

CITY OF LEOMINSTER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

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MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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, 2012 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2011), which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Leominster's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Leominster as of June 30, 2012 (except the Leominster Contributory Retirement System which is as of December 31, 2011), 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.

In accordance with Government Auditing Standards, we have also issued a report dated June 27, 2013 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 report-

ing 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Statement of Revenues and Other Sources, and Expenditures, and Other Uses – Budget and Actual – Annually Budgeted Special Revenue Funds is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Melanson, Heath + Company P.C.
June 27, 2013

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, 2012. Unless otherwise noted, all amounts are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the 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 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 is 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 \$184,381 (i.e., net assets), a change of \$13,687 in comparison to the prior year.

- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$37,738, a change of \$(7,996) in comparison to the prior year.
- At the end of the current fiscal year, committed fund balance (stabilization) was \$12,514, a change of \$1,421 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,267, a change of \$(1,064) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$50,149, a change of \$10,412 in comparison to the prior year.
- The City of Leominster has adopted a funding schedule to amortize the Contributory Retirement System's unfunded liability by 2016, well ahead 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>2012</u>	<u>2011</u>
Current and other assets	\$ 70,595	\$ 65,638
Capital assets	<u>231,760</u>	<u>190,212</u>
Total assets	302,355	255,850
Long-term liabilities outstanding	92,570	72,601
Other liabilities	<u>25,404</u>	<u>12,555</u>
Total liabilities	117,974	85,156
Net assets:		
Invested in capital assets, net	178,662	160,468
Restricted	10,154	11,234
Unrestricted	<u>(4,435)</u>	<u>(1,008)</u>
Total net assets	<u>\$ 184,381</u>	<u>\$ 170,694</u>

CHANGES IN NET ASSETS

	Governmental <u>Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Charges for services	\$ 17,705	\$ 16,885
Operating grants and contributions	64,597	60,373
Capital grants and contributions	3,535	5,065
General revenues:		
Property taxes	52,444	49,536
Excises	3,623	3,817
Penalties and interest on taxes	311	346
Grants and contributions not restricted to specific programs	21,316	9,609
Investment income	398	261
Miscellaneous	<u>2,370</u>	<u>1,423</u>
Total revenues	166,299	147,315
Expenses:		
General government	4,167	3,556
Public safety	14,531	14,972
Education	87,362	86,313
Public works	16,344	14,860
Health and human services	1,032	1,053
Culture and recreation	2,647	2,546
Employee benefits	22,175	22,169
Interest on long-term debt	1,215	1,051
Intergovernmental	<u>3,139</u>	<u>2,706</u>
Total expenses	<u>152,612</u>	<u>149,226</u>
Change in net assets	13,687	(1,911)
Net assets - beginning of year	<u>170,694</u>	<u>172,605</u>
Net assets - end of year	<u>\$ 184,381</u>	<u>\$ 170,694</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$184,381, a change of \$13,687 from the prior year.

The largest portion of net assets, \$178,662 reflects our investment in capital assets (e.g., infrastructure, land, buildings, machinery and equipment), less any related debt used to acquire those assets that are 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 \$10,154, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$(4,435).

Governmental activities. Governmental activities for the year resulted in an increase in net assets of \$13,687. Key elements of this change are as follows:

Capital grants and contributions	\$ 19,525
Increase in net OPEB obligation	(9,666)
Other operating results	<u>3,828</u>
Total	<u>\$ 13,687</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, unassigned 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 \$37,738, a change of \$(7,996) in comparison to the prior year. Key elements of this change are as follows:

General fund revenues and transfers in excess of expenditures and transfers out	\$ 1,006
Major fund high school renovations expenditures and transfers out in excess of revenues and transfers in	(3,838)
Major fund sewer system improvements revenues and proceeds in excess of expenditures	1,579
Major fund water system improvements expenditures in excess of revenues and proceeds	(7,978)
Nonmajor fund revenues and transfers in excess of expenditures and transfers out	<u>1,235</u>
Total	<u>\$ (7,996)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,267, while total fund balance was \$26,503. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance	\$ 8,267	\$ 9,331	\$ (1,064)	7.0%
Total fund balance ¹	26,503	25,497	1,006	22.4%

¹ Includes stabilization fund.

The total fund balance of the general fund changed by \$1,006 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (5,603)
Revenues in excess of budget	5,212
Expenditures less than budget	897
Other	<u>500</u>
Total	<u>\$ 1,006</u>

Included in the total general fund balance are the City's stabilization accounts with the following balances:

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
General stabilization	\$ 12,514	\$ 11,093	\$ 1,421	10.58%

In addition to the above reserves, the City also has approximately \$5,200,000 in unused levy capacity.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$8,812. Major reasons for these amendments include:

- \$ 298 increase in the general government budget.
- \$ 1,785 increase in the public safety budget.
- \$ 1,276 increase in the School Department budget.
- \$ 2,139 increase in the public works budget.
- \$ 29 increase in the human services budget.
- \$ 67 increase in the culture and recreation budget.
- \$ 100 increase in the employee benefits budget.
- \$ 3,118 increase in transfers to other funds.

These increases were funded through the following sources:

- \$ 1,400 Overlay surplus
- \$ 420 Taxes
- \$ 5,603 Free Cash
- \$ 1,389 Transfers from other available sources

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year-end amounted to \$231,760 (net of accumulated depreciation), an increase of \$41,548 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	\$ 1,197
Departmental purchases of vehicles and equipment, net of deletions	894
Infrastructure improvements	2,474
Construction in progress, net	42,374
Depreciation expense, net of deletions	<u>(5,391)</u>
Total increase, net	<u>\$ 41,548</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$50,149 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 Notes to 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, 2012

	Governmental <u>Activities</u>
ASSETS	
Current:	
Cash and short-term investments	\$ 48,994,472
Investments	2,294,889
Receivables, net of allowance for uncollectibles:	
Property taxes	894,647
Excises	551,834
User fees	1,689,967
Departmental and other	1,308,512
Intergovernmental	5,179,377
Noncurrent:	
Receivables:	
Tax title	203,186
Intergovernmental	6,250,778
Loans	3,221,137
Other assets	5,914
Land and construction in progress	137,129,247
Capital assets, net of accumulated depreciation	<u>94,630,576</u>
TOTAL ASSETS	302,354,536
LIABILITIES	
Current:	
Warrants payable	5,738,695
Retainage Payable	1,963,107
Accrued liabilities	5,524,695
Accrued payroll and withholdings	646,794
Deferred revenues	3,391,045
Notes payable	8,000,000
Other current liabilities	138,677
Current portion of long-term liabilities:	
Bonds payable	3,524,019
Landfill closure	74,150
Compensated absences	324,820
Noncurrent:	
Bonds payable, net of current portion	46,624,861
Landfill closure, net of current portion	1,674,700
Compensated absences, net of current portion	2,923,379
Net OPEB obligation	<u>37,424,297</u>
TOTAL LIABILITIES	117,973,239
NET ASSETS	
Invested in capital assets, net of related debt	178,662,491
Restricted for:	
Grants and other statutory restrictions	7,308,693
Permanent funds:	
Nonexpendable	791,106
Expendable	2,053,890
Unrestricted	<u>(4,434,883)</u>
TOTAL NET ASSETS	\$ <u>184,381,297</u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>High School Renovations Fund</u>	<u>Sewer System Improvements</u>	<u>Water System Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and short-term investments	\$ 27,204,812	\$ 2,573,949	\$ 857,520	\$ 601,105	\$ 9,181,989	\$ 40,419,375
Investments	697,362	-	-	-	1,597,527	2,294,889
Receivables:						
Property taxes	3,758,168	-	-	-	-	3,758,168
Excises	1,161,667	-	-	-	-	1,161,667
User fees	-	-	-	-	1,866,144	1,866,144
Departmental and other	1,706,458	-	-	-	35,315	1,741,773
Loans	-	-	-	-	3,221,137	3,221,137
Other	-	-	-	-	5,914	5,914
Intergovernmental	-	5,009,470	5,925,946	324,832	169,907	11,430,155
TOTAL ASSETS	<u>\$ 34,528,467</u>	<u>\$ 7,583,419</u>	<u>\$ 6,783,466</u>	<u>\$ 925,937</u>	<u>\$ 16,077,933</u>	<u>\$ 65,899,222</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants payable	\$ 864,741	\$ 2,736,465	\$ 575,018	\$ 465,360	\$ 1,097,111	\$ 5,738,695
Retainage payable	-	954,029	459,388	549,690	-	1,963,107
Accrued payroll and withholdings	646,794	-	-	-	-	646,794
Deferred revenues	6,375,435	-	-	-	5,298,417	11,673,852
Notes payable	-	8,000,000	-	-	-	8,000,000
Other liabilities	138,677	-	-	-	-	138,677
TOTAL LIABILITIES	8,025,647	11,690,494	1,034,406	1,015,050	6,395,528	28,161,125
Fund Balances:						
Nonspendable	1,869	-	-	-	791,306	793,175
Restricted	-	-	5,749,060	-	9,478,687	15,227,747
Committed	12,514,408	-	-	-	-	12,514,408
Assigned	5,719,785	-	-	-	-	5,719,785
Unassigned	8,266,758	(4,107,075)	-	(89,113)	(587,588)	3,482,982
TOTAL FUND BALANCES	<u>26,502,820</u>	<u>(4,107,075)</u>	<u>5,749,060</u>	<u>(89,113)</u>	<u>9,682,405</u>	<u>37,738,097</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 34,528,467</u>	<u>\$ 7,583,419</u>	<u>\$ 6,783,466</u>	<u>\$ 925,937</u>	<u>\$ 16,077,933</u>	<u>\$ 65,899,222</u>

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, 2012

Total Governmental Fund Balances	\$ 37,738,097
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	231,759,823
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	4,403,200
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	3,325,097
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(274,694)
• Long-term liabilities, including bonds payable, landfill closure costs, other post-employment benefits and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(92,570,226)</u>
Net Assets of Governmental Activities	<u><u>\$ 184,381,297</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, 2012

	<u>General</u>	<u>High School Renovations Fund</u>	<u>Sewer System Improvements</u>	<u>Water System Improvements</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property taxes	\$ 52,278,108	\$ -	\$ -	\$ -	\$ -	\$ 52,278,108
Excises	3,814,892	-	-	-	-	3,814,892
Penalties, interest and other taxes	310,573	-	-	-	-	310,573
Charges for services	1,315,692	-	-	-	14,720,760	16,036,452
Intergovernmental	57,201,269	16,601,805	-	677,275	14,846,162	89,326,511
Licenses and permits	893,953	-	-	-	-	893,953
Fines and forfeitures	240,373	-	-	-	-	240,373
Investment income	244,640	-	-	-	153,595	398,235
Miscellaneous	<u>2,039,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>522,209</u>	<u>2,561,744</u>
Total Revenues	118,339,035	16,601,805	-	677,275	30,242,726	165,860,841
Expenditures:						
Current:						
General government	3,174,860	-	-	-	842,536	4,017,396
Public safety	14,245,990	-	-	-	375,710	14,621,700
Education	72,427,964	20,447,474	-	-	14,218,127	107,093,565
Public works	8,149,369	-	10,257,207	10,755,269	9,758,589	38,920,434
Health and human services	828,320	-	-	-	57,769	886,089
Culture and recreation	1,795,163	-	-	-	404,914	2,200,077
Employee benefits	12,509,624	-	-	-	-	12,509,624
Debt service	2,065,446	-	-	-	2,540,196	4,605,642
Intergovernmental	<u>3,138,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,138,604</u>
Total Expenditures	118,335,340	20,447,474	10,257,207	10,755,269	28,197,841	187,993,131
Excess (deficiency) of revenues over expenditures	3,695	(3,845,669)	(10,257,207)	(10,077,994)	2,044,885	(22,132,290)
Other Financing Sources (Uses):						
Proceeds from bonds	-	-	11,835,720	2,100,349	-	13,936,069
Transfers in	3,120,425	400,000	-	-	2,178,565	5,698,990
Transfers out	<u>(2,118,441)</u>	<u>(392,549)</u>	<u>-</u>	<u>-</u>	<u>(2,988,000)</u>	<u>(5,498,990)</u>
Total Other Financing Sources (Uses)	1,001,984	7,451	11,835,720	2,100,349	(809,435)	14,136,069
Change in fund balance	1,005,679	(3,838,218)	1,578,513	(7,977,645)	1,235,450	(7,996,221)
Fund Equity, at Beginning of Year	<u>25,497,141</u>	<u>(268,857)</u>	<u>4,170,547</u>	<u>7,888,532</u>	<u>8,446,955</u>	<u>45,734,318</u>
Fund Equity, at End of Year	\$ <u>26,502,820</u>	\$ <u>(4,107,075)</u>	\$ <u>5,749,060</u>	\$ <u>(89,113)</u>	\$ <u>9,682,405</u>	\$ <u>37,738,097</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, 2012

Net Changes in Fund Balances - Total Governmental Funds	\$ (7,996,221)																				
<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 disposals and conversions</td> <td style="text-align: right;">46,939,009</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(5,390,763)</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;">186,444</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>Issuance of bonds and notes</td> <td style="text-align: right;">(13,936,069)</td> </tr> <tr> <td>Repayments of debt principal</td> <td style="text-align: right;">3,524,503</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;">(133,900)</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>Increase in net OPEB obligation</td> <td style="text-align: right;">(9,665,558)</td> </tr> <tr> <td>Decrease in compensated absences liability</td> <td style="text-align: right;">23,240</td> </tr> <tr> <td>Decrease in landfill liability</td> <td style="text-align: right;">84,150</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;">52,123</td> </tr> </table> 		Capital outlay purchases, net of disposals and conversions	46,939,009	Depreciation	(5,390,763)		186,444	Issuance of bonds and notes	(13,936,069)	Repayments of debt principal	3,524,503		(133,900)	Increase in net OPEB obligation	(9,665,558)	Decrease in compensated absences liability	23,240	Decrease in landfill liability	84,150		52,123
Capital outlay purchases, net of disposals and conversions	46,939,009																				
Depreciation	(5,390,763)																				
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	(133,900)																				
Increase in net OPEB obligation	(9,665,558)																				
Decrease in compensated absences liability	23,240																				
Decrease in landfill liability	84,150																				
	52,123																				
Change in Net Assets of Governmental Activities	\$ <u>13,686,958</u>																				

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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 51,261,928	\$ 51,681,940	\$ 51,681,940	\$ -
Excise	2,500,000	2,500,000	3,814,892	1,314,892
Penalties, interest and other taxes	183,000	183,000	310,573	127,573
Charges for services	1,197,000	1,197,000	1,351,821	154,821
Intergovernmental	46,776,517	46,776,517	46,577,815	(198,702)
Licenses and permits	411,000	411,000	893,953	482,953
Fines and forfeits	110,000	110,000	204,122	94,122
Investment income	50,000	50,000	156,336	106,336
Miscellaneous	814,012	814,012	2,212,526	1,398,514
Transfers in	-	1,388,814	3,120,425	1,731,611
Overlay surplus	-	1,400,000	1,400,000	-
Free cash	-	5,603,338	5,603,338	-
Total Revenues and Other Sources	103,303,457	112,115,621	117,327,741	5,212,120
Expenditures and Other Uses:				
General government	2,882,132	3,180,157	2,982,517	197,640
Public safety	13,767,267	15,552,360	15,307,575	244,785
Education	61,586,442	62,862,751	62,835,397	27,354
Public works	4,957,699	7,096,861	6,928,010	168,851
Health and human services	806,063	834,563	826,285	8,278
Culture and recreation	1,703,953	1,770,553	1,767,452	3,101
Debt service	2,466,029	2,466,029	2,465,446	583
Intergovernmental	3,226,457	3,226,457	3,138,604	87,853
Employee benefits	11,907,415	12,007,449	11,848,761	158,688
Transfers out	-	3,118,441	3,118,441	-
Total Expenditures and Other Uses	103,303,457	112,115,621	111,218,488	897,133
Excess of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 6,109,253	\$ 6,109,253

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Internal Service Fund
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ <u>8,575,097</u>
TOTAL ASSETS	8,575,097
<u>LIABILITIES</u>	
Current:	
Accrued claims payable	<u>5,250,000</u>
TOTAL LIABILITIES	5,250,000
<u>NET ASSETS</u>	
Unrestricted	<u>3,325,097</u>
TOTAL NET ASSETS	\$ <u><u>3,325,097</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, 2012

	Internal Service Fund
Operating Revenues:	
Employee and employer contributions	\$ <u>21,255,141</u>
Total Operating Revenues	21,255,141
Operating Expenses:	
Employee benefits	<u>21,003,018</u>
Total Operating Expenses	<u>21,003,018</u>
Operating income	252,123
Transfers:	
Transfers out	<u>(200,000)</u>
Change in Net Assets	52,123
Net Assets at Beginning of Year	<u>3,272,974</u>
Net Assets at End of Year	\$ <u><u>3,325,097</u></u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from employees and employer	\$ 21,255,141
Payments of employee benefits and expenses	<u>(20,469,433)</u>
Net Cash Provided By Operating Activities	785,708
<u>Cash Flows From Noncapital Financing Activities:</u>	
Transfers out	<u>(200,000)</u>
Net Change in Cash and Short-Term Investments	585,708
Cash and Short-Term Investments, Beginning of Year	<u>7,989,389</u>
Cash and Short-Term Investments, End of Year	<u>\$ 8,575,097</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ 252,123
Changes in assets and liabilities:	
Accrued liabilities	<u>533,585</u>
Net Cash Provided By Operating Activities	<u>\$ 785,708</u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Other Post- Employment Benefits <u>Trust Fund</u>	Pension Trust Fund (As of <u>December 31, 2011</u>)	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 2,165,916	\$ 482,910	\$ 695,715
Investments	-	99,990,072	-
Accounts receivable	-	46	79,603
Other assets	-	-	<u>466,764</u>
 Total Assets	 2,165,916	 100,473,028	 1,242,082
<u>LIABILITIES AND NET ASSETS</u>			
Deferred revenue	-	3,680,716	79,603
Guarantee deposits	-	-	580,367
Other liabilities	-	-	<u>582,112</u>
 Total Liabilities	 -	 <u>3,680,716</u>	 <u>1,242,082</u>
<u>NET ASSETS</u>			
Total net assets held in trust for OPEB and pension benefits	<u>\$ 2,165,916</u>	<u>\$ 96,792,312</u>	<u>\$ -</u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Other Post- Employment Benefits <u>Trust Fund</u>	Penison Trust Fund (For the year ended <u>December 31, 2011</u>)
Additions:		
Contributions:		
Employers	\$ -	\$ 7,258,806
Other systems and Commonwealth of Massachusetts	-	313,659
Plan members	-	2,243,833
Contributions	2,165,916	-
Other	<u>-</u>	<u>75,367</u>
Total contributions	2,165,916	9,891,665
Investment Income:		
Change in fair value of investments	-	(1,902,044)
Management fees	<u>-</u>	<u>(517,066)</u>
Net investment income	<u>-</u>	<u>(2,419,110)</u>
Total additions	2,165,916	7,472,555
Deductions:		
Benefit payments to plan members and beneficiaries	-	7,859,856
Refunds to plan members	-	168,772
Reimbursements to other systems	-	142,946
Administrative expenses	<u>-</u>	<u>148,205</u>
Total deductions	<u>-</u>	<u>8,319,779</u>
Net increase (decrease)	2,165,916	(847,224)
Net assets:		
Beginning of year	<u>-</u>	<u>97,639,536</u>
End of year	<u>\$ 2,165,916</u>	<u>\$ 96,792,312</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.

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 *high school renovations capital project fund*, which accounts for revenue and costs associated with renovations of the High School.
- The *sewer system improvements capital project fund*, which accounts for the resources obtained and used for the improvements to the City's public sewer system.
- The *water system improvements capital project fund*, which accounts for the resources obtained and used for the improvements to the City's public water system.

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

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

The government reports the following proprietary fund:

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

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

D. Cash and Short-Term Investments

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

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents". The interest earnings attributable to each fund type are 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 2½" 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 2½ percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2012 tax levy reflected an excess capacity of \$5,219,069.

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 are 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

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net assets”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).

- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

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 to 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.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 118,339,035	\$ 118,335,340
Other financing sources/uses (GAAP Basis)	<u>3,120,425</u>	<u>2,118,441</u>
Subtotal (GAAP Basis)	121,459,460	120,453,781
Adjust tax revenue to accrual basis	(669,086)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(5,071,893)
Add end-of-year appropriation carryforwards from expenditures	-	5,719,785
To reverse the effect of non- budgeted State contributions for teachers retirement	(10,450,585)	(10,450,585)
Recognize use of fund balance as funding source	5,603,338	-
To record use of overlay surplus	1,400,000	-
Other	<u>(15,386)</u>	<u>567,400</u>
Budgetary Basis	<u>\$ 117,327,741</u>	<u>\$ 111,218,488</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

High School Renovations Fund	\$ 4,107,075
Water System Improvements Fund	89,113
Nonmajor Governmental Funds	
School Athletic Fund	18,399
Highway State aid	39,598
Various other City Special Revenue Funds	274,413
Various other School Special Revenue Funds	252,206
Law Enforcement Expendable Trust Fund	<u>2,972</u>
Total	<u>\$ 4,783,776</u>

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, 2012, \$31,976,930 of the City's bank balance of \$56,098,683 was exposed to custodial credit risk as uninsured or uncollateralized.

As of December 31, 2011, none of the Contributory Retirement System's bank balance of \$484,931 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:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>	
			<u>AA+</u>	<u>BBB+</u>
Certificates of deposits	\$ 1,179,187	\$ 1,179,187	\$ -	\$ -
Corporate equities	1,010,488	1,010,488	-	-
Corporate bonds	20,250	-	10,338	9,912
Mutual funds	24,318	24,318	-	-
Federal agency securities	60,646	60,646	-	-
Total investments	<u>\$ 2,294,889</u>	<u>\$ 2,274,639</u>	<u>\$ 10,338</u>	<u>\$ 9,912</u>

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>
Pooled international equity funds	\$ 24,305,692	\$ 24,305,692
Pooled international balanced	11,237,961	11,237,961
Pooled domestic fixed income	5,064,122	5,064,122
Pooled real estate funds	5,154,602	5,154,602
State investment pool *	<u>54,227,695</u>	<u>54,227,695</u>
Total investments	<u>\$ 99,990,072</u>	<u>\$ 99,990,072</u>

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

B. Custodial Credit Risk

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

All of the City's investments of \$2,294,889 are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the City's brokerage firm (which is also the Counterparty to these securities) but are not in the City's name.

All of the Contributory Retirement Systems' investments of \$99,990,072 are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the City's brokerage firm (which is also the Counterparty to these securities) but are not in the System's name.

C. Concentration of Credit Risk

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

<u>Investment Issuer</u>	<u>Amount</u>
American Express Centurion CD	\$ 243,751
Firstbank Santurce CD	242,856
State Bank India New York CD	239,002
Banco Bilbao Argentaria	<u>239,767</u>
Total	\$ <u><u>965,376</u></u>

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

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt-related Securities:				
Certificates of deposit	\$ 1,179,187	\$ 96,624	\$ 1,082,564	\$ -
Corporate bonds	20,250	10,338	9,912	-
Federal agency securities	<u>60,646</u>	<u>-</u>	<u>60,181</u>	<u>465</u>
Total	\$ <u><u>1,260,083</u></u>	\$ <u><u>106,962</u></u>	\$ <u><u>1,152,657</u></u>	\$ <u><u>465</u></u>

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

E. Foreign Currency Risk

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

5. Taxes Receivable

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

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

Taxes receivable at June 30, 2012 consist of the following:

Real Estate		
2012	\$ 798,874	
2011	9,830	
2010	7,256	
2009 and Prior	<u>29,002</u>	
		844,962
Personal Property		
2012	33,006	
2011	25,390	
2010	17,711	
2009 and Prior	<u>292,846</u>	
		368,953
Tax Liens		2,031,864
Tax Foreclosure		494,648
Deferred Taxes		3,778
Taxes in Litigation		<u>13,963</u>
Total		<u>\$ 3,758,168</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	\$ 323,046
Tax liens and foreclosures	2,337,289
Excises	609,833
Ambulance	433,261
Water/sewer charges	176,177

7. Loans and Intergovernmental Receivables

The loan receivable balance in the Non-Major Governmental Funds represents various deferred payment loans made to residents through the City's Federal and State grant programs \$3,221,137 which have been deferred.

The current intergovernmental receivable balance reported in the accompanying financial statements represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

The intergovernmental receivable balance in the Water and Sewer System Improvement funds represents the balance of loan commitments from the Massachusetts Water Pollution Abatement Trust less the amounts drawn down in fiscal year 2012 and prior and reported as a notes payable and intergovernmental revenue at June 30, 2012.

	<u>Sewer System Improvement Fund</u>	<u>Water System Improvement Fund</u>
MWPAT Loan Commitment	\$ <u>11,835,720</u>	\$ <u>2,100,349</u>
Subtotal	11,835,720	2,100,349
Loan Drawdown	<u>(5,909,774)</u>	<u>(1,775,517)</u>
Remaining Project Funds (Intergovernmental Receivable)	\$ <u><u>5,925,946</u></u>	\$ <u><u>324,832</u></u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and land improvements	\$ 113,787,775	\$ 1,196,978	\$ -	\$ 114,984,753
Machinery, equipment, and furnishings	14,908,812	894,632	-	15,803,444
Infrastructure	<u>35,864,888</u>	<u>2,473,645</u>	<u>-</u>	<u>38,338,533</u>
Total capital assets, being depreciated	164,561,475	4,565,255	-	169,126,730
Less accumulated depreciation for:				
Buildings and land improvements	(46,423,316)	(2,787,413)	-	(49,210,729)
Machinery, equipment, and furnishings	(8,769,697)	(1,293,963)	-	(10,063,660)
Infrastructure	<u>(13,912,378)</u>	<u>(1,309,387)</u>	<u>-</u>	<u>(15,221,765)</u>
Total accumulated depreciation	<u>(69,105,391)</u>	<u>(5,390,763)</u>	<u>-</u>	<u>(74,496,154)</u>
Total capital assets, being depreciated, net	95,456,084	(825,508)	-	94,630,576
Capital assets, not being depreciated:				
Land	76,344,333	-	-	76,344,333
Construction in progress	<u>18,411,160</u>	<u>44,952,043</u>	<u>(2,578,289)</u>	<u>60,784,914</u>
Total capital assets, not being depreciated	<u>94,755,493</u>	<u>44,952,043</u>	<u>(2,578,289)</u>	<u>137,129,247</u>
Governmental activities capital assets, net	<u>\$ 190,211,577</u>	<u>\$ 44,126,535</u>	<u>\$ (2,578,289)</u>	<u>\$ 231,759,823</u>

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

Governmental Activities:	
General government	\$ 222,851
Public safety	389,872
Education	1,965,331
Public works	1,959,047
Health and human services	217,348
Culture and recreation	<u>636,314</u>
Total depreciation expense - governmental activities	<u>\$ 5,390,763</u>

9. Warrants and Accounts Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012 as permitted by law. Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

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, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

11. Notes Payable

The City had the following notes outstanding at June 30, 2012:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance End of Year</u>
High School Remodel/Reconstruction	1.00%	6/19/12	12/19/12	\$ <u>8,000,000</u>

The following summarizes activity in notes payable during fiscal year 2012:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
High School Remodel/Reconstruction	\$ -	\$ 8,000,000	\$ -	\$ 8,000,000
Total	\$ -	\$ 8,000,000	\$ -	\$ 8,000,000

12. Other Liabilities

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

13. Long-Term Debt

A. General Obligation Bonds

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

<u>Bonds Payable:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate(s) %</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>6/30/12</u>
Skyview Middle School	05/15/13	3.25 - 4	\$ 750,000
Library construction	11/01/17	3.75 - 4.375	2,790,000
Sewer improvement	05/01/18	2.25 - 4	1,155,000
Library construction	05/01/18	2.25 - 4	2,670,000
Sewer inflow/infiltration (MWPAT)	08/01/18	1.5	115,800
Sewer inflow/infiltration (MWPAT)	08/01/19	1.5	383,100
Sewer inflow/infiltration (MWPAT)	08/01/19	1.5	1,110,000
Harvard Street sewer (MWPAT)	08/01/19	1.5	728,642
Water (MWPAT)	08/01/19	1.5	2,135,000
Harvard Street sewer (MWPAT)	08/01/19	1.5	579,062
Water improvements	05/01/25	3.50 - 5	2,405,000
School design	10/24/28	3.75 - 5	395,000
Watershed land purchase	10/24/28	3.75 - 5	410,000
Water system improvement # 2	10/24/28	3.75 - 5	915,000
Water (MWPAT)	07/15/30	2.0	6,767,287
Water (MWPAT)	07/15/30	2.0	7,322,816
Sewer (MWPAT)	07/15/30	2.0	5,581,104
Water (MWPAT)	07/15/32	2.0	2,100,349
Sewer (MWPAT)	07/15/32	2.0	<u>11,835,720</u>
Total Bonds Payable:			<u>\$ 50,148,880</u>

B. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,524,019	\$ 1,062,676	\$ 4,586,695
2014	3,400,952	1,049,492	4,450,444
2015	3,455,811	959,938	4,415,749
2016	3,486,394	864,158	4,350,552
2017	3,527,717	770,991	4,298,708
2018 - 2022	12,990,576	2,764,321	15,754,897
2023 - 2027	10,098,449	1,523,419	11,621,868
2028-2032	8,816,787	482,083	9,298,870
2033	<u>848,175</u>	<u>8,482</u>	<u>856,657</u>
Total	<u>\$ 50,148,880</u>	<u>\$ 9,485,560</u>	<u>\$ 59,634,440</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities:

	Total Balance <u>7/1/11</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>6/30/12</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/12</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 39,737,314	\$ 13,936,069	\$ (3,524,503)	\$ 50,148,880	\$ (3,524,019)	\$ 46,624,861
Landfill Closure	1,833,000	-	(84,150)	1,748,850	(74,150)	1,674,700
Compensated absences	3,271,439	47,562	(70,802)	3,248,199	(324,820)	2,923,379
Net OPEB obligation	<u>27,758,739</u>	<u>19,998,275</u>	<u>(10,332,717)</u>	<u>37,424,297</u>	<u>-</u>	<u>37,424,297</u>
Totals	\$ <u>72,600,492</u>	\$ <u>33,981,906</u>	\$ <u>(14,012,172)</u>	\$ <u>92,570,226</u>	\$ <u>(3,922,989)</u>	\$ <u>88,647,237</u>

14. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City's landfill has been closed for several years and the City has filed a formal closure and monitoring plan with the Commonwealth. The \$1,748,850 reported as landfill post-closure care liability at June 30, 2012 represents the annual cost of monitoring for the next 20 years. This amount is based on what it would cost to perform all post-closure care in 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The City expects to fund the cost of monitoring through annual departmental appropriations.

15. Restricted Net Assets

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

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

16. Subsequent Events

Debt

Subsequent to June 30, 2012, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General Obligation School Bonds	\$ 9,155,000	2.00-3.00%	12/15/13	12/15/21

17. **Governmental Funds - Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Council Meetings, capital reserve funds set aside by Council Meetings vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Following is a breakdown of the City's fund balances at June 30, 2012:

	General Fund	High School Renovations	Sewer System Improvement	Water System Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Reserve for petty cash	\$ 1,869	\$ -	\$ -	\$ -	\$ -	\$ 1,869
Nonexpendable permanent funds	-	-	-	-	791,306	791,306
Total Nonexpendable	1,869	-	-	-	791,306	793,175
Restricted						
Bonded projects	-	-	5,749,060	-	68,878	5,817,938
Water/Sewer funds	-	-	-	-	963,657	963,657
School choice	-	-	-	-	1,755,909	1,755,909
Circuit breaker	-	-	-	-	1,453,037	1,453,037
Other special revenue funds	-	-	-	-	3,185,819	3,185,819
Expendable permanent funds	-	-	-	-	2,051,387	2,051,387
Total Restricted	-	-	5,749,060	-	9,478,687	15,227,747
Committed						
Stabilization fund	12,514,408	-	-	-	-	12,514,408
Total Committed	12,514,408	-	-	-	-	12,514,408
Assigned						
Encumbrances	5,719,785	-	-	-	-	5,719,785
Total Assigned	5,719,785	-	-	-	-	5,719,785
Unassigned						
	8,266,758	(4,107,075)	-	(89,113)	(587,588)	3,482,982
Total Unassigned	8,266,758	(4,107,075)	-	(89,113)	(587,588)	3,482,982
Total Fund Balance	\$ 26,502,820	\$ (4,107,075)	\$ 5,749,060	\$ (89,113)	\$ 9,682,405	\$ 37,738,097

18. Interfund Transfers

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2012:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 3,120,425	\$ 2,118,441
High School Renovations:	400,000	392,549
Internal Service Fund	-	200,000

(continued)

(continued)

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Nonmajor Funds:		
Special Revenue Funds:		
Water	847,638	520,083
Sewer	870,803	1,211,528
Highway	-	1,100,419
School Choice	392,549	-
Other Special Revenue Funds	120	29,020
Trust Funds:		
Expendable	<u>67,455</u>	<u>126,950</u>
Subtotal Nonmajor Funds	<u>2,178,565</u>	<u>2,988,000</u>
Grand Total	\$ <u>5,698,990</u>	\$ <u>5,698,990</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

19. Commitments and Contingencies

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

Sewer Infiltration/Inflow Project - The City is under a 1996 Administrative Consent Order issued by the Department of Environmental Protection to improve its sewer inflow/infiltration system. The City funded the first two phases of the remediation through a low-interest loan program administered by the Massachusetts Water Pollution Abatement Trust Fund (MWPAT). The projects were substantially completed at the end of fiscal year 2002. The related loan balances, originally issued in the amounts of \$942,300 and \$1,894,943, are reported as long-term obligations of the City. The final phase was completed in September 2006.

In June 2002, the City received an Administrative Consent Order and Notice of Noncompliance for not fully complying with the 1996 consent order. It is anticipated that the June 2002 order will be partially satisfied through remediation (beginning in July 2007) and is estimated to cost approximately

\$1,000,000, which the City intends to fund through user fees. Additionally, the City expects to fully satisfy the order by continued maintenance in conjunction with operational monitoring, to be funded through annual departmental operations. The City expects to be in compliance by December 31, 2013.

Water Filtration Plant - The City is under a 2006 consent order issued by the Department of Environmental Protection to construct a new water filtration plant at Distributing Reservoir. The filtration plant was operational as of June 30, 2011. The City is the recipient of a \$19.26 million dollar grant through the State Revolving Loan Fund (SRF) which will fund the construction of a new water treatment facility as required by the consent order. Additionally, the SRF will fund upgrades to the Notown Water Treatment Plant, the Southeast Wells Pump Station and lines to the Monoosnoc Water Tank. The upgrade began in June of 2011 and the final phase was completed in April of 2013.

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). The City is the recipient of a \$20 million dollar grant through the State Revolving Loan Fund (SRF) which funded the upgrades as required by the order. As of June 30, 2012, the City is in compliance.

20. Post-Employment Healthcare and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities 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 note, the City provides post-employment healthcare 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, 2011, the actuarial valuation date, approximately 881 retirees and 1,083 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

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

D. Annual OPEB Costs and Net OPEB Obligation

The City's annual fiscal year OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2012, 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, 2011.

Annual Required Contribution (ARC)	\$ 18,818,529
Interest on net OPEB obligation	1,179,746
Adjustment to ARC	<u>(1,162,066)</u>
Annual OPEB cost	18,836,209
Contributions made	(7,004,761)
Additional Contributions made	<u>(2,165,890)</u>
Increase in net OPEB obligation	9,665,558
Net OPEB obligation - beginning of year	<u>27,758,739</u>
Net OPEB obligation - end of year	<u>\$ 37,424,297</u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 13,454,276	37%	\$ 8,486,660
2010	\$ 13,958,055	39%	\$ 16,950,008
2011	\$ 17,462,370	38%	\$ 27,758,739
2012	\$ 18,836,209	49%	\$ 37,424,297

The City's net OPEB obligation as of June 30, 2012 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, 2011, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 212,007,537
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 212,007,537</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 58,941,000</u>
UAAL as a percentage of covered payroll	<u>360%</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 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, 2011 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The actuarial assumptions included a 4.25% investment rate of return and an initial annual healthcare cost trend rate of 11% which decreases to a 5% 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 3.25%.

21. Contributory Retirement System

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

A. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at December 31.

Retirees and beneficiaries receiving benefits	388
Terminated plan members entitled to but not yet receiving benefits	92
Active plan members	<u>609</u>
Total	<u><u>1,089</u></u>
Number of participating employers	2

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

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

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

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2003	\$ 3,428,959	100%
2004	3,555,376	100%
2005	3,686,988	100%
2006	4,648,322	100%
2007	4,983,069	100%
2008	5,293,353	100%
2009	7,071,586	100%
2010	7,075,241	100%
2011	7,155,958	100%
2012	7,361,432	100%

B. Summary of Significant Accounting Policies

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

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

C. Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/11	\$ 101,218	\$ 128,738	\$ 27,520	78.6%	\$ 22,408	123%

The Schedule of Funding Progress following the Notes to 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 \$27.5 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, 2011 the unfunded actuarially accrued liability is being amortized over 5 years using an open group method which assumes a 4.75% per year increase in payroll.

E. Teachers

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

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

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

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

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

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$10,450,585 to the MTRS on behalf of the City of Leominster. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. 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, 2012, 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, 2012 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, 2012 are as follows:

Claims liability, beginning of year	\$ 4,716,415
Claims incurred/recognized in fiscal year 2012	21,003,018
Claims paid in fiscal year 2012	<u>(20,469,433)</u>
Claims liability, end of year	<u>\$ 5,250,000</u>

23. Implementation of New GASB Standards

- The GASB has issued Statement No. 63, *Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by eliminating the deferred charges. The City anticipates that by eliminating the deferred charges, its net assets will be reduced accordingly.
- The GASB has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the City of Leominster's actuarially accrued liability.

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

June 30, 2012

(Unaudited)

(Amounts Expressed in thousands)

**Employees' Retirement System
December 31, 2011**

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 Percent- age of Covered Payroll [(b-a)/c]
1/1/11	\$101,218	\$128,738	\$27,520	78.6%	\$22,408	123%
1/1/10	\$88,936	\$127,047	\$38,111	70.0%	\$24,404	156%
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, 2012**

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 Percent- age of Covered Payroll [(b-a)/c]
01/01/11	\$ -	\$ 212,007	\$ 212,007	0.0%	\$ 58,941	359.7%
01/01/08	\$ -	\$ 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, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<u>WATER</u>				
Revenues and Other Sources:				
Charges for services	\$ 4,925,000	\$ 6,709,028	\$ 5,288,802	\$ (1,420,226)
Transfers in	-	847,638	847,638	-
Total Revenues and Other Sources	4,925,000	7,556,666	6,136,440	(1,420,226)
Expenditures and Other Uses:				
Public works	3,340,222	5,913,781	4,138,238	1,775,543
Debt service	1,584,778	1,642,885	1,478,119	164,766
Transfers out	-	-	520,083	(520,083)
Total Expenditures and Other Uses	4,925,000	7,556,666	6,136,440	1,420,226
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ -	\$ -
<u>SEWER</u>				
Revenues and Other Sources:				
Charges for services	\$ 3,775,000	\$ 4,536,931	\$ 4,663,386	\$ 126,455
Transfers in	-	870,803	870,803	-
Total Revenues and Other Sources	3,775,000	5,407,734	5,534,189	126,455
Expenditures and Other Uses:				
Public works	2,859,988	4,246,597	3,729,019	517,578
Debt service	915,012	1,161,137	593,643	567,494
Transfers out	-	-	1,211,527	(1,211,527)
Total Expenditures and Other Uses	3,775,000	5,407,734	5,534,189	(126,455)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ -	\$ -

See Independent Auditors' Report.