8,302	Various	8,302	725
2001	6,136	-	6,136	100%	6,136	-
Tax Liens	69,683	4,692	64,991		-	69,683
Total Prior Year	101,295	4,135	97,160		18,751	82,544
Deferred real estate taxes	133,327	-	133,327		-	133,327
Total Property Taxes	537,300	141,104	396,196		18,751	518,549
Motor vehicle excise taxes	576,812	177,090	399,722	Various	278,432	298,380
Accounts						
User Charges	16,725	15,093	1,632	20%	272	16,453
Departmental	34,693	125	34,568	20%	225	34,468
Stop Loss Insurance	213,929	-	213,929		-	213,929
Total Accounts	265,347	15,218	250,129		497	264,850
Due from other governments	38,941,303	4,225	38,937,078		-	38,941,303

Business-type Activities

	Receivable	%	Allowance	Net Receivable
Sewer Fund:				
Rates	\$ 634,805	5%	\$ 15,314 (1)	\$ 619,491
Assessments	1,477		-	1,477
Total Sewer Fund	636,282		15,314	620,968
Water Fund:				
Rates and Services	425,559	5%	10,362 (1)	415,197
Electric Funds:				
Rates	1,341,296	Various	99,023	1,242,273
Harbor Fund:				
Boat Excise	9,136	5%	459	8,677
Permits and fees	4,896	20%	979	3,917
Total Harbor Fund	14,032		1,438	12,594

(1) The allowance for uncollectibles is based solely upon receivables that had been billed as of June 30, 2004. The allowance is determined on a historical basis.

Deferred Revenue

Property taxes and other revenues in Governmental Funds that are measurable but not available have been classified as deferred revenue on June 30, 2004 as follows:

Real estate and personal property taxes.....	\$	344,551
Excise taxes.....		121,290
Accounts.....		14,201
Intergovernmental.....		<u>38,857,047</u>
Total.....	\$	<u><u>39,337,089</u></u>

5. Interfund Receivables / Payables

Individual fund's interfund receivable and payable balances at June 30, 2004 are as follows:

The reason for the large interfund payable in the general fund and interfund receivables in the other funds is due to pooling the cash balance in all funds into the general fund.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 1,235,873	\$ 11,358,652
Upper Middle School Conversion	3,375,971	-
Non-Major Governmental Funds:		
Federal Grants	374,684	1,229
State Grants	212,147	-
Other Grants	13,209	-
Revolving Funds	661,363	-
Receipts Reserved for Appropriation	557,620	-
Gifts	337,030	-
Non Major Capital Projects	242,913	-
Permanent Funds	38,245	27,169
Enterprise Funds:		
Sewer	1,545,775	-
Water	1,434,013	-
Electric	2,529,883	-
Harbor	-	60,271
Internal Service Funds:		
Medical Claims	-	1,174,374
Agency Funds	<u>62,969</u>	<u>-</u>
	\$ <u><u>12,621,695</u></u>	\$ <u><u>12,621,695</u></u>

6. Changes in Capital Assets

Capital asset activity in the Governmental Funds for the fiscal year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	(Retirements)	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,940,302	\$ -	\$ -	\$ 2,940,302
Construction in progress.....	7,990,768	12,076,641	-	20,067,409
Total capital assets not being depreciated.....	10,931,070	12,076,641	-	23,007,711
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,852,583	168,680	-	2,021,263
Buildings.....	59,396,062	189,659	-	59,585,721
Building Improvements.....	7,666,305	152,211	-	7,818,516
Machinery and equipment.....	6,477,580	227,239	(104,838)	6,599,981
Infrastructure.....	18,488,021	666,861	(225,055)	18,929,827
Total capital assets being depreciated.....	93,880,551	1,404,650	(329,893)	94,955,308
<u>Less accumulated depreciation for:</u>				
Land improvements.....	536,775	67,112	-	603,887
Buildings.....	10,079,696	1,372,722	-	11,452,418
Building Improvements.....	4,197,173	334,289	-	4,531,462
Machinery and equipment.....	3,618,299	509,799	(104,838)	4,023,260
Infrastructure.....	5,019,818	414,520	(225,055)	5,209,283
Total accumulated depreciation.....	23,451,761	2,698,442	(329,893)	25,820,310
Total capital assets being depreciated, net.....	70,428,790	(1,293,792)	-	69,134,998
Total governmental activities capital assets, net.....	\$ 81,359,860	\$ 10,782,849	\$ -	\$ 92,142,709

Capital asset activity for the Business Type Activities for the fiscal year ended June 30, 2004 was as follows:

Business-Type Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Ending Balance</u>
<u>Sewer:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 115,466	\$ -	\$ -	\$ 115,466
<u>Capital assets being depreciated:</u>				
Buildings.....	114,350	-	-	114,350
Machinery and equipment.....	840,085	-	(42,348)	797,737
Infrastructure.....	11,311,546	257,866	(170,000)	11,399,412
Total capital assets being depreciated.....	12,265,981	257,866	(212,348)	12,311,499
<u>Less accumulated depreciation for:</u>				
Buildings.....	114,350	-	-	114,350
Machinery and equipment.....	474,819	53,194	(42,348)	485,665
Infrastructure.....	4,651,266	225,140	(170,000)	4,706,406
Total accumulated depreciation.....	5,240,435	278,334	(212,348)	5,306,421
Total capital assets being depreciated, net.....	7,025,546	(20,468)	-	7,005,078
Total sewer activities capital assets, net.....	\$ 7,141,012	\$ (20,468)	\$ -	\$ 7,120,544
	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Ending Balance</u>
<u>Water:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 49,427	\$ -	\$ -	\$ 49,427
<u>Capital assets being depreciated:</u>				
Buildings.....	946,475	-	-	946,475
Machinery and equipment.....	897,683	57,235	(42,927)	911,991
Infrastructure.....	8,843,552	1,047,800	(16,260)	9,875,092
Total capital assets being depreciated.....	10,687,710	1,105,035	(59,187)	11,733,558
<u>Less accumulated depreciation for:</u>				
Buildings.....	270,302	22,415	-	292,717
Machinery and equipment.....	616,518	67,845	(42,927)	641,436
Infrastructure.....	2,860,831	212,922	(16,260)	3,057,493
Total accumulated depreciation.....	3,747,651	303,182	(59,187)	3,991,646
Total capital assets being depreciated, net.....	6,940,059	801,853	-	7,741,912
Total water activities capital assets, net.....	\$ 6,989,486	\$ 801,853	\$ -	\$ 7,791,339

	Beginning Balance	Additions	(Retirements)	Ending Balance
<u>Harbor:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,004,077	\$ -	\$ -	\$ 2,004,077
Construction in progress.....	-	328,924	-	328,924
Total capital assets not being depreciated.....	2,004,077	328,924	-	2,333,001
<u>Capital assets being depreciated:</u>				
Piers.....	57,401	-	(5,500)	51,901
Buildings.....	398,491	-	-	398,491
Building improvements.....	91,311	-	(5,180)	86,131
Land improvements.....	916,556	-	-	916,556
Machinery and equipment.....	736,996	2,918	(4,243)	735,671
Total capital assets being depreciated.....	2,200,755	2,918	(14,923)	2,188,750
<u>Less accumulated depreciation for:</u>				
Piers.....	39,545	1,417	-	40,962
Buildings.....	144,545	9,962	-	154,507
Building improvements.....	18,912	2,878	-	21,790
Land improvements.....	223,759	19,723	-	243,482
Machinery and equipment.....	471,057	44,301	(3,606)	511,752
Total accumulated depreciation.....	897,818	78,281	(3,606)	972,493
Total capital assets being depreciated, net.....	1,302,937	(75,363)	(11,317)	1,216,257
Total harbor activities capital assets, net.....	\$ 3,307,014	\$ 253,561	\$ (11,317)	\$ 3,549,258
<u>Light Department:</u>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 11,196	\$ -	\$ -	\$ 11,196
Construction in progress.....	624,343	-	(600,263)	24,080
Total capital assets not being depreciated.....	635,539	-	(600,263)	35,276
<u>Capital assets being depreciated:</u>				
Light plant and equipment.....	17,936,217	1,576,863	(116,095)	19,396,985
<u>Less accumulated depreciation for:</u>				
Light plant and equipment.....	6,463,716	898,774	(116,095)	7,246,395
Total capital assets being depreciated, net.....	11,472,501	678,089	-	12,150,590
Total light activities capital assets, net.....	\$ 12,108,040	\$ 678,089	\$ (600,263)	\$ 12,185,866
Total business-type activities capital assets, net.....	\$ 29,545,552	\$ 1,713,035	\$ (611,580)	\$ 30,647,007

Capital asset activity for the Fiduciary Funds for the fiscal year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Ending Balance</u>
Fiduciary Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,045	\$ -	\$ -	\$ 2,045
<u>Capital assets being depreciated:</u>				
Buildings.....	72,839	-	-	72,839
<u>Less accumulated depreciation for:</u>				
Buildings.....	49,503	2,615	-	52,118
Total capital assets being depreciated, net.....	23,336	(2,615)	-	20,721
Total fiduciary activities capital assets, net.....	<u>\$ 25,381</u>	<u>\$ (2,615)</u>	<u>\$ -</u>	<u>\$ 22,766</u>

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

Governmental Activities:	
General government.....	\$ 114,267
Public safety.....	590,257
Education.....	1,470,151
Public works.....	210,928
Human services.....	40,477
Culture and recreation.....	<u>272,362</u>
Total depreciation expense - governmental activities.....	<u>\$ 2,698,442</u>
 Business-Type Activities:	
Sewer.....	\$ 278,334
Water.....	303,182
Harbor.....	78,281
Electric.....	<u>898,774</u>
Total depreciation expense - business-type activities.....	<u>\$ 1,558,571</u>

7. Compensated Absences

The following is a summary of the changes in accrued vacation and sick pay for the year ended June 30, 2004.

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Current Portion
Governmental Activities					
Accrued vacation	\$ 642,320	\$ 649,552	\$ (642,320)	\$ 649,552	\$ 649,552
Accrued sick pay	333,896	176,040	(83,474)	426,462	319,847
Total	<u>976,216</u>	<u>825,592</u>	<u>(725,794)</u>	<u>1,076,014</u>	<u>969,399</u>
Business-type Activities					
Accrued vacation	155,931	154,984	(155,931)	154,984	154,984
Accrued sick pay	165,343	69,120	(41,335)	193,128	48,281
Total	<u>321,274</u>	<u>224,104</u>	<u>(197,266)</u>	<u>348,112</u>	<u>203,265</u>
Total accrued vacation and sick pay	<u>\$ 1,297,490</u>	<u>\$ 1,049,696</u>	<u>\$ (923,060)</u>	<u>\$ 1,424,126</u>	<u>\$ 1,172,664</u>

8. Notes Payable

The Town of Marblehead is authorized, through its Treasurer, to borrow in anticipation of taxes (TAN's), to fund capital project costs in anticipation of the issuance of bonds (BAN's) or in anticipation of the receipt of federal (FAN's) and state (SAN's) grants.

As of June 30, 2004, the Town had \$64,000,000 in BAN's outstanding for school construction projects which have been classified as long-term debt in the basic financial statements. Details on the long-term BAN activity during fiscal year 2004 is reported in the long-term debt footnote.

9. Long-Term Debt

The Town of Marblehead's long-term debt issues constitute a pledge of the Town's full faith and credit. Payment is not limited to a particular revenue source. However, as previously noted, the Town's ability to raise property taxes is restricted by the enactment of legislation known as "Proposition 2½".

A. Changes in General Obligation Bonds Payable

The following is a summary of bond transactions for the year ended June 30, 2004:

	Governmental Activities Long-Term Debt	Business-type Activities Long-Term Debt	Total
Bonds Payable at July 1, 2003	\$ 64,315,000	\$ 694,331	\$ 65,009,331
Issuance of Long Term Notes	8,000,000	-	8,000,000
Bonds retired	(1,655,000)	(199,331)	(1,854,331)
Bonds Payable at June 30, 2004	<u>\$ 70,660,000</u>	<u>\$ 495,000</u>	<u>\$ 71,155,000</u>

State law permits the Town, under the provisions of chapter 44, Section 10, to authorize indebtedness up to a limit of 2½% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

The Commonwealth of Massachusetts has approved construction assistance to the Town. The Commonwealth enacted legislation in FY2004 that created a new School Building Assistance Authority that is administering the program. Under the new legislation the Commonwealth will provide cash grants for their share of approved projects that are to be used to paydown the Town's temporary borrowing. The Town has been approved for a 61% reimbursement rate in relation to the construction of the new High School and a 50% reimbursement rate in relation to the conversion of the old High School into an upper middle school. The two projects are currently on a state list which determines when the payments will be received for each project. The Town anticipates receiving a substantial amount of the State payments within the next one to two years. Through June 30, 2004, approximately \$46,338,000 has been spent on the new High School construction project and approximately \$20,282,000 has been spent on the old High School conversion project. Accordingly, an intergovernmental receivable and corresponding deferred revenue have been reported in these basic financial statements for approximately \$36,298,864.

The Town has funded the school project costs to date through the issuance of Bond Anticipation Notes (BAN's) totaling \$64,000,000. The Town is allowed by State Law to renew the BAN's annually for up to 7 years and intends to renew them until the state begins paying annual reimbursements, at which time the Town will permanently finance the debt through the issuance of General Obligation Bonds.

Subsequent to year end, the Town issued \$25,800,000 of general obligation bonds dated August 15, 2004. These general obligation bonds were used to pay the BAN's that were due on August 20, 2004. The Town paid down an additional \$689,726 of BAN's with available funds. The Town also issued \$37,510,274 of BAN's on August 20, 2004 at an interest rate of 1.47% due August 19, 2005. The nature of these debt transactions meet the GASB criteria for treatment as long-term debt and, therefore, the \$64,000,000 has not been recorded as a fund liability.

The following is a summary of the long-term debt transactions of the Town for the year ended June 30, 2004 (in thousands of dollars):

	Original Amount	Interest Rate (%)	Date of Issue	Date of Maturity	Balance 06/30/03	Additions (Redemption)	Balance 06/30/04
<u>Long-Term Debt</u>							
<u>Inside Debt Limit</u>							
School Remodeling	\$ 680	5.77	12/01/94	12/01/03	\$ 75	\$ (75)	\$ -
Drain Construction	650	4.23	02/01/96	02/01/06	195	(65)	130
Park, Recreation, & Council on Aging Building	2,400	4.23	02/01/96	02/01/06	725	(240)	485
Police Building Addition	600	4.23	02/01/96	02/01/06	180	(60)	120
School Remodeling	1,040	4.23	02/01/96	02/01/06	375	(105)	270
School DP Equipment	570	4.23	02/01/96	02/01/05	120	(60)	60
Drain Construction	900	4.57	06/01/97	06/01/07	375	(95)	280
Fire Truck	450	4.57	06/01/97	06/01/07	200	(60)	140
School DP Equipment	440	4.57	06/01/97	06/01/06	140	(50)	90
School Remodeling	195	4.57	06/01/97	06/01/06	60	(20)	40
School Remodeling	1,055	4.36	08/01/97	08/01/07	520	(110)	410
School Remodel-Energy	515	4.36	08/01/97	08/01/07	250	(50)	200
School Remodeling	555	4.93	06/15/00	06/15/10	390	(55)	335
School DP Equipment	280	4.93	06/15/00	06/15/09	175	(30)	145
School Athletic Fields	810	4.93	06/15/00	06/15/10	585	(80)	505
Drain Construction	4,950	3.93	06/01/01	06/01/11	3,950	(500)	3,450
Total Inside Debt Limit					<u>8,315</u>	<u>(1,655)</u>	<u>6,660</u>
<u>Notes Payable</u>							
School Construction	56,000	1.36	08/22/02	8/21/03	56,000	(56,000)	-
School Construction	42,115	1.01	8/21/03	8/20/04	-	64,000	64,000
Total Notes Payable					<u>56,000</u>	<u>8,000</u>	<u>64,000</u>
Governmental Long-term Debt					<u>64,315</u>	<u>6,345</u>	<u>70,660</u>
<u>Enterprise</u>							
<u>Inside Debt Limit</u>							
Purchase Tucker's Wharf	690	4.23	02/01/96	02/01/06	205	(70)	135
Tucker's Building Remodeling	450	4.93	06/15/00	06/15/10	315	(45)	270
Tucker's Seawall Renovations	425	4.57	06/01/97	06/01/06	135	(45)	90
<u>Outside Debt Limit</u>							
MWRA Water Bond	197		07/01/99	05/15/04	39	(39)	-
Total Enterprise Debt					<u>694</u>	<u>(199)</u>	<u>495</u>
Total Debt					<u>\$ 65,009</u>	<u>\$ 6,146</u>	<u>\$ 71,155</u>

B. Annual Requirements

The annual requirements to amortize all long-term debt outstanding as of June 30, 2004, are as follows:

Fiscal Year	Governmental				Enterprise		Total Requirement
	Exempt from Prop. 2 1/2		Nonexempt		Principal	Interest	
	Principal	Interest	Principal	Interest	Principal	Interest	
2005	\$ 2,219,726	\$ 1,956,952	\$ 50,000	\$ 7,675	\$ 160,000	\$ 23,195	\$ 4,417,548
2006	39,930,274	1,332,241	50,000	5,513	155,000	15,978	41,489,006
2007	1,775,000	1,247,893	50,000	3,325	45,000	8,865	3,130,083
2008	1,695,000	1,192,448	50,000	1,113	45,000	6,705	2,990,266
2009	1,615,000	1,133,838	-	-	45,000	4,500	2,798,338
2010	1,645,000	1,066,888	-	-	45,000	2,250	2,759,138
2011	1,475,000	1,003,813	-	-	-	-	2,478,813
2012	1,055,000	953,294	-	-	-	-	2,008,294
2013	1,090,000	917,075	-	-	-	-	2,007,075
2014	1,125,000	869,875	-	-	-	-	1,994,875
2015	1,185,000	812,125	-	-	-	-	1,997,125
2016	1,245,000	751,375	-	-	-	-	1,996,375
2017	1,305,000	687,625	-	-	-	-	1,992,625
2018	1,375,000	620,625	-	-	-	-	1,995,625
2019	1,440,000	550,250	-	-	-	-	1,990,250
2020	1,510,000	476,500	-	-	-	-	1,986,500
2021	1,590,000	399,000	-	-	-	-	1,989,000
2022	1,665,000	317,625	-	-	-	-	1,982,625
2023	1,750,000	232,250	-	-	-	-	1,982,250
2024	1,840,000	142,500	-	-	-	-	1,982,500
2025	1,930,000	48,250	-	-	-	-	1,978,250
Totals	\$ 70,460,000	\$ 16,712,442	\$ 200,000	\$ 17,626	\$ 495,000	\$ 61,493	\$ 87,946,561

C. Bond Authorizations

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

<u>Date Authorized</u>		
May 1999	Construct New High School	\$ 42,115,000
May 2001	Schools Renovations Program	600,000
Nov 2001	High School on Pleasant Street	22,600,000
May 2004	New Fire Pumper	415,000
Total		\$ 65,730,000

10. Retirement Benefits

A. Defined Benefit Plan

Pensions for employees other than School Department teaching staff and certain school administrators are provided through the Town of Marblehead Contributory Retirement System (the System), a cost-sharing multiple employer defined benefit plan, administered by the Marblehead Contributory Retirement Board. Massachusetts contributory retirement system benefits are uniform from system to system, including the

Massachusetts Teachers Retirement 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, as defined. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification.

Employees who are employed on a basis, which anticipates work at an annual rate to exceed 1,040 hours, are eligible to participate from the date of their employment. Participants' contributions are fully vested at all times. A superannuation allowance may be received upon completion of twenty years of service or upon reaching the age of 55 with ten 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). As of June 30, 2004, the System's membership consisted of:

Retirees and beneficiaries currently receiving benefits	318
Active employees	376
Inactive employees	<u>57</u>
Total	<u><u>751</u></u>

Participants who become permanently and totally disabled from further duty 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 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 contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either 0%, 50%, or 100% of the regular interest which has accrued upon those contributions.

Survivor benefits are extended to eligible beneficiaries of participants whose deaths occur prior to or following retirement.

From time to time, cost-of-living increases are granted to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance, subject to a maximum dollar increase (presently \$12,000). The Massachusetts legislature voted these increases until 1997, and the cost was borne by the System until 1980 and from 1981 to 1997 are the financial responsibility of the Commonwealth. Since July 1, 1998, the Town Retirement Board is authorized to vote to award annual cost-of-living increases up to a maximum of 3% which are the financial responsibility of the System.

State Legislation requires that both the employee and the Town contribute to the System. Employees contribute an amount equal to 5%, 7%, 8% or 9% of their base salary, based on the date hired. Active participants who were hired on or after January 1, 1979 contribute an additional 2% of salary in excess of \$30,000. The Town is required to contribute at an actuarially determined rate, which is the amount required to cover normal cost plus amortization of unfunded prior service cost as approved by the Commonwealth's Public Employee Retirement Administration Commission. The Town's contributions for each employee (and interest allocated to the employee's account) are fully vested after ten years of continuous service. The Town's eligible payroll covered by the System in calendar year 2003 was \$14,054,171.

School Department teaching staff and certain administrators contribute to a pension plan administered by the Massachusetts Teachers Retirement Board. The Town makes no contributions to this plan. Contributions are made by the Commonwealth of Massachusetts as required by law. The amount of these on-behalf payments totaled \$3,958,383 for the fiscal year ended June 30, 2004. Covered payroll for these employees during fiscal year 2004 was \$15,033,672. Employees in this plan are vested after ten years of continuous service and contribute the same as members of the Marblehead Contributory Retirement System as described above. Employer contributions are funded based on a funding schedule as approved by the Commonwealth's Public Employee Retirement Administration Commission.

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 will 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.

The System issues a publicly available financial report in accordance with guidelines established by the PERAC. That report may be obtained from the System located at 7 Widger Road, Marblehead, MA 01945.

B. Summary of Significant Accounting Policies

Basis of Accounting - The Marblehead Contributory Retirement System (the System) follows the policies mandated by the Commonwealth of Massachusetts. Its accounting records are maintained on the accrual basis. Town and participant contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of Massachusetts General Law and the plan.

Method Used to Value Investments - Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future plan principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based upon independent appraisals. Investments that do not have an established market are reported at estimated fair values.

C. Funding Status and Progress

The most recent actuarial valuation of the System was prepared as of January 1, 2004. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Individual entry age normal
Amortization method	Increasing amortization
Remaining closed amortization period	24 years from July 1, 2004
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	6%
Cost-of-living adjustments	3% on first \$12,000 of retirement income (included in January 1, 2004 figures)

D. Contributions Required and Contributions Made

The System's funding policy provides for periodic employer contributions at actuarially determined rates that expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due, based on the above assumptions. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial cost funding method. The Retirement Plan will amortize the unfunded liability over a 24-year period.

Generally accepted accounting principles require that the minimum cost charged each year by the Town for its pension obligation should be the present value of benefits estimated to be payable in the future, (computed using an acceptable actuarial valuation method using assumptions that reflect the best judgments of future events, including salary projections) plus amortization of the liability for past services, as of the balance sheet date.

Contributions, including expense appropriation, required for the last three fiscal years are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2002	\$ 2,421,372	100%
2003	2,421,098	100%
2004	2,420,142	100%

E. Funding Status and Historical Data

An analysis of the funding progress since 1988, the first year for which such information is available, is as follows (dollar amounts in the thousands):

<u>Actuarial Valuation As of Jan 1,</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
1988	\$ 10,566	\$ 32,434	\$ 21,868	32.6%	\$ 7,626	286.8%
1989	11,823	32,058	20,235	36.9%	8,418	240.4%
1992	21,457	33,715	12,258	63.6%	8,476	144.6%
1996	30,846	40,299	9,453	76.5%	9,276	101.9%
1998	42,540	55,347	12,807	76.9%	11,144	114.9%
2000	54,016	63,939	9,923	84.5%	11,834	83.9%
2002	60,615	71,022	10,407	85.3%	13,268	78.4%
2004	64,490	76,876	12,386	83.9%	13,268	93.4%

F. Noncontributory Retirement Plan

The Town also has a noncontributory pension plan which covers certain employees hired prior to the adoption of the Contributory Retirement System. Total payments for the Town's share of this plan amounted to \$192,849 during the year ended June 30, 2004.

G. Other Post Employment Benefits

In addition to providing pension benefits, as described above, the Town provides the majority of retired employees, their dependents and beneficiaries, with payments for a portion of their health care and life insurance benefits in accordance with M.G.L. Chapter 32B. Benefits paid by the Town are on a cash basis, and there is no actuarial valuation available which would permit an estimation of the unfunded past service cost liability as of June 30, 2004 and the annual amounts needed to fund such a liability. The cost of these benefits amounts to approximately \$1,930,000 in fiscal year 2004. There are approximately 525 participants currently eligible.

11. Commitments and Contingent Liabilities

A. Grants

The Town participates in a number of federally and state assisted grant programs, principal of which are educational grants. These programs are subject to program compliance and audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

B. Litigation

There are several pending lawsuits in which the Town is involved. The Town Counsel estimates that the potential claims against the Town, resulting from such litigation, which is not covered by insurance, would not materially effect the financial statements of the Town.

C. Power Sales Agreements

The Town has various commitments through its participation in a bulk power supply agency, as discussed more fully in Note 12.

D. Old High School Conversion to Middle School

The Town has various commitments and obligations in connection with the conversion of the old High School into a Middle School. The school project is estimated to cost \$23,200,000 and the project was substantially complete at year end. The Commonwealth has approved construction assistance of approximately 50% of the total borrowing. The Town anticipates receiving a substantial amount of the State payments within the next one to two years.

12. Participation in Massachusetts Municipal Wholesale Electric Company, Including Subsequent Events

The Town of Marblehead acting through its Light Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and political subdivision of the Commonwealth of Massachusetts created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other utilities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should any Project Participant fail to make payment when due, other Project Participants may be required to increase (step-up) their payments and correspondingly their Participants' share of Project Capability to an additional amount not to exceed 25% of their original Participants' share of the Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate plus available funds pledged under the Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by FPL Energy Wyman IV, a subsidiary of FPL Energy, Inc. and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) a subsidiary of Dominion Resources, Inc. In addition to Millstone Unit 3, DNCI also is the owner of Millstone Unit 2. DNCI has requested and

received an exemption from the NRC enabling it to submit an application earlier than 20 years before the expiration of the operating license for Unit 3 so that DNCI could submit its application for license renewal for Unit 2 and Unit 3 simultaneously. In January 2004, DNCI filed an application with the NRC to renew the operating licenses. The Unit 3 license currently will expire in 2025.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by FPL Energy Seabrook, LLC, an indirect subsidiary of FPL Group, Inc. FPL Energy Seabrook, LLC plans to file an application with the NRC to recapture the period 1986 to 1990 during which time Seabrook had a license, but did not operate, and to extend the Seabrook Station operating license, which currently will expire in 2026.

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. In February 2003 Congress extended the Price-Anderson Act through the end of 2003. Congress, as part of comprehensive energy legislation, has considered extension of the Price-Anderson Act.

Marblehead Municipal Light Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Departmental revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company.

As of June 30, 2004, total capital expenditures amounted to \$1,509,295,000, of which \$24,705,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects and PPAs included Power Supply System Revenue Bonds totaling \$925,265,000, of which \$15,399,000 is associated with the Department's share of Project Capability and PPAs. As of June 30, 2004, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$1,147,136,000, of which \$18,450,000 is anticipated to be billed to the Department in the future.

The estimated aggregate amount of Marblehead Municipal Light Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at June 30, 2004 and estimated for future years is shown below.

For years ended June 30,		Annual Costs	
	2005	\$	2,027,000
	2006		1,954,000
	2007		1,934,000
	2008		1,777,000
	2009		1,538,000
	2010 to 2014		6,634,000
	2015 to 2019		2,586,000
	Total	\$	18,450,000

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSAs were \$3,882,000 and \$4,365,000 for the years ended June 30, 2004 and 2003, respectively.

13. Risk Financing

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town is self-insured for its employees' and retirees' health insurance and workers' compensation benefits. These activities are accounted for in the Town's Internal Service Fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

A. Employee and Retiree Health Insurance

The Town established a medical claims fund in fiscal 1981 and a Medex claims fund in fiscal 1989. The purpose of these funds is to pay medical claims of the Town's current and retired employees and their covered dependents and minimize the total cost of annual medical insurance to the municipality. The Medex claims fund provides medical insurance which supplements Medicare for retired employees over the age of 65. All other employees' medical insurance is provided from the medical claims fund. Contributions to the funds are made monthly in the following proportions: Town 75%, Employee 25%.

In the medical claims fund, medical claims exceeding \$75,000 per individual paid per plan year are covered through a private insurance carrier. In the Medex claims fund there is no stop loss insurance because federal law limits exposure.

Liabilities of these medical claims funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported ("IBNR"). Claim liabilities are calculated based on recent claim settlement trends, including frequency and amount of payouts. All claim handling procedures are performed by an independent claims administrator.

An analysis of group health claims activity is presented below:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimate</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
Medical Claims				
Fiscal Year 2003	\$ 919,419	\$ 5,813,938	\$ (5,857,265)	\$ 876,092
Fiscal Year 2004	876,092	6,020,856	(5,984,527)	912,421
Medex Claims				
Fiscal Year 2003	235,018	881,227	(954,872)	161,373
Fiscal Year 2004	161,373	1,130,662	(1,154,634)	137,401

B. Workers Compensation

The Town provides statutory workers compensation benefits under a self-insurance plan. In fiscal 1989 the Town established a workmen's compensation fund by accepting the provisions of Massachusetts General Laws, Chapter 40, Section 13a. A private consultant hired by the Town administers workers' compensation claims. Claims are recorded as expenses in the year payment is made. The Town estimates its future workers' compensation liability based on history and type and records the liability in the Internal Service Fund.

An analysis of workers compensation activity is presented below:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2003	\$ 844,767	\$ (66,360)	\$ (58,680)	\$ 719,727	\$ 126,404
Fiscal Year 2004	719,727	126,367	(176,400)	669,694	80,816

14. Interfund Transactions

Funds are transferred from one fund to support expenditures of other funds in accordance with the authority established for the individual fund. Transfers within fund types have been eliminated. Transfers between fund types during the year ended June 30, 2004 were:

Fund	Total Transfers Out	Transfers In					
		General Fund	Upper MS Construction	Nonmajor Governmental Funds	Water Enterprise Fund	Harbor Enterprise Fund	Internal Service Funds
General.....	\$ 1,274,926	\$ - (1)	\$ 1,000,000	\$ - (2)	\$ 11,926 (2)	\$ 63,000 (3)	\$ 200,000
Nonmajor Governmental...	412,678 (4)	150,208	- (5)	262,470	-	-	-
Water Enterprise.....	69,999 (6)	69,999	-	-	-	-	-
Sewer Enterprise.....	86,120 (6)	86,120	-	-	-	-	-
Electric Enterprise.....	725,000 (6)	725,000	-	-	-	-	-
Harbor Enterprise.....	220,769 (6)	220,769	-	-	-	-	-
Total.....	\$ 2,789,492	\$ 1,252,096	\$ 1,000,000	\$ 262,470	\$ 11,926	\$ 63,000	\$ 200,000

(1) Funds raised in the general fund to pay bans related to the Upper Middle School Conversion Project.

(2) Reserve fund transfers.

(3) Workmen's compensation appropriation from taxes.

(4) To reimburse the general fund for expenditures for Metco tuition, Medicare from police special details and other grant funds.

(5) Transfers within capital projects and permanent trust funds.

(6) Payments in lieu of taxes and reimbursements for general government services.

15. Implementation of New GASB Pronouncements

During fiscal year 2004, the following GASB pronouncement was implemented:

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

Other Future GASB Pronouncements:

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

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

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2008. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

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

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2009. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

This page intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL FUND

The General Fund is used to account for all transactions encompassing the approved current operating budget, the related revenues, expenditures, assets, liabilities and fund balances which are not accounted for in other funds. The budget of the Town is recorded in detail in the general fund by line item within department and, as a result, most of the current operations of the Town are recorded here.

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

FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts			
	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes,				
net of tax refunds.....	\$ -	\$ 37,620,060	\$ 37,620,060	\$ 37,620,060
Motor vehicle and other excise taxes.....	-	2,557,407	2,557,407	2,557,407
Charges for services.....	-	510,000	510,000	510,000
Penalties and interest on taxes.....	-	102,000	102,000	102,000
Licenses and permits.....	-	445,000	445,000	445,000
Fines and forfeitures.....	-	180,000	180,000	180,000
Intergovernmental.....	-	3,573,285	3,573,285	3,573,285
Investment income.....	-	250,000	250,000	250,000
Miscellaneous.....	-	9,000	9,000	9,000
TOTAL REVENUES.....	-	45,246,752	45,246,752	45,246,752
EXPENDITURES:				
Current:				
General government.....	207,072	1,891,991	2,099,063	1,992,007
Public safety.....	14,248	5,695,211	5,709,459	5,686,503
Education.....	-	21,975,179	21,975,179	22,028,125
Public works.....	369,567	3,503,280	3,872,847	3,998,634
Human services.....	-	359,035	359,035	366,519
Culture and recreation.....	-	1,527,613	1,527,613	1,536,184
Pension benefits.....	-	2,191,548	2,191,548	2,191,548
Property and liability insurance.....	-	285,819	285,819	304,088
Employee benefits.....	-	4,742,180	4,742,180	4,742,180
State and county charges.....	-	1,792,480	1,792,480	1,792,480
Debt service:				
Principal.....	-	1,705,000	1,705,000	2,655,000
Interest.....	-	1,623,242	1,623,242	1,623,242
TOTAL EXPENDITURES.....	590,887	47,292,578	47,883,465	48,916,510
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES.....	(590,887)	(2,045,826)	(2,636,713)	(3,669,758)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	-	-	1,252,097
Transfers out.....	-	-	-	(274,926)
TOTAL OTHER FINANCING SOURCES (USES).....	-	-	-	977,171
NET CHANGE IN FUND BALANCE.....	(590,887)	(2,045,826)	(2,636,713)	(2,692,587)
BUDGETARY FUND BALANCE, Beginning of year.....	5,692,512	5,692,512	5,692,512	5,191,557
BUDGETARY FUND BALANCE, End of year.....	\$ 5,101,625	\$ 3,646,686	\$ 3,055,799	\$ 2,498,970

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 37,536,410	\$ -	\$ (83,650)
2,809,905	-	252,498
651,057	-	141,057
128,811	-	26,811
557,746	-	112,746
184,034	-	4,034
3,643,376	-	70,091
258,088	-	8,088
37,188	-	28,188
45,808,115	-	561,363
1,734,463	196,533	61,011
5,610,156	2,121	74,226
22,023,524	-	4,601
3,818,681	147,782	32,171
360,636	-	5,883
1,442,632	-	93,552
2,178,759	-	12,789
304,088	-	-
4,844,001	-	(101,821)
1,714,756	-	77,724
2,655,000	-	-
1,622,294	-	948
48,308,990	346,436	261,084
(2,500,875)	(346,436)	822,447
1,252,097	-	-
(274,926)	-	-
977,171	-	-
(1,523,704)	(346,436)	822,447
5,191,557	-	-
\$ 3,667,853	\$ (346,436)	\$ 822,447

GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH AUTHORIZATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Supplemental Appropriations and Transfers
GENERAL GOVERNMENT				
MODERATOR - OFFICIALS EXPENSE.....	\$ -	\$ 100	\$ 100	\$ -
SELECTMEN - OFFICIALS EXPENSE.....	-	5,500	5,500	-
- SALARIES.....	-	264,212	264,212	-
- EXPENSE.....	-	68,063	68,063	-
- EXPENSE FY2002.....	7,150	-	7,150	-
ART 44, 2001 - FORT SEWALL.....	56,130	-	56,130	-
ZONING BOARD LEGAL SERVICES.....	-	5,000	5,000	6,826
OUT OF STATE TRAVEL.....	-	2,000	2,000	-
OFFICIAL EVENTS.....	-	1	1	-
FINANCE COMMITTEE - SALARIES.....	-	6,957	6,957	-
- EXPENSE.....	-	6,174	6,174	-
- LOCAL TRAVEL.....	-	175	175	-
RESERVE FUND.....	-	150,000	150,000	(141,203)
FINANCE - SALARIES.....	-	508,917	508,917	-
- EXPENSE.....	-	150,705	150,705	6,667
ASSESSORS - OFFICIALS EXPENSE.....	-	300	300	-
ASSESSORS - SALARIES.....	-	167,429	167,429	-
- EXPENSE.....	-	19,285	19,285	6,727
- LOCAL TRAVEL.....	-	1,200	1,200	-
TOWN COUNSEL - SALARIES.....	-	2,000	2,000	-
- EXPENSE.....	-	32,936	32,936	-
PARKING TICKETS - EXPENSE.....	-	10,484	10,484	-
TOWN CLERK - SALARIES.....	-	120,251	120,251	-
- EXPENSE.....	-	7,819	7,819	-
ELECTION & REGISTRATION - SALARIES.....	-	23,846	23,846	-
- EXPENSE.....	-	16,120	16,120	220
PLANNING BOARD - EXPENSE.....	-	2,005	2,005	-
PUBLIC BUILDINGS - SALARIES.....	-	73,633	73,633	-
- EXPENSE.....	-	114,079	114,079	12,981
- EXPENSE FY2000.....	1,334	-	1,334	-
- LOCAL TRAVEL.....	-	500	500	-
ART. 22, 2003 - CAPITAL IMPROVE PUBLIC BUILD.....	-	100,000	100,000	-
ART 12, 2001 - IMPROVE PUBLIC BUILDINGS.....	87,494	-	87,494	-
ART 42, 2002 - IMPROVE PUBLIC BUILDINGS.....	54,964	-	54,964	-
ART 6, 2004 - UNPAID BILLS - PUBLIC BUILDINGS.....	-	-	-	726
TOWN REPORTS.....	-	4,300	4,300	-
TOWN AUDIT OF ACCOUNTS.....	-	28,000	28,000	-
TOTAL GENERAL GOVERNMENT.....	\$ 207,072	\$ 1,891,991	\$ 2,099,063	\$ (107,056)
PUBLIC SAFETY				
POLICE - SALARIES.....	\$ -	\$ 2,572,983	\$ 2,572,983	\$ (66,000)
- EXPENSE.....	-	167,550	167,550	10,538
- INDEMNIFICATION.....	-	10,000	10,000	19,696
ART. 6, 2004 - UNPAID BILLS - POLICE.....	-	-	-	491
ART. 6, 2004 - UNPAID BILLS - INDEMNIFICATION.....	-	-	-	977
FIRE - SALARIES.....	-	2,285,855	2,285,855	-
- EXPENSE.....	-	106,460	106,460	10,891
- EXPENSE FY2003.....	14,248	-	14,248	-
AMBULANCE EXPENSE.....	-	90,000	90,000	-
BUILDING COMMISSIONER - SALARIES.....	-	381,665	381,665	-
- EXPENSE.....	-	12,080	12,080	-
- LOCAL TRAVEL.....	-	3,900	3,900	-
SEALER OF WEIGHTS & MEASURES-EXPENSE.....	-	100	100	-
ANIMAL INSPECTOR - SALARIES.....	-	1,200	1,200	-
DOG OFFICER - SALARIES.....	-	58,631	58,631	-
- EXPENSE.....	-	4,787	4,787	51
ART. 6, 2004 - UNPAID BILL - DOG OFFICER.....	-	-	-	400
TOTAL PUBLIC SAFETY.....	\$ 14,248	\$ 5,695,211	\$ 5,709,459	\$ (22,956)

See notes to required supplementary information.

(Continued)

Final Budget	Expenditures	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 100	\$ 100	\$ -	\$ -
5,500	5,500	-	-
264,212	256,434	-	7,778
68,063	53,820	-	14,243
7,150	7,150	-	-
56,130	523	55,607	-
11,826	11,826	-	-
2,000	-	-	2,000
1	-	-	1
6,957	6,957	-	-
6,174	6,174	-	-
175	175	-	-
8,797	-	-	8,797
508,917	508,751	-	166
157,372	157,372	-	-
300	300	-	-
167,429	154,195	-	13,234
26,012	26,012	-	-
1,200	1,188	-	12
2,000	2,000	-	-
32,936	29,011	-	3,925
10,484	6,612	-	3,872
120,251	120,133	-	118
7,819	7,808	-	11
23,846	22,732	-	1,114
16,340	16,340	-	-
2,005	441	-	1,564
73,633	71,969	-	1,664
127,060	126,334	-	726
1,334	1,334	-	-
500	421	-	79
100,000	93,577	6,423	-
87,494	7,956	79,538	-
54,964	-	54,965	(1)
726	726	-	-
4,300	2,592	-	1,708
28,000	28,000	-	-
\$ 1,992,007	\$ 1,734,463	\$ 196,533	\$ 61,011
\$ 2,506,983	\$ 2,473,218	\$ -	\$ 33,765
178,088	177,597	-	491
29,696	28,095	-	1,601
491	490	-	1
977	976	-	1
2,285,855	2,280,680	-	5,175
117,351	115,230	2,121	-
14,248	14,248	-	-
90,000	90,000	-	-
381,665	351,036	-	30,629
12,080	11,600	-	480
3,900	3,422	-	478
100	-	-	100
1,200	1,200	-	-
58,631	57,526	-	1,105
4,838	4,438	-	400
400	400	-	-
\$ 5,686,503	\$ 5,610,156	\$ 2,121	\$ 74,226

(Continued)

GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH AUTHORIZATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Supplemental Appropriations and Transfers
EDUCATION				
SCHOOLS.....	\$ -	\$ 21,926,169	\$ 21,926,169	\$ -
ART. 7, 2003 - NORTH SHORE TECHNICAL SCHOOL.....	-	99,010	99,010	-
ART. 6, 2004 - UNPAID BILLS - SCHOOL.....	-	-	-	2,946
TOTAL SCHOOL.....	\$ -	\$ 22,025,179	\$ 22,025,179	\$ 2,946
PUBLIC WORKS & FACILITIES				
ENGINEERING - SALARIES.....	\$ -	\$ 100,474	\$ 100,474	\$ -
- EXPENSE.....	-	12,065	12,065	-
- LOCAL TRAVEL.....	-	225	225	-
- EXPENSE FY2001.....	3,029	-	3,029	-
- EXPENSE FY2002.....	20,000	-	20,000	-
ART 6, 2001 - WALLS AND FENCES.....	1,000	-	1,000	-
HIGHWAY - SALARIES.....	-	603,214	603,214	(6,275)
- EXPENSE.....	-	59,262	59,262	-
- REBUILD & MAINTAIN HTTP STS.....	-	10,741	10,741	-
- SNOW REMOVAL.....	-	100,000	100,000	-
- STREET LIGHTING.....	-	90,886	90,886	-
- PRIVATE WAYS.....	-	5,000	5,000	-
- MAINTAIN & REBUILD SIDEWALKS.....	-	14,000	14,000	-
WASTE COLLECTION - SALARIES.....	-	339,067	339,067	-
- EXPENSE.....	-	1,114,898	1,114,898	91,982
- LOCAL TRAVEL.....	-	1,400	1,400	116
ART. 10, 2003 - DISPOSAL AND REMEDIATION.....	-	185,800	185,800	-
ART 49, 2002 - DISPOSAL AREA REMEDIATION.....	2,555	-	2,555	-
ART 6, 2004 - UNPAID BILL - WASTE.....	-	-	-	38,995
DRAINS - SALARIES.....	-	81,918	81,918	-
- EXPENSE.....	-	13,605	13,605	-
DRAIN CONSTRUCTION EXPENSE.....	-	1	1	-
ART. 33, 2003 - STORM DRAINAGE CONSTRUCTION.....	-	315,187	315,187	-
ART 25, 2001 - DRAIN CONSTRUCTION.....	35,483	-	35,483	-
ART 11, 2002 - DRAIN CONSTRUCTION.....	307,500	-	307,500	-
CEMETERY - OFFICIALS EXPENSE.....	-	300	300	-
- SALARIES.....	-	240,342	240,342	708
- EXPENSE.....	-	24,679	24,679	-
- CEMETERY IMPROVEMENTS.....	-	17,700	17,700	-
ART 6, 2004 - UNPAID BILL - CEMETERY.....	-	-	-	42
TREE - SALARIES.....	-	141,511	141,511	-
- EXPENSE.....	-	31,005	31,005	-
ART 6, 2004 - UNPAID BILL - TREE.....	-	-	-	219
TOTAL PUBLIC WORKS & FACILITIES.....	\$ 369,567	\$ 3,503,280	\$ 3,872,847	\$ 125,787
HUMAN SERVICES				
HEALTH - OFFICIALS EXPENSE.....	\$ -	\$ 400	\$ 400	\$ -
- SALARIES.....	-	66,879	66,879	387
- EXPENSE.....	-	11,585	11,585	-
- LOCAL TRAVEL.....	-	1,300	1,300	641
- HELP FOR ABUSED WOMEN (HAWC).....	-	3,000	3,000	-
MENTAL HEALTH - CONTRACTUAL SERVICES.....	-	81,349	81,349	-
COUNCIL ON AGING - SALARIES.....	-	136,717	136,717	-
- EXPENSE.....	-	2,859	2,859	-
VETERANS BENEFITS - SALARIES.....	-	48,403	48,403	-
- EXPENSE.....	-	1,443	1,443	-
- LOCAL TRAVEL.....	-	1,100	1,100	-
- BENEFITS.....	-	4,000	4,000	6,456
TOTAL HUMAN SERVICES.....	\$ -	\$ 359,035	\$ 359,035	\$ 7,484

See notes to required supplementary information.

(Continued)

Final Budget	Expenditures	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 21,926,169	\$ 21,923,230	\$ -	\$ 2,939
99,010	97,349	-	1,661
2,946	2,945	-	1
\$ 22,028,125	\$ 22,023,524	\$ -	\$ 4,601
\$ 100,474	\$ 100,374	\$ -	\$ 100
12,065	7,680	-	4,385
225	185	-	40
3,029	-	3,029	-
20,000	-	20,000	-
1,000	-	1,000	-
596,939	579,211	-	17,728
59,262	54,321	-	4,941
10,741	9,254	-	1,487
100,000	182,628	-	(82,628)
90,886	90,831	-	55
5,000	-	-	5,000
14,000	7,601	-	6,399
339,067	334,759	-	4,308
1,206,880	1,167,885	-	38,995
1,516	1,516	-	-
185,800	166,125	19,675	-
2,555	2,555	-	-
38,995	38,995	-	-
81,918	76,317	-	5,601
13,605	7,784	-	5,821
1	-	-	1
315,187	219,226	95,961	-
35,483	34,043	1,440	-
307,500	300,823	6,677	-
300	300	-	-
241,050	241,050	-	-
24,679	22,666	-	2,013
17,700	12,553	-	5,147
42	41	-	1
141,511	132,247	-	9,264
31,005	27,492.81	-	3,512
219	218	-	1
\$ 3,998,634	\$ 3,818,681	\$ 147,782	\$ 32,171.00
\$ 400	\$ 400	\$ -	\$ -
67,266	67,266	-	-
11,585	8,545	-	3,040
1,941	1,941	-	-
3,000	3,000	-	-
81,349	81,349	-	-
136,717	134,714	-	2,003
2,859	2,393	-	466
48,403	48,401	-	2
1,443	1,071	-	372
1,100	1,100	-	-
10,456	10,456	-	-
\$ 366,519	\$ 360,636	\$ -	\$ 5,883

(Continued)

GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH AUTHORIZATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Amounts Carried forward From Prior Year	Original Voted Budget	Total Original Budget	Supplemental Appropriations and Transfers
<u>CULTURE & RECREATION</u>				
LIBRARY - SALARIES.....	\$ -	\$ 620,211	\$ 620,211	\$ -
- EXPENSE.....	-	188,646	188,646	8,396
- LOCAL TRAVEL.....	-	100	100	-
PARK - SALARIES.....	-	529,027	529,027	-
- EXPENSE.....	-	161,679	161,679	-
- PARK FACILITY EXPENSE.....	-	26,000	26,000	-
ART 6, 2004 - UNPAID BILL - PARK.....	-	-	-	83
ART 6, 2004 - UNPAID BILL - RECREATION REVOLVING.....	-	-	-	92
MEMORIAL & VETERANS DAY.....	-	1,950	1,950	-
TOTAL CULTURE & RECREATION.....	\$ -	\$ 1,527,613	\$ 1,527,613	\$ 8,571
<u>PENSION BENEFITS</u>				
CONTRIBUTORY RETIREMENT FUND.....	\$ -	\$ 1,985,911	\$ 1,985,911	\$ -
NONCONTRIBUTORY RETIREMENT.....	-	205,637	205,637	-
TOTAL PENSION BENEFITS.....	\$ -	\$ 2,191,548	\$ 2,191,548	\$ -
<u>PROPERTY AND LIABILITY INSURANCE</u>				
OTHER INSURANCE.....	\$ -	\$ 285,819	\$ 285,819	\$ 18,269
TOTAL PROPERTY AND LIABILITY INSURANCE.....	\$ -	\$ 285,819	\$ 285,819	\$ 18,269
<u>FRINGE BENEFITS</u>				
MEDICARE.....	\$ -	\$ 299,632	\$ 299,632	\$ -
GROUP INSURANCE.....	-	4,442,548	4,442,548	-
TOTAL FRINGE BENEFITS.....	\$ -	\$ 4,742,180	\$ 4,742,180	\$ -
<u>INTERGOVERNMENTAL</u>				
STATE.....	\$ -	\$ 1,792,480	\$ 1,792,480	\$ -
TOTAL INTERGOVERNMENTAL.....	\$ -	\$ 1,792,480	\$ 1,792,480	\$ -
<u>DEBT SERVICES</u>				
MATURING DEBT.....	\$ -	\$ 1,655,000	\$ 1,655,000	\$ 1,000,000
INTEREST.....	-	1,623,242	1,623,242	-
TOTAL DEBT SERVICES.....	\$ -	\$ 3,278,242	\$ 3,278,242	\$ 1,000,000
TOTAL GENERAL FUND.....	\$ 590,887	\$ 47,292,578	\$ 47,883,465	\$ 1,033,045

See notes to required supplementary information.

(Continued)

Final Budget	Expenditures	Amounts Carried Forward To Next Year	Variance to Final Budget
\$ 620,211	\$ 607,005	\$ -	\$ 13,206
197,042	197,042	-	-
100	98	-	2
529,027	448,847	-	80,180
161,679	161,515	-	164
26,000	26,000	-	-
83	83	-	-
92	92	-	-
1,950	1,950	-	-
\$ 1,536,184	\$ 1,442,632	\$ -	\$ 93,552
\$ 1,985,911	\$ 1,985,911	\$ -	\$ -
205,637	192,848	-	12,789
2,191,548	2,178,759	-	12,789
\$ 304,088	\$ 304,088	\$ -	\$ -
304,088	304,088	-	-
\$ 299,632	\$ 281,559	\$ -	\$ 18,073
4,442,548	4,562,442	-	(119,894)
4,742,180	4,844,001	-	(101,821)
\$ 1,792,480	\$ 1,714,756	\$ -	\$ 77,724
1,792,480	1,714,756	-	77,724
\$ 2,655,000	\$ 2,655,000	\$ -	\$ -
1,623,242	1,622,294	-	948
\$ 4,278,242	\$ 4,277,294	\$ -	\$ 948
\$ 48,916,510	\$ 48,308,990	\$ 346,436	\$ 261,084

(Concluded)

Town of Marblehead
Notes to Required Supplementary Information
June 30, 2004

1. Budget Requirements

A. Budgets

During the fiscal year, the finance committee submits to the town meeting an operating budget for the proposed expenditures and other financing uses for the fiscal year commencing the following July 1st. The budget, as enacted by the town meeting, also establishes that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings or at the next annual town meeting held prior to the end of the fiscal year. On May 3, 2004 at the annual town meeting, the following appropriations were made: \$44,971 from various budgets for the payment of unpaid accounts of prior years, \$63,000 from harbor surplus for the Reserve Fund and \$225,583 from the balance remaining in the High School Construction appropriation for the renovation to the Village School. During the fiscal year the finance committee may transfer funds for extraordinary or unforeseen expenditures. The Town appropriated \$213,000 for this purpose in fiscal 2004 and transfers of \$204,203 were made. All unencumbered and unexpended appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device during the year for the General Fund. Although formal budgetary integration is not employed for Special Revenue Funds, effective budgetary control is alternatively achieved through provisions of the Massachusetts General Laws and the Town's by-laws.

Appropriations are authorized by the Town meeting for line items within departments. Typical line items are salaries, expense, and local travel. These are the legal levels of budgetary control (level at which expenditures may not exceed budget). However, the Town is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote at a Special Town Meeting.

B. Budgetary – GAAP Reporting Reconciliation

The budgetary basis and modified accrual basis of accounting are substantially the same.

A reconciliation of budgetary-basis to GAAP-basis results is as follows:

Net change in fund balance - budgetary basis.....	\$ (1,523,704)
Basis of Accounting Differences:	
Recognition of revenue for on-behalf payments.....	3,958,383
Recognition of expenditures for on-behalf payments.....	<u>(3,958,383)</u>
Net change in fund balance - GAAP basis (modified accrual).....	<u>\$ (1,523,704)</u>

C. Subsequent Year Authorizations

The financial statements for the Town of Marblehead as of June 30, 2004 do not reflect the fiscal 2004 Annual Town Meeting held on May 3, 2004, except for fund balance reserved for subsequent year's expenditures. The Town has authorized a fiscal 2005 operating and capital budget totaling \$56,027,440. These funds will be provided for as follows:

2005 Tax levies, state grants, non enterprise charges for services, interest and other local revenues		\$	44,712,839
Enterprise revenues			5,573,213
Enterprise retained earnings			1,532,092
Revolving fund receipts			1,197,000
Bond issues			415,000
Fund balance reserved for subsequent years expenditures:			
General fund	\$	2,027,245	
Special revenue fund		543,397	
Expendable trust fund		26,654	2,597,296
Total Budget			\$ 56,027,440

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
(Supplemental Financial Statements)**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

Federal Grants - To account for grants from the Federal Government for various purposes. They are expended in accordance with the grant.

State Grants - To account for grants from the Commonwealth of Massachusetts for various purposes. They are expended in accordance with the grant.

Other Grants - To account for grants from individuals and foundations for various purposes. They are expended for the purpose designated by the grantor or benefactor.

Revolving Funds - To account for revolving funds specifically allowed by the laws of the Commonwealth of Massachusetts. These funds are expended for purposes specified by the enabling state statute or vote of the Town Meeting.

Receipts Reserved for Appropriation - To account for receipts set aside for specific purposes as allowed by the laws of the Commonwealth of Massachusetts. Receipts reserved for appropriation are transferred to the general fund when appropriated as part of the Town's annual budget.

Gifts - To account for receipts of various gifts and donations. They are expended for the purpose designated by the donor or benefactor.

Special Revenue Trust Funds – To account for contributions where both principal and investment earnings may be spent to support the government.

Capital Project Funds:

New High School Construction - To account for the cost of construction of the New Marblehead High School.

Other Capital Projects - To account for activities of the Town's five year drain plan.

Permanent Funds:

Pooled Non-Expendable Public Funds - To account for the non-expendable principal portion of contributions held to support the government.

Expendable Public Funds - To account for the expendable earnings of contributions held to support the government, where the principal portion is non-expendable.

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<i>Special Revenue Funds</i>								
ASSETS	Federal Grants	State Grants	Other Grants	Revolving Funds	Receipts Reserved for Appropriation	Gifts	Special Revenue Trust Funds	Sub-total
Cash and cash equivalents.....	\$ -	\$ 575	\$ -	\$ 450	\$ -	\$ -	\$ -	\$ 1,025
Investments.....	-	5,833	128,345	7,182	-	-	2,373,876	2,515,236
Receivables, net of uncollectibles:								
Accounts.....	-	-	-	32,890	825	-	-	33,715
Due from other funds.....	374,684	212,147	13,209	661,363	557,620	337,030	-	2,156,053
Due from federal government.....	71,736	-	-	5,631	-	-	-	77,367
Due from commonwealth.....	1,450	438,041	-	1,214	-	-	-	440,705
TOTAL ASSETS.....	\$ 447,870	\$ 656,596	\$ 141,554	\$ 708,730	\$ 558,445	\$ 337,030	\$ 2,373,876	\$ 5,224,101
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Warrants payable.....	\$ 272,067	\$ 115,520	\$ 704	\$ 81,107	\$ -	\$ 91,145	\$ -	\$ 560,543
Accounts payable.....	1,043	1,287	70	8,103	-	126	-	10,629
Due to other funds.....	1,229	-	-	-	-	-	-	1,229
Deferred revenues.....	-	438,041	-	11,388	825	-	-	450,254
TOTAL LIABILITIES.....	274,339	554,848	774	100,598	825	91,271	-	1,022,655
FUND BALANCES:								
Reserved for:								
Perpetual permanent funds.....	-	-	-	-	-	-	-	-
Unreserved:								
Designated for subsequent year's expenditure	-	-	-	3,000	540,397	-	-	543,397
Undesignated, reported in:								
Special revenue funds.....	173,531	101,748	140,780	605,132	17,223	245,759	2,373,876	3,658,049
Capital project funds.....	-	-	-	-	-	-	-	-
Permanent funds.....	-	-	-	-	-	-	-	-
TOTAL FUND BALANCES.....	173,531	101,748	140,780	608,132	557,620	245,759	2,373,876	4,201,446
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 447,870	\$ 656,596	\$ 141,554	\$ 708,730	\$ 558,445	\$ 337,030	\$ 2,373,876	\$ 5,224,101

(Continued)

Capital Project Funds			Permanent Funds			Total Nonmajor Governmental Funds
New HS Construction	Other Capital Projects	Sub-total	Pooled Non-expendable Public Funds	Expendable Public Funds	Sub-total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,025
-	-	-	3,176,111	706,539	3,882,650	6,397,886
-	-	-	-	-	-	33,715
-	242,913	242,913	11,075	27,170	38,245	2,437,211
-	-	-	-	-	-	77,367
-	-	-	-	-	-	440,705
<u>\$ -</u>	<u>\$ 242,913</u>	<u>\$ 242,913</u>	<u>\$ 3,187,186</u>	<u>\$ 733,709</u>	<u>\$ 3,920,895</u>	<u>\$ 9,387,909</u>
\$ -	\$ 16,756	\$ 16,756	\$ -	\$ 7,141	\$ 7,141	\$ 584,440
-	-	-	-	-	-	10,629
-	-	-	27,169	-	27,169	28,398
-	-	-	-	-	-	450,254
-	16,756	16,756	27,169	7,141	34,310	1,073,721
-	-	-	3,160,017	-	3,160,017	3,160,017
-	-	-	-	-	-	543,397
-	-	-	-	-	-	3,658,049
-	226,157	226,157	-	-	-	226,157
-	-	-	-	726,568	726,568	726,568
-	226,157	226,157	3,160,017	726,568	3,886,585	8,314,188
<u>\$ -</u>	<u>\$ 242,913</u>	<u>\$ 242,913</u>	<u>\$ 3,187,186</u>	<u>\$ 733,709</u>	<u>\$ 3,920,895</u>	<u>\$ 9,387,909</u>

(Concluded)

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

	<i>Special Revenue Funds</i>							
	Federal Grants	State Grants	Other Grants	Revolving Funds	Receipts Reserved for Appropriation	Gifts	Special Revenue Trust Funds	Sub-total
REVENUES:								
Charges for services.....	\$ -	\$ -	\$ -	\$ 1,584,603	\$ 27,674	\$ 2,877	\$ -	\$ 1,615,154
Intergovernmental.....	1,466,485	1,181,030	8,853	98,599	-	-	4,413	2,759,380
Departmental and other.....	-	-	-	349,721	-	-	-	349,721
Contributions.....	-	-	14,783	33,568	-	229,940	98,976	377,267
Investment income.....	-	64	1,649	72	-	-	34,567	36,352
Miscellaneous.....	-	-	-	150,835	483	-	-	151,318
TOTAL REVENUES.....	1,466,485	1,181,094	25,285	2,217,398	28,157	232,817	137,956	5,289,192
EXPENDITURES:								
Current:								
General government.....	-	-	-	(1,726)	-	138,464	-	136,738
Public safety.....	136,551	48,147	-	172,927	-	22,197	4,413	384,235
Education.....	1,204,242	663,894	5,758	967,751	-	25,989	-	2,867,634
Public works.....	-	330,791	-	345,100	-	357	-	676,248
Human services.....	6,450	124,556	70,096	139,804	-	6,230	16,460	363,596
Culture and recreation.....	3,828	30,507	45,864	246,877	-	1,322	52,934	381,332
TOTAL EXPENDITURES.....	1,351,071	1,197,895	121,718	1,870,733	-	194,559	73,807	4,809,783
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	115,414	(16,801)	(96,433)	346,665	28,157	38,258	64,149	479,409
OTHER FINANCING SOURCES (USES):								
Premium from issuance of bonds.....	-	-	-	-	471,668	-	-	471,668
Transfers in.....	-	-	-	-	-	-	16,950	16,950
Transfers out.....	-	(12,901)	-	(17,923)	(71,670)	-	-	(102,494)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(12,901)	-	(17,923)	399,998	-	16,950	386,124
NET CHANGE IN FUND BALANCES.....	115,414	(29,702)	(96,433)	328,742	428,155	38,258	81,099	865,533
FUND BALANCES AT BEGINNING OF YEAR.....	58,117	131,450	237,213	279,390	129,465	207,501	2,292,777	3,335,913
FUND BALANCES AT END OF YEAR.....	\$ 173,531	\$ 101,748	\$ 140,780	\$ 608,132	\$ 557,620	\$ 245,759	\$ 2,373,876	\$ 4,201,446

(Continued)

<i>Capital Project Funds</i>			<i>Permanent Funds</i>			Total Nonmajor Governmental Funds
New HS Construction	Other Capital Projects	Sub-total	Pooled Non-expendable Public Funds	Expendable Public Funds	Sub-total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,615,154
-	-	-	-	-	-	2,759,380
-	-	-	-	-	-	349,721
-	-	-	11,075	(21,858)	(10,783)	366,484
-	-	-	32,028	161,153	193,181	229,533
-	-	-	-	-	-	151,318
-	-	-	43,103	139,295	182,398	5,471,590
-	-	-	-	2,982	2,982	139,720
-	-	-	-	-	-	384,235
158,937	13,251	172,188	-	-	-	3,039,822
-	148,422	148,422	-	8,498	8,498	833,168
-	-	-	-	22	22	363,618
-	-	-	-	10,145	10,145	391,477
158,937	161,673	320,610	-	21,647	21,647	5,152,040
(158,937)	(161,673)	(320,610)	43,103	117,648	160,751	319,550
-	-	-	-	-	-	471,668
-	225,583	225,583	4,859	15,078	19,937	262,470
(225,583)	-	(225,583)	(32,028)	(52,573)	(84,601)	(412,678)
(225,583)	225,583	-	(27,169)	(37,495)	(64,664)	321,460
(384,520)	63,910	(320,610)	15,934	80,153	96,087	641,010
384,520	162,247	546,767	3,144,083	646,415	3,790,498	7,673,178
\$ -	\$ 226,157	\$ 226,157	\$ 3,160,017	\$ 726,568	\$ 3,886,585	\$ 8,314,188

(Concluded)

INTERNAL SERVICE FUNDS

Medical Claims Fund - To account for contributions from the Town (75%) and Town employees (25%), receipt of investment earnings and payment of medical claims of the Town's employees and their covered dependents.

Medex Claims Fund - To account for contributions from the Town (75%) and Town employees (25%), receipt of investment earnings and payment of medical claims of the Town's retired employees over the age of 65, as a supplement to Medicare.

Workmen's Compensation Fund - To account for appropriations from the Town and investment earnings which accumulate to be expended for the payment of injury claims, resulting from on-the-job accidents of Town employees.

INTERNAL SERVICE FUNDS
COMBINING BALANCE SHEET
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Medical Claims	Medex Claims	Workmen's Compensation	Total
ASSETS				
CURRENT:				
Short-term investments.....	\$ -	\$ 117,059	\$ 338,754	\$ 455,813
Receivables, net of allowance for uncollectibles:				
Accounts.....	213,929	-	-	213,929
Working capital deposit.....	990,300	186,200	25,000	1,201,500
TOTAL ASSETS.....	1,204,229	303,259	363,754	1,871,242
LIABILITIES				
CURRENT:				
Warrants payable.....	437,370	100,769	14,546	552,685
Accrued liabilities.....	912,421	137,401	-	1,049,822
Workers' compensation.....	-	-	80,816	80,816
Due to other funds.....	1,174,374	-	-	1,174,374
Total current liabilities.....	2,524,165	238,170	95,362	2,857,697
NONCURRENT:				
Workers' compensation.....	-	-	588,878	588,878
TOTAL LIABILITIES.....	2,524,165	238,170	684,240	3,446,575
NET ASSETS				
Unrestricted.....	\$ <u>(1,319,936)</u>	\$ <u>65,089</u>	\$ <u>(320,486)</u>	\$ <u>(1,575,333)</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Medical Claims	Medex Claims	Workmen's Compensation	Total
<u>OPERATING REVENUES:</u>				
Charges for services	\$ 5,324,737	\$ 1,169,740	\$ -	\$ 6,494,477
Miscellaneous.....	278,863	-	-	278,863
TOTAL OPERATING REVENUES	5,603,600	1,169,740	-	6,773,340
<u>OPERATING EXPENSES:</u>				
Cost of services and administration.....	6,745,763	1,219,343	176,401	8,141,507
OPERATING INCOME (LOSS).....	(1,142,163)	(49,603)	(176,401)	(1,368,167)
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Investment income.....	762	1,648	3,979	6,389
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	(1,141,401)	(47,955)	(172,422)	(1,361,778)
<u>OPERATING TRANSFERS:</u>				
Transfers in.....	-	-	200,000	200,000
CHANGE IN NET ASSETS.....	(1,141,401)	(47,955)	27,578	(1,161,778)
NET ASSETS AT BEGINNING OF YEAR.....	(178,535)	113,044	(348,064)	(413,555)
NET ASSETS AT END OF YEAR.....	\$ (1,319,936)	\$ 65,089	\$ (320,486)	\$ (1,575,333)

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Medical Claims	Medex Claims	Workmen's Compensation	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from interfund services provided.....	\$ 5,220,005	\$ 1,156,440	\$ (2,301)	\$ 6,374,144
Payments for interfund services used.....	(6,837,724)	(1,229,029)	(231,337)	(8,298,090)
NET CASH FROM OPERATING ACTIVITIES.....	(1,617,719)	(72,589)	(233,638)	(1,923,946)
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Transfers in.....	-	-	200,000	200,000
Advances from other funds.....	1,616,957	-	-	1,616,957
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	1,616,957	-	200,000	1,816,957
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Investment income.....	762	1,648	3,979	6,389
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	-	(70,941)	(29,659)	(100,600)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	-	188,000	368,413	556,413
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	\$ -	\$ 117,059	\$ 338,754	\$ 455,813
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u>				
<u>FROM OPERATING ACTIVITIES:</u>				
Operating income (loss).....	\$ (1,142,163)	\$ (49,603)	\$ (176,401)	\$ (1,368,167)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Changes in assets and liabilities:				
Departmental and other.....	(137,695)	-	-	(137,695)
Working capital deposit.....	(245,900)	(13,300)	(2,301)	(261,501)
Warrants payable.....	(128,290)	14,286	(4,903)	(118,907)
Accrued liabilities.....	36,329	(23,972)	-	12,357
Workers' compensation.....	-	-	(50,033)	(50,033)
Total adjustments.....	(475,556)	(22,986)	(57,237)	(555,779)
NET CASH FROM OPERATING ACTIVITIES.....	\$ (1,617,719)	\$ (72,589)	\$ (233,638)	\$ (1,923,946)

FIDUCIARY FUNDS

Private Purpose Trust Funds:

Charity Funds - To account for contributions held by the Town to benefit private charities.

Scholarship Funds - To account for scholarship funds held by the Town to benefit individuals.

Other Funds - To account for other amounts held by the Town for the benefit of individuals or private organizations.

Agency Funds - To account for the collection and payment of hunting and fishing licenses, firearm permits, sales taxes and meals taxes to the State, dog licenses to the County, proceeds of extra work details to the Town employees and school student activity accounts.

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT NET ASSETS
JUNE 30, 2004

	Charity Funds	Scholarship Funds	Other Funds	Total
ASSETS				
CURRENT:				
Investments.....	\$ 1,983,071	\$ 846,591	\$ 117,985	\$ 2,947,647
NONCURRENT:				
Capital assets, net of accumulated depreciation.....	22,766	-	-	22,766
TOTAL ASSETS.....	2,005,837	846,591	117,985	2,970,413
LIABILITIES				
Warrants payable.....	-	331	-	331
NET ASSETS				
Held in trust for other purposes.....	\$ <u>2,005,837</u>	\$ <u>846,260</u>	\$ <u>117,985</u>	\$ <u>2,970,082</u>

PRIVATE PURPOSE TRUST FUNDS
COMBINING STATEMENT CHANGES IN NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Charity Funds	Scholarship Funds	Other Funds	Total
<u>ADDITIONS:</u>				
Contributions:				
Private donations.....	\$ 8,320	\$ -	\$ -	\$ 8,320
Net investment income (loss):				
Interest.....	19,995	8,655	1,194	29,844
TOTAL ADDITIONS.....	28,315	8,655	1,194	38,164
<u>DEDUCTIONS:</u>				
Administration.....	17,712	-	5,439	23,151
Depreciation.....	2,615	-	-	2,615
Educational scholarships.....	-	12,250	-	12,250
TOTAL DEDUCTIONS.....	20,327	12,250	5,439	38,016
CHANGE IN NET ASSETS.....	7,988	(3,595)	(4,245)	148
NET ASSETS AT BEGINNING OF YEAR.....	1,997,849	849,855	122,230	2,969,934
NET ASSETS AT END OF YEAR.....	\$ 2,005,837	\$ 846,260	\$ 117,985	\$ 2,970,082

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

	Balance June 30, 2003		Additions		Deductions		Balance June 30, 2004
ASSETS							
Investments.....	\$ 77,183	\$	414,140	\$	386,446	\$	104,877
Due from general fund.....	101,503		33,472		72,006		62,969
	<u>178,686</u>		<u>33,472</u>		<u>72,006</u>		<u>62,969</u>
Total assets.....	\$ 178,686	\$	447,612	\$	458,452	\$	167,846
LIABILITIES							
Accrued payroll - off duty work details.....	\$ 803	\$	14,213	\$	14,058	\$	958
Accrued payroll - dog license fees.....	975		1,784		2,617		142
Due to Commonwealth:							
Firearms permits.....	100		12,951		11,988		1,063
Meals tax.....	10		301		247		64
Sales tax.....	487		286		739		34
Due to other governments:							
Housing Authority.....	200		3,378		3,378		200
Due to student activities.....	77,183		414,140		386,446		104,877
Performance bonds.....	98,928		705		39,125		60,508
	<u>178,686</u>		<u>447,758</u>		<u>458,598</u>		<u>167,846</u>
Total liabilities.....	\$ 178,686	\$	447,758	\$	458,598	\$	167,846

This page intentionally left blank.

Statistical Section

Statistical tables differ from financial statements since they usually cover more than one fiscal year and may present nonaccounting data. The following tables reflect social and economic data, financial trends, and fiscal capacity.



Photo by G.B. Snow

Powder House built in 1755 to store gunpowder.

**STATISTICAL SECTION
(Unaudited)**

GENERAL GOVERNMENT EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	GENERAL GOVERNMENT	PUBLIC SAFETY	EDUCATION	PUBLIC WORKS AND FACILITIES (2)	HUMAN SERVICES	CULTURE AND RECREATION	PENSION BENEFITS	FRINGE BENEFITS	OTHER INSURANCE AND COURT JUDGEMENTS	INTERGOV- ERNMENTAL CHARGES	DEBT SERVICE	TOTAL
1995	1,205,358	3,900,872	13,028,661	2,410,544	284,447	1,041,688	2,188,237	2,602,641	91,926	762,812	944,178	28,461,364
% of Total	4.24%	13.71%	45.78%	8.47%	1.00%	3.66%	7.69%	9.14%	0.32%	2.68%	3.32%	100.0%
1996	1,317,573	4,096,236	14,081,190	2,823,914	328,734	1,092,549	2,199,104	2,680,476	90,209	794,739	883,742	30,388,466
% of Total	4.34%	13.48%	46.34%	9.29%	1.08%	3.60%	7.24%	8.82%	0.30%	2.62%	2.91%	100.0%
1997	1,366,535	4,336,528	14,933,402	2,661,688	354,641	1,188,480	2,204,972	2,676,991	90,429	741,796	1,470,676	32,026,138
% of Total	4.27%	13.54%	46.63%	8.31%	1.11%	3.71%	6.88%	8.36%	0.28%	2.32%	4.59%	100.0%
1998	1,448,575	4,781,175	16,088,542	2,805,354	363,618	1,253,096	2,147,533	2,802,156	173,205	765,847	1,668,410	34,297,511
% of Total	4.22%	13.94%	46.91%	8.18%	1.06%	3.65%	6.26%	8.17%	0.51%	2.23%	4.86%	100.0%
1999	1,571,284	4,774,451	17,178,634	2,865,088	335,440	1,314,790	2,265,914	2,972,815	132,836	684,977	1,559,710	35,655,939
% of Total	4.41%	13.39%	48.18%	8.04%	0.94%	3.69%	6.35%	8.34%	0.37%	1.92%	4.37%	100.0%
2000	1,679,141	4,952,489	18,030,877	3,129,496	344,610	1,371,631	4,797,468 (3)	3,197,682	93,890	622,850	1,532,791	39,752,925
% of Total	4.22%	12.46%	45.36%	7.87%	0.87%	3.45%	12.07%	8.04%	0.24%	1.57%	3.86%	100.0%
2001	1,605,710	5,246,619	19,080,756	3,538,944	334,503	1,329,267	5,074,648 (3)	3,291,869	105,023	608,657	1,753,437	41,969,433
% of Total	3.83%	12.50%	45.46%	8.43%	0.80%	3.17%	12.09%	7.84%	0.25%	1.45%	4.18%	100.0%
2002	1,729,376	5,506,872	20,072,934	3,762,692	360,903	1,407,551	5,080,649 (3)	3,604,154	157,751	596,520	3,459,707	45,739,109
% of Total	3.78%	12.04%	43.89%	8.23%	0.79%	3.08%	11.11%	7.88%	0.34%	1.30%	7.56%	100.0%
2003	1,709,685	5,691,847	20,518,773	3,457,617	377,966	1,502,737	5,571,615 (2)	3,895,919	245,545	1,824,080 (3)	3,395,629	48,191,413
% of Total	3.55%	11.81%	42.58%	7.17%	0.78%	3.12%	11.56%	8.08%	0.51%	3.79%	7.05%	100.0%
2004	1,734,464	5,610,156	22,023,524	3,818,681	360,636	1,442,632	6,137,142 (2)	4,844,001	304,088	1,714,756 (3)	3,277,294	51,267,374
% of Total	3.38%	10.94%	42.96%	7.45%	0.70%	2.81%	11.97%	9.45%	0.59%	3.34%	6.39%	100.0%

NOTE: The schedule above includes only those expenditures recorded in the General Fund.

(1) Expenditures prior to FY 2000 have been restated by transferring road construction expenditures which are reimbursed by the state from public works and facilities expenditures to the special revenue fund.

(2) Pension benefit expenditures beginning in the year 2000 include on-behalf payments made by the Commonwealth to the Town's teaching employees.

(3) Charges for the Charter School, School Choice and the Essex Agricultural School became Intergovernmental charges in FY 2003

GENERAL REVENUES BY SOURCE
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	PROPERTY TAXES	MOTOR VEHICLE EXCISE	PENALTIES AND INTEREST	NON ENTERPRISE CHARGES FOR SERVICES	LICENSES AND PERMITS	FINES	INTERGOV- ERNMENTAL	EARNINGS ON INVESTMENTS	MISCELLANEOUS AND OTHER	TOTAL
1995	24,180,726	1,914,217	327,210	632,423	295,597	137,376	2,145,992	354,492	229,060	30,217,093
% of Total	80.02%	6.33%	1.08%	2.09%	0.98%	0.45%	7.10%	1.17%	0.76%	100.0%
1996	25,055,208	1,928,800	263,051	703,555	373,487	129,815	2,191,596	561,539	220,704	31,427,755
% of Total	79.72%	6.14%	0.84%	2.24%	1.19%	0.41%	6.97%	1.79%	0.70%	100.0%
1997	25,869,314	1,906,502	177,862	708,645	349,827	183,170	2,169,648	603,930	223,201	32,192,099
% of Total	80.36%	5.92%	0.55%	2.20%	1.09%	0.57%	6.74%	1.88%	0.69%	100.0%
1998	26,881,212	2,458,633	173,351	750,430	452,278	174,874	2,441,557	499,839	240,911	34,073,085
% of Total	78.89%	7.22%	0.51%	2.20%	1.33%	0.51%	7.17%	1.47%	0.71%	100.0%
1999	27,948,768	2,250,018	201,003	840,538	413,892	167,299	2,668,953	471,393	250,718	35,212,582
% of Total	79.37%	6.39%	0.57%	2.39%	1.18%	0.48%	7.58%	1.34%	0.71%	100.0%
2000	29,143,026	2,832,151	136,615	796,077	375,475	186,366	5,662,443 (1)	388,011	225,114	39,745,278
% of Total	73.32%	7.13%	0.34%	2.00%	0.94%	0.47%	14.25%	0.98%	0.57%	100.0%
2001	30,181,410	2,689,466	130,863	721,877	457,597	164,701	6,554,633 (1)	503,468	260,792	41,664,807
% of Total	72.44%	6.46%	0.31%	1.73%	1.10%	0.40%	15.73%	1.21%	0.63%	100.0%
2002	33,412,393	2,684,652	125,118	852,111	512,478	185,354	6,486,244 (1)	747,079	277,351	45,282,780
% of Total	73.79%	5.93%	0.28%	1.88%	1.13%	0.41%	14.32%	1.65%	0.61%	100.0%
2003	34,609,844	2,810,072	112,354	686,251	445,849	186,802	7,686,140 (1)	390,368	256,260	47,183,940
% of Total	73.35%	5.96%	0.24%	1.45%	0.94%	0.40%	16.29%	0.83%	0.54%	100.0%
2004	37,536,410	2,809,905	128,811	651,057	557,746	184,034	7,601,761 (1)	258,088	38,688	49,766,500
% of Total	75.43%	5.65%	0.26%	1.31%	1.12%	0.37%	15.27%	0.52%	0.08%	100.0%

NOTE: The schedule above includes only those revenues recorded in the General Fund.

(1) Intergovernmental revenues beginning in the year 2000 include on-behalf payments made by the Commonwealth to the Town's teaching employees.

GENERAL FUND BALANCE COMPARED TO ANNUAL EXPENDITURES
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	GENERAL FUND		
	UNDESIGNATED FUND BALANCE	ANNUAL EXPENDITURES	BALANCE AS % OF EXPENDITURES
1995	\$ 2,922,767	\$ 28,461,364	10.27%
1996	3,207,525	30,388,466	10.56%
1997	3,103,677	32,026,138	9.69%
1998	2,603,322	34,297,511	7.59%
1999	2,330,214	35,655,939	6.54%
2000	2,752,993	39,752,925	6.93%
2001	3,725,511	41,969,433	8.88%
2002	3,196,616	45,739,109	6.99%
2003	2,421,260	48,191,413	5.02%
2004	1,294,172	51,267,374	2.52%

ASSESSED AND EQUALIZED VALUES OF TAXABLE PROPERTY AND TAX RATES
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	ASSESSED VALUE (1)					TAX RATE PER \$1,000 ASSESSED VALUE (2)	ESTIMATED EQUALIZED VALUE	RATIO OF ASSESSED V. TO ESTIMATI EQUALIZED V.
	RESIDENTIAL	COMMERCIAL	INDUSTRIAL	PERSONAL	TOTAL			
1995	\$ 1,881,983,715	\$ 100,685,885	\$ 11,951,175	\$ 13,573,730	\$ 2,008,194,505	\$ 11.85	\$ 2,118,683,730 (4)	94.79%
% of Total	93.72%	5.01%	0.60%	0.68%	100.0%			
1996	1,932,280,025	98,974,575	11,954,125	13,765,770	2,056,974,495	11.98	2,249,236,900 (3)	91.45%
% of Total	93.94%	4.81%	0.58%	0.67%	100.0%			
1997	2,004,567,670	99,451,930	13,280,720	13,863,330	2,131,163,650	12.18	2,366,764,670 (4)	90.05%
% of Total	94.06%	4.67%	0.62%	0.65%	100.0%			
1998	2,120,747,201	104,585,629	13,901,270	14,827,490	2,254,061,590	12.00	2,388,893,800 (3)	94.36%
% of Total	94.08%	4.64%	0.62%	0.66%	100.0%			
1999	2,273,353,314	108,962,111	14,036,800	16,480,870	2,412,833,095	11.60	2,580,005,304 (4)	93.52%
% of Total	94.22%	4.52%	0.58%	0.68%	100.0%			
2000	2,468,188,927	116,225,713	15,557,860	17,274,360	2,617,246,860	11.14	2,811,457,400 (3)	93.09%
% of Total	94.31%	4.44%	0.59%	0.66%	100.0%			
2001	2,794,500,036	128,533,269	16,637,820	16,453,240	2,956,124,365	10.23	3,163,053,070 (4)	93.46%
% of Total	94.53%	4.35%	0.56%	0.56%	100.0%			
2002	3,334,739,063	145,486,042	17,847,070	17,974,530	3,516,046,705	9.50	3,815,051,700 (3)	92.16%
% of Total	94.84%	4.14%	0.51%	0.51%	100.0%			
2003	3,901,694,030	155,455,505	18,408,805	21,508,430	4,097,066,770	8.42	4,273,240,641 (4)	95.88%
% of Total	95.23%	3.79%	0.45%	0.52%	100.0%			
2004	4,262,454,683	162,486,031	17,785,900	23,082,370	4,465,808,984	8.48	4,841,734,800 (3)	92.24%
% of Total	95.45%	3.64%	0.40%	0.52%	100.0%			

Source: Assessors Department, Town of Marblehead

(1) As of January 1 of the prior year. Changes in values are a result of in-house revaluations.

(2) One tax rate applies to all classes of property. There are no property tax rates that apply to overlapping governments.

(3) As of January 1 of the prior year. The Department of Revenue of the Commonwealth of Massachusetts determines the estimated equal value (equalized valuation) for all cities and towns as of January 1 every even-numbered year. The values are arrived at through statistical comparisons of assessments with sales in various property classes, along with sample property appraisals throughout the state. The process is intended to equalize variations in assessment levels among towns so as to provide uniform comparisons.

(4) Data based on ratio analysis by Assessors Department, Town of Marblehead.

PROPERTY TAX LEVY LIMIT, ACTUAL LEVY AND UNUSED LIMIT
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	ANNUAL LEVY LIMIT						ACTUAL LEVY			UNUSED LEVY LIMIT	
	2 1/2%	NEW GROWTH	OVERRIDES	LIMIT BEFORE EXCLUSION	DEBT EXCLUSION	CURRENT LEVY LIMIT	AMOUNT	INCREASE	PERCENT INCREASE	AMOUNT	PERCENT OF LEVY
1995	\$ 566,030	\$ 151,221		\$ 23,358,434	\$ 439,402	\$ 23,797,836	\$ 23,797,105	\$ 747,912	3.24%	\$ 731	0.00%
1996	583,961	155,021		24,097,416	558,925	24,656,341	24,642,554	845,449	3.55%	13,787	0.06%
1997	602,435	157,750		24,857,601	1,114,733	25,972,334	25,957,573	1,315,019	5.34%	14,761	0.06%
1998	621,440	223,943		25,702,984	1,350,395	27,053,379	27,048,739	1,091,166	4.20%	4,640	0.02%
1999	642,575	314,534		26,660,093	1,328,874	27,988,967	27,988,864	940,125	3.48%	103	0.00%
2000	666,502	287,985		27,614,580	1,545,917	29,160,497	29,156,130	1,167,266	4.17%	4,367	0.01%
2001	690,365	286,534		28,591,479	1,653,640	30,245,119	30,241,152	1,085,022	3.72%	3,967	0.01%
2002	714,787	251,997	300,000	29,858,263	3,569,913	33,428,176	33,402,444	3,161,292	10.45%	25,732	0.08%
2003	746,457	323,584		30,928,304	3,604,388	34,532,692	34,497,302	1,094,858	3.28%	35,390	0.10%
2004	773,208	285,789	1,381,017	33,368,318	4,511,541	37,879,859	37,870,060	3,372,758	9.78%	9,799	0.03%

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	TOTAL TAX LEVY (1)	CURRENT TAX COLLECTIONS (2)	PERCENTAGE OF LEVY COLLECTED	DELINQUENT TAX COLLECTIONS (2)	TOTAL TAX COLLECTIONS	COLLECTIONS AS PERCENT OF TAX LEVY	OUTSTANDING DELINQUENT TAXES	DELINQUENT AS PERCENT OF TAX LEVY
1995	\$ 23,447,105	\$ 23,186,194	\$ 98.89%	\$ 951,313	\$ 24,137,507	102.94%	\$ 1,242,802	5.30%
1996	24,292,554	24,305,399	100.05%	638,490	24,943,889	102.68%	700,955	2.89%
1997	25,707,573	25,565,208	99.45%	284,103	25,849,311	100.55%	594,424	2.31%
1998	26,698,739	26,415,266	98.94%	278,113	26,693,379	99.98%	596,236	2.23%
1999	27,638,864	27,584,461	99.80%	394,432	27,978,893	101.23%	505,061	1.83%
2000	28,806,130	28,778,769	99.91%	367,761	29,146,530	101.18%	382,767	1.33%
2001	29,941,152	29,872,237	99.77%	240,604	30,112,841	100.57%	392,193	1.31%
2002	33,152,444	33,042,362	99.67%	243,116	33,285,478	100.40%	318,051	0.96%
2003	34,247,302	34,080,517	99.51%	144,779	34,225,296	99.94%	355,686	1.04%
2004	37,620,060	37,388,670	99.38%	118,014	37,506,684	99.70%	403,973	1.07%

(1) Net of allowance for abatements.

(2) The current tax collections include tax revenues on a modified accrual basis in conformance with the National Council on Governmental Accounting Interpretation 3. These figures include collections for 60 days following the end of the fiscal year (August 30).

PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2004

TAXPAYER	TYPE OF BUSINESS	2004 ASSESSED VALUATION	PERCENTAGE OF TOTAL ASSESSED VALUATION	AMOUNT OF TAX
Edward T. Moore	Real estate investor	\$ 40,382,900	0.90%	\$ 342,447
J. Hillary Rockett, Jr.	Real estate investor	29,947,900	0.67%	253,958
Bessom Associates	Co-operative housing	10,801,300	0.24%	91,595
Eastern Yacht Club	Private yacht club	10,538,500	0.24%	89,366
Angelo Arena	Real estate investor	10,309,900	0.23%	87,428
Peter S. Lynch	Investment Manager	9,795,800	0.22%	83,068
James Crosby	Commercial property	7,314,600	0.16%	62,028
Robert W. Green, Trustees	Real estate investor	7,042,000	0.16%	59,716
Corinthian Yacht Club	Private yacht club	6,506,000	0.15%	55,171
John B. McCarthy	Executive	6,244,700	0.14%	52,955
	TOTALS	<u>138,883,600</u>	<u>3.11%</u>	<u>1,177,732</u>

Source: Assessors Department, Town of Marblehead

(1) Percent of total assessed valuation of \$4,465,808,984

COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2004

Equalized valuation of personal property and real estate established as of January 1, 2002 by the Commonwealth of Massachusetts, Department of Revenue (1)	\$ <u>3,815,051,700</u>
Debt limit -- 5% of equalized valuation	\$ 190,752,585
Amount of debt applicable to debt limit: (2)	
Total bonded debt	\$ 7,155,000
Less: Bonded debt outside the debt limit:	<u>0</u>
Bonded debt within the debt margin	7,155,000
Legal debt margin	\$ <u>183,597,585</u>

(1) Massachusetts General Laws, Chapter 44, Section 10 states that a town shall not authorize indebtedness to an amount exceeding five percent (5%) of the town's equalized valuation as periodically determined (usually biannually) by the Department of Revenue. As of June 30, 2004 the most recent valuation was as of January 1, 2002. A town may, however, borrow up to ten percent (10%) of such equalized valuation with the approval of the Emergency Finance Board established under Chapter 49 of the Acts of 1933.

(2) The Town of Marblehead does not have a debt service fund.

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	POPULATION (1)	ASSESSED VALUE (2)	GROSS BONDED DEBT	DEBT PAYABLE FROM ENTERPRISE REVENUES (3)	NET BONDED DEBT (4)	RATIO OF NET BONDED DEBT TO ASSESSED VALUE	NET BONDED DEBT PER CAPITA
1995	20,209	\$ 2,008,194,505	\$ 3,055,000	\$ 100,000	\$ 2,955,000	0.15%	146.22
1996	20,354	2,056,974,495	8,365,000	750,000	7,615,000	0.37%	374.13
1997	20,209	2,131,163,650	9,660,000	1,070,000	8,590,000	0.40%	425.06
1998	20,433	2,254,061,590	9,815,000	930,000	8,885,000	0.39%	434.84
1999	20,344	2,412,833,095	8,525,000	810,000	7,715,000	0.32%	379.23
2000	20,761	2,617,246,860	9,335,000	1,140,000	8,195,000	0.31%	394.73
2001	20,035	2,956,124,365	12,820,000	975,000	11,845,000	0.40%	591.22
2002	20,254	3,516,046,705	51,485,000	815,000	50,670,000	1.44%	2,501.73
2003	20,158	4,097,066,770	64,970,000	655,000	64,315,000	1.57%	3,190.54
2004	20,461	4,465,808,984	71,155,000	495,000	70,660,000	1.58%	3,453.40

(1) Source: Town Clerk, Town of Marblehead. As of January 1.

(2) As of January 1 of the prior year.

(3) Although the bonded debt of the Water and Harbor enterprise funds has been paid from enterprise revenues, such bonds are not revenue bonds but are a general obligation of the Town of Marblehead for which its full faith and credit is pledged.

(4) The Town of Marblehead does not have a debt service fund.

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	DEBT SERVICE REQUIREMENTS (1)			TOTAL GENERAL EXPENDITURES (2)	RATIO OF DEBT SERVICE TO GENERAL EXPENDITURES
	PRINCIPAL	INTEREST	TOTAL		
1995	\$ 780,000	\$ 183,670	\$ 963,670	\$ 28,461,364	\$ 3.39%
1996	720,000	163,742	883,742	30,388,466	2.91%
1997	1,130,000	339,320	1,469,320	32,026,138	4.59%
1998	1,275,000	381,343	1,656,343	34,297,511	4.83%
1999	1,170,000	389,643	1,559,643	35,655,939	4.37%
2000	1,165,000	349,752	1,514,752	39,752,925	3.81%
2001	1,300,000	364,140	1,664,140	41,969,433	3.97%
2002	1,775,000	500,217	2,275,217	45,739,109	4.97%
2003	1,755,000	426,080	2,181,080	48,191,413	4.53%
2004	1,655,000	350,662	2,005,662	51,267,374	3.91%

(1) For general obligation bonds payable. Excludes debt service for the water and harbor enterprise funds.

(2) Includes expenditures recorded in the General Fund

COMPUTATION OF OVERLAPPING DEBT
JUNE 30, 2004

NAME OF DISTRICT	OUTSTANDING DEBT	MARBLEHEAD'S APPROXIMATE PERCENT	ESTIMATED OVERLAPPING DEBT
Massachusetts Water Resources Authority (1)	\$ 1,549,987,000	0.971%	\$ 15,056,294
North Shore Technical High School (2)	2,650,000	1.806%	47,859
South Essex Sewer District (3)	159,708,497	7.447%	11,893,492

- (1) Source: Massachusetts Water Resources Authority. The MWRA was created in 1984 by the Commonwealth to provide wholesale sewer and water services to 61 cities and towns located primarily in eastern Massachusetts, including most of the metropolitan Boston area. The largest share of major capital improvements to the system is for projects relating to constructing and rehabilitating sewerage collection and treatment facilities. Marblehead is not a member of the MWRA sewer division as Marblehead is a member of the South Essex Sewer District. Marblehead is assessed for water services only. These assessments for water debt are included in water department expenses paid from the Water Enterprise Fund.
- (2) Source: Treasurer, North Shore Technical High School. The Town is a member along with the Cities of Beverly, Gloucester and Salem and the Towns of Boxford, Essex, Hamilton, Lynnfield, Manchester, Danvers, Middleton, Rockport, Swampscott, Topsfield and Wenham. The Town of Marblehead's share is proportional to the number of students in attendance. Assessments are recalculated annually.
- (3) Source: Treasurer, South Essex Sewer District. Marblehead is a member along with the Cities of Salem, Peabody and Beverly, the Towns of Middleton and Danvers, the Essex County Industrial Farm, the Essex County Sanatorium and the Danvers State Hospital. Debt service costs are apportioned based upon the amount of debt outstanding which is attributable to each member community. SESD assessments for sewer debt are included in sewer department expenses paid from the Sewer Enterprise Fund.

DEMOGRAPHIC STATISTICS

<u>YEAR</u>	<u>POPULATION (1)</u>	<u>SCHOOL ENROLLMENT (3)</u>	<u>UNEMPLOYMENT RATE (4)</u>
1995	20,209	2,776 (5)	3.20%
1996	20,354	2,672	2.30%
1997	20,209	2,703	2.20%
1998	20,433	2,749	2.00%
1999	20,344	2,826	1.80%
2000	20,761	2,803	1.50%
2001	20,035	2,792	2.70%
2002	20,254	2,875	4.00%
2003	20,158	2,970	3.90%
2004	20,461	3,003	(2)

(1) Source: Town Clerk, Town of Marblehead. As of January 1.

(2) Data unavailable.

(3) Source: School Department, Town of Marblehead. Data presented are for the school year ending in the year shown.

(4) Source: Massachusetts Department of Employment & Training.

(5) School choice adopted by the Town which brought 140 students from other Towns in fiscal 1995.

POPULATION CHANGES

<u>HISTORICAL</u>			<u>LAST TEN FISCAL YEARS</u>		
<u>YEAR (1)</u>	<u>POPULATION</u>	<u>% CHANGE FROM PREVIOUS CENSUS</u>	<u>YEAR (1)</u>	<u>POPULATION</u>	<u>% CHANGE FROM PREVIOUS CENSUS</u>
1765	4,954		1995	20,209	0.83%
1776	4,386	-11.47%	1996	20,354	0.72%
1790	5,661	29.07%	1997	20,209	-0.71%
1800	5,211	-7.95%	1998	20,433	1.11%
1810	5,900	13.22%	1999	20,344	-0.44%
1820	5,630	-4.58%	2000	20,761	2.05%
1830	5,149	-8.54%	2001	20,035	-3.50%
1840	5,575	8.27%	2002	20,254	1.09%
1850	6,167	10.62%	2003	20,158	-0.47%
1860	7,646	23.98%	2004	20,461	1.50%
1870	7,703	0.75%			
1880	7,467	-3.06%			
1890	8,202	9.84%			
1900	7,582	-7.56%			
1910	7,338	-3.22%			
1920	7,324	-0.19%			
1930	8,668	18.35%			
1940	10,856	25.24%			
1950	13,765	26.80%			
1960	18,521	34.55%			
1970	21,183	14.37%			
1980	20,126	-4.99%			
1990	19,971	-0.77%			
2000	20,761	3.96%			

Source: Town Clerk, Town of Marblehead

(1) As of January 1.

EMPLOYMENT STATISTICS
LAST TEN FISCAL YEARS

YEAR	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT RATE	
			TOWN	STATE
1994	11,978	11,549	3.6%	6.0%
1995	11,528	11,154	3.2%	5.4%
1996	11,621	11,357	2.3%	4.3%
1997	12,009	11,744	2.2%	4.0%
1998	12,126	11,883	2.0%	3.3%
1999	12,140	11,917	1.8%	3.2%
2000	11,819	11,638	1.5%	2.6%
2001	12,052	11,732	2.7%	3.7%
2002	12,196	11,707	4.0%	5.3%
2003	11,854	11,397	3.9%	5.8%

Source: Massachusetts Department of Employment & Training.

BUILDING PERMITS AND CONSTRUCTION ACTIVITY
LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30	NEW CONSTRUCTION				ADDITIONS & ALTERATIONS			
	RESIDENTIAL		NON-RESIDENTIAL		RESIDENTIAL & NON-RESIDENTIAL		TOTAL	
	NUMBER OF PERMITS	VALUE	NUMBER OF PERMITS	VALUE	NUMBER OF PERMITS	VALUE	NUMBER OF PERMITS	VALUE
1995	27	\$ 5,982,578		\$ -	634	\$ 6,722,108	661	\$ 12,704,686
1996	24	6,108,860	4	1,343,000	646	11,580,086	674	19,031,946
1997	24	5,367,420	1	2,047,040	675	11,463,434	700	18,877,894
1998	24	7,187,039			745	15,821,421	769	23,008,460
1999	34	7,763,215	1	286,000	673	12,282,831	708	20,332,046
2000	14	3,244,600			656	14,930,777	670	18,175,377
2001	18	5,542,800	2	34,445,619	625	16,031,315	645	56,019,734
2002	17	5,754,000			749	19,829,592	766	25,583,592
2003	13	3,177,500	1	369,000	618	34,329,650	632	37,876,150
2004	16	5,432,300	3	2,245,146	599	18,494,975	618	26,172,421

Source: Building Inspector, Town of Marblehead

MISCELLANEOUS STATISTICS

DATE OF INCORPORATION	MAY 2, 1649
FORM OF GOVERNMENT	BOARD OF SELECTMEN/OPEN TOWN MEETING
NUMBER OF EMPLOYEEES (including police, fire, school, public works, sewer, water and electric)	
PERMANENT	561
TEMPORARY AND SEASONAL	380
AREA IN SQUARE MILES	4.33
MILES OF STREETS	78
NUMBER OF STREET LIGHTS	2,018
HISTORIC DISTRICTS:	
NUMBER OF DISTRICTS	2
AREA IN SQUARE MILES (169 acres)	0.26
PERCENTAGE OF TOWN	6%
FIRE PROTECTION:	
NUMBER OF STATIONS	2
NUMBER OF FIRE PERSONNEL AND OFFICERS (full-time)	42
NUMBER OF CALLS ANSWERED	2,105
NUMBER OF INSPECTIONS CONDUCTED	1,622
POLICE PROTECTION:	
NUMBER OF STATIONS	1
NUMBER OF POLICE PERSONNEL AND OFFICERS	42
NUMBER OF LAW VIOLATIONS:	
PHYSICAL ARRESTS	283
MOTOR VEHICLE VIOLATIONS	1,488
PARKING VIOLATIONS	4,995
EDUCATION:	
NUMBER OF ELEMENTARY SCHOOLS	5
NUMBER OF MIDDLE SCHOOLS	2
NUMBER OF HIGH SCHOOLS	1
NUMBER OF TEACHERS	265
NUMBER OF ADMINISTRATORS	9
NUMBER OF STUDENTS	2,982
LIBRARIES:	
NUMBER OF MATERIALS	119,867
NUMBER OF CIRCULATIONS	212,263

source: various Town departments

SERVICES:	
ELECTRIC	MARBLEHEAD MUNICIPAL LIGHT DEPARTMENT
GAS	KEYSPAN
CABLE TELEVISION	COMCAST
REGIONAL TRANSIT	MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
WATER SYSTEM:	
MILES OF WATER MAINS (8" and above)	75
SOURCE OF SUPPLY	METROPOLITAN WATER RESOURCES AUTHORITY
NUMBER OF SERVICE CONNECTIONS	7,877
NUMBER OF FIRE HYDRANTS	828
DAILY AVERAGE CONSUMPTION IN GALLONS	1,915,100
MAXIMUM DAILY CONSUMPTION	3,557,000
SEWERAGE SYSTEM:	
MILES OF SANITARY SEWERS	96
MILES OF STORM SEWERS	37
TREATMENT	SOUTH ESSEX SEWERAGE DISTRICT
NUMBER OF SERVICE CONNECTIONS	7,792
DAILY AVERAGE COLLECTION	1,800,000
RECREATION:	
PARKS AND PLAYGROUNDS	13
PARK AND PLAYGROUND ACREAGE	74.41
CONSERVATION LAND ACREAGE	126.80
FORMER RAILROAD RIGHT OF WAY ACREAGE	19.39
PUBLIC BEACHES	6
BALL FIELDS	15
TENNIS COURTS	12
HARBOR:	
NUMBER OF HARBORS	2
NUMBER OF MOORINGS	2,200
PRIVATE YACHT CLUBS	5
MUNICIPAL FACILITIES:	
MUNICIPAL BOATYARDS	2
BOATRAMPs	2
PUBLIC LANDINGS	6
EMERGENCY RESCUE WATERCRAFT	3

This page intentionally left blank.



A view of Marblehead Neck and Lighthouse from Little Harbor.



Photos by G.B. Snow

A view of the Town and the Lighthouse on Chandler Hovey Park.