

CITY OF LEOMINSTER, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2004

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Statement of Revenues, Expenditures, and Changes in Fund Balances	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
Notes to the Financial Statements	22
SUPPLEMENTARY INFORMATION:	
Contributory Retirement System Information	41
Statement of Revenues and Other Sources, and Expenditures, And Other Uses - Budget and Actual - Annually Budgeted Special Revenue Funds	42



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street • Suite 1
Greenfield, MA 01301-2422
Tel (413)773-5405 • Fax (413)773-7304
www.melansonheath.com

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, 2004 (except for the Leominster Contributory Retirement System which is as of and for the year ended December 31, 2003), 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, 2004 (except the Leominster Contributory Retirement System which is as of December 31, 2003), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

Nashua, NH • Ellsworth, ME • Andover, MA

The management's discussion and analysis appearing on the following pages and the supplementary information appearing on page 41 are not required parts of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Leominster's basic financial statements. The nonmajor budgetary comparison information appearing on pages 28 and 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Leominster, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson, Heath + Company, P.C.

Greenfield, Massachusetts
December 17, 2004

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, 2004.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal services funds are used to account for self-insured employee health programs and workers compensation activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

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

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 113,320,300 (i.e., net assets), an increase of \$ 5,767,184 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,104,557, a decrease of \$ (482,880) in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 5,724,328, an increase of \$ 497,311 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 31,234,120, a decrease of \$ (3,393,500) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u> (Restated)
Current and other assets	\$ 38,831,202	\$ 35,936,984
Capital assets	<u>142,931,919</u>	<u>139,988,483</u>
Total assets	181,763,121	175,925,467
Long-term liabilities outstanding	33,521,320	36,875,563
Other liabilities	<u>34,921,501</u>	<u>31,496,786</u>
Total liabilities	68,442,821	68,372,349
Net assets:		
Invested in capital assets, net	103,806,532	99,681,184
Restricted	8,068,831	7,816,560
Unrestricted	<u>1,444,937</u>	<u>55,374</u>
Total net assets	<u>\$ 113,320,300</u>	<u>\$ 107,553,118</u>

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u> (Restated)
Revenues:		
Program revenues:		
Charges for services	\$ 11,345,608	\$ 11,841,564
Operating grants and contributions	45,421,109	40,735,913
Capital grants and contributions	2,963,203	1,190,547
General revenues:		
Property taxes	36,064,822	34,137,719
Excises	4,229,418	4,182,174
Penalties and interest on taxes	478,881	663,796
Grants and contributions not restricted to specific programs	4,935,406	7,339,821
Investment income	250,361	473,171
Miscellaneous	<u>276,640</u>	<u>1,631,945</u>
Total revenues	105,965,448	102,196,650

(continued)

(continued)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u> <u>(Restated)</u>
Expenses:		
General government	3,115,039	2,924,137
Public safety	11,020,764	12,369,388
Education	54,854,649	53,216,316
Public works	11,028,602	12,510,721
Health and human services	768,844	808,009
Culture and recreation	2,226,555	1,981,785
Employee benefits	13,444,918	11,380,546
Interest on long-term debt	1,584,830	1,793,071
Intergovernmental	<u>2,154,063</u>	<u>601,221</u>
Total expenses	<u>100,198,264</u>	<u>97,585,194</u>
Change in net assets before transfer	5,767,184	4,611,460
Net assets - beginning of year, restated	<u>107,553,116</u>	<u>102,941,660</u>
Net assets - end of year	<u>\$ 113,320,300</u>	<u>\$ 107,553,116</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 \$ 113,320,300, an increase of \$ 5,767,184 from the prior year.

By far the largest portion of net assets, \$ 103,806,532 (92 percent), reflects our investment in capital assets (e.g., infrastructure, land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 8,068,831, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 1,444,937, may be used to meet government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in an increase in net assets of \$ 5,767,184. Key elements of this increase are as follows:

- Fund basis deficiency of revenues and other sources over expenditures and other uses of approximately \$ (483,000), which is further discussed in the governmental funds section.
- The change resulting from fully accruing accounts receivable balances in fiscal year 2004 and fiscal year 2003 (net of allowance for uncollectibles) of approximately \$ 792,000.

- Principal debt expense (included in budget) in excess of depreciation expense (not budgeted for) of approximately \$ 379,000.
- Capital asset purchases of approximately \$ 5,958,000, which were funded by grants and other revenues. The cost of these assets will be recognized over their useful lives as depreciation.
- Health insurance costs in excess of employer/employee contributions of approximately \$ (784,000).
- Other expenses accruals of \$ (94,000).

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,104,557, a decrease of \$ (482,880) in comparison with the prior year. This decrease was attributable to an increase of approximately \$ 972,000 in the general fund, which is further explained below; capital project activities, including \$ (2,166,000) of expenditures incurred in excess of current year permanent financing for the City's Skyview Middle School and Water System Improvement projects, and other non-major fund activities which resulted in a surplus of approximately \$ 712,000.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 5,724,328, while total fund balance was \$ 8,506,341. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 6.6 percent of total general fund expenditures, while total fund balance represents 9.9 percent of that same amount.

The City also maintains a stabilization fund as allowed by Massachusetts General Laws. The stabilization fund's unreserved fund balance at June 30, 2004 was \$ 4,554,772. These funds may be appropriated for any legal purpose.

The fund balance of the general fund increased by \$ 971,883 during the current fiscal year. Key factors in this change are as follows:

- Revenues (on a budgetary basis) were more than anticipated by approximately \$ 1.9 million and expenditures were under budget by approximately \$ 1 million.

- Property tax revenue collected in excess of budget of \$ 981,000.
- Expenditures in the current year, funded by a previous year budget, of approximately \$ (2,307,000).
- Current year expenditure carryforwards to be expended in subsequent year of approximately \$ 2,782,000.
- Use of surplus (free cash) in funding appropriations of approximately \$ (3.4 million).

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 5,281,686. The major reason for these amendments was to appropriate for various capital improvement projects.

This increase was funded from the following sources:

- Tax levy - \$ 190,000.
- Surplus (free cash) - \$ 3,401,936.
- Transfers from other funds - \$ 1,689,750.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental activities at year end amounted to \$ 142,931,919 (net of accumulated depreciation), an increase of \$ 2,943,436 from the prior year. This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment.

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

- Approximately \$ 2,557,000 for construction in progress of the Skyview Middle School, Southeast School, Library construction, and water system improvements.
- Approximately \$ 487,000 for additional capital additions for the Skyview Middle School.
- Approximately \$ 152,000 for various building improvements.
- Approximately \$ 688,000 for the purchase of various land parcels.
- Approximately \$ 1,036,000 for water line and sewer upgrades.
- Approximately \$ 1,040,000 for the purchase of various vehicles and other equipment.
- Approximately \$ (3,014,000) of depreciation expense incurred in fiscal year 2004.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 31,234,120, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Leominster's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental Activities
ASSETS	
Current:	
Cash and short-term investments	\$ 27,858,624
Investments	1,859,710
Receivables, net of allowance for uncollectibles:	
Property taxes	951,671
Excises	703,356
User fees	615,315
Departmental and other	623,017
Intergovernmental	474,922
Noncurrent:	
Receivables, net of allowance for uncollectibles:	
Intergovernmental	2,700,754
Loans	3,043,833
Capital assets, net of accumulated depreciation	<u>142,931,919</u>
TOTAL ASSETS	181,763,121
LIABILITIES	
Current:	
Warrants payable	838,884
Accounts payable	248,948
Accrued payroll and withholdings	297,940
Deferred revenues	5,744,589
Accrued interest payable	587,451
Accrued claims payable	2,492,441
Notes payable	21,090,000
Other current liabilities	73,009
Current portion of long-term liabilities:	
Bonds payable	3,472,439
Landfill closure	75,800
Noncurrent:	
Bonds payable, net of current portion	27,761,681
Landfill closure, net of current portion	1,970,800
Compensated absences	<u>3,788,839</u>
TOTAL LIABILITIES	68,442,821
NET ASSETS	
Invested in capital assets, net of related debt	103,806,532
Restricted for:	
Special revenue funds	5,548,141
Permanent funds:	
Expendable	617,852
Nonexpendable	1,902,838
Unrestricted	<u>1,444,937</u>
TOTAL NET ASSETS	\$ <u>113,320,300</u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004

ASSETS

	General	Skyview Middle School	Water System Improvements	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 9,170,087	\$ 83,292	\$ 3,169,927	\$ 4,554,772	\$ 7,359,109	\$ 24,337,187
Investments	564,567	-	-	-	1,295,143	1,859,710
Receivables:						
Property taxes	2,708,733	-	-	-	-	2,708,733
Excises	1,015,604	-	-	-	-	1,015,604
User fees	-	-	-	-	679,264	679,264
Departmental and other	831,658	-	-	-	40,340	871,998
Loans	-	-	-	-	3,043,833	3,043,833
Intergovernmental	-	-	-	-	3,175,676	3,175,676
Other assets	516	-	-	-	-	516
TOTAL ASSETS	\$ 14,291,165	\$ 83,292	\$ 3,169,927	\$ 4,554,772	\$ 15,593,365	\$ 37,692,521

LIABILITIES AND FUND BALANCES

Liabilities:						
Warrants payable	\$ 838,884	\$ -	\$ -	\$ -	\$ -	\$ 838,884
Accounts payable	-	-	-	-	248,948	248,948
Accrued payroll and withholdings	297,940	-	-	-	-	297,940
Accrued interest payable	375,718	-	-	-	-	375,718
Deferred revenues	4,199,273	-	-	-	6,464,192	10,663,465
Notes payable	-	16,415,000	3,724,000	-	951,000	21,090,000
Other liabilities	73,009	-	-	-	-	73,009
TOTAL LIABILITIES	5,784,824	16,415,000	3,724,000	-	7,664,140	33,587,964
Fund Balances:						
Reserved for:						
Encumbrances and continuing appropriations	2,782,013	-	-	-	-	2,782,013
Perpetual (nonexpendable) permanent funds	-	-	-	-	1,902,838	1,902,838
Unreserved:						
Undesignated, reported in:						
General fund	5,724,328	-	-	-	-	5,724,328
Special revenue funds	-	-	-	4,554,772	5,548,141	10,102,913
Permanent funds	-	-	-	-	617,852	617,852
Capital project funds	-	(16,331,708)	(554,073)	-	(139,606)	(17,025,387)
TOTAL FUND BALANCES	8,506,341	(16,331,708)	(554,073)	4,554,772	7,929,225	4,104,557
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,291,165	\$ 83,292	\$ 3,169,927	\$ 4,554,772	\$ 15,593,365	\$ 37,692,521

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, 2004

	General	Skyview Middle School	Water System Improvements	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 36,060,951	-	-	-	-	\$ 36,060,951
Excises	4,016,172	-	-	-	-	4,016,172
Penalties, interest and other taxes	424,334	-	-	-	-	424,334
Charges for services	1,225,799	-	-	-	9,463,054	10,688,853
Intergovernmental	42,851,376	-	-	-	10,468,342	53,319,718
Licenses and permits	450,122	-	-	-	-	450,122
Fines and forfeitures	271,490	-	-	-	-	271,490
Investment income	188,856	-	-	46,054	15,451	250,361
Miscellaneous	205,469	-	-	-	71,171	276,640
Total Revenues	<u>85,694,569</u>	<u>-</u>	<u>-</u>	<u>46,054</u>	<u>20,018,018</u>	<u>105,758,641</u>
Expenditures:						
Current:						
General government	2,394,747	-	-	-	1,323,699	3,718,446
Public safety	11,512,092	-	-	-	288,460	11,800,552
Education	45,533,178	1,612,299	-	-	8,578,374	55,723,851
Public works	5,773,341	-	554,073	-	6,025,248	12,352,662
Health and human services	474,911	-	-	-	82,539	557,450
Culture and recreation	1,287,741	-	-	-	953,811	2,241,552
Employee benefits	12,560,904	-	-	-	603,506	13,164,410
Debt service	4,428,535	-	-	-	-	4,428,535
Intergovernmental	2,154,063	-	-	-	-	2,154,063
Total Expenditures	<u>86,119,512</u>	<u>1,612,299</u>	<u>554,073</u>	<u>-</u>	<u>17,855,637</u>	<u>106,141,521</u>
Excess (deficiency) of revenues over expenditures	(424,943)	(1,612,299)	(554,073)	46,054	2,162,381	(382,880)
Other Financing Sources (Uses):						
Operating transfers in	2,062,578	-	-	-	565,752	2,628,330
Operating transfers out	(665,752)	-	-	-	(2,062,578)	(2,728,330)
Total Other Financing Sources (Uses)	<u>1,396,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,496,826)</u>	<u>(100,000)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	971,883	(1,612,299)	(554,073)	46,054	665,555	(482,880)
Fund Equity, at Beginning of Year	7,534,458	(14,719,409)	-	4,508,718	7,263,670	4,587,437
Fund Equity, at End of Year	<u>\$ 8,506,341</u>	<u>\$ (16,331,708)</u>	<u>\$ (554,073)</u>	<u>\$ 4,554,772</u>	<u>\$ 7,929,225</u>	<u>\$ 4,104,557</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, 2004

Total governmental fund balances	\$ 4,104,557
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	142,931,919
<ul style="list-style-type: none"> • In the statement of activities, accounts receivable is accrued, net of an allowance for uncollectible accounts. In governmental funds, all receivables are deferred, except for property tax received within 60 days after year end. 	2,536,120
<ul style="list-style-type: none"> • Internal services funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. 	1,028,996
<ul style="list-style-type: none"> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(211,733)
<ul style="list-style-type: none"> • Long-term liabilities, including bonds payable, landfill closure costs and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds. 	(<u>37,069,559</u>)
Net assets of governmental activities	\$ <u>113,320,300</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, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (482,880)

<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: <ul style="list-style-type: none"> Capital outlay purchases 5,958,164 Depreciation (3,014,728) • 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. 791,807 • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <ul style="list-style-type: none"> Repayments of debt principal 3,393,500 • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 32,361 • Some expenses reported in the Statement of Activities, such as compensated absences and landfill closure, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. (127,026) • 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. (784,014) 	<p>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ <u>5,767,184</u></p>
---	---

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
	Budget	Budget		Positive
				(Negative)
Revenues and Other Sources:				
Taxes	\$ 34,890,233	\$ 35,080,233	\$ 35,080,233	\$ -
Excise	3,400,000	3,400,000	4,016,172	616,172
Penalties, interest and other taxes	483,000	483,000	424,334	(58,666)
Charges for services	1,166,250	1,166,250	1,225,799	59,549
Intergovernmental	36,707,469	36,707,469	37,224,559	517,090
Licenses and permits	370,750	370,750	450,122	79,372
Fines and forfeits	204,500	204,500	271,490	66,990
Investment income	150,000	150,000	188,856	38,856
Miscellaneous	-	-	205,469	205,469
Transfers in	-	1,689,750	2,062,578	372,828
Other sources	-	3,401,936	3,401,936	-
Total Revenues and Other Sources	77,372,202	82,653,888	84,551,548	1,897,660
Expenditures and Other Uses:				
General government	2,024,898	2,424,709	2,370,876	53,833
Public safety	10,910,458	11,815,227	11,688,105	127,122
Education	39,951,363	40,521,363	40,177,075	344,288
Public works	4,173,108	5,846,009	5,770,672	75,337
Health and human services	515,472	525,472	491,952	33,520
Culture and recreation	1,171,226	1,250,968	1,250,270	698
Debt service	4,059,533	4,441,533	4,436,590	4,943
Intergovernmental	2,357,202	2,357,202	2,154,063	203,139
Employee benefits	12,208,942	12,805,653	12,635,719	169,934
Transfers out	-	665,752	665,752	-
Total Expenditures and Other Uses	77,372,202	82,653,888	81,641,074	1,012,814
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,910,474	\$ 2,910,474

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental <u>Activities</u> Internal Service <u>Fund</u>
<u>ASSETS</u>	
Current:	
Cash and short-term investments	\$ <u>3,521,437</u>
TOTAL ASSETS	3,521,437
<u>LIABILITIES</u>	
Current:	
Accrued liabilities	<u>2,492,441</u>
TOTAL LIABILITIES	2,492,441
<u>NET ASSETS</u>	
Unrestricted	<u>1,028,996</u>
TOTAL NET ASSETS	\$ <u><u>1,028,996</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, 2004

	Governmental Activities Internal Service Fund
Operating Revenues:	
Employee and employer contributions	\$ <u>10,782,791</u>
Total Operating Revenues	10,782,791
Operating Expenses:	
Employee benefits	<u>11,686,669</u>
Total Operating Expenses	<u>11,686,669</u>
Operating Income (Loss)	(903,878)
Nonoperating Revenues (Expenses):	
Investment income	<u>19,864</u>
Total Nonoperating Revenues (Expenses), Net	<u>19,864</u>
Income (Loss) Before Transfers	(884,014)
Transfers:	
Operating transfers in	<u>100,000</u>
Change in net assets	(784,014)
Net Assets at Beginning of Year	<u>1,813,010</u>
Net Assets at End of Year	\$ <u><u>1,028,996</u></u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2004

	Governmental Activities Internal Service Fund
<u>Cash Flows From Operating Activities:</u>	
Receipts from employees and employer	\$ 10,782,791
Payments of employee benefits and expenses	<u>(10,939,652)</u>
Net Cash (Used For) Operating Activities	(156,861)
<u>Cash Flows From Noncapital Financing Activities:</u>	
Operating transfers in	<u>100,000</u>
Net Cash Provided By Noncapital Financing Activities	100,000
<u>Cash Flows From Investing Activities:</u>	
Investment income	<u>19,864</u>
Net Cash Provided By Investing Activities	<u>19,864</u>
Net Change in Cash and Short-Term Investments	(36,997)
Cash and Short-Term Investments, Beginning of Year	<u>3,558,434</u>
Cash and Short-Term Investments, End of Year	<u>\$ 3,521,437</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>	
Operating (loss)	\$ (903,878)
Changes in assets and liabilities:	
Accrued liabilities	<u>747,017</u>
Net Cash (Used For) Operating Activities	<u>\$ (156,861)</u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	<u>Agency Funds</u>	<u>Pension Trust Fund (As of December 31, 2003)</u>
<u>ASSETS</u>		
Cash and short-term investments	\$ 475,653	\$ 1,226,505
Investments	-	61,032,259
Accounts receivable	<u>42,414</u>	<u>13</u>
Total Assets	518,067	62,258,777
<u>LIABILITIES AND NET ASSETS</u>		
Deferred revenue	-	1,777,688
Accounts payable	472,930	-
Other liabilities	<u>45,137</u>	<u>-</u>
Total Liabilities	518,067	1,777,688
<u>NET ASSETS</u>		
Total net assets held in trust for pension benefits	\$ <u>-</u>	\$ <u>60,481,089</u>

See notes to financial statements.

CITY OF LEOMINSTER, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 3,492,168
Other systems and Commonwealth of Massachusetts	400,072
Plan members	1,774,765
Other	<u>67,264</u>
Total contributions	5,734,269
Investment Income (Loss):	
Interest and dividends	1,923,879
Increase in fair value of investments	7,583,096
Less management fees	<u>(90,749)</u>
Net investment income	<u>9,416,226</u>
Total additions	15,150,495
Deductions:	
Benefit payments to plan members and beneficiaries	5,148,752
Refunds to plan members	323,736
Reimbursements to other systems	140,082
Administrative expenses	<u>104,278</u>
Total deductions	<u>5,716,848</u>
Net increase	9,433,647
Net assets:	
Beginning of year	<u>51,047,442</u>
End of year	<u>\$ 60,481,089</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. In fiscal year 2004, it was determined that no entities met the required GASB-14 criteria of component units.

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

tributions that are restricted to meeting the operational or capital requirements of a particular function of 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 *Skyview Middle School capital project fund*, which accounts for the resources obtained and used for the construction of Skyview Middle School.
- The *water system improvements capital project fund*, which accounts for the resources obtained and used for various water system improvements.
- The *stabilization fund*, an account authorized by Massachusetts General Laws Chapter 40, Subsection 5B from which the City can appropriate for any legal purpose.

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

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

The government reports the following proprietary fund:

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

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

D. Cash and Short-Term Investments

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

General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2004 tax levy reflected an excess capacity of \$ 5,130,334.

G. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Water/sewer infrastructure	25
Vehicles	5 - 10
Office equipment	5
Computer equipment	5

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

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

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 85,694,569	\$ 86,119,512
Other financing sources/uses (GAAP basis)	2,062,578	665,752
Adjust tax revenue to accrual basis	(980,718)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(2,307,441)
Add end of year appropriation	-	2,782,013
To reverse the effect of non-budgeted State contributions for teachers retirement	(5,626,817)	(5,626,817)
To reverse the affect of GAAP accruals	-	8,055
Recognize use of fund balance as funding source	<u>3,401,936</u>	<u>-</u>
Budgetary basis	<u>\$ 84,551,548</u>	<u>\$ 81,641,074</u>
<u>Water Fund</u>		
Revenues/Expenditures (GAAP basis)	\$ 3,454,328	\$ 3,381,168
Other financing sources/uses (GAAP basis)	300,486	281,581
Reverse beginning of year appropriation carryforwards from expenditures	-	(68,486)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>160,551</u>
Budgetary basis	<u>\$ 3,754,814</u>	<u>\$ 3,754,814</u>
<u>Sewer Fund</u>		
Revenues/Expenditures (GAAP basis)	\$ 2,568,362	\$ 2,832,124
Other financing sources/uses (GAAP basis)	265,266	91,247
Reverse beginning of year appropriation carryforwards from expenditures	-	(438,973)
Add end of year appropriation carryforwards to expenditures	<u>-</u>	<u>349,230</u>
Budgetary basis	<u>\$ 2,833,628</u>	<u>\$ 2,833,628</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2004:

Capital Project Funds:	
Skyview Middle School	\$ 16,331,708
Sholan Farm	276,000
Southeast Street School Plan	669,873
Water System Improvements	554,073
Special Revenue Funds:	
SPED Curriculum Frameworks - FY 03	1,131
Idea SPED Entitlement - FY 02	10,914
SPED Curriculum Frameworks - FY 02	2,998
Class Size Reduction - FY 02	8,136
COPS Fast - FY 00	12,766
Parent Program - FY 04	18,098
Health Protection - Smoking Cessation - FY 03	1,266
4-8 Academic Support - FY 03	2,976
Elementary School-Wide Literacy, FY 03	3,800
Literacy Support - FY 03	15,686
Parent Child Home Literacy - FY 03	3,510
Summer Support - FY 03	7,611
Council for Aging	1,313
Safe Fire	4,297
Violence Against Women	11,328
Distributive Education	2,416
Agency Funds:	
Student Activity Funds - Future Farmers	2,496

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

The carrying amount of the City's and Retirement System's deposits with financial institutions at June 30, 2004 and December 31, 2003 was \$ 28,334,277 and \$ 1,226,505, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

	<u>City Deposits</u> <u>June 30, 2004</u>	<u>Retirement System</u> <u>Deposits</u> <u>December 31, 2003</u>
Amount insured by the FDIC and DIF, or collateralized with securities held by the City in its name	\$ 588,429	\$ 100,000
Amount collateralized with securities held by the pledging financial institution's trust	1,937,099	34,042
Uncollateralized	21,950,828	364,723
State investment pool	<u>6,196,123</u>	<u>838,671</u>
Total Bank Balance	\$ <u>30,672,479</u>	\$ <u>1,337,436</u>

4. Investments

Investments are categorized into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

At year end, the government's investment balances were as follows (in thousands):

	Category			Total
	1	2	3	
Certificates of deposit	\$ -	\$ -	\$ 1,516	\$ 1,516
Fixed income securities	-	-	120	120
Corporate equity	-	-	158	<u>158</u>
Subtotal				1,794
Investments not subject to categorization:				
Mutual funds				<u>66</u>
Total Investments				<u>\$ 1,860</u>

At December 31, 2003, the Leominster Retirement System's investment balances were as follows (in thousands):

	Category			Total
	1	2	3	
Pooled domestic equities	\$ -	\$ -	\$ 2,984	\$ 2,984
Pooled international equities	-	-	7,217	7,217
Pooled domestic fixed income	-	-	27,093	27,093
Pooled global equities	-	-	23,738	<u>23,738</u>
Total Investments				<u>\$ 61,032</u>

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, 2004 consist of the following (in thousands):

Real Estate			
2004	\$ 695		
2003	2		
2001 and Prior	<u>9</u>		706
Personal Property			
2004	31		
2003	31		
2002	32		
2001 and Prior	<u>175</u>		269
Tax Liens			1,516
Tax Foreclosure			204
Taxes in Litigation			<u>14</u>
Total			\$ <u>2,709</u>

6. Allowance for Doubtful Accounts

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

	<u>Governmental</u>
Property taxes	\$ 1,757
Excises	312
Utilities	64
Ambulance	238
Other departmental	11

7. Intergovernmental Receivables

The current intergovernmental receivable balance reported in the accompanying entity-wide financial statements represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2004.

The non-current balance primarily represents various deferred payment loans made to residents through the City's Federal and State grant programs. The non-current portion of receivables has been deferred.

8. Capital Assets

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

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings	\$ 53,871,489	\$ 23,917,520	\$ -	\$ 77,789,009
Buildings and land improvements	13,770,969	151,675	-	13,922,644
Machinery, equipment, and furnishings	5,968,540	1,039,815	-	7,008,355
Infrastructure	<u>1,290,558</u>	<u>1,035,545</u>	-	<u>2,326,103</u>
Total capital assets, being depreciated	74,901,556	26,144,555	-	101,046,111
Less accumulated depreciation for:				
Buildings	(24,161,547)	(1,763,157)	-	(25,924,704)
Buildings and land improvements	(3,201,528)	(392,595)	-	(3,594,123)
Machinery, equipment, and furnishings	(2,979,329)	(828,367)	-	(3,807,696)
Infrastructure	<u>(11,473)</u>	<u>(30,609)</u>	-	<u>(42,082)</u>
Total accumulated depreciation	<u>(30,353,877)</u>	<u>(3,014,728)</u>	-	<u>(33,368,605)</u>
Total capital assets, being depreciated, net	44,547,679	23,129,827	-	67,677,506
Capital assets, not being depreciated:				
Land	73,000,700	687,800	-	73,688,500
Construction in progress	<u>22,440,104</u>	<u>2,556,512</u>	<u>(23,430,703)</u>	<u>1,565,913</u>
Total capital assets, not being depreciated	<u>95,440,804</u>	<u>3,244,312</u>	<u>(23,430,703)</u>	<u>75,254,413</u>
Governmental activities capital assets, net	<u>\$ 139,988,483</u>	<u>\$ 26,374,139</u>	<u>\$ (23,430,703)</u>	<u>\$ 142,931,919</u>

* The beginning balance is restated for omitted items from the previous year (see footnote 22).

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

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

General government	\$ 95,302
Public safety	362,675
Education	1,621,963
Public works	558,508
Health and human services	193,614
Culture and recreation	<u>182,666</u>
Total depreciation expense	<u>\$ 3,014,728</u>

9. Warrants and Accounts Payable

Warrants payable represent 2004 expenditures paid by July 15, 2004 as permitted by law. Accounts payable represent additional 2004 expenditures paid after July 15, 2004.

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, 2004 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, 2004:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2004</u>
Bond anticipation	4.00%	11/15/02	11/14/04	\$ 13,090,000
Bond anticipation	1.04%	11/14/03	11/15/04	<u>8,000,000</u>
Total				<u>\$ 21,090,000</u>

The following summarizes activity in notes payable during fiscal year 2004:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ <u>17,366,000</u>	\$ <u>8,000,000</u>	\$ <u>(4,276,000)</u>	\$ <u>21,090,000</u>

12. Other Liabilities

This balance consists primarily of unclaimed checks (tailings).

13. Long-Term Debt

A. General Obligation Bonds

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

<u>Bonds Payable:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2004</u>
School refunding	4/01/09	5.63	\$ 7,325,000
Municipal buildings refunding	11/01/10	2.75 - 3.75	2,035,000
Skyview Middle School	5/15/13	3.25 - 4.00	6,750,000
School refunding	4/01/14	4.29	5,990,000
Sewer inflow/infiltration (MWPAT)	8/01/18	1.50	999,700
Sewer inflow/infiltration (MWPAT)	8/01/19	1.50	1,996,502
Harvard Street sewer (MWPAT)	8/01/19	1.50	1,315,808
Water (MWPAT)	8/01/19	1.50	3,783,412
Harvard Street sewer (MWPAT)	8/01/19	1.50	<u>1,038,698</u>
Total Bonds Payable:			<u>\$ 31,234,120</u>

B. State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low interest rate loan program. The loans are administered by the Massachusetts Water Pollution Abatement Trust (MWPAT) and are used by local communities to improve their public works systems.

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

<u>Purpose</u>	<u>Authorized</u>	<u>Issued</u>
Sewer inflow/infiltration	\$ 1,300,000	\$ 1,270,700
Sewer inflow/infiltration	2,400,000	2,386,011
Water treatment facility	4,500,000	4,489,993
Harvard Street sewer	2,840,000	2,766,028

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

	<u>Original Loan</u>	<u>Principal Subsidy</u>	<u>Net Repayment</u>
Loan #97-26	\$ 295,000	\$ (62,179)	\$ 232,821
Loan #97-67	975,700	(205,633)	770,067
Loan #98-41	2,386,011	(572,893)	1,813,118
Loan #99-08	4,489,993	(925,395)	3,564,598
Loan #99-126	1,674,173	(396,744)	1,277,429
Loan #99-126A	<u>1,092,755</u>	<u>(248,660)</u>	<u>844,095</u>
Total	\$ <u>10,913,632</u>	\$ <u>(2,411,504)</u>	\$ <u>8,502,128</u>

C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2004 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 3,472,439	\$ 1,081,440	\$ 4,553,879
2006	3,537,032	946,064	4,483,096
2007	3,613,109	806,245	4,419,354
2008	3,695,594	660,212	4,355,806
2009	3,783,812	505,645	4,289,457
2010 - 2014	9,220,196	1,043,456	10,263,652
2015 - 2019	3,281,436	104,158	3,385,594
2020	<u>630,502</u>	<u>-</u>	<u>630,502</u>
Total	\$ <u>31,234,120</u>	\$ <u>5,147,220</u>	\$ <u>36,381,340</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2004, the following changes occurred in long-term liabilities:

	Total Balance 7/1/03	Additions	Reductions	Total Balance 6/30/04	Less Current Portion	Equals Long-Term Portion 6/30/04
Governmental Activities						
Bonds payable	\$ 34,627,620	\$ -	\$ (3,393,500)	\$ 31,234,120	\$ (3,472,439)	\$ 27,761,681
Other:						
Landfill closure	1,876,000	237,600	(67,000)	2,046,600	(75,800)	1,970,800
Accrued employee benefits	<u>3,832,413</u>	<u>-</u>	<u>(43,574)</u>	<u>3,788,839</u>	<u>-</u>	<u>3,788,839</u>
Totals	\$ <u>40,336,033</u>	\$ <u>237,600</u>	\$ <u>(3,504,074)</u>	\$ <u>37,069,559</u>	\$ <u>(3,548,239)</u>	\$ <u>33,521,320</u>

E. Advance Refunding

Prior Year

In prior years, the City defeased various bond issues by creating a separate irrevocable trust fund. The proceeds from the new issuance of general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent. The escrow agent will provide interest payments and the City will provide principal and interest payments until the bonds are called on August 1, 2004. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's balance sheet. As of June 30, 2004, the amount of defeased debt outstanding but removed from the City's general long-term debt obligations was \$ 4,560,000.

14. Landfill Closure and Post-Closure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The City's landfill has been closed for several years and the City has filed a formal closure and monitoring plan with the Commonwealth. The \$ 2,046,600 reported as landfill post-closure care liability at June 30, 2004 represents the annual cost of monitoring, currently estimated at \$ 75,800, for the next 27 years. This amount is based on what it would cost to perform all post-closure care in 2004. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The city expects to fund the cost of monitoring through annual departmental appropriations.

15. Restricted Net Assets

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

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

16. Reserves of Fund Equity

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

The following types of reserves are reported at June 30, 2004:

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

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

17. Subsequent Events

Debt

Subsequent to June 30, 2004, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 21,215,000	2.75%	11/12/04	5/12/05

18. Commitments and Contingencies

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

Sewer Infiltration/Inflow Project - The City is under a 1996 Administrative Consent Order issued by the Department of Environmental Protection to improve its sewer inflow/infiltration system. The City funded the first two phases of the remediation through a low-interest loan program administered by the Massachusetts Water Pollution Abatement Trust Fund (MWPAT). The projects were substantially completed at the end of fiscal year 2002. The related loan balances of \$ 999,700 and \$ 1,996,502 are reported as long-term obligations of the City. The final phase of remediation is expected to begin in August 2005 and is expected to cost approximately \$ 2.5 million, which the City intends to fund through a combination of grant and bond proceeds.

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 antici-

pated that the June 2002 order will be satisfied by continued maintenance in conjunction with operational monitoring, to be funded through annual departmental operations.

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, which is estimated to be approximately \$ 500,000 per year.

EPA - The City is in a remediation process with the Massachusetts Department of Environmental Protection to address oil contamination at the Home Depot and the Wachusett Pump Station sites. The City is currently working with an independent engineering firm to perform necessary samplings and risk analysis for each site. The ultimate cost of remediation and site work cannot be determined at this time.

19. Post-Employment Health Care and Life Insurance Benefits

The City has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the City's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and the cost of benefits for retirees, their dependents, or their survivors for the years ended June 30, 2004 was not available.

20. Contributory Retirement System

A. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at January 1, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	369
Terminated plan members entitled to but not yet receiving benefits	41
Active plan members	<u>613</u>
Total	<u>1,023</u>
Number of participating employers	2

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

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

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

B. Summary of Significant Accounting Policies

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

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

C. Teachers

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

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

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

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

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

In fiscal year 2004, the Commonwealth of Massachusetts contributed \$ 5,626,817 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. Self Insurance

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

Workers Compensation

The City contracts with an insurance consultant for claims processing of the City's workers compensation policy. Under the terms of its insurance coverage, the City is liable for up to \$ 100,000 per person per year with an aggregate liability of \$ 200,000, with a maximum of \$ 5,000,000. At June 30, 2004, 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 \$ 80,000 per incident, with a lifetime maximum of \$ 2 million per enrollee. The policy also includes an aggregate maximum of \$ 1 million 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, 2004 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, 2004 are as follows:

Claims liability, July 1, 2003	\$ 1,745,424
Claims incurred/recognized in fiscal year 2004	11,686,669
Claims paid in fiscal year 2004	<u>(10,939,652)</u>
Claims liability, June 30, 2004	\$ <u>2,492,441</u>

22. Beginning Fund Balance/Net Assets Restatement

The beginning (July 1, 2003) net assets of the City have been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>
As previously reported	\$ 106,099,442
To correct the City's fixed asset data base for prior period transactions	<u>1,453,674</u>
As restated	\$ <u>107,553,116</u>

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

Schedules of Funding Progress and Employer Contributions

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

Schedule of Funding Progress (in thousands):

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

Schedule of Employer Contributions:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	2,765,166	100%
1998	2,813,077	100%
1999	3,074,811	100%
2000	2,817,657	100%
2001	2,950,183	100%
2002	3,060,645	100%
2003	3,332,948	100%
2004	3,555,376	100%

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

Valuation date	January 1, 2004
Actuarial cost method	Entry age, normal cost
Amortization method	Approximate level percent of payroll closed
Remaining amortization period	12 years
Asset valuation method	Market value adjusted by payables and receivables
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75%
Cost of living adjustments	To be funded by City

See Independent Auditors' Report.

CITY OF LEOMINSTER, MASSACHUSETTS

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL
ANNUALLY BUDGETED SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
	Budget	Budget		Positive
				(Negative)
<u>WATER</u>				
Revenues and Other Sources:				
Charges for services	\$ 3,200,000	\$ 3,200,000	\$ 3,427,425	\$ 227,425
Intergovernmental	26,903	26,903	26,903	-
Transfers in	300,486	300,486	300,486	-
Total Revenues and Other Sources	3,527,389	3,527,389	3,754,814	227,425
Expenditures and Other Uses:				
Public works	3,285,024	3,285,024	3,230,868	54,156
Debt service	242,365	242,365	242,365	-
Transfers out	-	-	281,581	(281,581)
Total Expenditures and Other Uses	3,527,389	3,527,389	3,754,814	(227,425)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ -	\$ -
<u>SEWER</u>				
Revenues and Other Sources:				
Charges for services	\$ 2,456,340	\$ 2,456,340	\$ 2,515,133	\$ 58,793
Intergovernmental	53,229	53,229	53,229	-
Transfers in	265,266	265,266	265,266	-
Total Revenues and Other Sources	2,774,835	2,774,835	2,833,628	58,793
Expenditures and Other Uses:				
Public works	2,435,044	2,435,044	2,402,590	32,454
Debt service	339,791	339,791	339,791	-
Transfers out	-	-	91,247	(91,247)
Total Expenditures and Other Uses	2,774,835	2,774,835	2,833,628	(58,793)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ -	\$ -

See Independent Auditors' Report.