

**CITY OF LEOMINSTER, MASSACHUSETTS**  
**Annual Financial Statements**  
**For the Year Ended June 30, 2006**

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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, 2006 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2005), 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.

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, 2006 (except the Leominster Contributory Retirement System which is as of December 31, 2005), 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.

*Additional Offices:*

Nashua, NH • Ellsworth, ME • Andover, MA

The management's discussion and analysis appearing on the following pages and the supplementary information appearing on page 42 are not required parts of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 pages 28 and 43 are presented for purposes of additional analysis and are 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, are 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 December 15, 2006 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  
December 15, 2006

## **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, 2006.

### **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 deci-

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

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

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 145,415,391 (i.e., net assets), an increase of \$ 15,975,378 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 24,023,753, an increase of \$ 2,179,794 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 7,685,189, an increase of \$ 492,317 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 27,824,649, a decrease of \$ (3,661,032) in comparison to the prior year.
- At the end of the current fiscal year, the Stabilization Fund fund balance was \$ 7,934,814, an increase of \$ 3,290,159 in comparison with the prior year.

### C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 47,063,407	\$ 42,363,538
Capital assets	<u>152,037,091</u>	<u>142,226,495</u>
Total assets	199,100,498	184,590,033
Long-term liabilities outstanding	30,034,878	34,125,442
Other liabilities	<u>23,650,229</u>	<u>21,024,578</u>
Total liabilities	53,685,107	55,150,020
Net assets:		
Invested in capital assets, net	130,124,245	118,118,638
Restricted	8,015,852	8,816,628
Unrestricted	<u>7,275,294</u>	<u>2,504,747</u>
Total net assets	\$ <u>145,415,391</u>	\$ <u>129,440,013</u>

#### CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 12,850,959	\$ 11,901,207
Operating grants and contributions	51,642,367	47,479,288
Capital grants and contributions	15,682,459	2,065,987
General revenues:		
Property taxes	40,422,937	37,940,677
Excises	4,605,671	4,663,721
Penalties and interest on taxes	450,323	273,648
Grants and contributions not restricted to specific programs	5,696,291	5,465,759
Investment income	898,861	358,990
Miscellaneous	<u>330,233</u>	<u>1,067,753</u>
Total revenues	132,580,101	111,217,030
Expenses:		
General government	3,719,033	3,945,766
Public safety	13,462,845	12,601,928
Education	67,223,135	60,191,757
Public works	10,657,607	11,662,576
Health and human services	804,985	784,911
Culture and recreation	1,988,344	1,571,881
Employee benefits	15,301,665	13,448,001
Interest on long-term debt	1,253,889	1,131,874
Intergovernmental	2,114,900	2,184,070
Miscellaneous	<u>78,320</u>	<u>-</u>
Total expenses	<u>116,604,723</u>	<u>107,522,764</u>

(continued)

(continued)	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Change in net assets before the effect of a special item	15,975,378	3,694,266
Special item	<u>-</u>	<u>12,425,447</u>
Change in net assets after the effect of a special item	15,975,378	16,119,713
Net assets - beginning of year	<u>129,440,013</u>	<u>113,320,300</u>
Net assets - end of year	<u>\$ 145,415,391</u>	<u>\$ 129,440,013</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 \$ 145,415,391, an increase of \$ 15,975,378 from the prior year.

By far the largest portion of net assets, \$ 130,124,245, 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, \$ 8,015,852, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 7,275,294, 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 \$ 15,975,378. Key elements of this change are as follows:

	<u>Government-Wide Governmental Activities</u>
<u>General Fund Operating Results:</u>	
Excess of State and local revenues over budget	\$ 3,913,930
Excess of tax collections compared to budget	1,452,127
Budgetary appropriations unspent by departments	1,323,158
Use of free cash (fund balance) as a funding source for non-recurring items	(3,076,592)
Use of overlay surplus	(3,100,000)
Other GAAP accruals	( 20,306)
<u>Timing Differences:</u>	
Excess of current year encumbrances to be spent in subsequent period over prior year encumbrances spent in the current year	187,082
Non-major fund revenues over expenditures	1,648,900

(continued)

(continued)

	<u>Government-Wide Governmental Activities</u>
Major fund - Library construction revenues	1,814,682
Major fund - Stabilization revenue and transfers in excess of expenses	3,290,159
Excess current year debt service principal payment over depreciation expense	613,093
Capital assets purchased with local revenues	7,675,189
Internal service fund revenues in excess of expenditures	61,290
Other timing differences	<u>192,666</u>
Total	<u>\$ 15,975,378</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 \$ 24,023,753, an increase of \$ 2,179,794 in comparison with the prior year. Key elements of this increase are as follows:

	<u>Fund Balance Governmental Funds</u>
<b><u>General Fund Operating Results:</u></b>	
Excess of State and local revenues over budget	\$ 3,913,930
Excess of tax collections compared to budget	1,452,127
Budgetary appropriations unspent by departments	1,323,158
Use of free cash (fund balance) as a funding source for non-recurring items	(3,076,592)
Use of overlay surplus	(3,100,000)
Other GAAP accruals	( 20,306)
<b><u>Timing Differences:</u></b>	
Excess of current year encumbrances to be spent in subsequent period over prior year encumbrances spent in the current year	187,082
Non-major fund revenues over expenditures	1,648,900
Major fund - library construction expenditures in excess of revenues	(3,438,664)
Major fund - stabilization revenue and transfers in excess of expenses	<u>3,290,159</u>
Total	<u>\$ 2,179,794</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 \$ 7,685,189, while total fund balance was \$ 10,350,933. 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 8 percent of total general fund expenditures, while total fund balance represents 11 percent of that same amount.

The fund balance of the general fund increased by \$ 679,399 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>	
Excess of State and local revenues over budget	\$ 3,913,930
Excess of tax collections compared to budget	1,452,127
Budgetary appropriations unspent by departments	1,323,158
Use of free cash (fund balance) as a funding source for non-recurring items	(3,076,592)
Use of overlay surplus	(3,100,000)
Other GAAP accruals	( 20,306)
<u>Timing Differences:</u>	
Excess of current year encumbrances to be spent in subsequent period over prior year encumbrances spent in the current year	<u>187,082</u>
Total	<u>\$ 679,399</u>

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 6,205,729. Major reasons for these amendments include:

- \$ 384,481 increase in the general government budget.
- \$ 712,830 increase in the public safety budget.
- \$ 458,385 increase in the School Department budget.
- \$ 1,103,600 increase in the public works budget.
- \$ 103,515 increase in the human services budget.
- \$ 172,918 increase in the culture and recreation budget.
- \$ 170,000 increase in the employee benefits budget.
- \$ 3,100,000 transfer to the stabilization fund.

These increases were funded through the following sources.

- Free cash: \$ 1,679,379.
- Overlay surplus: \$ 3,100,000.
- Transfers from other available sources: \$ 1,426,350.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental activities at year end amounted to \$ 152,037,091 (net of accumulated depreciation), an increase of \$ 9,810,596 from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

- Fallbrook School classroom addition: \$909,815.
- Various other building improvements: \$ 249,243.
- Police cruiser purchases: \$ 312,344.
- Fire truck purchase: \$ 331,750.
- DPW vehicle purchases: \$ 214,174.
- Library books: \$ 149,403.
- Radio management system: \$ 12,000.
- Sidewalk improvements: \$ 35,500.
- Water main improvements: \$ 404,600.
- Land purchases: \$ 940,000.
- Construction in progress additions:
  - Library construction: \$ 5,253,346.
  - Various water and sewer improvements: \$ 3,128,090.
  - Doyle field: \$ 466,305.
  - Rockwell village: \$ 627,865.
  - Other: \$ 62,425.
- Construction in progress deletions: \$ (168,325).
- Depreciation expense incurred during fiscal year 2006: \$ (3,117,939).

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 27,824,649 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, 2006

	Governmental <u>Activities</u>
<b>ASSETS</b>	
Current:	
Cash and short-term investments	\$ 34,315,102
Investments	3,101,747
Receivables, net of allowance for uncollectibles:	
Property taxes	727,804
Excises	603,531
User fees	810,202
Departmental and other	733,619
Intergovernmental	983,029
Noncurrent:	
Receivables:	
Tax liens	147,727
Loans	5,640,646
Land and construction in progress	86,611,716
Capital assets, net of accumulated depreciation	<u>65,425,375</u>
<b>TOTAL ASSETS</b>	<b>199,100,498</b>
<b>LIABILITIES</b>	
Current:	
Warrants payable	1,207,685
Accounts payable	107,482
Accrued payroll and withholdings	619,596
Deferred revenues	5,884,469
Accrued interest payable	219,230
Accrued claims payable	3,017,749
Notes payable	8,562,500
Other current liabilities	110,397
Current portion of long-term liabilities:	
Bonds payable	3,843,109
Landfill closure	78,012
Noncurrent:	
Bonds payable, net of current portion	23,981,540
Landfill closure, net of current portion	1,872,288
Compensated absences	<u>4,181,050</u>
<b>TOTAL LIABILITIES</b>	<b>53,685,107</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	130,124,245
Restricted for:	
Special revenue funds	5,453,259
Permanent funds:	
Expendable	1,833,020
Nonexpendable	729,573
Unrestricted	<u>7,275,294</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>145,415,391</u></b>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
<b>Governmental Activities:</b>					
General government	\$ 3,719,033	\$ 713,365	\$ 631,197	\$ -	\$ (2,374,471)
Public safety	13,462,845	1,779,723	326,791	84,606	(11,271,725)
Education	67,223,135	3,411,093	49,210,895	9,199,202	(5,401,945)
Public works	10,657,607	6,695,423	488,140	4,409,769	935,725
Health and human services	804,985	1,471	173,215	-	(630,299)
Culture and recreation	1,988,344	249,884	812,129	1,988,882	1,062,551
Employee benefits	15,301,665	-	-	-	(15,301,665)
Interest	1,253,889	-	-	-	(1,253,889)
Intergovernmental	2,114,900	-	-	-	(2,114,900)
Miscellaneous	78,320	-	-	-	(78,320)
Total Governmental Activities	<u>\$ 116,604,723</u>	<u>\$ 12,850,959</u>	<u>\$ 51,642,367</u>	<u>\$ 15,682,459</u>	<u>(36,428,938)</u>
<b>General Revenues:</b>					
Property taxes					40,422,937
Excises					4,605,671
Penalties, interest and other taxes					450,323
Grants and contributions not restricted to specific programs					5,696,291
Investment income					898,861
Miscellaneous					330,233
Total general revenues					<u>52,404,316</u>
<b>Change in Net Assets</b>					15,975,378
<b>Net Assets:</b>					
Beginning of year					<u>129,440,013</u>
End of year					<u>\$ 145,415,391</u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

ASSETS

	General	Community Development Block Grant	Housing Development Grant Program	Library Construction	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 10,854,999	\$ -	\$ -	\$ 4,546,951	\$ 7,934,814	\$ 7,184,659	\$ 30,521,423
Investments	1,164,575	-	-	-	-	1,937,172	3,101,747
Receivables:							
Property taxes	2,555,787	-	-	-	-	-	2,555,787
Excises	985,589	-	-	-	-	-	985,589
User fees	-	-	-	-	-	826,613	826,613
Departmental and other	1,103,138	-	-	-	-	35,315	1,138,453
Loans	-	3,213,935	2,426,711	-	-	-	5,640,646
Intergovernmental	-	243,823	-	-	-	739,206	983,029
<b>TOTAL ASSETS</b>	<b>\$ 16,664,088</b>	<b>\$ 3,457,758</b>	<b>\$ 2,426,711</b>	<b>\$ 4,546,951</b>	<b>\$ 7,934,814</b>	<b>\$ 10,722,965</b>	<b>\$ 45,753,287</b>

LIABILITIES AND FUND BALANCES

Liabilities:							
Warrants payable	\$ 1,207,685	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,207,685
Accounts payable	-	-	-	-	-	107,482	107,482
Accrued payroll and withholdings	619,596	-	-	-	-	-	619,596
Accrued interest payable	42,226	-	-	-	-	-	42,226
Deferred revenues	4,333,251	3,457,758	2,426,711	-	-	861,928	11,079,648
Notes payable	-	-	-	7,800,000	-	762,500	8,562,500
Other liabilities	110,397	-	-	-	-	-	110,397
<b>TOTAL LIABILITIES</b>	<b>6,313,155</b>	<b>3,457,758</b>	<b>2,426,711</b>	<b>7,800,000</b>	<b>-</b>	<b>1,731,910</b>	<b>21,729,534</b>
Fund Balances:							
Reserved for:							
Encumbrances	2,665,744	-	-	-	-	-	2,665,744
Perpetual (nonexpendable) permanent funds	-	-	-	-	-	729,573	729,573
Unreserved:							
Undesignated, reported in:							
General fund	7,685,189	-	-	-	-	-	7,685,189
Special revenue funds	-	-	-	-	7,934,814	-	13,388,073
Permanent funds	-	-	-	-	-	1,833,020	1,833,020
Capital project funds	-	-	-	(3,253,049)	-	975,203	(2,277,846)
<b>TOTAL FUND BALANCES</b>	<b>10,350,933</b>	<b>-</b>	<b>-</b>	<b>(3,253,049)</b>	<b>7,934,814</b>	<b>8,991,055</b>	<b>24,023,753</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 16,664,088</b>	<b>\$ 3,457,758</b>	<b>\$ 2,426,711</b>	<b>\$ 4,546,951</b>	<b>\$ 7,934,814</b>	<b>\$ 10,722,965</b>	<b>\$ 45,753,287</b>

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, 2006

<b>Total governmental fund balances</b>	\$ 24,023,753
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	152,037,091
<ul style="list-style-type: none"><li>• 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.</li></ul>	2,711,620
<ul style="list-style-type: none"><li>• Internal services 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.</li></ul>	775,930
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	( 177,004)
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, landfill closure costs and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</li></ul>	( <u>33,955,999</u> )
<b>Net assets of governmental activities</b>	<b>\$ <u>145,415,391</u></b>

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, 2006

	General	Community Development Block Grant	Housing Development Grant Program	Library Construction	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>							
Property taxes	\$ 40,664,528	-	-	-	-	-	\$ 40,664,528
Excises	4,585,822	-	-	-	-	-	4,585,822
Penalties, interest and other taxes	450,323	-	-	-	-	-	450,323
Charges for services	1,214,459	-	-	-	-	10,428,991	11,643,450
Intergovernmental	48,070,911	639,983	-	1,814,682	-	22,493,541	73,019,117
Licenses and permits	877,473	-	-	-	-	-	877,473
Fines and forfeitures	210,919	-	-	-	-	-	210,919
Investment income	717,412	-	-	-	190,159	-	907,571
Miscellaneous	269,608	-	-	-	-	-	269,608
Total Revenues	<u>97,061,455</u>	<u>639,983</u>	<u>-</u>	<u>1,814,682</u>	<u>190,159</u>	<u>32,983,149</u>	<u>132,689,428</u>
<b>Expenditures:</b>							
Current:							
General government	3,084,092	639,983	-	-	-	-	3,724,075
Public safety	13,357,627	-	-	-	-	-	13,357,627
Education	50,374,794	-	-	-	-	214,634	50,589,428
Public works	5,761,061	-	-	-	-	16,111,005	21,872,066
Health and human services	591,175	-	-	-	-	10,145,831	10,737,006
Culture and recreation	1,341,475	-	-	-	-	41,282	1,382,757
Employee benefits	15,301,665	-	-	5,253,346	-	1,079,683	21,634,694
Miscellaneous	-	-	-	-	-	-	-
Debt service	4,087,890	-	-	-	-	78,320	4,166,210
Intergovernmental	2,114,900	-	-	-	-	930,871	3,045,771
Total Expenditures	<u>96,014,679</u>	<u>639,983</u>	<u>-</u>	<u>5,253,346</u>	<u>-</u>	<u>28,601,626</u>	<u>130,509,634</u>
Excess (deficiency) of revenues over expenditures	1,046,776	-	-	(3,438,664)	190,159	4,381,523	2,179,794
<b>Other Financing Sources (Uses):</b>							
Proceeds of refunding bond	4,625,000	-	-	-	-	-	4,625,000
Payment to refunding agent	(4,625,000)	-	-	-	-	-	(4,625,000)
Transfers in	3,096,087	-	-	-	3,100,000	472,503	6,668,590
Transfers out	(3,463,464)	-	-	-	-	(3,205,126)	(6,668,590)
Total Other Financing Sources (Uses)	<u>(367,377)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,100,000</u>	<u>(2,732,623)</u>	<u>-</u>
Change in fund balance	679,399	-	-	(3,438,664)	3,290,159	1,648,900	2,179,794
Fund Equity, at Beginning of Year, as reclassified	9,671,534	-	-	185,615	4,644,655	7,342,155	21,843,959
Fund Equity, at End of Year	<u>\$ 10,350,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,253,049)</u>	<u>\$ 7,934,814</u>	<u>\$ 8,991,055</u>	<u>\$ 24,023,753</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, 2006

**NET CHANGE IN FUND BALANCES -  
TOTAL GOVERNMENTAL FUNDS**

\$ 2,179,794

<ul style="list-style-type: none"> <li>• 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: <ul style="list-style-type: none"> <li>Capital outlay purchases, net of dispositions 12,928,535</li> <li>Depreciation, net of dispositions ( 3,117,939)</li> </ul> </li> <li>• 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. ( 102,625)</li> <li>• The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <ul style="list-style-type: none"> <li>Effect of bond refunding ( 70,000)</li> <li>Repayments of debt principal 3,731,032</li> </ul> </li> <li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 35,848</li> <li>• Some expenses reported in the Statement of Activities, such as 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. 329,443</li> <li>• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <u>61,290</u></li> </ul>	<p><b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>      \$ <u><u>15,975,378</u></u></p>
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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, 2006

	Budgeted Amounts		Actual	Variance with
	Original Budget	Final Budget	Amounts	Final Budget Positive (Negative)
<b>Revenues and Other Sources:</b>				
Taxes	\$ 39,212,401	\$ 39,212,401	\$ 39,212,401	-
Excise	3,625,000	3,625,000	4,585,822	960,822
Penalties, interest and other taxes	183,000	183,000	450,323	267,323
Charges for services	1,084,000	1,084,000	1,214,459	130,459
Intergovernmental	40,632,757	40,632,757	41,027,014	394,257
Licenses and permits	541,600	541,600	877,473	335,873
Fines and forfeits	174,000	174,000	210,919	36,919
Investment income	185,000	185,000	717,412	532,412
Miscellaneous	49,000	49,000	269,608	220,608
Transfers in	634,480	2,060,830	3,096,087	1,035,257
Other sources	1,397,213	6,176,592	6,176,592	-
<b>Total Revenues and Other Sources</b>	<b>87,718,451</b>	<b>93,924,180</b>	<b>97,838,110</b>	<b>3,913,930</b>
<b>Expenditures and Other Uses:</b>				
General government	2,796,689	3,181,170	3,011,538	169,632
Public safety	13,085,956	13,798,786	13,476,916	321,870
Education	42,933,218	43,391,603	43,196,464	195,139
Public works	5,086,391	6,189,991	5,855,055	334,936
Health and human services	610,105	713,620	699,837	13,783
Culture and recreation	1,298,494	1,471,412	1,453,892	17,520
Debt service	4,079,585	4,079,585	4,067,584	12,001
Intergovernmental	2,298,813	2,298,813	2,114,900	183,913
Employee benefits	15,165,736	15,335,736	15,261,372	74,364
Transfers out	363,464	3,463,464	3,463,464	-
<b>Total Expenditures and Other Uses</b>	<b>87,718,451</b>	<b>93,924,180</b>	<b>92,601,022</b>	<b>1,323,158</b>
<b>Excess (deficiency) of revenues and other sources over expenditures and other uses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,237,088</b>	<b>\$ 5,237,088</b>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2006

Governmental  
Activities  
Internal  
Service  
Fund

**ASSETS**

Current:

Cash and short-term investments

\$ 3,793,679

**TOTAL ASSETS**

3,793,679

**LIABILITIES**

Current:

Accrued claims payable

3,017,749

**TOTAL LIABILITIES**

3,017,749

**NET ASSETS**

Unrestricted

775,930

**TOTAL NET ASSETS**

\$ 775,930

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, 2006

	Governmental <u>Activities</u> Internal Service <u>Fund</u>
<b>Operating Revenues:</b>	
Employee and employer contributions	\$ <u>14,834,587</u>
Total Operating Revenues	14,834,587
<b>Operating Expenses:</b>	
Employee benefits	<u>14,836,288</u>
Total Operating Expenses	<u>14,836,288</u>
Operating Income (Loss)	(1,701)
<b>Nonoperating Revenues (Expenses):</b>	
Investment income	<u>62,991</u>
Total Nonoperating Revenues (Expenses), Net	<u>62,991</u>
Change in net assets	61,290
Net Assets at Beginning of Year	<u>714,640</u>
Net Assets at End of Year	\$ <u><u>775,930</u></u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	Governmental <u>Activities</u> Internal Service <u>Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>	
Receipts from employees and employer	\$ 14,834,587
Payments of employee benefits and expenses	<u>(14,841,543)</u>
Net Cash (Used for) Operating Activities	(6,956)
<b><u>Cash Flows From Investing Activities:</u></b>	
Investment income	<u>62,990</u>
Net Cash Provided By Investing Activities	<u>62,990</u>
Net Change in Cash and Short-Term Investments	56,034
Cash and Short-Term Investments, Beginning of Year	<u>3,737,645</u>
Cash and Short-Term Investments, End of Year	\$ <u><u>3,793,679</u></u>
<b><u>Reconciliation of Operating Income to Net Cash</u></b>	
<b><u>Provided by (Used For) Operating Activities:</u></b>	
Operating (loss)	\$ (1,701)
Changes in assets and liabilities:	
Accrued liabilities	<u>(5,255)</u>
Net Cash (Used for) Operating Activities	\$ <u><u>(6,956)</u></u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Agency Funds	Pension Trust Fund (As of <u>December 31, 2005</u> )
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ 395,577	\$ 539,106
Investments	-	74,603,902
Accounts receivable	<u>50,131</u>	<u>56,225</u>
Total Assets	445,708	75,199,233
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Deferred revenue	-	2,324,161
Other liabilities	<u>445,708</u>	<u>-</u>
Total Liabilities	445,708	2,324,161
<b><u>NET ASSETS</u></b>		
Total net assets held in trust for pension benefits	\$ <u>-</u>	\$ <u>72,875,072</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, 2005

	<u>Pension Trust Fund</u>
<b>Additions:</b>	
Contributions:	
Employers	\$ 4,167,655
Other systems and Commonwealth of Massachusetts	459,210
Plan members	<u>2,133,712</u>
Total contributions	6,760,577
Investment Income (Loss):	
Interest and dividends	4,800,237
Decrease in fair value of investments	(163,558)
Less management fees	<u>(86,197)</u>
Net investment income	<u>4,550,482</u>
Total additions	11,311,059
<b>Deductions:</b>	
Benefit payments to plan members and beneficiaries	5,772,186
Refunds to plan members	303,337
Reimbursements to other systems	100,367
Administrative expenses	<u>125,978</u>
Total deductions	<u>6,301,868</u>
Net increase	5,009,191
<b>Net assets:</b>	
Beginning of year	<u>67,865,881</u>
End of year	<u>\$ 72,875,072</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 System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 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 inter-fund 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 *community development block grant fund*, which accounts for grant funds received from the U.S. Department of Housing and Urban Development and expenditures incurred in conjunction with this program.
- The *housing development grant program*, which accounts for grant funds received by the City from the U.S. Department of Housing and Urban Development and subsequently loaned to the Whitney Carriage Associates Limited Partnership for the purpose of rehabilitating and constructing housing units in the City of Leominster.
- The *library construction capital project fund*, which accounts for the resources obtained and used for the rehabilitation and new construction at the City's public library.
- 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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. 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 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2006 tax levy reflected an excess capacity of \$ 5,160,959.

#### *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
Water/sewer 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.

<b><u>General Fund</u></b>	<b><u>Revenues and Other Financing Sources</u></b>	<b><u>Expenditures and Other Financing Uses</u></b>
Revenues/Expenditures (GAAP basis)	\$ 97,061,455	\$ 96,014,679
Other financing sources/uses (GAAP basis)	3,096,087	3,463,464
Adjust tax revenue to accrual basis	( 1,452,127)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	( 2,478,662)
Add end of year carryforwards to expenditures	-	2,665,744
		(continued)

(continued)	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
<b><u>General Fund</u></b>		
To reverse the effect of non-budgeted State contributions for teachers retirement	( 7,043,897)	( 7,043,897)
To reverse the effect of GAAP accruals	-	( 20,306)
Recognize use of fund balance as funding source/use	<u>6,176,592</u>	<u>-</u>
Budgetary basis	<u>\$ 97,838,110</u>	<u>\$ 92,601,022</u>
<b><u>Water Fund</u></b>		
Revenues/Expenditures (GAAP basis)	\$ 3,688,101	\$ 4,400,863
Other financing sources/uses (GAAP basis)	914,626	316,980
Reverse beginning of year appropriation carryforwards from expenditures	-	( 130,429)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>15,313</u>
Budgetary basis	<u>\$ 4,602,727</u>	<u>\$ 4,602,727</u>
<b><u>Sewer Fund</u></b>		
Revenues/Expenditures (GAAP basis)	\$ 2,993,158	\$ 4,408,962
Other financing sources/uses (GAAP basis)	1,986,328	548,894
Reverse beginning of year appropriation carryforwards from expenditures	-	( 106,205)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>127,835</u>
Budgetary basis	<u>\$ 4,979,486</u>	<u>\$ 4,979,486</u>

**D. Deficit Fund Equity**

The following funds had deficits as of June 30, 2006:

Capital Project Funds:	
Library Construction	\$ (3,253,049)
Special Revenue Funds:	
Idea SPED Entitlement - FY 02	( 10,914)
COPS Fast - FY 00	( 12,766)
Literacy Support - FY 03	( 15,686)
Trade School	( 58,499)

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, 2006, \$ 30,246,050 of the City's bank balance of \$ 37,857,350 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, 2005, \$ 221,050 of the Contributory Retirement System's bank balance of \$ 682,091 was exposed to custodial risk as uninsured, uncollateralized, and collateral held by pledging bank's Trust Department not in the 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 Laws, Chapter 44, Section 55, limits 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 type of the City.

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	AA2	AA3
Certificates of deposits	\$ 1,370,250	N/A	\$ 1,370,250	\$ -	\$ -	\$ -
Corporate equities	254,843	N/A	254,843	-	-	-
Mutual funds	63,180	N/A	63,180	-	-	-
Federal agency securities	113,474		-	113,474	-	-
Municipal bonds	<u>1,300,000</u>		-	<u>1,300,000</u>	-	-
Total investments	\$ <u>3,101,747</u>		\$ <u>1,688,273</u>	\$ <u>1,413,474</u>	\$ -	\$ -

Presented below is the actual rating as of year end for each investment type of the contributory retirement system.

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	A
Pooled domestic fixed income funds	\$ 3,655,444	N/A	\$ 3,655,444	\$ -	\$ -	\$ -
Pooled global equity funds	33,721,006	N/A	33,721,006	-	-	-
Pooled international equity funds	10,003,125	N/A	10,003,125	-	-	-
State investment pool *	<u>27,224,327</u>	N/A	<u>27,224,327</u>	-	-	-
Total investments	\$ <u>74,603,902</u>		\$ <u>74,603,902</u>	\$ -	\$ -	\$ -

\* Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Laws, 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 Laws, 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 does not have policies for custodial credit risk.

### 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:

Morgan Stanley:	
Certificates of deposit	\$ 1,370,250
Corporate equities	254,843
Commonwealth Financial Network:	
Municipal bonds	<u>1,300,000</u>
Total	\$ <u>2,925,093</u>

The Contributory Retirement System does not have an investment in one issuer 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 does 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>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Certificates of deposit	\$ 1,370,250	\$ 1,278,056	\$ 92,194	\$ -	\$ -
Corporate equities	254,843	N/A	-	-	-
Mutual funds	63,180	N/A	-	-	-
Federal agency securities	113,474	83,879	28,748	-	847
Municipal bonds	<u>1,300,000</u>	-	-	-	<u>1,300,000</u>
Total	\$ <u>3,101,747</u>	\$ <u>1,361,935</u>	\$ <u>120,942</u>	\$ <u>-</u>	\$ <u>1,300,847</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 does 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, 2006 consist of the following (in thousands):

Real Estate		
2006	\$ 624	
2005	17	
2004 and Prior	<u>11</u>	
		652
Personal Property		
2006	32	
2005	23	
2004 and Prior	<u>260</u>	
		315

(continued)

(continued)

Tax Liens	1,355
Tax Foreclosure	220
Taxes in Litigation	<u>14</u>
Total	\$ <u>2,556</u>

## 6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 473
Tax liens	1,207
Excises	382
User fees	17
Other departmental	404

## 7. Intergovernmental and Loans Receivables

The current intergovernmental receivable balance reported in the accompanying financial statements represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2006.

The loan receivable balance in the Community Development Grant Fund primarily represents various deferred payment loans made to residents through the City's Federal and State grant programs. This receivable has been deferred.

The loan receivable balance in the Housing Development Grant Fund represents grant funds received from the United States Department of Housing and Urban Development (HUD) under the Housing Development Grant (HDG) program. 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.

## 8. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings	\$ 77,761,709	\$ -	\$ -	\$ 77,761,709
Building and land improvements	14,417,551	1,159,058	-	15,576,609
Machinery, equipment, and furnishings	7,681,528	1,019,671	-	8,701,199
Infrastructure	<u>2,463,249</u>	<u>440,100</u>	-	<u>2,903,349</u>
Total capital assets, being depreciated	102,324,037	2,618,829	-	104,942,866
Less accumulated depreciation for:				
Buildings	( 27,725,921)	( 1,794,456)	-	( 29,520,377)
Building and land improvements	( 4,404,394)	( 611,647)	-	( 5,016,041)
Machinery, equipment, and furnishings	( 4,185,660)	( 662,411)	-	( 4,848,071)
Infrastructure	<u>( 83,577)</u>	<u>( 49,425)</u>	-	<u>( 133,002)</u>
Total accumulated depreciation	<u>( 36,399,552)</u>	<u>( 3,117,939)</u>	-	<u>( 39,517,491)</u>
Total capital assets, being depreciated, net	65,924,485	( 499,110)	-	65,425,375
Capital assets, not being depreciated:				
Land	73,906,700	940,000	-	74,846,700
Construction in progress	<u>2,395,310</u>	<u>9,538,031</u>	<u>(169,325)</u>	<u>11,765,016</u>
Total capital assets, not being depreciated	<u>76,302,010</u>	<u>10,478,031</u>	<u>(168,325)</u>	<u>86,611,716</u>
Governmental activities capital assets, net	<u>\$ 142,226,495</u>	<u>\$ 9,978,921</u>	<u>\$ (168,325)</u>	<u>\$ 152,037,091</u>

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

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

General government	\$ 106,259
Public safety	429,525
Education	1,665,155
Public works	514,897
Health and human services	201,103
Culture and recreation	<u>201,000</u>
Total depreciation expense	<u>\$ 3,117,939</u>

## 9. Warrants and Accounts Payable

Warrants payable represent 2006 expenditures paid by July 15, 2006 as permitted by law. Accounts payable represent additional 2006 expenditures paid after July 15, 2006.

## 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, 2006 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, 2006:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2006</u>
Bond anticipation	3.6%	5/10/06	11/10/06	\$ <u>8,562,500</u>

The following summarizes activity in notes payable during fiscal year 2006:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ <u>6,189,553</u>	\$ <u>13,837,500</u>	\$ <u>(11,464,553)</u>	\$ <u>8,562,500</u>

## 12. Other Liabilities

This balance consists primarily of unclaimed checks (tailings).

## 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, 2006</u>
School refunding	4/01/09	3.70	\$ 4,695,000
Municipal buildings refunding	11/01/10	2.75 - 3.75	1,450,000
Skyview Middle School	5/15/13	3.25 - 4.00	5,250,000
School refunding	4/01/14	4.29	4,710,000
Sewer inflow/infiltration (MWPAT)	8/01/18	1.50	205,200
Sewer inflow/infiltration (MWPAT)	8/01/19	1.50	678,600
Harvard Street sewer (MWPAT)	8/01/19	1.50	1,791,402
Water (MWPAT)	8/01/19	1.50	3,405,426
Harvard Street sewer (MWPAT)	8/01/19	1.50	2,109,021
Water improvements	5/01/25	3.50 - 5.00	<u>3,530,000</u>
Total Bonds Payable:			\$ <u>27,824,649</u>

### B. State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low interest rate loan

program. The loans are administered by the Massachusetts Water Pollution Abatement Trust (MWPAT) and are used by local communities to improve their public works systems.

The City's loan authorizations and status are as follows:

<u>Purpose</u>	<u>Loan Number</u>	<u>Authorized</u>	<u>Issued</u>
Sewer inflow/infiltration	97-26	\$ 300,000	\$ 295,000
Sewer inflow/infiltration	97-67	1,000,000	975,700
Sewer inflow/infiltration	98-41	2,400,000	2,386,011
Harvard Street sewer	98-126	2,840,000	1,446,815
Harvard Street sewer	98-126A	1,200,000	1,092,755
Water treatment facility	99-08	4,500,000	4,489,993

In addition to offering these loans at a reduced interest rate, MWPAT has also subsidized the loan principal as follows:

<u>Loan Number</u>	<u>Original Loan</u>	<u>Original Principal Subsidies</u>	<u>Original Net Repayment</u>	<u>Revised Principal Subsidies</u>	<u>Revised Net Repayment</u>
Loan #97-26	\$ 295,000	\$ ( 62,179)	\$ 232,821	\$ ( 70,465)	\$ 224,535
Loan #97-67	975,000	( 205,633)	769,367	( 233,033)	741,967
Loan #98-41	2,386,011	( 572,893)	1,813,118	( 649,530)	1,736,481
Loan #98-126	1,446,815	( 354,030)	1,092,785	( 447,160)	999,655
Loan #98-126A	1,092,755	( 248,660)	844,095	( 260,820)	831,935
Loan #99-08	<u>4,489,993</u>	<u>( 925,395)</u>	<u>3,564,598</u>	<u>(1,046,725)</u>	<u>3,443,268</u>
Total	\$ <u>10,685,574</u>	\$ <u>(2,368,790)</u>	\$ <u>8,316,784</u>	\$ <u>(2,707,733)</u>	\$ <u>7,977,841</u>

### C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,843,109	\$ 879,293	\$ 4,722,402
2008	3,915,594	733,981	4,649,575
2009	3,973,812	601,059	4,574,871
2010	2,348,426	462,372	2,810,798
2011	2,355,184	384,336	2,739,520
2012 - 2016	7,061,865	969,845	8,031,710
2017 - 2021	3,586,659	302,324	3,888,983
2022 - 2026	<u>740,000</u>	<u>78,534</u>	<u>818,534</u>
Total	\$ <u>27,824,649</u>	\$ <u>4,411,744</u>	\$ <u>32,236,393</u>

### D. Changes in General Long-Term Liabilities

During the year ended June 30, 2006, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/05</u>	Additions	Reductions	Effect of Refunding	Total Balance <u>6/30/06</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/06</u>
<b>Governmental Activities</b>							
Bonds payable	\$ 31,485,681	\$ -	\$ (3,731,032)	\$ 70,000	\$ 27,824,649	\$ (3,843,109)	\$ 23,981,540
Other:							
Landfill closure	2,340,000	-	( 389,700)	-	1,950,300	( 78,012)	1,872,288
Accrued employee benefits	<u>4,120,793</u>	<u>60,257</u>	<u>-</u>	<u>-</u>	<u>4,181,050</u>	<u>-</u>	<u>4,181,050</u>
Totals	<u>\$ 37,946,474</u>	<u>\$ 60,257</u>	<u>\$ (4,120,732)</u>	<u>\$ 70,000</u>	<u>\$ 33,955,999</u>	<u>\$ (3,921,121)</u>	<u>\$ 30,034,878</u>

### E. Current Refundings

#### Current Year

On February 27, 2006, the City issued general obligation bonds in the amount of \$ 4,695,000 with an interest rate of 3% to refund \$ 4,625,000 of term bonds with an interest rate ranging from 6.0% to 6.5%. The term bonds mature on April 1, 2009 and were callable on April 1, 2006. The general obligation (refunding) bonds were issued at par and, after paying issuance costs of \$ 17,000, the net proceeds were \$ 4,678,000. The net proceeds from the issuance of the refunding were used to pay the term bonds on their call date.

As a result of the refunding, the City reduced its total debt service cash flow requirements by \$ 92,194, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 111,472.

### **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 \$ 1,950,300 reported as landfill post-closure care liability at June 30, 2006 represents the annual cost of monitoring, currently estimated at \$ 78,012, for the next 25 years. This amount is based on what it would cost to perform all post-closure care in 2006. 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 nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

## 16. Reserves of Fund Equity

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

The following types of reserves are reported at June 30, 2006:

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 nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

## 17. Subsequent Events

### Debt

Subsequent to June 30, 2006, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ <u>9,825,000</u>	4%	11/09/06	5/09/07

## 18. 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 bond proceeds. Additionally, the City expects to fully satisfy the order by continued maintenance in conjunction with operational monitoring, to be funded through annual departmental operations.

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 City is currently in the data accumulation phase and, as a result, the costs associated with construction cannot be reasonably estimated at this time.

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 \$ 550,000 per year.

## **19. Post-Employment Health Care and Life Insurance Benefits**

The City has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the City's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and the cost of benefits for retirees, their dependents, or their survivors for the years ended June 30, 2006 was not available.

## **20. Contributory Retirement System**

### **A. Plan Description and Contribution Information**

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) 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 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, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	369
Terminated plan members entitled to but not yet receiving benefits	41
Active plan members	<u>613</u>
Total	<u>1,023</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 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).

**B. Summary of Significant Accounting Policies**

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

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

**C. Teachers**

As required by State statutes, teachers of the 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 participants 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%
Beginning July 1, 1996	9%

Effective January 1, 1990, all participants hired after January 1, 1979, must pay an additional 2% of salary in excess of \$ 30,000. The City's current year covered payroll for teachers was not available.

In fiscal year 2006, the Commonwealth of Massachusetts contributed \$ 7,043,897 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

## **21. 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 up to \$ 100,000 per person per year with an aggregate liability of \$ 200,000, with a maximum of \$ 5,000,000. At June 30, 2006, 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, 2006 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, 2006 are as follows:

Claims liability, July 1, 2005	\$ 3,023,004
Claims incurred/recognized in fiscal year 2006	14,836,288
Claims paid in fiscal year 2006	<u>(14,841,543)</u>
Claims liability, June 30, 2006	\$ <u>3,017,749</u>

## **22. Beginning Fund Balance Reclassification**

The City's major governmental funds for fiscal year 2006, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

<u>Fund</u>	Fund Balance June 30, 2005 (as previously reported)	<u>Reclassification</u>	Fund Balance June 30, 2005 (as restated)
Non-Major Governmental Funds	\$ 11,394,999	\$(4,052,844)	\$ 7,342,155
Skyview Middle School	( 3,867,229)	3,867,229	-
Library Construction	<u>-</u>	<u>185,615</u>	<u>185,615</u>
Total	\$ <u>7,527,770</u>	\$ <u>-</u>	\$ <u>7,527,770</u>

**CITY OF LEOMINSTER, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM  
REQUIRED SUPPLEMENTARY INFORMATION**

**Schedules of Funding Progress and Employer Contributions**

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

**Schedule of Funding Progress (in thousands):**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
1/01/04	\$ 62,214	\$ 92,559	\$ 30,345	67.0%	\$ 20,658	147%
1/01/01	\$ 52,941	\$ 77,053	\$ 24,112	68.7%	\$ 18,178	133%
1/01/98	\$ 41,568	\$ 68,432	\$ 26,864	60.7%	\$ 15,254	176%
1/01/95	\$ 24,578	\$ 49,024	\$ 24,446	50.1%	\$ 11,638	210%
1/01/92	\$ 19,797	\$ 42,516	\$ 22,719	46.6%	\$ 10,700	212%

**Schedule of Employer Contributions:**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1998	\$ 2,813,077	100%
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%

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

Valuation date	January 1, 2004
Actuarial cost method	Entry age, normal cost
Amortization method	Approximate level percent of payroll closed
Remaining amortization period	12 years
Asset valuation method	Market value adjusted by payables and receivables

**Actuarial assumptions:**

Investment rate of return	8%
Projected salary increases	4.75%
Cost of living adjustments	To be funded by City

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, 2006

	Budgeted Amounts			Actual Amounts	
	Original Budget	Final Budget			Variance with Final Budget Positive (Negative)
<b><u>WATER</u></b>					
<b>Revenues and Other Sources:</b>					
Charges for services	\$ 3,400,000	\$ 3,400,000		\$ 3,653,103	\$ 253,103
Intergovernmental	34,998	34,998		34,998	-
Transfers in	314,626	914,626		914,626	-
<b>Total Revenues and Other Sources</b>	<b>3,749,624</b>	<b>4,349,624</b>		<b>4,602,727</b>	<b>253,103</b>
<b>Expenditures and Other Uses:</b>					
Public works	3,164,257	3,764,257		3,700,382	63,875
Debt service	585,367	585,367		585,365	2
Transfers out	-	-		316,980	(316,980)
<b>Total Expenditures and Other Uses</b>	<b>3,749,624</b>	<b>4,349,624</b>		<b>4,602,727</b>	<b>(253,103)</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>
<b><u>SEWER</u></b>					
<b>Revenues and Other Sources:</b>					
Charges for services	\$ 2,520,000	\$ 2,498,000		\$ 2,931,474	\$ 433,474
Intergovernmental	61,684	61,684		61,684	-
Transfers in	11,328	1,986,328		1,986,328	-
<b>Total Revenues and Other Sources</b>	<b>2,593,012</b>	<b>4,546,012</b>		<b>4,979,486</b>	<b>433,474</b>
<b>Expenditures and Other Uses:</b>					
Public works	2,214,177	4,167,177		4,065,904	101,273
Debt service	378,835	378,835		364,688	14,147
Transfers out	-	-		548,894	(548,894)
<b>Total Expenditures and Other Uses</b>	<b>2,593,012</b>	<b>4,546,012</b>		<b>4,979,486</b>	<b>(433,474)</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>

See Independent Auditors' Report.