

CITY OF LEOMINSTER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2009

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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, 2009 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2008), 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, 2009 (except the Leominster Contributory Retirement System which is as of December 31, 2008), 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 49 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 50 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 April 7, 2010 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
April 7, 2010

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, 2009.

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 \$ 169,992,183 (i.e., net assets), a decrease of \$ (4,303,909) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 28,095,627, an increase of \$ 903,902 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 10,194,630, an increase of \$ 1,028,013 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 27,982,134 a decrease of \$ (475,812) 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>2009</u>	<u>2008</u>
Current and other assets	\$ 59,532,795	\$ 48,741,596
Capital assets	<u>176,909,387</u>	<u>175,594,684</u>
Total assets	236,442,182	224,336,280
Long-term liabilities outstanding	38,581,097	29,595,803
Other liabilities	<u>27,868,902</u>	<u>20,444,402</u>
Total liabilities	66,449,999	50,040,205
Net assets:		
Invested in capital assets, net	147,785,530	143,321,962
Restricted	8,459,324	8,218,926
Unrestricted	<u>13,747,329</u>	<u>22,755,204</u>
Total net assets	<u>\$ 169,992,183</u>	<u>\$ 174,296,092</u>

CHANGES IN NET ASSETS

	Governmental Activities	
	2009	2008
Revenues:		
Program revenues:		
Charges for services	\$ 16,983,843	\$ 14,295,625
Operating grants and contributions	56,473,104	56,464,002
Capital grants and contributions	1,823,848	3,685,741
General revenues:		
Property taxes	46,123,783	43,792,958
Excises	3,722,741	4,504,206
Penalties and interest on taxes	560,010	241,034
Grants and contributions not restricted to specific programs	7,367,423	7,226,989
Investment income	404,125	1,225,279
Miscellaneous	903,401	1,850,108
Total revenues	134,362,278	133,285,942
Expenses:		
General government	3,983,360	4,635,426
Public safety	14,772,927	14,753,381
Education	77,147,462	66,252,430
Public works	17,331,185	13,657,949
Health and human services	1,177,745	1,137,012
Culture and recreation	1,769,712	2,189,585
Employee benefits	18,958,724	17,988,036
Interest on long-term debt	1,024,692	1,319,303
Intergovernmental	2,500,380	2,362,278
Total expenses	138,666,187	124,295,400
Change in net assets	(4,303,909)	8,990,542
Net assets - beginning of year	174,296,092	165,305,550
Net assets - end of year	\$ 169,992,183	\$ 174,296,092

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 \$ 169,992,183, a decrease of \$ (4,303,909) from the prior year.

By far the largest portion of net assets, \$ 147,785,530 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, \$ 8,459,324, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 13,747,329 may be used to meet government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a decrease in net assets of \$ (4,303,909). Key elements of this change are as follows:

	<u>Government-Wide Governmental Activities</u>
<u>General Fund Operating Results:</u>	
State and local revenues under budget	\$ (376,548)
Excess of tax collections compared to budget	851,122
Budgetary appropriations unspent by departments	5,493,924
Use of free cash (fund balance) as a funding source for non-recurring items	(4,692,463)
Other GAAP accruals	(248,021)
<u>Timing Differences:</u>	
Difference between current year encumbrances to be spent in subsequent period and prior year encumbrances spent in the current year	(672,282)
<u>Other Items:</u>	
Non-major fund revenues and transfers in over expenditures and transfers out	4,180,606
Major fund - Stabilization transfers out in excess of revenues	(2,365,281)
Major fund - Water System Improvements expenditures in excess of revenues	(1,267,155)
Excess current year debt service principal payments over depreciation expense	235,955
Other post-employment benefits liability	(8,486,660)
Capital assets purchased with local and grant revenues	1,554,560
Internal service fund expenditures in excess of revenues	(125,346)
Other timing differences	<u>1,613,680</u>
Total	<u>\$ (4,303,909)</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 \$ 28,095,627 an increase of \$ 903,902 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 under budget	\$ (376,548)
Excess of tax collections compared to budget	851,122
Budgetary appropriations unspent by departments	5,493,924
Use of free cash (fund balance) as a funding source for non-recurring items	(4,692,463)
Other GAAP accruals	(248,021)
<u>Timing Differences:</u>	
Difference between current year encumbrances to be spent in subsequent period and prior year encumbrances spent in the current year	(672,282)
<u>Other Items:</u>	
Non-major fund revenues and other financing sources over expenditures and transfers out	4,180,606
Major fund - Stabilization transfers out in excess of revenues	(2,365,281)
Major fund - Water System Improvements expenditures in excess of revenues	<u>(1,267,155)</u>
Total	<u>\$ 903,902</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 \$ 10,194,630, while total fund balance was \$ 14,409,837. 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 9 percent of total general fund expenditures, while total fund balance represents 12.7 percent of that same amount. Additionally, the City's Stabilization Fund (a major fund) undesignated fund balance of \$ 6,368,189 represents 5.6 percent of total general fund expenditures.

The fund balance of the general fund increased by \$ 355,732 during the current fiscal year. Key factors in this change are as follows:

	<u>Government-Wide</u> <u>Governmental Activities</u>
<u>General Fund Operating Results:</u>	
State and local revenues under budget	\$ (376,548)
Excess of tax collections compared to budget	851,122
Budgetary appropriations unspent by departments	5,493,924
Use of free cash (fund balance) as a funding source for non-recurring items	(4,692,463)
Other GAAP accruals	(248,021)
<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>(672,282)</u>
Total	<u>\$ 355,732</u>

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 5,724,240. Major reasons for these amendments include:

- \$ 401,947 increase in the general government budget.
- \$ (266,855) decrease in the public safety budget.
- \$ 1,179,514 increase in the School Department budget.
- \$ 3,446,344 increase in the public works budget.
- \$ 110,994 increase in the human services budget.
- \$ 193,429 increase in the culture and recreation budget.
- \$ 658,867 increase in transfers to other funds.

These increases were funded through the following sources:

- Free cash: \$ 2,723,909.
- Transfers from other available sources: \$ 3,000,331.

The budget and actual statement reflects an under collection of Intergovernmental revenue primarily resulting from State Aid (Chapter 70) reductions implemented by the Commonwealth in fiscal year 2009. The Chapter 70 reductions were partially offset by an American Recovery and Reinvestment Act (ARRA) grant which is reported in a separate major fund in accordance with the transparency requirements of the Act. The general fund revenue shortfall is offset by budgetary turn backs in education expenditures. The turn backs result from the Town transferring costs to the ARRA major fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$ 176,909,387 (net of accumulated depreciation), an increase of \$ 1,314,703 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	\$ 708,615
Departmental purchases of vehicles and equipment	1,326,670
Infrastructure improvements	2,136,856
Purchase of land	166,800
Construction in progress, additions	2,476,661
Construction in progress, deletions	(871,042)
Depreciation expense	<u>(4,629,857)</u>
Total increase, net	<u>\$ 1,314,703</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 27,982,134 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, 2009

	<u>Governmental Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 36,037,001
Investments	3,819,447
Receivables, net of allowance for uncollectibles:	
Property taxes	993,422
Excises	582,987
User fees	1,270,688
Departmental and other	728,196
Intergovernmental	2,268,023
Noncurrent:	
Receivables:	
Property taxes	133,162
Intergovernmental	8,424,382
Loans	5,267,039
Betterments	8,448
Land and construction in progress	92,172,932
Capital assets, net of accumulated depreciation	<u>84,736,455</u>
TOTAL ASSETS	236,442,182
LIABILITIES	
Current:	
Warrants payable	1,421,983
Accounts payable	1,842,624
Accrued payroll and withholdings	945,666
Deferred revenues	14,069,433
Accrued interest payable	191,344
Accrued claims payable	4,985,940
Notes payable	703,960
Other current liabilities	85,366
Current portion of long-term liabilities:	
Bonds payable	3,533,426
Landfill closure	89,160
Noncurrent:	
Bonds payable, net of current portion	24,448,708
Landfill closure, net of current portion	2,382,360
Other post employment benefits	8,486,660
Compensated absences	<u>3,263,369</u>
TOTAL LIABILITIES	66,449,999
NET ASSETS	
Invested in capital assets, net of related debt	147,785,530
Restricted for:	
Special revenue funds	5,798,387
Permanent funds:	
Nonexpendable	724,242
Expendable	1,936,695
Unrestricted	<u>13,747,329</u>
TOTAL NET ASSETS	\$ <u><u>169,992,183</u></u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	General	Community Development Block Grant Re-hab Loans	Housing Development Grant Program	Water System Improvements	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and short-term investments	\$ 16,010,860	\$ -	\$ -	\$ -	\$ 6,368,189	\$ 6,096,743	\$ 28,475,792
Investments	1,359,553	-	-	-	-	2,459,894	3,819,447
Receivables:							
Property taxes	2,980,267	-	-	-	-	-	2,980,267
Excises	1,082,170	-	-	-	-	-	1,082,170
User fees	-	-	-	-	-	1,270,688	1,270,688
Departmental and other	1,166,075	-	-	-	-	35,315	1,201,390
Loans	-	2,840,328	2,426,711	-	-	-	5,267,039
Betterments	-	-	-	-	-	8,448	8,448
Intergovernmental	1,404,689	-	-	8,424,382	-	863,334	10,692,405
TOTAL ASSETS	\$ 24,003,614	\$ 2,840,328	\$ 2,426,711	\$ 8,424,382	\$ 6,368,189	\$ 10,734,422	\$ 54,797,646
LIABILITIES AND FUND BALANCES							
Liabilities:							
Warrants payable	\$ 1,421,983	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,421,983
Accounts payable	780,925	-	-	563,195	-	498,504	1,842,624
Accrued payroll and withholdings	945,666	-	-	-	-	-	945,666
Deferred revenues	6,359,837	2,840,328	2,426,711	8,424,382	-	1,651,162	21,702,420
Notes payable	-	-	-	703,960	-	-	703,960
Other liabilities	85,366	-	-	-	-	-	85,366
TOTAL LIABILITIES	9,593,777	2,840,328	2,426,711	9,691,537	-	2,149,666	26,702,019
Fund Balances:							
Reserved for:							
Encumbrances	4,215,207	-	-	-	-	-	4,215,207
Perpetual (nonexpendable) permanent funds	-	-	-	-	-	724,242	724,242
Unreserved:							
Undesignated, reported in:							
General fund	10,194,630	-	-	-	-	-	10,194,630
Special revenue funds	-	-	-	-	6,368,189	5,798,387	12,166,576
Capital project funds	-	-	-	(1,267,155)	-	125,432	(1,141,723)
Permanent funds	-	-	-	-	-	1,936,695	1,936,695
TOTAL FUND BALANCES	14,409,837	-	-	(1,267,155)	6,368,189	8,584,756	28,095,627
TOTAL LIABILITIES AND FUND BALANCES	\$ 24,003,614	\$ 2,840,328	\$ 2,426,711	\$ 8,424,382	\$ 6,368,189	\$ 10,734,422	\$ 54,797,646

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, 2009

Total governmental fund balances	\$ 28,095,627
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	176,909,387
<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.	4,806,927
<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.	2,575,269
<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.	(191,344)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, landfill closure costs, other post-employment benefits and compensated absences, and landfill liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(42,203,683)</u>
Net assets of governmental activities	<u><u>\$ 169,992,183</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, 2009

	General	ARRA	Community Development Block Grant Re-hab Loans	Housing Development Grant Program	Water System Improvements	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:								
Property taxes	\$ 46,115,264	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,115,264
Excises	4,303,885	-	-	-	-	-	-	4,303,885
Penalties, interest and other taxes	276,951	-	-	-	-	-	-	276,951
Charges for services	1,461,529	-	-	-	-	-	12,886,585	14,348,114
Intergovernmental	54,748,016	4,256,774	-	-	-	-	10,302,986	69,307,776
Licenses and permits	719,754	-	-	-	-	-	-	719,754
Fines and forfeitures	199,583	-	-	-	-	-	-	199,583
Investment income	404,125	-	-	-	-	188,719	-	592,844
Miscellaneous	847,796	-	-	-	-	-	55,605	903,401
Total Revenues	<u>109,076,903</u>	<u>4,256,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,719</u>	<u>23,245,176</u>	<u>136,767,572</u>
Expenditures:								
Current:								
General government	4,225,714	-	-	-	-	-	715,204	4,940,918
Public safety	14,371,651	-	-	-	-	-	455,448	14,827,099
Education	65,496,182	4,256,774	-	-	-	-	10,706,054	80,459,010
Public works	9,184,748	-	-	-	1,267,155	-	7,576,057	18,027,960
Health and human services	779,153	-	-	-	-	-	70,096	849,249
Culture and recreation	1,984,113	-	-	-	-	-	490,834	2,474,947
Employee benefits	10,472,064	-	-	-	-	-	-	10,472,064
Debt service	4,635,026	-	-	-	-	-	1,267,017	5,902,043
Intergovernmental	2,500,380	-	-	-	-	-	-	2,500,380
Total Expenditures	<u>113,649,031</u>	<u>4,256,774</u>	<u>-</u>	<u>-</u>	<u>1,267,155</u>	<u>-</u>	<u>21,280,710</u>	<u>140,453,670</u>
Excess (deficiency) of revenues over expenditures	(4,572,128)	-	-	-	(1,267,155)	188,719	1,964,466	(3,686,098)
Other Financing Sources (Uses):								
Bond proceeds	-	-	-	-	-	-	4,390,000	4,390,000
Transfers in	6,367,020	-	-	-	-	-	1,439,160	7,806,180
Transfers out	(1,439,160)	-	-	-	-	(2,554,000)	(3,613,020)	(7,606,180)
Total Other Financing Sources (Uses)	<u>4,927,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,554,000)</u>	<u>2,216,140</u>	<u>4,590,000</u>
Change in fund balance	355,732	-	-	-	(1,267,155)	(2,365,281)	4,180,606	903,902
Fund Equity, at Beginning of Year	<u>14,054,105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,733,470</u>	<u>4,404,150</u>	<u>27,191,725</u>
Fund Equity, at End of Year	<u>\$ 14,409,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,267,155)</u>	<u>\$ 6,368,189</u>	<u>\$ 8,584,756</u>	<u>\$ 28,095,627</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, 2009

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 903,902																
<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;">5,944,560</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(4,629,857)</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;">1,426,826</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;">4,865,812</td> </tr> <tr> <td>Issuance of long-term debt - bonds</td> <td style="text-align: right;">(4,390,000)</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;">11,539</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;">(8,311,345)</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>(125,346)</u></td> </tr> </table> 		Capital outlay purchases, net of dispositions	5,944,560	Depreciation	(4,629,857)		1,426,826	Repayments of debt principal	4,865,812	Issuance of long-term debt - bonds	(4,390,000)		11,539		(8,311,345)		<u>(125,346)</u>
Capital outlay purchases, net of dispositions	5,944,560																
Depreciation	(4,629,857)																
	1,426,826																
Repayments of debt principal	4,865,812																
Issuance of long-term debt - bonds	(4,390,000)																
	11,539																
	(8,311,345)																
	<u>(125,346)</u>																
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(4,303,909)</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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
Revenues and Other Sources:				
Taxes	\$ 45,264,142	\$ 45,264,142	\$ 45,264,142	\$ -
Excise	3,625,000	3,625,000	4,303,885	678,885
Penalties, interest and other taxes	183,000	183,000	276,951	93,951
Charges for services	1,224,000	1,224,000	1,461,529	237,529
Intergovernmental	50,212,262	50,212,262	45,514,717	(4,697,545)
Licenses and permits	541,000	541,000	719,754	178,754
Fines and forfeits	174,000	174,000	199,583	25,583
Investment income	179,000	179,000	404,125	225,125
Miscellaneous	299,000	299,000	847,796	548,796
Transfers in	1,034,315	4,034,646	6,367,020	2,332,374
Other sources	1,968,554	4,692,463	4,692,463	-
Total Revenues and Other Sources	104,704,273	110,428,513	110,051,965	(376,548)
Expenditures and Other Uses:				
General government	3,700,992	4,102,939	4,033,771	69,168
Public safety	14,745,259	14,478,404	14,067,119	411,285
Education	59,609,723	60,789,237	56,401,478	4,387,759
Public works	5,778,726	9,225,070	8,908,545	316,525
Health and human services	682,559	793,553	758,166	35,387
Culture and recreation	1,719,258	1,912,687	1,882,351	30,336
Debt service	4,589,522	4,589,522	4,544,817	44,705
Intergovernmental	2,602,784	2,602,784	2,500,380	102,404
Employee benefits	10,495,157	10,495,157	10,398,802	96,355
Transfers out	780,293	1,439,160	1,439,160	-
Other uses	-	-	-	-
Total Expenditures and Other Uses	104,704,273	110,428,513	104,934,589	5,493,924
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 5,117,376	\$ 5,117,376

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities Internal Service Fund
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ <u>7,561,209</u>
TOTAL ASSETS	7,561,209
<u>LIABILITIES</u>	
Current:	
Accrued claims payable	<u>4,985,940</u>
TOTAL LIABILITIES	4,985,940
<u>NET ASSETS</u>	
Unrestricted	<u>2,575,269</u>
TOTAL NET ASSETS	\$ <u><u>2,575,269</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, 2009

	Governmental <u>Activities</u> Internal Service <u>Fund</u>
Operating Revenues:	
Employee and employer contributions	\$ <u>18,518,529</u>
Total Operating Revenues	18,518,529
Operating Expenses:	
Employee benefits	<u>18,476,256</u>
Total Operating Expenses	<u>18,476,256</u>
Operating Income	42,273
Nonoperating Revenues (Expenses):	
Investment income	<u>32,381</u>
Total Nonoperating Revenues (Expenses), Net	<u>32,381</u>
Change in net assets, before transfers	74,654
Other Financing Sources (Uses):	
Transfers out	<u>(200,000)</u>
Total Other Financing Uses	<u>(200,000)</u>
Change in net assets	(125,346)
Net Assets at Beginning of Year	<u>2,700,615</u>
Net Assets at End of Year	\$ <u><u>2,575,269</u></u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	Governmental Activities Internal Service Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from employees and employer	\$ 18,518,529
Payments of employee benefits and expenses	<u>(17,390,316)</u>
Net Cash Provided By Operating Activities	1,128,213
<u>Cash Flows From Noncapital Financing Activities</u>	
Operating transfer (out)	<u>(200,000)</u>
Net Cash (Used For) Noncapital Financing Activities	(200,000)
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>32,381</u>
Net Cash Provided By Investing Activities	<u>32,381</u>
Net Change in Cash and Short-Term Investments	960,594
Cash and Short-Term Investments, Beginning of Year	<u>6,600,615</u>
Cash and Short-Term Investments, End of Year	<u>\$ 7,561,209</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$ 42,273
Changes in assets and liabilities:	
Accrued liabilities	<u>1,085,940</u>
Net Cash Provided By Operating Activities	<u>\$ 1,128,213</u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Agency Funds	Pension Trust Fund (As of <u>December 31, 2008</u>)
<u>ASSETS</u>		
Cash and short-term investments	\$ 811,638	\$ 2,100,586
Investments	-	70,013,134
Performance bonds	195,257	-
Accounts receivable	<u>150,642</u>	<u>60</u>
Total Assets	1,157,537	72,113,780
<u>LIABILITIES AND NET ASSETS</u>		
Deferred revenue	-	3,508,992
Guarantee deposits	860,697	-
Other liabilities	<u>296,840</u>	<u>-</u>
Total Liabilities	<u>1,157,537</u>	<u>3,508,992</u>
<u>NET ASSETS</u>		
Total net assets held in trust for pension benefits	\$ <u><u>-</u></u>	\$ <u><u>68,604,788</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, 2008

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 6,209,638
Other systems and Commonwealth of Massachusetts	454,588
Plan members	<u>2,335,902</u>
Total contributions	9,000,128
 Investment Income :	
Interest and dividends	3,467,246
Decrease in fair value of investments	(32,359,837)
Management fees	<u>(256,029)</u>
Net investment income	<u>(29,148,620)</u>
Total additions	(20,148,492)
 Deductions:	
Benefit payments to plan members and beneficiaries	6,716,147
Refunds to plan members	539,078
Reimbursements to other systems	222,461
Administrative expenses	<u>126,861</u>
Total deductions	<u>7,604,547</u>
Net decrease	(27,753,039)
 Net assets:	
Beginning of year	<u>96,357,827</u>
End of year	<u><u>\$ 68,604,788</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 Contributor 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 Contributor Retirement System can be obtained by contacting the Contributor 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 *ARRA (American Recovery and Reinvestment Act) Fund* is used to account for the receipt and expenditure of federal "stimulus" funds awarded the community to replace some of the fiscal year 2009 Chapter 70 State aid reductions.
- The *community development block grant rehab loans fund*, which accounts for grant funds received from the U.S. Department of Housing and Urban Development and loans dispensed to eligible homeowners 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 *water system improvement 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 2009 tax levy reflected an excess capacity of \$ 5,205,155.

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)	\$ 109,076,903	\$ 113,649,031
Other financing sources/uses (GAAP basis)	6,367,020	1,439,160
Adjust tax revenue to accrual basis	(851,122)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(4,887,489)
Add end of year carryforwards to expenditures	-	4,215,207
To reverse the effect of non-budgeted State contributions for teachers retirement	(9,233,299)	(9,233,299)
To reverse the effect of GAAP accruals	-	(248,021)
Recognize use of fund balance as funding source	4,692,463	-
Budgetary basis	<u>\$ 110,051,965</u>	<u>\$ 104,934,589</u>
<u>Water Fund</u>		
Revenues/Expenditures (GAAP basis)	\$ 4,676,587	\$ 4,138,230
Other financing sources/uses (GAAP basis)	780,293	756,616
Reverse beginning of year appropriation carryforwards from expenditures	-	(119,000)
Add end of year appropriation carry- forwards to expenditures	-	681,034
Budgetary basis	<u>\$ 5,456,880</u>	<u>\$ 5,456,880</u>
<u>Sewer Fund</u>		
Revenues/Expenditures (GAAP basis)	\$ 3,498,448	\$ 3,325,487
Other financing sources/uses (GAAP basis)	658,866	550,330
Reverse beginning of year appropriation carryforwards from expenditures	-	(145,199)
Add end of year appropriation carryfor- wards to expenditures	-	426,696
Budgetary basis	<u>\$ 4,157,314</u>	<u>\$ 4,157,314</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2009:

Capital Project Funds:	
Water system improvements	\$ (1,267,155)
Special Revenue Funds:	
Various school grants	(87,879)
Highway State aid	(58,556)
Cops fast grant	(12,766)
Tanzio Road	(498,504)

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, 2009, \$ 21,324,575 of the City's bank balance of \$ 38,349,973 as 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, 2008, \$ 1,953,753 of the Contributory Retirement System's bank balance of \$ 2,185,753 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>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>AA2</u>	<u>BBB+</u>
Certificates of deposits	\$ 3,654,334	-	\$ 3,533,018	\$ 26,006	\$ -	\$ 95,310
Corporate equities	76,078	N/A	76,078	-	-	-
Corporate bonds	10,011	-	-	-	10,011	-
Mutual funds	10,931	N/A	10,931	-	-	-
Federal agency securities	<u>68,093</u>	-	<u>-</u>	<u>68,093</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 3,819,447</u>		<u>\$ 3,620,027</u>	<u>\$ 94,099</u>	<u>\$ 10,011</u>	<u>\$ 95,310</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>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>
Pooled domestic equity funds	\$ 3,210,760	N/A	\$ 3,210,760
Pooled global equity funds	18,064,244	N/A	18,064,244
Pooled international equity funds	8,845,778	N/A	8,845,778
State investment pool *	<u>39,892,352</u>	N/A	<u>39,892,352</u>
Total investments	<u>\$ 70,013,134</u>		<u>\$ 70,013,134</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.

Of the total City investments of \$ 3,819,447, the government has a custodial credit risk exposure of \$ 3,819,447 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.

Of the total Contributory Retirement Systems investments of \$ 70,013,134, the system has a custodial credit risk exposure of \$ 30,120,782 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:

Mutual Service Corporation:	
Certificate of deposit	\$ 3,618,374
Corporate equities	75,668
Federal agency securities	706

The Contributory Retirement System places no limit on the amount the System 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:

Franklin Templeton:	
TIF Foreign Equity Series	\$ 8,845,778
MFS/State Street:	
MFS Institution Trust	
Large Cape Value Fund	\$ 18,064,244

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</u>	<u>1-5</u>	<u>6-10</u>		
Certificates of deposit	\$ 3,654,334	\$ 1,702,810	\$ 1,951,524	\$ -	\$ -	
Corporate equities	76,078	-	-	-	76,078	
Corporate bonds	10,011	-	10,011	-	-	
Mutual Funds	10,931	-	-	-	10,931	
Federal agency securities	68,093	-	55,671	12,422	-	
Total	\$ 3,819,447	\$ 1,702,810	\$ 2,017,206	\$ 12,422	\$ 87,009	

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, 2009 consist of the following:

Real Estate			
2009	\$	898,143	
2008		7,400	
2007		5,045	
2006 and Prior		<u>17,014</u>	927,602
Personal Property			
2009		23,333	
2008		27,842	
2007		31,510	
2006 and Prior		<u>251,602</u>	334,287
Tax Liens		1,331,621	
Tax Foreclosure		372,794	
Taxes in Litigation		<u>13,963</u>	<u>1,718,378</u>
Total			<u>\$ 2,980,267</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	\$ 268,467
Tax liens and foreclosures	1,585,216
Excises	499,183
Other departmental	473,194

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 2009.

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.

The intergovernmental receivable balance in the Water System Improvement fund represents the balance of a \$ 9,128,342 loan commitment from the Massachusetts Water Pollution Abatement Trust (MWPAT) less \$ 703,960 which was drawn down in fiscal year 2009 and reported as a notes payable at June 30, 2009.

8. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 77,383,189	\$ -	\$ -	\$ 77,383,189
Building and land improvements	17,738,837	708,615	-	18,447,452
Machinery, equipment, and furnishings	12,198,326	1,326,670	-	13,524,996
Infrastructure	32,744,978	2,136,856	-	34,881,834
Total capital assets, being depreciated	140,065,330	4,172,141	-	144,237,471
Less accumulated depreciation for:				
Buildings	(32,606,348)	(1,679,201)	-	(34,285,549)
Building and land improvements	(6,209,369)	(610,645)	-	(6,820,014)
Machinery, equipment, and furnishings	(5,908,276)	(1,118,034)	-	(7,026,310)
Infrastructure	(10,147,166)	(1,221,977)	-	(11,369,143)
Total accumulated depreciation	(54,871,159)	(4,629,857)	-	(59,501,016)
Total capital assets, being depreciated, net	85,194,171	(457,716)	-	84,736,455
Capital assets, not being depreciated:				
Land	76,146,700	166,800	-	76,313,500
Construction in progress	14,253,813	2,476,661	(871,042)	15,859,432
Total capital assets, not being depreciated	90,400,513	2,643,461	(871,042)	92,172,932
Governmental activities capital assets, net	\$ <u>175,594,684</u>	\$ <u>2,185,745</u>	\$ <u>(871,042)</u>	\$ <u>176,909,387</u>

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

General government	\$	98,710
Public safety		454,572
Education		1,770,741
Public works		1,748,341
Health and human services		347,077
Culture and recreation		<u>210,416</u>
Total Depreciation Expense	\$	<u><u>4,629,857</u></u>

9. Warrants and Accounts Payable

Warrants payable represent 2009 expenditures paid by July 15, 2009 as permitted by law. Accounts payable represent additional 2009 expenditures paid after July 15, 2009.

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, 2009 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, 2009:

<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	\$ <u>703,960</u>
				\$ <u><u>703,960</u></u>

The following summarizes activity in notes payable during fiscal year 2009:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 4,390,000	\$ -	\$ (4,390,000)	\$ -
MWPAT loan anticipation	-	703,960	-	703,960
Total	<u>\$ 4,390,000</u>	<u>\$ 703,960</u>	<u>\$ (4,390,000)</u>	<u>\$ 703,960</u>

12. Other Liabilities

The General Fund balance of other liabilities 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>	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2009
Municipal buildings refunding	11/01/10	2.75 - 3.75	580,000
Skyview Middle School	05/15/13	3.25 - 4	3,000,000
School refunding	04/01/14	4.29	2,865,000
Sewer Improvement	05/01/18	2.25 - 4	1,470,000
Library Construction	05/01/18	2.25 - 4	4,005,000
Sewer inflow/infiltration (MWPAT)	08/01/18	1.5	162,300
Sewer inflow/infiltration (MWPAT)	08/01/19	1.5	536,800
Harvard Street sewer (MWPAT)	08/01/19	1.5	1,464,623
Water (MWPAT)	08/01/19	1.5	2,799,698
Harvard Street sewer (MWPAT)	08/01/19	1.5	963,648
Harvard Street sewer (MWPAT)	08/01/19	1.5	760,065
Water improvements	05/01/25	3.50 - 5	2,960,000
School Design	10/24/28	3.75 - 5	605,000
Watershed Land Purchase	10/24/28	3.75 - 5	500,000
Water System Improvement # 2	10/24/28	3.75 - 5	1,095,000
Library Construction	11/01/17	3.75 - 4.375	4,215,000
Total Bonds Payable:			<u>\$ 27,982,134</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	975,000
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
Water System Improvements	08-12	19,260,000	-
Sewer upgrades	09-20	20,000,000	-

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)	\$ 162,356
Loan #97-67	975,000	(205,633)	769,367	(233,033)	536,334
Loan #98-41	2,386,011	(572,893)	1,813,118	(649,530)	1,163,588
Loan #98-126	1,446,815	(354,030)	1,092,785	(447,160)	645,625
Loan #98-126A	1,092,755	(248,660)	844,095	(260,820)	583,275
Loan #99-08	4,489,993	(925,395)	3,564,598	(1,046,725)	2,517,873
Total	\$ <u>10,685,574</u>	\$ <u>(2,368,790)</u>	\$ <u>8,316,784</u>	\$ <u>(2,707,733)</u>	\$ <u>5,609,051</u>

C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 3,533,426	\$ 812,986	\$ 4,346,412
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 - 2019	9,061,436	1,112,231	10,173,667
2020 - 2024	2,375,502	297,336	2,672,838
2025 - 2029	480,000	30,547	510,547
Total	<u>\$ 27,982,134</u>	<u>\$ 4,685,083</u>	<u>\$ 32,667,217</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2008	Additions	Reductions	Total Balance	Less Current Portion	Equals Long-Term Portion June 30, 2009
<u>Governmental Activities</u>						
Bonds payable	\$ 28,457,946	\$ 4,390,000	\$ (4,865,812)	\$ 27,982,134	\$ (3,533,426)	\$ 24,448,708
Other:						
Landfill closure	2,686,039	-	(214,519)	2,471,520	(89,160)	2,382,360
Other post-employment benefits	-	8,486,660	-	8,486,660	-	8,486,660
Compensated absences	3,224,165	39,204	-	3,263,369	-	3,263,369
Totals	<u>\$ 34,368,150</u>	<u>\$ 12,915,864</u>	<u>\$ (5,080,331)</u>	<u>\$ 42,203,683</u>	<u>\$ (3,622,586)</u>	<u>\$ 38,581,097</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 \$ 2,471,520 reported as landfill post-closure care liability at June 30, 2009 represents the annual cost of monitoring for the next 23 years. This amount is based on what it would cost to perform all post-closure care in 2009. 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, 2009:

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 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. The City expects to be in compliance by fiscal year 2011.

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 is expected to be operational by 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.

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 2011. 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

During the year, the City implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 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 fiscal 2009 annual 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, 2009, 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)	\$ 13,454,276
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>13,454,276</u>
Contributions made	<u>4,967,616</u>
Increase in net OPEB obligation	8,486,660
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u>\$ 8,486,660</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

The City's net OPEB obligation as of June 30, 2009 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	-
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 advance funded 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 Employees, (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	

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%

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 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]
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.

The City's current year covered payroll for teachers and administrators was not available.

In fiscal year 2009, the Commonwealth of Massachusetts contributed \$ 9,233,299 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, 2009, 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, 2009 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, 2009 are as follows:

Claims liability, July 1, 2008	\$ 3,900,000
Claims incurred/recognized in fiscal year 2009	18,476,256
Claims paid in fiscal year 2009	<u>17,390,316</u>
Claims liability, June 30, 2009	<u><u>\$ 4,985,940</u></u>

CITY OF LEOMINSTER, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)
(Amounts Expressed in thousands)

Employees' Retirement System
December 31, 2008

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, 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]
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, 2009

<u>WATER</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Charges for services	\$ 4,000,000	\$ 4,000,000	\$ 4,625,874	\$ 625,874
Intergovernmental	50,713	50,713	50,713	-
Transfers in	-	780,293	780,293	-
Total Revenues and Other Sources	<u>4,050,713</u>	<u>4,831,006</u>	<u>5,456,880</u>	<u>625,874</u>
Expenditures and Other Uses:				
Public works	3,263,863	4,044,156	4,082,414	(38,258)
Debt service	786,850	786,850	617,850	169,000
Transfers out	-	-	756,616	(756,616)
Total Expenditures and Other Uses	<u>4,050,713</u>	<u>4,831,006</u>	<u>5,456,880</u>	<u>(625,874)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 <u>SEWER</u>				
Revenues and Other Sources:				
Charges for services	\$ 3,095,000	\$ 3,036,000	\$ 3,414,891	\$ 378,891
Intergovernmental	83,557	83,557	83,557	-
Transfers in	-	658,866	658,866	-
Total Revenues and Other Sources	<u>3,178,557</u>	<u>3,778,423</u>	<u>4,157,314</u>	<u>378,891</u>
Expenditures and Other Uses:				
Public works	2,579,744	3,179,610	3,076,817	102,793
Debt service	598,813	598,813	530,167	68,646
Transfers out	-	-	550,330	(550,330)
Total Expenditures and Other Uses	<u>3,178,557</u>	<u>3,778,423</u>	<u>4,157,314</u>	<u>(378,891)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditors' Report.