

CITY OF LEOMINSTER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Leominster, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Leominster, Massachusetts, as of and for the year ended June 30, 2010 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2009), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Leominster's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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.

Additional Offices:

Andover, MA • Manchester, NH • Nashua, NH • Ellsworth, ME

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Leominster as of June 30, 2010 (except the Leominster Contributory Retirement System which is as of December 31, 2009), and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages and the supplementary information appearing on page 48 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Leominster's basic financial statements. The special revenue fund budgetary comparison information appearing on page 49 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Leominster, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 28, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson Heath + Company P. C.

Greenfield, Massachusetts

June 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Leominster, we offer readers this narrative overview and analysis of the financial activities of the City of Leominster for the fiscal year ended June 30, 2010.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows

of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

Proprietary funds. Proprietary funds are maintained as follows:

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal services funds are used to account for self-insured employee health programs and workers compensation activities. Because these services predominantly benefit 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 statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 172,605,595 (i.e., net assets), an increase of \$ 2,613,412 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 27,615,861, a decrease of \$ (479,766) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 8,047,399, a decrease of \$ (2,147,231) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 24,448,708 a decrease of \$ (3,533,426) in comparison to the prior year.
- In fiscal year 2008, the Leominster Contributory Retirement Board voted to adopt a funding schedule to amortize the Contributory Retirement System's unfunded liability over the next four years, two years less than the previously adopted schedule, and 16 years in advance of the Commonwealth of Massachusetts full funding requirement.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

| | <u>Governmental Activities</u> | |
|-----------------------------------|--------------------------------|-----------------------|
| | <u>2010</u> | <u>2009</u> |
| Current and other assets | \$ 72,362,357 | \$ 59,532,795 |
| Capital assets | <u>184,855,494</u> | <u>176,909,387</u> |
| Total assets | 257,217,851 | 236,442,182 |
| Long-term liabilities outstanding | 42,938,727 | 38,581,097 |
| Other liabilities | <u>41,673,529</u> | <u>27,868,902</u> |
| Total liabilities | 84,612,256 | 66,449,999 |
| Net assets: | | |
| Invested in capital assets, net | 153,780,969 | 147,785,530 |
| Restricted | 9,357,875 | 8,459,324 |
| Unrestricted | <u>9,466,751</u> | <u>13,747,329</u> |
| Total net assets | <u>\$ 172,605,595</u> | <u>\$ 169,992,183</u> |

| | <u>Governmental Activities</u> | |
|--|--------------------------------|-----------------------|
| | <u>2010</u> | <u>2009</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 15,664,016 | \$ 16,983,843 |
| Operating grants and contributions | 62,826,743 | 56,473,104 |
| Capital grants and contributions | 6,296,551 | 1,823,848 |
| General revenues: | | |
| Property taxes | 47,816,254 | 46,123,783 |
| Excises | 3,907,298 | 3,722,741 |
| Penalties and interest on taxes | 302,132 | 560,010 |
| Grants and contributions not restricted to specific programs | 5,082,180 | 7,367,423 |
| Investment income | 177,789 | 404,125 |
| Miscellaneous | 3,496,417 | 903,401 |
| Total revenues | <u>145,569,380</u> | <u>134,362,278</u> |
| Expenses: | | |
| General government | 4,477,297 | 3,983,360 |
| Public safety | 14,592,697 | 14,772,927 |
| Education | 84,687,946 | 77,147,462 |
| Public works | 13,159,875 | 17,331,185 |
| Health and human services | 558,134 | 1,177,745 |
| Culture and recreation | 2,845,646 | 1,769,712 |
| Employee benefits | 18,999,201 | 18,958,724 |
| Interest on long-term debt | 878,909 | 1,024,692 |
| Intergovernmental | 2,756,263 | 2,500,380 |
| Total expenses | <u>142,955,968</u> | <u>138,666,187</u> |
| Change in net assets | 2,613,412 | (4,303,909) |
| Net assets - beginning of year | <u>169,992,183</u> | <u>174,296,092</u> |
| Net assets - end of year | <u>\$ 172,605,595</u> | <u>\$ 169,992,183</u> |

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 172,605,595, an increase of \$ 2,613,412 from the prior year.

By far the largest portion of net assets, \$ 153,780,969 reflects our investment in capital assets (e.g., infrastructure, land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 9,357,875, represents resources that are subject to external restrictions on how they may be used. The remaining balance

of unrestricted net assets, \$ 9,466,751 may be used to meet government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in an increase in net assets of \$ 2,613,412. Key elements of this change are as follows:

| | <u>Government-Wide Governmental Activities</u> |
|---|--|
| <u>General Fund Operating Results:</u> | |
| State and local revenues over budget | \$ 3,482,232 |
| Excess of tax collections compared to budget | 953,597 |
| Budgetary appropriations unspent by departments | 1,272,476 |
| Use of free cash and overlay surplus (fund balance) as a funding source for non-recurring items | (8,123,470) |
| Other GAAP accruals | 781,046 |
| <u>Timing Differences:</u> | |
| Difference between current year encumbrances to be spent in subsequent period and prior year encumbrances spent in the current year | 557,579 |
| <u>Other Items:</u> | |
| Non-major fund revenues and transfers in over expenditures and transfers out | 844,802 |
| Major fund - Stabilization revenues and transfers in in excess of transfers out | 5,182,318 |
| Major fund - Water System Improvements expenditures in excess of revenues | (5,430,347) |
| Major fund - Sewer System Improvements revenues over expenditures | 1 |
| Excess current year depreciation expense over debt service principal payments | (760,751) |
| Internal service fund revenues in excess of expenditures | 557,366 |
| Other timing differences | <u>3,296,563</u> |
| Total | <u>\$ 2,613,412</u> |

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 27,615,861 a decrease of \$ (479,766) in comparison with the prior year. Key elements of this decrease are as follows:

| | <u>Fund Balance</u> <u>Governmental Funds</u> |
|---|--|
| <u>General Fund Operating Results:</u> | |
| State and local revenues over budget | \$ 3,482,232 |
| Excess of tax collections compared to budget | 953,597 |
| Budgetary appropriations unspent by departments | 1,272,476 |
| Use of free cash (fund balance) as a funding source for non-recurring items | (8,123,470) |
| Other GAAP accruals | 781,046 |
| <u>Timing Differences:</u> | |
| Difference between current year encumbrances to be spent in subsequent period and prior year encumbrances spent in the current year | 557,579 |
| <u>Other Items:</u> | |
| Non-major fund revenues and other financing sources over expenditures and transfers out | 844,802 |
| Major fund - Stabilization transfers out in excess of revenues | 5,182,318 |
| Major fund - Water System Improvements expenditures in excess of revenues | (5,430,347) |
| Major fund - Sewer System Improvements revenues over expenditures | <u>1</u> |
| Total | <u>\$ (479,766)</u> |

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 8,047,399, while total fund balance was \$ 13,333,297. 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 7.1 percent of total general fund expenditures, while total fund balance represents 11.7 percent of that same amount. Additionally, the City's Stabilization Fund (a major fund) undesignated fund balance of \$ 11,550,507 represents 10.2 percent of total general fund expenditures.

The fund balance of the general fund decreased by \$ (1,076,540) during the current fiscal year. Key factors in this change are as follows:

| | <u>Government-Wide Governmental Activities</u> |
|---|--|
| <u>General Fund Operating Results:</u> | |
| State and local revenues over budget | \$ 3,482,232 |
| Excess of tax collections compared to budget | 953,597 |
| Budgetary appropriations unspent by departments | 1,272,476 |
| Use of free cash and overlay surplus (fund balance) as a funding source for non-recurring items | (8,123,470) |
| Other GAAP accruals | 781,046 |
| <u>Timing Differences:</u> | |
| Difference between current year encumbrances to be spent in subsequent period and prior year encumbrances spent in the current year | <u>557,579</u> |
| Total | <u>\$ (1,076,540)</u> |

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 7,728,455. Major reasons for these amendments include:

- \$ 964,206 increase in the general government budget.
- \$ 833,879 increase in the public safety budget.
- \$ 683,000 increase in the School Department budget.
- \$ 591,455 increase in the public works budget.
- \$ 147,958 increase in the human services budget.
- \$ 151,011 increase in the culture and recreation budget.
- \$ 50,000 increase in the employee benefits budget.
- \$ 4,306,946 increase in transfers to other funds.

These increases were funded through the following sources:

- Overlay surplus: \$ 3,000,000
- Free cash: \$ 4,132,595.
- Transfers from other available sources: \$ 595,860.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$ 184,855,494 (net of accumulated depreciation), an increase of \$ 7,946,107 from the prior year. This investment in capital assets

includes land, buildings and improvements, machinery and equipment, and infrastructure.

Major capital assets events during the current fiscal year included the following:

| | |
|---|---------------------|
| Improvements to various City owned buildings | \$ 15,227,760 |
| Departmental purchases of vehicles and equipment, net of deletions | 656,331 |
| Infrastructure improvements | 432,541 |
| Purchase of land | 30,833 |
| Construction in progress, additions | 9,718,272 |
| Construction in progress, deletions/conversions | (13,825,452) |
| Depreciation expense, net of deletions | <u>(4,294,178)</u> |
| Total increase, net | <u>\$ 7,946,107</u> |

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 24,448,708 all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Leominster'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:

Mr. John J. Richard
City Comptroller
City of Leominster
25 West Street
Leominster, MA 01453

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

| | <u>Governmental Activities</u> |
|---|-------------------------------------|
| ASSETS | |
| Current: | |
| Cash and short-term investments | \$ 41,708,280 |
| Investments | 1,724,205 |
| Receivables, net of allowance for uncollectibles: | |
| Property taxes | 821,348 |
| Excises | 662,085 |
| User fees | 1,397,500 |
| Departmental and other | 1,089,252 |
| Intergovernmental | 1,066,418 |
| Other | 643,134 |
| Noncurrent: | |
| Receivables: | |
| Property taxes | 153,449 |
| Intergovernmental | 17,571,428 |
| Loans | 5,480,768 |
| Betterments | 44,490 |
| Land and construction in progress | 88,096,585 |
| Capital assets, net of accumulated depreciation | <u>96,758,909</u> |
| TOTAL ASSETS | 257,217,851 |
| LIABILITIES | |
| Current: | |
| Warrants payable | 1,508,834 |
| Accounts payable | 983,053 |
| Accrued payroll and withholdings | 548,261 |
| Deferred revenues | 22,961,634 |
| Accrued interest payable | 167,013 |
| Accrued claims payable | 4,610,709 |
| Notes payable | 6,739,737 |
| Other current liabilities | 549,954 |
| Current portion of long-term liabilities: | |
| Bonds payable | 3,540,184 |
| Landfill closure | 64,150 |
| Noncurrent: | |
| Bonds payable, net of current portion | 20,908,524 |
| Landfill closure, net of current portion | 1,842,970 |
| Net OPEB obligation | 16,950,008 |
| Compensated absences | <u>3,237,225</u> |
| TOTAL LIABILITIES | 84,612,256 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 153,780,969 |
| Restricted for: | |
| Grants and other statutory restrictions | 6,605,395 |
| Permanent funds: | |
| Nonexpendable | 751,007 |
| Expendable | 2,001,473 |
| Unrestricted | <u>9,466,751</u> |
| TOTAL NET ASSETS | \$ <u><u>172,605,595</u></u> |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

| | <u>General</u> | <u>Sewer System Improvements</u> | <u>Water System Improvements</u> | <u>Stabilization</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|--|--|----------------------|--|---|
| ASSETS | | | | | | |
| Cash and short-term investments | \$ 14,870,210 | \$ 31,018 | \$ 225,919 | \$ 11,550,507 | \$ 7,287,282 | \$ 33,964,936 |
| Investments | - | - | - | - | 1,724,205 | 1,724,205 |
| Receivables: | | | | | | |
| Property taxes | 3,017,431 | - | - | - | 7,603 | 3,025,034 |
| Excises | 1,207,915 | - | - | - | - | 1,207,915 |
| User fees | - | - | - | - | 1,552,778 | 1,552,778 |
| Departmental and other | 1,473,482 | - | - | - | 35,315 | 1,508,797 |
| Loans | - | - | - | - | 5,480,768 | 5,480,768 |
| Other | 178,345 | - | - | - | 509,278 | 687,623 |
| Intergovernmental | - | 7,501,709 | 9,983,733 | - | 1,152,404 | 18,637,846 |
| TOTAL ASSETS | \$ 20,747,383 | \$ 7,532,727 | \$ 10,209,652 | \$ 11,550,507 | \$ 17,749,633 | \$ 67,789,902 |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Warrants payable | \$ 1,508,834 | \$ - | \$ - | \$ - | \$ - | \$ 1,508,834 |
| Accounts payable | - | 150,221 | 353,069 | - | 479,763 | 983,053 |
| Accrued payroll and withholdings | 548,261 | - | - | - | - | 548,261 |
| Deferred revenues | 5,271,825 | 7,379,698 | 9,814,347 | - | 7,378,332 | 29,844,202 |
| Notes payable | - | - | 6,739,737 | - | - | 6,739,737 |
| Other liabilities | 85,166 | - | - | - | 464,788 | 549,954 |
| TOTAL LIABILITIES | 7,414,086 | 7,529,919 | 16,907,153 | - | 8,322,883 | 40,174,041 |
| Fund Balances: | | | | | | |
| Reserved for: | | | | | | |
| Encumbrances | 5,285,898 | - | - | - | - | 5,285,898 |
| Perpetual (nonexpendable) permanent funds | - | - | - | - | 751,007 | 751,007 |
| Unreserved: | | | | | | |
| Undesignated, reported in: | | | | | | |
| General fund | 8,047,399 | - | - | - | - | 8,047,399 |
| Special revenue funds | - | - | - | 11,550,507 | 6,605,395 | 18,155,902 |
| Capital project funds | - | 2,808 | (6,697,501) | - | 68,875 | (6,625,818) |
| Permanent funds | - | - | - | - | 2,001,473 | 2,001,473 |
| TOTAL FUND BALANCES | 13,333,297 | 2,808 | (6,697,501) | 11,550,507 | 9,426,750 | 27,615,861 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 20,747,383 | \$ 7,532,727 | \$ 10,209,652 | \$ 11,550,507 | \$ 17,749,633 | \$ 67,789,902 |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2010

| | |
|--|------------------------------|
| Total Governmental Fund Balances | \$ 27,615,861 |
| <ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 184,855,494 |
| <ul style="list-style-type: none">• In the statement of activities, accounts receivable is accrued, net of an allowance for uncollectible accounts. In governmental funds, all receivables are deferred, except for property tax received within 60 days after year end. | 3,377,653 |
| <ul style="list-style-type: none">• Internal service funds are used by management to account for 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. | 3,132,635 |
| <ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | 167,013 |
| <ul style="list-style-type: none">• Long-term liabilities, including bonds payable, landfill closure costs, other post-employment benefits and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(46,543,061)</u> |
| Net Assets of Governmental Activities | <u><u>\$ 172,605,595</u></u> |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

| | <u>General</u> | <u>Sewer System Improvements</u> | <u>Water System Improvements</u> | <u>Stabilization</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|--|--|----------------------|--|---|
| Revenues: | | | | | | |
| Property taxes | \$ 48,042,427 | \$ - | \$ - | \$ - | \$ - | \$ 48,042,427 |
| Excises | 3,828,200 | - | - | - | - | 3,828,200 |
| Penalties, interest and other taxes | 302,132 | - | - | - | - | 302,132 |
| Charges for services | 1,456,747 | - | - | - | 12,998,936 | 14,455,683 |
| Intergovernmental | 57,789,305 | 784,582 | 601,676 | - | 15,486,968 | 74,662,531 |
| Licenses and permits | 867,088 | - | - | - | - | 867,088 |
| Fines and forfeitures | 196,694 | - | - | - | - | 196,694 |
| Investment income | 177,789 | - | - | 35,453 | - | 213,242 |
| Miscellaneous | 3,469,045 | - | - | - | 27,372 | 3,496,417 |
| Total Revenues | <u>116,129,427</u> | <u>784,582</u> | <u>601,676</u> | <u>35,453</u> | <u>28,513,276</u> | <u>146,064,414</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | 4,549,461 | - | - | - | 812,414 | 5,361,875 |
| Public safety | 13,652,020 | - | - | - | 488,992 | 14,141,012 |
| Education | 70,197,630 | - | - | - | 13,368,309 | 83,565,939 |
| Public works | 6,057,842 | 784,581 | 6,032,023 | - | 10,739,760 | 23,614,206 |
| Health and human services | 760,133 | - | - | - | 132,177 | 892,310 |
| Culture and recreation | 1,968,500 | - | - | - | 380,166 | 2,348,666 |
| Employee benefits | 10,535,853 | - | - | - | - | 10,535,853 |
| Debt service | 3,185,196 | - | - | - | 142,860 | 3,328,056 |
| Intergovernmental | 2,756,263 | - | - | - | - | 2,756,263 |
| Total Expenditures | <u>113,662,898</u> | <u>784,581</u> | <u>6,032,023</u> | <u>-</u> | <u>26,064,678</u> | <u>146,544,180</u> |
| Excess (deficiency) of revenues over expenditures | 2,466,529 | 1 | (5,430,347) | 35,453 | 2,448,598 | (479,766) |
| Other Financing Sources (Uses): | | | | | | |
| Transfers in | 3,768,559 | - | - | 5,846,865 | 1,128,863 | 10,744,287 |
| Transfers out | <u>(7,311,628)</u> | <u>-</u> | <u>-</u> | <u>(700,000)</u> | <u>(2,732,659)</u> | <u>(10,744,287)</u> |
| Total Other Financing Sources (Uses) | <u>(3,543,069)</u> | <u>-</u> | <u>-</u> | <u>5,146,865</u> | <u>(1,603,796)</u> | <u>-</u> |
| Change in fund balance | (1,076,540) | 1 | (5,430,347) | 5,182,318 | 844,802 | (479,766) |
| Fund Equity, at Beginning of Year | <u>14,409,837</u> | <u>2,807</u> | <u>(1,267,154)</u> | <u>6,368,189</u> | <u>8,581,948</u> | <u>28,095,627</u> |
| Fund Equity, at End of Year | <u>\$ 13,333,297</u> | <u>\$ 2,808</u> | <u>\$ (6,697,501)</u> | <u>\$ 11,550,507</u> | <u>\$ 9,426,750</u> | <u>\$ 27,615,861</u> |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2010

| | | | | | | | | | | | | | | | |
|--|-----------------------------------|---|------------|-----------------------------------|-------------|--|-------------|------------------------------|-----------|--|--------|--|-------------|--|----------------|
| Net Changes in Fund Balances - Total Governmental Funds | \$ (479,766) | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of dispositions</td> <td style="text-align: right;">12,240,285</td> </tr> <tr> <td>Depreciation, net of dispositions</td> <td style="text-align: right;">(4,294,177)</td> </tr> </table> • 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(1,095,249)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds payable) 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt principal</td> <td style="text-align: right;">3,533,426</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">24,331</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as other post-employment benefits, compensated absences and landfill closure, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(7,872,804)</td> </tr> </table> • 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. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>557,366</u></td> </tr> </table> | | Capital outlay purchases, net of dispositions | 12,240,285 | Depreciation, net of dispositions | (4,294,177) | | (1,095,249) | Repayments of debt principal | 3,533,426 | | 24,331 | | (7,872,804) | | <u>557,366</u> |
| Capital outlay purchases, net of dispositions | 12,240,285 | | | | | | | | | | | | | | |
| Depreciation, net of dispositions | (4,294,177) | | | | | | | | | | | | | | |
| | (1,095,249) | | | | | | | | | | | | | | |
| Repayments of debt principal | 3,533,426 | | | | | | | | | | | | | | |
| | 24,331 | | | | | | | | | | | | | | |
| | (7,872,804) | | | | | | | | | | | | | | |
| | <u>557,366</u> | | | | | | | | | | | | | | |
| Change in Net Assets of Governmental Activities | \$ <u><u>2,613,412</u></u> | | | | | | | | | | | | | | |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|--------------------|-----------------|-------------------|---|
| | Original Budget | Final Budget | | |
| Revenues and Other Sources: | | | | |
| Taxes | \$ 47,088,830 | \$ 47,088,830 | \$ 47,088,830 | \$ - |
| Excise | 3,115,000 | 3,115,000 | 3,828,200 | 713,200 |
| Penalties, interest and other taxes | 183,000 | 183,000 | 302,132 | 119,132 |
| Charges for services | 1,376,692 | 1,376,692 | 1,456,747 | 80,055 |
| Intergovernmental | 47,065,285 | 47,065,285 | 47,632,013 | 566,728 |
| Licenses and permits | 416,496 | 416,496 | 867,088 | 450,592 |
| Fines and forfeits | 174,000 | 174,000 | 196,694 | 22,694 |
| Investment income | 100,000 | 100,000 | 177,789 | 77,789 |
| Miscellaneous | 3,145,866 | 3,145,866 | 3,469,045 | 323,179 |
| Transfers in | 2,043,836 | 2,639,696 | 3,768,559 | 1,128,863 |
| Other sources | 990,875 | 8,123,470 | 8,123,470 | - |
| Total Revenues and Other Sources | 105,699,880 | 113,428,335 | 116,910,567 | 3,482,232 |
| Expenditures and Other Uses: | | | | |
| General government | 3,502,500 | 4,466,708 | 4,269,112 | 197,596 |
| Public safety | 13,421,255 | 14,255,134 | 13,933,969 | 321,165 |
| Education | 59,751,923 | 60,434,923 | 60,177,834 | 257,089 |
| Public works | 6,174,637 | 6,766,092 | 6,419,662 | 346,430 |
| Health and human services | 648,261 | 796,218 | 785,562 | 10,656 |
| Culture and recreation | 2,416,433 | 2,567,444 | 2,564,464 | 2,980 |
| Debt service | 3,197,368 | 3,197,368 | 3,185,196 | 12,172 |
| Intergovernmental | 2,840,365 | 2,840,365 | 2,756,263 | 84,102 |
| Employee benefits | 10,742,334 | 10,792,334 | 10,752,048 | 40,286 |
| Transfers out | 3,004,683 | 7,311,628 | 7,311,628 | - |
| Other uses | 121 | 121 | 121 | - |
| Total Expenditures and Other Uses | 105,699,880 | 113,428,335 | 112,155,859 | 1,272,476 |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | \$ - | \$ - | \$ 4,754,708 | \$ 4,754,708 |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

| | Governmental <u>Activities</u> Internal Service <u>Fund</u> |
|---------------------------------|---|
| <u>ASSETS</u> | |
| Current: | |
| Cash and short-term investments | \$ <u>7,743,344</u> |
| TOTAL ASSETS | 7,743,344 |
| <u>LIABILITIES</u> | |
| Current: | |
| Accrued claims payable | <u>4,610,709</u> |
| TOTAL LIABILITIES | 4,610,709 |
| <u>NET ASSETS</u> | |
| Unrestricted | <u>3,132,635</u> |
| TOTAL NET ASSETS | \$ <u><u>3,132,635</u></u> |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010

| | Governmental <u>Activities</u> Internal Service <u>Fund</u> |
|-------------------------------------|---|
| Operating Revenues: | |
| Employee and employer contributions | \$ <u>18,916,991</u> |
| Total Operating Revenues | 18,916,991 |
| Operating Expenses: | |
| Employee benefits | <u>18,359,625</u> |
| Total Operating Expenses | <u>18,359,625</u> |
| Operating income | 557,366 |
| Net Assets at Beginning of Year | <u>2,575,269</u> |
| Net Assets at End of Year | <u><u>\$ 3,132,635</u></u> |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

| | Governmental Activities Internal Service Fund |
|--|---|
| <u>Cash Flows From Operating Activities:</u> | |
| Receipts from employees and employer | \$ 18,916,991 |
| Payments of employee benefits and expenses | <u>(18,734,856)</u> |
| Net Cash Provided By Operating Activities | <u>182,135</u> |
| Net Change in Cash and Short-Term Investments | 182,135 |
| Cash and Short-Term Investments, Beginning of Year | <u>7,561,209</u> |
| Cash and Short-Term Investments, End of Year | <u><u>\$ 7,743,344</u></u> |
| <u>Reconciliation of Operating Income to Net Cash</u> | |
| <u>Provided by Operating Activities:</u> | |
| Operating Income | \$ 557,366 |
| Changes in assets and liabilities: | |
| Accrued liabilities | <u>(375,231)</u> |
| Net Cash Provided By Operating Activities | <u><u>\$ 182,135</u></u> |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

| | Agency Funds | Pension Trust Fund (As of December 31, 2009) |
|---|--------------------|---|
| <u>ASSETS</u> | | |
| Cash and short-term investments | \$ 795,622 | \$ 579,870 |
| Investments | - | 88,355,907 |
| Accounts receivable | <u>79,816</u> | <u>2</u> |
| Total Assets | 875,438 | 88,935,779 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Deferred revenue | 79,816 | 3,537,621 |
| Guarantee deposits | 136,380 | - |
| Other liabilities | <u>659,242</u> | <u>-</u> |
| Total Liabilities | <u>875,438</u> | <u>3,537,621</u> |
| <u>NET ASSETS</u> | | |
| Total net assets held in trust for pension benefits | \$ <u><u>-</u></u> | \$ <u><u>85,398,158</u></u> |

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2009

| | <u>Pension Trust Fund</u> |
|--|-------------------------------|
| Additions: | |
| Contributions: | |
| Employers | \$ 7,046,612 |
| Other systems and Commonwealth of Massachusetts | 422,371 |
| Plan members | <u>2,389,518</u> |
| Total contributions | 9,858,501 |
| Investment Income: | |
| Interest and dividends | 2,017,267 |
| Increase in fair value of investments | 13,074,565 |
| Management fees | <u>(276,115)</u> |
| Net investment income | <u>14,815,717</u> |
| Total additions | 24,674,218 |
| Deductions: | |
| Benefit payments to plan members and beneficiaries | 7,068,280 |
| Refunds to plan members | 481,819 |
| Reimbursements to other systems | 189,282 |
| Administrative expenses | <u>141,467</u> |
| Total deductions | <u>7,880,848</u> |
| Net increase | 16,793,370 |
| Net assets: | |
| Beginning of year | <u>68,604,788</u> |
| End of year | <u><u>\$ 85,398,158</u></u> |

See notes to financial statements.

City of Leominster, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

In the Fiduciary Funds: The Leominster Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The Contributory Retirement System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the Contributory Retirement System can be obtained by contacting the Contributory Retirement System located at Leominster City Hall, 25 West Street, Leominster, MA 01453.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *sewer system improvements capital project fund*, which accounts for the resources obtained and used for the improvements to the City's public sewer system.
- The *water system improvements capital project fund*, which accounts for the resources obtained and used for the improvements to the City's public water system.
- The *stabilization fund*, an account authorized by Massachusetts General Laws Chapter 40, Subsection 5B, from which the City can appropriate for any legal purpose.

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 a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the following proprietary fund:

- *Internal Service Funds* - To account for goods or services provided by one City department or agency to other City departments or agencies. The City accounts for its self-insured health and workers compensation funds as internal service funds.

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

D. Cash and Short-Term Investments

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

funds segregate cash, and investment earnings become a part of those funds.

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

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

E. Investments

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

Investments consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2 ½ percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 5,220,283.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 20,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

outlays for capital assets and improvements are capitalized as projects are constructed.

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

| <u>Assets</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 40 |
| Building improvements | 20 |
| Infrastructure | 25 |
| Vehicles | 5 - 10 |
| Office equipment | 5 |
| Computer equipment | 5 |

H. Compensated Absences

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

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

K. Use of Estimates

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

2. **Stewardship, Compliance and Accountability**

A. *Budgetary Information*

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

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

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

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

B. *Budgetary Basis*

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

C. *Budget/GAAP Reconciliation*

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

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

| | Revenues and Other <u>Financing Sources</u> | Expenditures and Other <u>Financing Uses</u> |
|--|---|--|
| <u>General Fund</u> | | |
| Revenues/Expenditures (GAAP basis) | \$ 116,129,427 | \$ 113,662,898 |
| Other financing sources/uses (GAAP basis) | 3,768,559 | 7,311,628 |
| Adjust tax revenue to accrual basis | (953,597) | - |
| Reverse beginning of year appropriation carryforwards from expenditures | - | (4,728,319) |
| Add end of year carryforwards to expenditures | - | 5,285,898 |
| To reverse the effect of non-budgeted State contributions for teachers retirement | (10,157,292) | (10,157,292) |
| To reverse the effect of GAAP accruals | - | 780,925 |
| Recognize use of fund balance as funding source/use | <u>8,123,470</u> | <u>121</u> |
| Budgetary basis | <u>\$ 116,910,567</u> | <u>\$ 112,155,859</u> |
| <u>Water Fund</u> | | |
| Revenues/Expenditures (GAAP basis) | \$ 4,663,671 | \$ 4,309,872 |
| Other financing sources/uses (GAAP basis) | 756,616 | 494,276 |
| Reverse beginning of year appropriation carryforwards from expenditures | - | (681,034) |
| Add end of year appropriation carry- forwards to expenditures | <u>-</u> | <u>1,297,173</u> |
| Budgetary basis | <u>\$ 5,420,287</u> | <u>\$ 5,420,287</u> |
| <u>Sewer Fund</u> | | |
| Revenues/Expenditures (GAAP basis) | \$ 3,981,935 | \$ 4,199,082 |
| Other financing sources/uses (GAAP basis) | 550,330 | 634,587 |
| Reverse beginning of year appropriation carryforwards from expenditures | - | (426,696) |
| Add end of year appropriation carryfor- wards to expenditures | <u>-</u> | <u>125,292</u> |
| Budgetary basis | <u>\$ 4,532,265</u> | <u>\$ 4,532,265</u> |

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2010:

| | |
|------------------------------------|----------------|
| Capital Project Funds: | |
| Water system improvements | \$ (6,697,501) |
| Special Revenue Funds: | |
| P215 Smaller learning communities | (57,912) |
| P240 SPED entitlement | (102,229) |
| P305 Title I reading | (66,815) |
| P701 Kindergarden enhancement | (33,041) |
| Various other school grants | (179,334) |
| Highway State aid | (126,261) |
| Various City special revenue funds | (35,927) |

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Massachusetts general law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City and the Contributory Retirement System do not have a deposit policy for custodial credit risk.

As of June 30, 2010, \$ 30,740,273 of the City's bank balance of \$ 45,780,098 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's name.

As of December 31, 2009, \$ 384,502 of the Contributory Retirement System's bank balance of \$ 816,950 was exposed to custodial risk as uninsured, uncollateralized, and collateral held by pledging bank's Trust Department not in the Contributory Retirement System's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year end for each investment of the City (All federal agency securities have an implied credit rating of AAA.):

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Exempt From Disclosure</u> | <u>Rating as of Year End</u> | |
|---------------------------|---------------------|-------------------------------|------------------------------|------------------|
| | | | <u>AAA</u> | <u>AA2</u> |
| Certificates of deposits | \$ 1,390,529 | \$ 1,390,529 | \$ - | \$ - |
| Corporate equities | 244,513 | 244,513 | - | - |
| Corporate bonds | 10,661 | - | - | 10,661 |
| Mutual funds | 12,277 | 12,277 | - | - |
| Asset backed securities | 671 | 671 | - | - |
| Federal agency securities | <u>65,554</u> | <u>-</u> | <u>65,554</u> | <u>-</u> |
| Total investments | <u>\$ 1,724,205</u> | <u>\$ 1,647,990</u> | <u>\$ 65,554</u> | <u>\$ 10,661</u> |

Massachusetts General Law, Chapter 32, Section 23, limits the investment of Contributory Retirement System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

Presented below is the actual rating as of year end of the Contributory Retirement System:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Exempt From Disclosure</u> |
|------------------------------|----------------------|-------------------------------|
| Pooled domestic equity funds | \$ 26,205,094 | \$ 26,205,094 |
| Pooled global equity funds | 11,820,574 | 11,820,574 |
| State investment pool * | <u>50,330,239</u> | <u>50,330,239</u> |
| Total investments | <u>\$ 88,355,907</u> | <u>\$ 88,355,907</u> |

* Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and the Contributory Retirement System do not have policies for custodial credit risk.

All of the City's investments of \$ 1,724,205 are exposed to custodial credit risk because the related securities are uninsured, unregistered and held

by the City's brokerage firm (which is also the Counterparty to these securities) but are not in the City's name.

All of the Contributory Retirement Systems' investments of \$ 88,355,907 are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the City's brokerage firm (which is also the Counterparty to these securities) but are not in the System's name.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

| | |
|------------------------------------|-----------|
| Certificates of deposit: | |
| Bank Blue VY Overland Kans | \$ 95,248 |
| Banner bank Walla Walla Wash | 97,030 |
| Brand BKG Lawrenceville GA | 95,556 |
| Homestreet BK Seattle Wash CTF DEP | 95,529 |
| Macomb Cmnty BK Clinton TWP Mich | 97,573 |
| Morgan Stanley BK Sandy Utah | 100,507 |
| Northwest GAA BK Ringgold CTF DEP | 95,191 |
| Republic BK GA Suwanee | 95,238 |
| Toyota FINL Svgs BK Hend NV | 97,955 |
| BMW BK North Amer Salt Lake UT | 96,174 |
| First Coml BK Tampa FLA | 97,900 |
| Parkway BK & Tr Hardwood H ILL | 96,186 |
| Progress BK Fla Tampa | 96,228 |
| Sallie Mae BK Murray Utah | 97,810 |

The Contributory Retirement System places no limit on the amount the System may invest in any one issuer. The System does not have investments in one issue greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and the Contributory Retirement System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | | | | <u>N/A</u> |
|---------------------------|---------------------|---|-------------------|------------------|---------------------|------------|
| | | <u>Less Than 1 Year</u> | <u>1-5</u> | <u>6-10</u> | | |
| Certificates of deposits | \$ 1,390,529 | \$ 765,350 | \$ 625,179 | \$ - | \$ 1,390,529 | |
| Corporate equities | 244,513 | - | - | - | 244,513 | |
| Corporate bonds | 10,661 | - | 10,661 | - | - | |
| Mutual funds | 12,277 | - | - | - | 12,277 | |
| Asset backed securities | 671 | - | - | - | 671 | |
| Federal agency securities | 65,554 | - | - | 65,554 | - | |
| Total investments | <u>\$ 1,724,205</u> | <u>\$ 765,350</u> | <u>\$ 635,840</u> | <u>\$ 65,554</u> | <u>\$ 1,647,990</u> | |

Information about the sensitivity of the fair values of the Contributory Retirement System's investments to market interest rate fluctuations is not applicable as all of the System's investments are immediately liquid.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and the Contributory Retirement System do not have policies for foreign currency risk.

5. Taxes Receivable

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

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

Taxes receivable at June 30, 2010 consist of the following:

| | | | |
|---------------------|----|----------------|-------------------------|
| Real Estate | | | |
| 2010 | \$ | 746,851 | |
| 2009 | | 6,498 | |
| 2008 | | 4,873 | |
| 2007 and Prior | | <u>19,854</u> | |
| | | | 778,076 |
| Personal Property | | | |
| 2010 | | 24,364 | |
| 2009 | | 18,543 | |
| 2008 | | 16,874 | |
| 2007 and Prior | | <u>262,527</u> | |
| | | | 322,308 |
| Tax Liens | | 1,458,459 | |
| Tax Foreclosure | | 444,625 | |
| Taxes in Litigation | | <u>13,963</u> | <u>1,917,047</u> |
| Total | \$ | | <u><u>3,017,431</u></u> |

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts.

| | |
|----------------------------|---------------------|
| | <u>Governmental</u> |
| Property taxes | \$ 279,036 |
| Tax liens and foreclosures | 1,771,201 |
| Excises | 545,830 |
| Other departmental | 574,823 |

7. Loans and Intergovernmental Receivables

The loan receivable balance in the Non-Major Governmental Funds represents; various deferred payment loans made to residents through the City's Federal and State grant programs (\$ 3,054,057) which have been deferred and funds received from the United States Department of Housing and Urban Development (HUD) under the Housing Development Grant (HDG) program (\$ 2,426,711). The City subsequently loaned these funds to Whitney Carriage Associates Limited Partnership for the purpose of rehabilitating and constructing 181 units of housing (45 of which were to be low-income units) in the City of Leominster. The loan is subordinate to loans made by the Massachusetts Housing Finance Authority (MHFA). The balance of the loan has been deferred as the City does not anticipate it being repaid.

The current intergovernmental receivable balance reported in the accompanying financial statements represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

The intergovernmental receivable balance in the Water and Sewer System Improvement funds represents the balance of loan commitments from the Massachusetts Water Pollution Abatement Trust (MWPAT) and grants awarded by the American Recovery and Reinvestment Act (ARRA) less the amounts drawn down in fiscal year 2010 and prior and reported as a notes payable and intergovernmental revenue at June 30, 2010.

| | Sewer System Improvement Fund | Water System Improvement Fund |
|---|----------------------------------|----------------------------------|
| MWPAT Loan Commitment | \$ 5,820,161 | \$ 14,693,629 |
| ARRA Grant | <u>2,344,119</u> | <u>2,462,131</u> |
| Subtotal | 8,164,280 | 17,155,760 |
| Loan Drawdown (Notes Payable) | - | (6,739,737) |
| ARRA Receipts | <u>(662,571)</u> | <u>(432,290)</u> |
| Remaining Project Funds (Intergovernmental Receivable) | <u>\$ 7,501,709</u> | <u>\$ 9,983,733</u> |

8. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|-----------------------|----------------------|------------------------|-----------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings | \$ 77,383,189 | \$ 623,500 | \$ - | \$ 78,006,689 |
| Building and land improvements | 18,447,452 | 14,604,260 | - | 33,051,712 |
| Machinery, equipment, and furnishings | 13,524,996 | 1,297,170 | (640,839) | 14,181,327 |
| Infrastructure | <u>34,881,834</u> | <u>432,541</u> | <u>-</u> | <u>35,314,375</u> |
| Total capital assets, being depreciated | 144,237,471 | 16,957,471 | (640,839) | 160,554,103 |
| Less accumulated depreciation for: | | | | |
| Buildings | (34,285,549) | (1,688,156) | - | (35,973,705) |
| Building and land improvements | (6,820,014) | (848,129) | - | (7,668,143) |
| Machinery, equipment, and furnishings | (7,026,310) | (1,112,702) | 627,824 | (7,511,188) |
| Infrastructure | <u>(11,369,143)</u> | <u>(1,273,015)</u> | <u>-</u> | <u>(12,642,158)</u> |
| Total accumulated depreciation | <u>(59,501,016)</u> | <u>(4,922,002)</u> | <u>627,824</u> | <u>(63,795,194)</u> |
| Total capital assets, being depreciated, net | 84,736,455 | 12,035,469 | (13,015) | 96,758,909 |
| Capital assets, not being depreciated: | | | | |
| Land | 76,313,500 | 30,833 | - | 76,344,333 |
| Construction in progress | <u>15,859,432</u> | <u>9,718,272</u> | <u>(13,825,452)</u> | <u>11,752,252</u> |
| Total capital assets, not being depreciated | <u>92,172,932</u> | <u>9,749,105</u> | <u>(13,825,452)</u> | <u>88,096,585</u> |
| Governmental activities capital assets, net | <u>\$ 176,909,387</u> | <u>\$ 21,784,574</u> | <u>\$ (13,838,467)</u> | <u>\$ 184,855,494</u> |

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

| | | |
|----------------------------|----|-------------------------|
| General government | \$ | 122,870 |
| Public safety | | 465,773 |
| Education | | 1,839,083 |
| Public works | | 1,790,787 |
| Health and human services | | 212,002 |
| Culture and recreation | | <u>491,487</u> |
| Total Depreciation Expense | \$ | <u><u>4,922,002</u></u> |

9. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law. Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

10. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

11. Notes Payable

The City had the following note outstanding at June 30, 2010:

| <u>Type</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Amount</u> |
|-------------------------|-------------------|----------------------|----------------------|---------------|
| MWPAT loan anticipation | Various | TBD | N/A | \$ 6,739,737 |

The following summarizes activity in notes payable during fiscal year 2010:

| | <u>Balance Beginning of Year</u> | <u>New Issues</u> | <u>Maturities</u> | <u>Balance End of Year</u> |
|-------------------------|----------------------------------|-------------------|-------------------|----------------------------|
| MWPAT loan anticipation | \$ 703,960 | \$ 6,035,777 | \$ - | \$ 6,739,737 |

12. Other Liabilities

The General Fund balance of other liabilities consists primarily of unclaimed checks (tailings). The Non-Major Governmental funds liability consists primarily of performance bonds retained by the City from various developers.

13. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

| <u>Bonds Payable:</u> | <u>Serial Maturities Through</u> | <u>Interest Rate(s)%</u> | <u>Amount Outstanding as of June 30, 2010</u> |
|-----------------------------------|--|------------------------------|---|
| Municipal buildings refunding | 11/01/10 | 2.75 - 3.75 | 290,000 |
| Skyview Middle School | 05/15/13 | 3.25 - 4 | 2,250,000 |
| School refunding | 04/01/14 | 4.29 | 2,270,000 |
| Library construction | 11/01/17 | 3.75 - 4.375 | 3,740,000 |
| Sewer improvement | 05/01/18 | 2.25 - 4 | 1,365,000 |
| Library construction | 05/01/18 | 2.25 - 4 | 3,560,000 |
| Sewer inflow/infiltration (MWPAT) | 08/01/18 | 1.5 | 147,300 |
| Sewer inflow/infiltration (MWPAT) | 08/01/19 | 1.5 | 487,100 |
| Harvard Street sewer (MWPAT) | 08/01/19 | 1.5 | 1,350,000 |
| Water (MWPAT) | 08/01/19 | 1.5 | 2,585,000 |
| Harvard Street sewer (MWPAT) | 08/01/19 | 1.5 | 887,770 |
| Harvard Street sewer (MWPAT) | 08/01/19 | 1.5 | 701,538 |
| Water improvements | 05/01/25 | 3.50 - 5 | 2,775,000 |
| School design | 10/24/28 | 3.75 - 5 | 535,000 |
| Watershed land purchase | 10/24/28 | 3.75 - 5 | 470,000 |
| Water system improvement # 2 | 10/24/28 | 3.75 - 5 | 1,035,000 |
| Total Bonds Payable: | | | <u>\$ 24,448,708</u> |

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|----------------------|---------------------|----------------------|
| 2011 | 3,540,184 | 774,636 | 4,314,820 |
| 2012 | 3,256,920 | 658,889 | 3,915,809 |
| 2013 | 3,224,414 | 564,212 | 3,788,626 |
| 2014 | 2,510,252 | 434,246 | 2,944,498 |
| 2015 | 1,985,144 | 348,505 | 2,333,649 |
| 2016 - 2020 | 8,076,794 | 853,051 | 8,929,845 |
| 2021 - 2025 | 1,640,000 | 226,335 | 1,866,335 |
| 2026 - 2028 | <u>215,000</u> | <u>12,222</u> | <u>227,222</u> |
| Total | <u>\$ 24,448,708</u> | <u>\$ 3,872,096</u> | <u>\$ 28,320,804</u> |

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities:

| | <u>Total Balance July 1, 2009</u> | <u>Additions</u> | <u>Reductions</u> | <u>Total Balance</u> | <u>Less Current Portion</u> | <u>Equals Long-Term Portion June 30, 2010</u> |
|-----------------------------------|---|---------------------|-----------------------|--------------------------|-------------------------------------|---|
| <u>Governmental Activities</u> | | | | | | |
| Bonds payable | \$ 27,982,134 | \$ - | \$ (3,533,426) | \$ 24,448,708 | \$ (3,540,184) | \$ 20,908,524 |
| Other: | | | | | | |
| Landfill closure | 2,471,520 | - | (564,400) | 1,907,120 | (64,150) | 1,842,970 |
| Other post-employment benefits | 8,486,660 | 8,463,348 | - | 16,950,008 | - | 16,950,008 |
| Compensated absences | <u>3,263,369</u> | <u>-</u> | <u>(26,144)</u> | <u>3,237,225</u> | <u>-</u> | <u>3,237,225</u> |
| Totals | <u>\$ 42,203,683</u> | <u>\$ 8,463,348</u> | <u>\$ (4,123,970)</u> | <u>\$ 46,543,061</u> | <u>\$ (3,604,334)</u> | <u>\$ 42,938,727</u> |

14. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City's landfill has been closed for several years and the City has filed a formal closure and monitoring plan with the Commonwealth. The \$ 1,907,370 reported as landfill post-closure care liability at June 30, 2010 represents the annual cost of monitoring for the next 21 years. This amount is based on what it would cost to perform all post-closure care in 2010. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City expects to fund the cost of monitoring through annual departmental appropriations.

15. Restricted Net Assets

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

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

16. Reserves of Fund Equity

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

The following types of reserves are reported at June 30, 2010:

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

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

17. Commitments and Contingencies

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

Sewer Infiltration/Inflow Project - The City is under a 1996 Administrative Consent Order issued by the Department of Environmental Protection to improve its sewer inflow/infiltration system. The City funded the first two phases of the remediation through a low-interest loan program administered by the Massachusetts Water Pollution Abatement Trust Fund (MWPAT). The projects were substantially completed at the end of fiscal year 2002. The related loan balances, originally issued in the amounts of \$ 942,300 and

\$ 1,894,943, are reported as long-term obligations of the City. The final phase was completed in September 2006.

In June 2002, the City received an Administrative Consent Order and Notice of Noncompliance for not fully complying with the 1996 consent order. It is anticipated that the June 2002 order will be partially satisfied through remediation (beginning in July 2007) and is estimated to cost approximately \$ 1,000,000, which the City intends to fund through user fees. Additionally, the City expects to fully satisfy the order by continued maintenance in conjunction with operational monitoring, to be funded through annual departmental operations. The City expects to be in compliance by fiscal year 2012.

Water Filtration Plant - The City is under a 2006 consent order issued by the Department of Environmental Protection to construct a new water filtration plant at Distributing Reservoir. The filtration plant was operational as of June 30, 2010. The City is the recipient of a \$ 19.26 million dollar grant through the State Revolving Loan Fund (SRF) which will fund the construction of a new water treatment facility as required by the consent order. Additionally, the SRF will fund upgrades to the Notown Water Treatment Plant, the Southeast Wells Pump Station and lines to the Monoosnoc Water Tank. The upgrade began in June of 2011 and is expected to be completed in June of 2012.

Sludge Disposal Agreement - In 1989 the City entered into a 30-year agreement with the City of Fitchburg for sludge removal. The agreement may be terminated with one year's notice. The cost is appropriated annually and is based on actual usage. The annual cost is estimated to be approximately \$ 480,000 per year.

Wastewater Treatment Facility Upgrades - In September of 2007 the City received notice from the United States Environmental Protection Agency of an order to comply with certain sections of the Clean Water Act relating to National Pollution Discharge Elimination Systems (NPDES). Full compliance must be achieved by fiscal year 2012. The City is currently in the data accumulation phase and preliminary estimates indicate the costs associated with full compliance will be approximately \$ 15,000,000 to \$ 20,000,000. The City is the recipient of a \$ 20 million dollar grant through the State Revolving Loan Fund (SRF) which will fund the upgrades as required by the order.

18. Post-Employment Health Care and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the

statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described in the following footnote, the City provides post-employment health care and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2008, the actuarial valuation date, approximately 859 retirees and 1,107 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute a portion of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's annual fiscal year OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of January 1, 2008.

| | |
|---|----------------------|
| Annual Required Contribution (ARC) | \$ 13,958,055 |
| Interest on net OPEB obligation | - |
| Adjustment to ARC | - |
| Annual OPEB cost | <u>13,958,055</u> |
| Contributions made | <u>(5,494,707)</u> |
| Increase in net OPEB obligation | 8,463,348 |
| Net OPEB obligation - beginning of year | <u>8,486,660</u> |
| Net OPEB obligation - end of year | <u>\$ 16,950,008</u> |

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

| <u>Fiscal year ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|--------------------------|-------------------------|--|----------------------------|
| 2009 | \$ 13,454,276 | 37% | \$ 8,486,660 |
| 2010 | \$ 13,958,055 | 39% | \$ 8,463,348 |

The City's net OPEB obligation as of June 30, 2010 is recorded as a long-term liability in the accompanying government-wide financial statement.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2008, the date of the most recent actuarial valuation was as follows (in thousands):

| | |
|---|------------------|
| Actuarial accrued liability (AAL) | \$ 154,772 |
| Actuarial value of plan assets | <u>-</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>154,772</u> |
| Funded ratio (actuarial value of plan assets/AAL) | <u>0%</u> |
| Covered payroll (active plan members) | <u>\$ 49,165</u> |
| UAAL as a percentage of covered payroll | <u>315%</u> |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the

actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advanced its obligation. The actuarial assumptions included a 4.5% investment rate of return and an initial annual healthcare cost trend rate of 11% which decreases to a 6% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3.75%.

19. Contributory Retirement System

The City follows the provisions of GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description and Contribution Information

Substantially all employees of the City are members of the Leominster Contributory Retirement System (LCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the LCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the LCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The LCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the Contributory Retirement System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at January 1, 2008, the date of the latest actuarial valuation:

| | |
|--|---------------------|
| Retirees and beneficiaries receiving benefits | 378 |
| Terminated plan members entitled to but not yet receiving benefits | 108 |
| Active plan members | <u>632</u> |
| Total | <u><u>1,118</u></u> |
| Number of participating employers | 2 |

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

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The City's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

| <u>Year Ended</u> <u>June 30</u> | <u>Annual Required</u> <u>Contribution</u> | <u>Percentage</u> <u>Contributed</u> |
|-------------------------------------|---|---|
| 1999 | \$ 3,074,811 | 100% |
| 2000 | 2,817,657 | 100% |
| 2001 | 2,950,183 | 100% |
| 2002 | 3,060,645 | 100% |
| 2003 | 3,332,948 | 100% |
| 2004 | 3,555,376 | 100% |
| 2005 | 3,686,988 | 100% |
| 2006 | 4,648,322 | 100% |
| 2007 | 4,983,069 | 100% |
| 2008 | 5,337,353 | 100% |
| 2009 | 5,419,853 | 100% |
| 2010 | 6,873,597 | 100% |

B. Summary of Significant Accounting Policies

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

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

C. Funded Status and Funding Progress

The information presented below is from the Leominster Contributory Retirement System's most recent valuation (amounts in thousands).

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 01/01/08 | \$ 99,005 | \$ 118,516 | \$ 19,511 | 83.5% | \$ 23,530 | 83% |

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 19.5 million was calculated. The actuarial assumptions included (a) 8.0% investment rate of return and (b) a projected salary increase of 4.75% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3.0%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of January 1, 2008 the unfunded actuarially accrued liability is being amortized over 5 years

using an open group method which assumes a 4.75% per year increase in payroll.

E. Teachers

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

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

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

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

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

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 10,157,292 to the MTRS on behalf of the City of Leominster. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. Self Insurance

The City self insures against claims for workers compensation, dental and health insurance coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

Workers Compensation

The City contracts with an insurance consultant for claims processing of the City's workers compensation policy. Under the terms of its insurance coverage, the City is liable for an aggregate liability of \$ 1,000,000, with a maximum of \$ 2,000,000. At June 30, 2010, there was no liability for unpaid claims as the City estimates the amount, if any, to be immaterial.

Health Insurance

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing of its dental and health insurance plans. Under the terms of its insurance coverage, the City is liable for dental costs incurred up to \$ 1,000 per enrollee per year and medical claims up to \$ 100,000 per incident, with a lifetime maximum of \$ 2 million per enrollee. The policy also includes an aggregate maximum of 125 percent of premiums per policy year. The City's health insurance plans are retrospectively rated (i.e., level monthly payment amounts are adjusted quarterly to reflect actual claims paid). The claims liability at June 30, 2010 represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2010 are as follows:

| | |
|--|---------------------|
| Claims liability, July 1, 2009 | \$ 4,985,940 |
| Claims incurred/recognized in fiscal year 2010 | 18,359,625 |
| Claims paid in fiscal year 2010 | <u>(18,734,856)</u> |
| Claims liability, June 30, 2010 | <u>\$ 4,610,709</u> |

CITY OF LEOMINSTER, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
(Amounts Expressed in thousands)

Employees' Retirement System
December 31, 2009

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 1/1/08 | \$99,005 | \$118,516 | \$19,511 | 83.5% | \$23,530 | 83% |
| 1/1/07 | \$88,606 | \$111,752 | \$23,146 | 79.0% | \$22,775 | 102% |
| 1/1/06 | \$75,143 | \$101,959 | \$26,816 | 74.0% | \$22,109 | 121% |
| 1/1/04 | \$62,214 | \$92,559 | \$30,345 | 67.0% | \$20,658 | 147% |
| 1/1/01 | \$52,941 | \$77,053 | \$24,112 | 68.7% | \$18,178 | 133% |
| 1/1/98 | \$41,568 | \$68,432 | \$26,864 | 60.7% | \$15,254 | 176% |
| 1/1/95 | \$24,578 | \$49,024 | \$24,446 | 50.1% | \$11,638 | 210% |
| 1/1/92 | \$19,797 | \$42,516 | \$22,719 | 46.6% | \$10,700 | 212% |

Other Post-Employment Benefits
June 30, 2010

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 07/01/08 | \$ - | \$ 154,772 | \$ 154,772 | 0.0% | \$ 49,165 | 314.8% |

See Independent Auditors' Report.

CITY OF LEOMINSTER, MASSACHUSETTS

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

ANNUALLY BUDGETED SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|--------------------|-----------------|-------------------|---|
| | Original Budget | Final Budget | | |
| <u>WATER</u> | | | | |
| Revenues and Other Sources: | | | | |
| Charges for services | \$ 4,175,000 | \$ 4,175,000 | \$ 4,609,083 | \$ 434,083 |
| Intergovernmental | 54,588 | 54,588 | 54,588 | - |
| Transfers in | - | 756,616 | 756,616 | - |
| Total Revenues and Other Sources | 4,229,588 | 4,986,204 | 5,420,287 | 434,083 |
| Expenditures and Other Uses: | | | | |
| Public works | 3,444,067 | 4,200,683 | 4,143,621 | 57,062 |
| Debt service | 785,521 | 785,521 | 782,390 | 3,131 |
| Transfers out | - | - | 494,276 | (494,276) |
| Total Expenditures and Other Uses | 4,229,588 | 4,986,204 | 5,420,287 | (434,083) |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | \$ - | \$ - | \$ - | \$ - |
| <u>SEWER</u> | | | | |
| Revenues and Other Sources: | | | | |
| Charges for services | \$ 3,300,000 | \$ 3,300,000 | \$ 3,893,660 | \$ 593,660 |
| Intergovernmental | 88,275 | 88,275 | 88,275 | - |
| Transfers in | - | 550,330 | 550,330 | - |
| Total Revenues and Other Sources | 3,388,275 | 3,938,605 | 4,532,265 | 593,660 |
| Expenditures and Other Uses: | | | | |
| Public works | 2,826,223 | 3,376,553 | 3,360,722 | 15,831 |
| Debt service | 562,052 | 562,052 | 536,956 | 25,096 |
| Transfers out | - | - | 634,587 | (634,587) |
| Total Expenditures and Other Uses | 3,388,275 | 3,938,605 | 4,532,265 | (593,660) |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | \$ - | \$ - | \$ - | \$ - |

See Independent Auditors' Report.