

CITY OF AGAWAM, MASSACHUSETTS

***REPORT ON EXAMINATION OF
GENERAL PURPOSE FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2002

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Financial Section



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Independent Auditors' Report

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

We have audited the accompanying general purpose financial statements of the City of Agawam, Massachusetts, as of and for the fiscal year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Agawam, Massachusetts' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Inasmuch as the Commonwealth of Massachusetts does not require the capitalization of fixed assets, the City has not maintained complete historical cost records of its General Fixed Assets. Accordingly, a statement of General Fixed Assets, required by accounting principles generally accepted in the United States of America, is not included in the general purpose financial statements.

As more fully described in Note 1, the City maintains its Enterprise Fund on the modified accrual basis of accounting. Accordingly, the Enterprise Fund is not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 1, the City has not maintained sufficient records to accumulate its compensated absence liability, which is a departure from accounting principles generally accepted in the United States of America.

In our opinion, except for the effect on the general purpose financial statements of the matters described in the three preceding paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Agawam, Massachusetts, as of June 30, 2002, and the results of its operations and cash flows of its Proprietary Fund Types and Nonexpendable Trust Funds for the fiscal 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 our report dated December 6, 2002, on our consideration of the City of Agawam, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

December 6, 2002

General Purpose Financial Statements

**ALL FUND TYPES AND ACCOUNT GROUPS
COMBINED BALANCE SHEET**

JUNE 30, 2002

	Governmental Fund Types		
ASSETS AND OTHER DEBITS	General	Special Revenue	Capital Projects
Cash and short-term investments.....	\$ 14,842,356	\$ 6,632,938	\$ 3,013,327
Investments.....	-	-	-
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	504,443	-	-
Tax liens.....	820,678	-	-
Motor vehicle and other excise taxes.....	162,760	-	-
User fees.....	-	3,087,324	-
Departmental and other.....	30,683	52,174	-
Special assessments.....	4,343	-	-
Intergovernmental.....	13,256,952	524,722	-
Amounts to be provided for retirement of long-term obligations.....	-	-	-
TOTAL ASSETS AND OTHER DEBITS.....	\$ 29,622,215	\$ 10,297,158	\$ 3,013,327
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Warrants payable.....	\$ 2,701,134	\$ 510,353	\$ 317,220
Tax refunds payable.....	700,000	-	-
Liabilities due depositors.....	-	-	-
Payroll withholdings.....	542,142	-	-
Other liabilities.....	204,223	-	-
Deferred revenues.....	14,467,942	2,620,220	-
Due to other funds.....	-	-	-
Capital lease obligations.....	-	-	-
Landfill closure.....	-	-	-
Accrued compensated absences.....	-	-	-
Workers' compensation.....	-	-	-
Court judgments.....	-	-	-
Bonds and notes payable.....	-	-	-
TOTAL LIABILITIES.....	18,615,441	3,130,573	317,220
FUND EQUITY:			
Retained earnings.....	-	-	-
Fund balances:			
Reserved for:			
Encumbrances and continuing appropriations.....	2,411,257	1,406,231	-
Nonexpendable trusts.....	-	-	-
Stabilization.....	-	-	-
Unreserved:			
Undesignated.....	8,595,517	5,760,354	2,696,107
TOTAL FUND EQUITY.....	11,006,774	7,166,585	2,696,107
TOTAL LIABILITIES AND FUND EQUITY.....	\$ 29,622,215	\$ 10,297,158	\$ 3,013,327

See notes to general purpose financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Account Group		Total (Memorandum Only)
Golf Enterprise	Internal Service	Trust and Agency	General Long-Term Obligations		
\$ 445,391	\$ 630,344	\$ 4,324,113	\$ -	\$ -	\$ 29,888,469
-	-	575,261	-	-	575,261
-	-	-	-	-	504,443
-	-	-	-	-	820,678
-	-	-	-	-	162,760
-	-	-	-	-	3,087,324
-	-	244	-	-	83,101
-	-	-	-	-	4,343
-	-	-	-	-	13,781,674
-	-	-	33,296,205	-	33,296,205
<u>\$ 445,391</u>	<u>\$ 630,344</u>	<u>\$ 4,899,618</u>	<u>\$ 33,296,205</u>	<u>\$ -</u>	<u>\$ 82,204,258</u>
\$ 35,613	\$ -	\$ 4,092	\$ -	\$ -	\$ 3,568,412
-	-	-	-	-	700,000
-	-	238,564	-	-	238,564
-	-	-	-	-	542,142
-	-	-	-	-	204,223
-	-	244	-	-	17,088,406
-	-	-	-	-	-
-	-	-	101,543	-	101,543
-	-	-	-	-	-
-	-	-	-	-	-
-	22,000	-	-	-	22,000
-	-	-	3,200,000	-	3,200,000
-	-	-	29,994,662	-	29,994,662
<u>35,613</u>	<u>22,000</u>	<u>242,900</u>	<u>33,296,205</u>	<u>-</u>	<u>55,659,952</u>
409,778	608,344	-	-	-	1,018,122
-	-	-	-	-	3,817,488
-	-	401,643	-	-	401,643
-	-	3,712,179	-	-	3,712,179
-	-	542,896	-	-	17,594,874
<u>409,778</u>	<u>608,344</u>	<u>4,656,718</u>	<u>-</u>	<u>-</u>	<u>26,544,306</u>
<u>\$ 445,391</u>	<u>\$ 630,344</u>	<u>\$ 4,899,618</u>	<u>\$ 33,296,205</u>	<u>\$ -</u>	<u>\$ 82,204,258</u>

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2002

	Governmental Fund Types			Fiduciary	Total (Memorandum only)
	General	Special Revenue	Capital Projects	Expendable Trusts	
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 30,395,358	\$ -	\$ -	\$ -	\$ 30,395,358
Motor vehicle and other excise taxes.....	2,906,872	-	-	-	2,906,872
Water and sewer charges.....	-	4,184,765	-	-	4,184,765
Intergovernmental.....	19,962,804	2,559,703	712,887	-	23,235,394
Departmental and other.....	1,430,214	3,015,311	-	2,460	4,447,985
Contributions.....	-	202,675	-	-	202,675
Investment income.....	702,598	3,020	127	105,355	811,100
TOTAL REVENUES.....	55,397,846	9,965,474	713,014	107,815	66,184,149
EXPENDITURES:					
Current:					
General government.....	1,996,779	7,153	-	526	2,004,458
Public safety.....	6,200,939	1,021,240	-	-	7,222,179
Education.....	28,556,361	3,472,353	-	7,738	32,036,452
Public works.....	4,392,601	3,125,147	-	970	7,518,718
Human services.....	872,255	177,305	-	-	1,049,560
Culture and recreation.....	888,279	205,098	-	3,490	1,096,867
Pension benefits.....	4,433,372	57,497	-	-	4,490,869
Property and liability insurance.....	483,003	29,700	-	-	512,703
Employee benefits.....	3,526,847	59,887	-	-	3,586,734
State and county charges.....	516,357	-	-	-	516,357
Capital outlay.....	677,197	-	5,685,082	-	6,362,279
Debt service:					
Principal.....	1,319,218	278,218	-	-	1,597,436
Interest.....	1,251,843	260,458	-	-	1,512,301
TOTAL EXPENDITURES.....	55,115,051	8,694,056	5,685,082	12,724	69,506,913
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	282,795	1,271,418	(4,972,068)	95,091	(3,322,764)
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes.....	-	-	890,000	-	890,000
Premium from issuance of bonds.....	24,308	-	-	-	24,308
Bond issuance costs.....	(61,624)	-	-	-	(61,624)
Operating transfers in.....	643,692	125,010	576,180	400,000	1,744,882
Operating transfers out.....	(976,919)	(499,299)	(85,000)	-	(1,561,218)
TOTAL OTHER FINANCING SOURCES (USES).....	(370,543)	(374,289)	1,381,180	400,000	1,036,348
NET CHANGE IN FUND BALANCES.....	(87,748)	897,129	(3,590,888)	495,091	(2,286,416)
FUND BALANCES AT BEGINNING OF YEAR.....	11,094,522	6,269,456	6,286,995	3,759,984	27,410,957
FUND BALANCES AT END OF YEAR.....	\$ 11,006,774	\$ 7,166,585	\$ 2,696,107	\$ 4,255,075	\$ 25,124,541

See notes to general purpose financial statements.

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GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGETARY BASIS - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2002

	General Fund		
	Budget	Actual Budgetary Amounts	Variance Favorable/ (Unfavorable)
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 29,317,817	\$ 30,472,759	\$ 1,154,942
Motor vehicle and other excise taxes.....	2,242,000	2,906,872	664,872
Water and sewer charges.....	-	-	-
Intergovernmental.....	17,300,640	17,205,804	(94,836)
Departmental and other.....	875,000	1,430,214	555,214
Investment income.....	442,950	702,598	259,648
TOTAL REVENUES.....	50,178,407	52,718,247	2,539,840
EXPENDITURES:			
Current:			
General government.....	3,284,018	1,996,779	1,287,239
Public safety.....	6,248,159	6,045,489	202,670
Education.....	28,642,459	28,556,361	86,098
Public works.....	5,118,051	4,392,601	725,450
Water and Sewer.....	-	-	-
Human services.....	950,944	872,255	78,689
Culture and recreation.....	1,051,806	888,279	163,527
Pension benefits.....	1,698,324	1,676,372	21,952
Property and liability insurance.....	579,854	483,003	96,851
Employee benefits.....	3,624,175	3,526,847	97,328
State and county charges.....	306,755	516,357	(209,602)
Capital outlay.....	1,436,005	677,197	758,808
Debt service:			
Principal.....	1,349,418	1,319,218	30,200
Interest.....	1,326,303	1,251,843	74,460
TOTAL EXPENDITURES.....	55,616,271	52,202,601	3,413,670
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(5,437,864)	515,646	5,953,510
OTHER FINANCING SOURCES (USES):			
Premium from issuance of bonds.....	-	24,308	24,308
Bond issuance costs.....	(69,800)	(61,624)	8,176
Operating transfers in.....	643,692	643,692	-
Operating transfers out.....	(976,919)	(976,919)	-
TOTAL OTHER FINANCING SOURCES (USES).....	(403,027)	(370,543)	32,484
NET CHANGE IN FUND BALANCE.....	(5,840,891)	145,103	5,985,994
BUDGETARY FUND BALANCE, Beginning of year.....	11,561,673	11,561,673	-
BUDGETARY FUND BALANCE, End of year.....	\$ 5,720,782	\$ 11,706,776	\$ 5,985,994

See notes to general purpose financial statements.

Water & Sewer Special Revenue		
Budget	Actual Budgetary Amounts	Variance Favorable/ (Unfavorable)
\$ -	\$ -	\$ -
-	-	-
3,952,156	4,349,401	397,245
130,841	133,577	2,736
-	-	-
-	-	-
<u>4,082,997</u>	<u>4,482,978</u>	<u>399,981</u>
-	-	-
-	-	-
-	-	-
5,183,205	3,125,147	2,058,058
-	-	-
-	-	-
57,497	57,497	-
-	-	-
59,887	59,887	-
-	-	-
-	-	-
278,218	278,218	-
<u>270,575</u>	<u>260,458</u>	<u>10,117</u>
<u>5,849,382</u>	<u>3,781,207</u>	<u>2,068,175</u>
<u>(1,766,385)</u>	<u>701,771</u>	<u>2,468,156</u>
-	-	-
-	-	-
93,993	52,178	(41,815)
<u>(408,379)</u>	<u>(409,993)</u>	<u>(1,614)</u>
<u>(314,386)</u>	<u>(357,815)</u>	<u>(43,429)</u>
(2,080,771)	343,956	2,424,727
<u>3,080,380</u>	<u>3,080,380</u>	<u>-</u>
\$ <u>999,609</u>	\$ <u>3,424,336</u>	\$ <u>2,424,727</u>

ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	Golf Enterprise	Internal Service	Nonexpendable Trusts	
OPERATING REVENUES:				
Employer contributions	\$ -	\$ 135,537	\$ -	\$ 135,537
Charges for services	973,943	-	-	973,943
TOTAL OPERATING REVENUES	973,943	135,537	-	1,109,480
OPERATING EXPENSES:				
Cost of services and administration	570,535	-	-	570,535
Workers compensation	-	31,097	-	31,097
TOTAL OPERATING EXPENSES	570,535	31,097	-	601,632
OPERATING INCOME (LOSS).....	403,408	104,440	-	507,848
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	7,767	17,899	-	25,666
Capital outlay.....	(31,207)	-	-	(31,207)
Debt service - principal.....	(108,500)	-	-	(108,500)
Interest expense.....	(49,604)	-	-	(49,604)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(181,544)	17,899	-	(163,645)
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	221,864	122,339	-	344,203
OPERATING TRANSFERS:				
Transfers out.....	(183,664)	-	-	(183,664)
TOTAL OPERATING TRANSFERS.....	(183,664)	-	-	(183,664)
NET INCOME (LOSS).....	38,200	122,339	-	160,539
FUND EQUITY, Beginning of year.....	371,578	486,005	401,643	1,259,226
FUND EQUITY, End of year.....	\$ 409,778	\$ 608,344	\$ 401,643	\$ 1,419,765

See notes to general purpose financial statements.

**ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2002

	Proprietary Fund Types		Fiduciary	Total (Memorandum Only)
	Golf Enterprise	Internal Service	Nonexpendable Trusts	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users.....	\$ 973,943	\$ -	\$ -	\$ 973,943
Receipts from interfund services provided.....	-	135,537	-	135,537
Payments to vendors.....	(402,908)	(135,537)	-	(538,445)
Payments to employees.....	(143,905)	-	-	(143,905)
NET CASH FROM OPERATING ACTIVITIES.....	427,130	-	-	427,130
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out.....	(183,664)	-	-	(183,664)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets.....	(31,207)	-	-	(31,207)
Principal payments on bonds and notes.....	(108,500)	-	-	(108,500)
Interest expense.....	(49,604)	-	-	(49,604)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(189,311)	-	-	(189,311)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income.....	7,767	17,899	-	-
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	61,922	17,899	-	54,155
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	383,469	612,445	401,643	401,643
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 445,391	\$ 630,344	\$ 401,643	\$ 455,798
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 403,408	\$ 104,440	\$ -	\$ 507,848
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Changes in assets and liabilities:				
Warrants payable.....	23,722	-	-	23,722
Workers' compensation.....	-	(104,440)	-	(104,440)
Total adjustments.....	23,722	(104,440)	-	(80,718)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 427,130	\$ -	\$ -	\$ 427,130

See notes to general purpose financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements of the City of Agawam, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described herein.

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and City Council (the Council).

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The City has also considered all potential Component Units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's general purpose financial statements to be misleading or incomplete. It has been determined that there are no Component Units that meet the requirements for inclusion in the City's general purpose financial statements.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the City are organized and operated on the basis of Funds and Account Groups. A Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related, legal and contractual provisions. The minimum numbers of Funds are maintained consistent with legal and managerial requirements. Account Groups are a reporting device that accounts for certain assets and liabilities of Governmental Funds not recorded directly in those Funds.

The City has the following Fund Types and Account Group:

Governmental Funds are used to account for the City's general governmental activity. Governmental Fund Types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related Fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, capital lease obligations and claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The City considers property tax revenues available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received by the City, and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

Governmental Funds include the following Fund Types:

The *General Fund* is the general operating Fund of the City. It is used to account for all financial resources, except those required to be accounted for in another Fund.

The *Special Revenue Fund* is used to account for the proceeds of specific revenue sources (other than Expendable Trusts or Capital Projects) that are restricted by law or administrative action to expenditures for specified purposes.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Trust Funds).

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. For Proprietary Fund accounting, the City applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The *Enterprise Fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Enterprise Fund is used to account for the City's Golf Course activities.

The City has not completed the process of compiling adequate records to properly account for the Enterprise Fund using a flow of economic resources measurement focus and the accrual basis of accounting. The City does not record fixed assets, depreciation, accrued revenues and accrued expenses. Therefore, the Enterprise Fund's financial statements are reported using the modified accrual basis of accounting. This presentation is not in accordance with GAAP.

The *Internal Service Fund* is used to account for the financing of services provided by one department to other departments or governmental units. The City is accounting for its risk financing activities related to workers' compensation in its Internal Service Fund.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the City under the terms of a trust agreement.

The *Expendable Trust Fund* is accounted for in essentially the same manner as Governmental Fund Types, using the same measurement focus and basis of accounting. Expendable Trust Funds are used to account for trusts where both principal and earnings may be spent.

The *Nonexpendable Trust Fund* is accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The Nonexpendable Trust Fund is used to account for trusts that stipulate that only earnings, and not principal, may be spent.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency Funds are accounted for using the modified accrual basis of accounting. This Fund is used to account for assets that the City holds for others in an agency capacity.

The **General Long-Term Obligations Account Group** is used to account for general long-term bonds and notes issued by the City, and capital lease obligations and court judgements that will be financed in future fiscal years from Governmental Funds.

C. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value.

D. Property Taxes

Property taxes are levied and based on values assessed on January 1st 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 November 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Tax liens are processed approximately nine months after the original tax is considered delinquent. Property taxes levied are recorded as receivables in the fiscal year of the levy and are recorded under the modified accrual basis of accounting.

E. Inventories

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the general purpose financial statements and therefore are not reported.

F. Fixed Assets

Governmental Funds

The Commonwealth of Massachusetts does not require the City to capitalize expenditures for General Fixed Assets. Accordingly, such disbursements in the Governmental Funds are considered expenditures in the fiscal year payments are made. As a result of this practice, the accompanying general purpose financial statements do not include a statement of the General Fixed Assets Account Group, which is a departure from GAAP.

Enterprise Fund

A complete accounting of fixed assets and depreciation of the Enterprise Fund has not been maintained and therefore is not reported. This is a departure from GAAP.

G. Interfund/Intrafund Transactions

During the course of its operations, the City records transactions between Funds and/or between departments. Transactions of a buyer/seller nature between departments within a Fund are not eliminated from the individual Fund statements. Receivables and payables resulting from transactions between Funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

H. Fund Equity

The City reports fund balances as reserved and designated where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Nonexpendable trusts” represents amounts held by the City for which only investment earnings may be expended.

“Stabilization” represents the amount accumulated for general and/or capital purposes upon approval of the Council.

I. Long-Term Debt

Long-term financing for Governmental Funds is recorded in the General Long-Term Obligations Account Group. Principal and interest paid on long-term debt are recorded in the General Fund and Special Revenue Fund.

Long-term financing of the Enterprise Fund is recorded in the General Long-Term Obligations Account Group since the City is using the modified accrual basis of accounting for this Fund, which is a departure from GAAP. Principal and interest paid on Enterprise Fund related long-term debt is recorded in the Enterprise Fund.

J. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. The City has not maintained sufficient records to accumulate its compensated absence liability for its Governmental Funds or Enterprise Fund, which is a departure from GAAP.

K. Investment Income

Investment income from Special Revenue and Capital Projects Funds is legally assigned to the General Fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income from the Nonexpendable Trust Fund is legally assigned to the Expendable Trust Fund, unless trust agreements stipulate otherwise.

L. Post Retirement Benefits

In addition to providing pension benefits, the City provides health insurance coverage for retired employees and their survivors. The City recognizes the cost of providing health insurance by recording its share of insurance premiums in the General Fund in the fiscal year paid. For the fiscal year ended June 30, 2002, this expenditure totaled approximately \$729,000. There were approximately 326 participants eligible to receive benefits at June 30, 2002.

M. Use of Estimates

The preparation of general purpose financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the general purpose 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.

N. Total Column (Memorandum Only)

The total column used on the Combined General Purpose Financial Statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYA. Budgetary Information

Municipal Law requires the City to adopt a balanced budget that is approved by the Council. The Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted by categories that are broken down by personal services, expenses, debt service and capital outlay and are mandated by Municipal Law. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Council approval via a Supplemental Council Order.

The majority of the City's appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the City is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Council.

The City adopts an annual budget for the General Fund and Water and Sewer Special Revenue Funds in conformity with the guidelines described above. The City Auditor has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the City's accounting system.

B. Budgetary - GAAP Reconciliation

Accounting principles followed for purposes of preparing general purpose financial statements on a budgetary basis differ from those used to present general purpose financial statements in conformity with GAAP. A reconciliation of budgetary-basis to GAAP-basis results for the General Fund and budgeted Special Revenue Funds for the fiscal year ended June 30, 2002, is presented below:

Budgetary – GAAP Reconciliation

	General Fund	Special Revenue
Net change in fund balance - budgetary basis.....	\$ 145,103	\$ 343,956
<u>Perspective difference:</u>		
Excess of revenues and other financing sources (uses) over expenditures - non-budgeted special revenue fund.....	-	388,537
<u>Basis of accounting differences:</u>		
Net change in revenues.....	(77,401)	164,636
Net change in recording expenditures.....	<u>(155,450)</u>	<u>-</u>
Net change in fund balance - GAAP basis.....	<u>\$ (87,748)</u>	<u>\$ 897,129</u>

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2002, actual expenditures and encumbrances exceeded appropriations for State and County Charges. This over-expenditure will be funded through available fund balance during fiscal year 2002.

D. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2002, within the Special Revenue and Capital Projects Funds. These deficits will be funded through available fund balance and bond proceeds during fiscal year 2002.

NOTE 3 - CASH AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all Funds. Each Fund Type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-Term Investments". The deposits and investments of the Trust Funds are held separately from those of other City funds.

At fiscal year-end, the carrying amount of the City's deposits totaled \$29,888,469 and the bank balance totaled \$29,259,441. Of the bank balance, \$14,299,464 was covered by Federal Depository Insurance, the Depository Insurance Fund and the Securities Investor Protection Corporation, and \$14,959,977 was uninsured and uncollateralized.

The June 30, 2002, carrying value of the City's deposits consisted of the following:

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

The City participates in the Pool, which meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Investments are classified as to collateral risk into the following three categories:

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

The following is a reconciliation of the City's investments as summarized above to the balance as reported in the combined balance sheet:

The following is a reconciliation of the City's balance of cash and short-term investments as reported on the combined balance sheet at June 30, 2002:

	<u>Cash and Short-term Investments</u>	<u>Investments</u>	<u>Total</u>
Cash balances at June 30, 2002:			
Checking, savings and NOW accounts.....	\$ 10,855,649	\$ -	\$ 10,855,649
Certificates of deposit.....	7,246,256	-	7,246,256
Money market deposits.....	<u>9,578,940</u>	<u>-</u>	<u>9,578,940</u>
Total carrying amount of cash.....	<u>27,680,845</u>	<u>-</u>	<u>27,680,845</u>
<u>Investments not subject to categorization:</u>			
MMDT.....	1,391,333	-	1,391,333
Mutual funds.....	814,602	-	814,602
Money market mutual funds.....	1,689	-	1,689
<u>Investments subject to categorization (Category 3):</u>			
Equity securities.....	<u>-</u>	<u>575,261</u>	<u>575,261</u>
Total investments.....	<u>2,207,624</u>	<u>575,261</u>	<u>2,782,885</u>
Total cash and short-term investments and investments as reported on the combined balance sheet.....	\$ <u>29,888,469</u>	\$ <u>575,261</u>	\$ <u>30,463,730</u>

NOTE 4 - PENSION PLAN

Plan Description - The City contributes to the Hampden County Contributory Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the Hampden County Retirement Board. Substantially all employees are members of the System except for public school teachers and certain administrators who are members of the Commonwealth of Massachusetts' Teachers Contributory Retirement System (MTCRS) to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are funded by the Commonwealth of Massachusetts (the Commonwealth). The amount of these on-behalf payments totaled approximately \$2,757,000 for the fiscal year ended June 30, 2002, and, accordingly, are reported in the General Fund as Intergovernmental Revenues and Pension Expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the Hampden County Retirement Board and are borne by the System. The System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 50 Court Street, Springfield, Massachusetts, 01103.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution, which is apportioned among the employers based on active current payroll. The

contributions of plan members and the City are governed by Chapter 32 of the MGL. The City's contributions to the System for the fiscal years ended June 30, 2002, 2001 and 2000 were \$1,701,346, \$1,630,222 and \$1,577,222, respectively, which equaled its required contribution for each fiscal year.

Noncontributory Retirement Allowance - The City pays the entire retirement allowance for certain retirees who are eligible for non-contributory benefits and are not members of the System. The general fund expenditure for fiscal year 2002 totaled approximately \$33,000.

NOTE 5 – CAPITAL LEASES

In order to finance the acquisition of equipment, the City has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation.

At June 30, 2002, the City's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$101,543. This liability is reported in the General Long-Term Obligations Account Group. Equipment acquired under these capital leases total approximately \$300,000.

The following is a schedule of future minimum lease payments under non-cancelable leases for the City as of June 30, 2002:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2003.....	\$ 42,572
2004.....	42,571
2005.....	<u>27,205</u>
Total minimum lease payments.....	112,348
Less: amounts representing interest.....	<u>(10,805)</u>
Present value of minimum lease payments.....	<u>\$ 101,543</u>

NOTE 6 – SHORT-TERM FINANCING

The City is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations of the City and carry maturity dates that are limited by statute. Interest expenditures for short-term borrowings are accounted for in the General Fund, Special Revenue Fund and Enterprise Funds.

The City did not have any short-term debt outstanding as of June 30, 2002.

NOTE 7 - LONG-TERM DEBT

State law permits the City, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 2½ of its equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, a City may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the City's outstanding indebtedness at June 30, 2002, and the debt service requirements follow.

Bonds and Notes Payable Schedule

Project	Interest Rate (%)	Outstanding at June 30, 2001	Issued	Redeemed	Outstanding at June 30, 2002
School Project.....	7.50	\$ 9,060,000	\$ -	\$ 540,000	\$ 8,520,000
School Project.....	4.49	8,940,000	-	530,000	8,410,000
Junior High Heat and Oil.....	4.98	772,500	-	81,500	691,000
Tuckahoe Land Acquisition.....	4.93	780,000	-	60,000	720,000
Fire Headquarters.....	4.93	1,435,000	-	105,000	1,330,000
Title V sewer*.....	4.93	48,919	-	2,718	46,201
Westfield River Pump Station*.....	0.00	739,137	-	36,586	702,551
CSO Project*.....	0.00	2,167,542	-	91,632	2,075,910
Feeding Hills Sewer IV.....	6.75	450,000	-	150,000	300,000
Campbell/Florida drive sewer.....	4.15	490,000	-	-	490,000
Main Street Sewer.....	4.15	750,000	-	-	750,000
High School Library.....	4.15	750,000	-	-	750,000
Town Library.....	4.15	3,360,000	890,000	-	4,250,000
Total governmental bonds and notes payable.....		<u>29,743,098</u>	<u>890,000</u>	<u>1,597,436</u>	<u>29,035,662</u>
Agawam Country Club.....	4.98	832,500	-	83,500	749,000
Golf Course Irrigation.....	4.93	235,000	-	25,000	210,000
Total enterprise bonds payable.....		<u>1,067,500</u>	<u>-</u>	<u>108,500</u>	<u>959,000</u>
Total bonds and notes payable.....		<u>\$ 30,810,598</u>	<u>\$ 890,000</u>	<u>\$ 1,705,936</u>	<u>\$ 29,994,662</u>

*Massachusetts Water Pollution Abatement Trust (MWPAT) Notes.

Debt service requirements for principal and interest for Governmental and Enterprise bonds and notes payable in future fiscal years are as follows:

GOVERNMENTAL AND ENTERPRISE BONDS AND NOTES PAYABLE

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003.....	\$ 2,034,189	\$ 1,365,422	\$ 3,399,611
2004.....	2,037,692	1,256,217	3,293,909
2005.....	1,886,493	1,163,109	3,049,602
2006.....	1,885,598	1,080,397	2,965,995
2007.....	1,890,323	998,907	2,889,230
2008.....	1,896,001	914,948	2,810,949
2009.....	1,896,690	829,627	2,726,317
2010.....	1,897,339	743,495	2,640,834
2011.....	1,901,768	656,026	2,557,794
2012.....	1,730,133	568,816	2,298,949
2013.....	1,738,691	485,067	2,223,758
2014.....	1,742,452	402,860	2,145,312
2015.....	1,686,425	321,107	2,007,532
2016.....	1,517,717	242,627	1,760,344
2017.....	1,517,717	169,610	1,687,327
2018.....	1,472,717	96,631	1,569,348
2019.....	467,717	49,294	517,011
2020.....	470,000	26,494	496,494
2021.....	325,000	7,516	332,516
Totals.....	\$ <u>29,994,662</u>	\$ <u>11,378,169</u>	\$ <u>41,372,831</u>

The Commonwealth approved school construction assistance to the City. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service interest expenditures of general obligation school bonds outstanding and a capital grant to reimburse the City for allowable construction expenditures. During fiscal year 2002, the City received approximately \$1,113,000 of such assistance. Approximately \$17,590,000 will be received in future years. Of this amount approximately \$4,333,080 represents reimbursement of long-term interest cost and approximately \$13,256,950 represents reimbursement of approved construction costs. Accordingly, a \$13,256,950 intergovernmental receivable and corresponding deferred revenue have been reported in these general purpose financial statements.

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for future principal in the amount of \$524,722 and future interest costs of \$1,095,423. Thus, net MWPAT loan repayments including interest are scheduled to be \$1,620,145. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying general purpose financial statements. In fiscal year 2002 principal and interest subsidies totaled \$17,441 and \$113,401, respectively.

The City is subject to various debt limits by statute, and may issue additional general obligation debt under the normal debt limit. As of June 30, 2002, the City's authorized and unissued debt consists of the following:

Purpose	Amount
CSO Project.....	\$ 132,241
Aerial Platform Truck.....	<u>750,000</u>
Total	<u>\$ 882,241</u>

General Long-Term Obligations Account Group

The City records its liability for long-term bonds and notes in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the City are court judgments and its obligations under capital leases. These liabilities will be liquidated in future fiscal years from Governmental Funds and the Enterprise Fund.

During the fiscal year ended June 30, 2002, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group:

	Balance June 30, 2001	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2002
Long-Term Bonds and Notes.....	\$ 30,808,901	\$ 890,000	\$ (1,705,936)	\$ -	\$ 29,992,965
Court Judgments.....	1,400,000	-	-	1,800,000	3,200,000
Capital Leases.....	<u>164,482</u>	<u>-</u>	<u>-</u>	<u>(62,939)</u>	<u>101,543</u>
Total.....	<u>\$ 32,373,383</u>	<u>\$ 890,000</u>	<u>\$ (1,705,936)</u>	<u>\$ 1,737,061</u>	<u>\$ 33,294,508</u>

NOTE 8 – RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

The City participates in premium-based health care plans for its employees and retirees. The City is self-insured for its workers' compensation and unemployment compensation activities.

Workers' compensation activities are accounted for in the City's Internal Service Fund (the Fund) where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Unemployment compensation activities are accounted for in the General Fund and are funded on a pay-as-you go basis from annual appropriations. Unemployment compensation expenditures totaled approximately \$12,000 for the fiscal year ended June 30, 2002.

Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded from annual appropriations. The City's contributions to the Fund are based upon a percentage of the City's current payroll expenditures and claims paid out of the Fund. The City estimates its future workers' compensation liability based on history and injury type.

At June 30, 2002, the amount of the liability for workers' compensation claims totaled \$22,000. This liability is the City's best estimate based on available information. Changes in the reported liability since July 1, 2000 are as follows:

Workers' Compensation

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2001.....	\$ 120,500	\$ 125,740	\$ (119,800)	\$ 126,440
Fiscal Year 2002.....	126,440	31,097	(135,537)	22,000

The City's liability for unemployment compensation is not material at June 30, 2002, and therefore is not reported.

NOTE 9 – STABILIZATION FUND

The City has \$3,712,179 in a Stabilization Fund reported as an Expendable Trust Fund. During fiscal year 2002, the City transferred \$400,000 into the Stabilization Fund. The City may use the Stabilization Fund for general and/or capital purposes upon Council approval.

NOTE 10 – COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$3,000,000 for library expansion, water, sewer and road projects

NOTE 11 - CONTINGENCIES

The City participates in a number of federal award programs. Although the City grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2002, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2002, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2002.

NOTE 12 – COURT JUDGMENT

During fiscal year 1999, a court judgment, related to an eminent domain taking, was rendered against the City that requires the City to pay \$2,500,000 plus interest to the plaintiff. The City had paid \$1,100,000 in prior years and the final payment of \$3,200,000 was paid in FY2003. The amount is reported as a liability in the General Long-Term Obligations Account Group.