

***CITY OF AGAWAM, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***FISCAL YEAR ENDED JUNE 30, 2004***

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JUNE 30, 2004

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Agawam, Massachusetts, as of and for the fiscal year ended June 30, 2004, 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 Agawam, Massachusetts' management. Our responsibility is to express opinions 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 *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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Agawam, Massachusetts, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof 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 November 5, 2004, 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.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

November 5, 2004

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the City of Agawam, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. The City complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements. We encourage readers to consider the information presented in this report.

### ***Overview of the Financial Statements***

This discussion and analysis are intended to serve as an introduction to the City of Agawam's basic financial statements. These 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 required 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 finances, in a manner similar to 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, culture and recreation, pension benefits, property and liability insurance, employee benefits, capital outlay, interest and state and county charges. The business-type activities include the activities of golf, water and sewer services.

**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 statements focus on *near-term inflows 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*.

The City of Agawam adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The City maintains two types of proprietary funds.

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its golf, water and sewer activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to workers' compensation.

**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 propriety funds.

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

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Governmental Activity assets exceeded liabilities by \$81,350,905 at the close of FY2004.

|  | Balance at<br>June 30,<br>2004 | Balance at<br>June 30,<br>2003 |
|--|--------------------------------|--------------------------------|
|  | <u>                    </u>    | <u>                    </u>    |
| <b>Assets:</b>                               |                                |                                |
| Current assets.....                          | \$ 26,702,900                  | \$ 26,147,351                  |
| Noncurrent assets (excluding capital).....   | 11,647,097                     | 12,342,485                     |
| Capital assets.....                          | 72,736,974                     | 74,442,169                     |
| <b>Total assets.....</b>                     | <b>111,086,971</b>             | <b>112,932,005</b>             |
| <b>Liabilities:</b>                          |                                |                                |
| Current liabilities (excluding debt).....    | 5,497,089                      | 4,885,717                      |
| Noncurrent liabilities (excluding debt)..... | 1,050,212                      | 839,943                        |
| Current debt.....                            | 1,709,218                      | 1,579,218                      |
| Noncurrent debt.....                         | 21,479,547                     | 23,188,765                     |
| <b>Total liabilities.....</b>                | <b>29,736,066</b>              | <b>30,493,643</b>              |
| <b>Net Assets:</b>                           |                                |                                |
| Capital assets net of related debt.....      | 63,140,752                     | 63,449,165                     |
| Restricted.....                              | 1,912,760                      | 1,825,611                      |
| Unrestricted.....                            | 16,297,393                     | 17,163,586                     |
| <b>Total net assets.....</b>                 | <b>\$ 81,350,905</b>           | <b>\$ 82,438,362</b>           |

Net assets of \$63,140,752 (78%) reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 the governmental net assets \$1,912,760 (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$16,297,393 (20%) may be used to meet the government’s ongoing obligations to citizens and creditors.

The governmental activities net assets decreased by \$1,087,457 during the current fiscal year. This is mainly due to depreciation expense exceeding debt service principal payments.

**Governmental Activities**

|  | Balance at<br>June 30,<br>2004 | Balance at<br>June 30,<br>2003 |
|--|--------------------------------|--------------------------------|
|  | <u>2004</u>                    | <u>2003</u>                    |
| <b>Program revenues:</b>                     |                                |                                |
| Charges for services.....                    | \$ 5,057,494                   | \$ 4,727,012                   |
| Operating grants and contributions.....      | 17,510,415                     | 19,489,293                     |
| Capital grants and contributions.....        | 526,643                        | 871,283                        |
| <b>General Revenues:</b>                     |                                |                                |
| Real estate and personal property taxes..... | 34,344,490                     | 34,549,814                     |
| Motor vehicle and other excise taxes.....    | 3,101,500                      | 3,129,201                      |
| Nonrestricted grants and contributions.....  | 3,334,516                      | 3,557,508                      |
| Unrestricted investment income.....          | 333,872                        | 471,966                        |
| Gain on sale of capital assets.....          | -                              | 87,100                         |
| Miscellaneous revenues.....                  | 236,980                        | 190,667                        |
| <b>Total revenues.....</b>                   | <b><u>64,445,910</u></b>       | <b><u>67,073,844</u></b>       |
| <b>Expenses:</b>                             |                                |                                |
| General Government.....                      | 2,483,215                      | 2,543,750                      |
| Public Safety.....                           | 8,415,037                      | 8,215,640                      |
| Education.....                               | 35,398,044                     | 33,694,340                     |
| Public Works.....                            | 5,221,322                      | 6,133,697                      |
| Human Services.....                          | 951,648                        | 875,020                        |
| Leisure Services.....                        | 1,378,748                      | 1,246,130                      |
| Pension benefits.....                        | 5,571,650                      | 4,970,903                      |
| Property and liability insurance.....        | 433,790                        | 521,991                        |
| Employee benefits.....                       | 4,375,357                      | 3,805,668                      |
| Claims and judgments.....                    | -                              | 3,002,028                      |
| Interest.....                                | 1,042,414                      | 1,092,427                      |
| State and county charges.....                | 412,142                        | 469,312                        |
| <b>Total expenses.....</b>                   | <b><u>65,683,367</u></b>       | <b><u>66,570,906</u></b>       |
| <b>Transfers.....</b>                        | <b><u>150,000</u></b>          | <b><u>369,313</u></b>          |
| <b>Change in net assets.....</b>             | <b><u>\$ (1,087,457)</u></b>   | <b><u>\$ 872,251</u></b>       |

The Governmental Expenses totaled \$65,683,367 of which \$23,094,552 (35%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General Revenues totaled \$41,351,358, primarily coming from property taxes, motor vehicle excise, non-restricted state aid and other miscellaneous charges. Revenues decreased by approximately \$2.5 million from fiscal year 2003 due to a reduction in grants. Expenses decreased by \$900 thousand which is due to a \$1.7 million increase in education, a \$600 thousand increase in pension and a decrease of a \$3 million one time legal settlement raised and paid by the City in fiscal year 2003.

**Business-Type Financial Analysis**

For the City’s business-type activities, assets exceeded liabilities by \$27,414,574 at the close of FY2004.

|  | Balance at<br>June 30,<br>2004 | Balance at<br>June 30,<br>2003 |
|--|--------------------------------|--------------------------------|
|  | <u>2004</u>                    | <u>2003</u>                    |
| <b>Assets:</b>                               |                                |                                |
| Current assets.....                          | \$ 7,218,646                   | \$ 7,573,806                   |
| Noncurrent assets (excluding capital).....   | 854,234                        | 890,357                        |
| Capital assets.....                          | 23,990,749                     | 23,182,124                     |
| <b>Total assets.....</b>                     | <b><u>32,063,629</u></b>       | <b><u>31,646,287</u></b>       |
| <b>Liabilities:</b>                          |                                |                                |
| Current liabilities (excluding debt).....    | 555,219                        | 163,889                        |
| Noncurrent liabilities (excluding debt)..... | 2,640                          | 304,956                        |
| Current debt.....                            | 298,355                        | 444,803                        |
| Noncurrent debt.....                         | 3,792,841                      | 4,091,196                      |
| <b>Total liabilities.....</b>                | <b><u>4,649,055</u></b>        | <b><u>5,004,844</u></b>        |
| <b>Net Assets:</b>                           |                                |                                |
| Capital assets net of related debt.....      | 19,874,552                     | 19,524,586                     |
| Unrestricted.....                            | 7,540,022                      | 7,116,857                      |
| <b>Total net assets.....</b>                 | <b><u>\$ 27,414,574</u></b>    | <b><u>\$ 26,641,443</u></b>    |

Business-type golf, water and sewer activities had total nets assets of \$27,414,574. Net assets of \$19,874,552 (72%) represent the investment in capital assets while \$7,540,022 (28%) is unrestricted.

The Water Enterprise Fund ended FY04 with \$13,742,725 in Net Assets of which \$10,000,688 was invested in capital assets net of related debt. Net assets increased by \$676,308 which mainly relates to an increase in operating revenues of approximately \$466,000 due to increased usage and more aggressive collection procedures.

The Sewer Enterprise Fund ended FY04 with \$12,641,358 in Net Assets of which \$9,113,715 was invested in capital assets net of related debt. The Net Assets increased by \$131,566. Although operating revenues were up by approximately \$540,000 due to rate increases and increased usage, expenses were also up by approximately \$140,000 due to ongoing sewer improvement projects.

The Golf Course Enterprise Fund ended FY04 with \$1,030,491 in Net Assets of which \$760,149 was invested in capital assets net of related debt. Net assets decreased by (\$34,743) which mainly relates to a decrease in play due to an increased number of rainy days.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Business-type Activities**

|   | Balance at<br>June 30,<br>2004 | Balance at<br>June 30,<br>2003 |
|---|--------------------------------|--------------------------------|
|   | <u>                    </u>    | <u>                    </u>    |
| <b>Program revenues:</b>                |                                |                                |
| Charges for services.....               | \$ 5,688,860                   | \$ 4,799,818                   |
| Operating grants and contributions..... | 215,197                        | 195,351                        |
| Capital grants and contributions.....   | 438,375                        | -                              |
| <b>Total revenues.....</b>              | <b><u>6,342,432</u></b>        | <b><u>4,995,169</u></b>        |
| <b>Expenses:</b>                        |                                |                                |
| Water.....                              | 2,239,421                      | 2,258,048                      |
| Sewer.....                              | 2,433,996                      | 2,313,231                      |
| Golf.....                               | 745,884                        | 486,962                        |
| <b>Total expenses.....</b>              | <b><u>5,419,301</u></b>        | <b><u>5,058,241</u></b>        |
| <b>Transfers.....</b>                   | <b><u>(150,000)</u></b>        | <b><u>(288,813)</u></b>        |
| <b>Change in net assets.....</b>        | <b><u>\$ 773,131</u></b>       | <b><u>\$ (351,885)</u></b>     |

**Financial Analysis of the Government’s Funds**

As noted earlier, the City uses fund accounting 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 \$18,252,343, of which \$8,627,778 is for the general fund and \$9,624,565 is for Nonmajor governmental funds. Cumulatively there was a decrease of \$512,108 in fund balances from the prior year.

The general fund had a decrease of \$1,323,646, which was the result of a planned use of reserves to balance the FY04 budget. The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,362,151, while total fund balance totaled \$8,627,778. 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 7% of total general fund expenditures, while total fund balance represents 15% of that same amount.

## ***General Fund Budgetary Highlights***

The City budgeted to use approximately \$3.7 million in available reserves to balance the fiscal year 2004 budget. Actual revenues received came in approximately \$1.3 million over the budget and expenditures and encumbrances were approximately \$1 million under budget. Therefore, actual reserves used were significantly less than budgeted.

## ***Capital Asset and Debt Administration***

In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming fiscal year and a Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$97 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, equipment, vehicles and infrastructure.

Major capital asset events during the current fiscal year included the acquisition of the Department of Public Works Facility for approximately \$1.4 million. This facility was purchased with funds from the general fund and water and sewer enterprise funds. Another major addition to capital assets was for street resurfacing projects included as infrastructure for approximately \$.5 million.

The approximately \$479,000 in additions to the water fund fixed assets are attributable to the construction of new water lines throughout the City.

Outstanding long-term debt of the general government, as of June 30, 2004, totaled \$23,188,765, of which \$15,998,000 is related to school projects that is supported by the Commonwealth of Massachusetts. The State is obligated to provide school construction assistance for approved school projects. The assistance is paid annually to support the debt service payments over time. At June 30, 2004 the City is scheduled to receive \$15,376,120 of future principal and interest reimbursements.

Of the remaining bonds outstanding, \$3,800,000 was used for the library, \$1,120,000 was used for the Fire Station headquarters, \$1,480,000 was used for land acquisition, \$750,000 was used to purchase fire equipment and \$40,765 was used for Title V sewer. There was no new long term debt issued in fiscal year 2004. The City budgeted and paid down \$1,579,218 by the general fund.

During fiscal year 2004, the City retired \$1,630,000 in BANS through bond proceeds. The BANS were classified as long term debt in the fiscal year 2003 financial statements when the bond proceeds were recognized.

The sewer and golf enterprise funds have \$3,349,196 and \$742,000, respectively of outstanding long-term debt at year-end that is fully supported by rates and does not rely on a general fund subsidy.

Please refer to the notes for further discussion of the major capital and debt activity.

## ***Requests for Information***

This financial report is designed to provide a general overview of the City of Agawam'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 the City Auditor, 36 Main Street, Agawam, Massachusetts 01001.

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# ***Basic Financial Statements***

**STATEMENT OF NET ASSETS**

JUNE 30, 2004

|  | <i>Primary Government</i>  |                             |                       |
|--|----------------------------|-----------------------------|-----------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total                 |
| <b>ASSETS</b>  |                            |                             |                       |
| <b>CURRENT:</b>                                      |                            |                             |                       |
| Cash and short-term investments.....                 | \$ 22,289,745              | \$ 5,463,400                | \$ 27,753,145         |
| Investments.....                                     | 580,427                    | -                           | 580,427               |
| Receivables, net of allowance for uncollectibles:    |                            |                             |                       |
| Real estate and personal property taxes.....         | 637,900                    | -                           | 637,900               |
| Tax liens.....                                       | 778,399                    | -                           | 778,399               |
| Motor vehicle excise taxes.....                      | 379,850                    | -                           | 379,850               |
| User fees.....                                       | -                          | 1,719,114                   | 1,719,114             |
| Departmental and other.....                          | 105,995                    | -                           | 105,995               |
| Intergovernmental.....                               | 1,680,740                  | 36,132                      | 1,716,872             |
| Other assets.....                                    | 249,844                    | -                           | 249,844               |
| <b>NONCURRENT:</b>                                   |                            |                             |                       |
| Receivables, net of allowance for uncollectibles:    |                            |                             |                       |
| Intergovernmental.....                               | 11,647,097                 | 854,234                     | 12,501,331            |
| Capital assets, net of accumulated depreciation:     |                            |                             |                       |
| Nondepreciable.....                                  | 3,690,569                  | 1,687,592                   | 5,378,161             |
| Depreciable.....                                     | 69,046,405                 | 22,303,157                  | 91,349,562            |
| <b>TOTAL ASSETS.....</b>                             | <b>111,086,971</b>         | <b>32,063,629</b>           | <b>143,150,600</b>    |
| <b>LIABILITIES</b>                                   |                            |                             |                       |
| <b>CURRENT:</b>                                      |                            |                             |                       |
| Warrants payable.....                                | 1,440,716                  | 455,712                     | 1,896,428             |
| Accrued payroll.....                                 | 1,460,907                  | -                           | 1,460,907             |
| Tax refunds payable.....                             | 550,000                    | -                           | 550,000               |
| Accrued interest.....                                | 298,043                    | 63,873                      | 361,916               |
| Payroll withholdings.....                            | 517,426                    | -                           | 517,426               |
| Abandoned property.....                              | 103,637                    | -                           | 103,637               |
| Other liabilities.....                               | 216,490                    | 294                         | 216,784               |
| Capital lease obligations.....                       | 35,527                     | 25,001                      | 60,528                |
| Compensated absences.....                            | 843,343                    | 10,339                      | 853,682               |
| Workers' compensation.....                           | 31,000                     | -                           | 31,000                |
| Bonds and notes payable.....                         | 1,709,218                  | 298,355                     | 2,007,573             |
| <b>NONCURRENT:</b>                                   |                            |                             |                       |
| Capital lease obligations.....                       | 31,981                     | -                           | 31,981                |
| Compensated absences.....                            | 1,018,231                  | 2,640                       | 1,020,871             |
| Bonds and notes payable.....                         | 21,479,547                 | 3,792,841                   | 25,272,388            |
| <b>TOTAL LIABILITIES.....</b>                        | <b>29,736,066</b>          | <b>4,649,055</b>            | <b>34,385,121</b>     |
| <b>NET ASSETS</b>                                    |                            |                             |                       |
| Invested in capital assets, net of related debt..... | 63,140,752                 | 19,874,552                  | 83,015,304            |
| Restricted for:                                      |                            |                             |                       |
| Permanent funds:                                     |                            |                             |                       |
| Expendable.....                                      | 269,714                    | -                           | 269,714               |
| Nonexpendable.....                                   | 357,178                    | -                           | 357,178               |
| Other purposes.....                                  | 1,285,868                  | -                           | 1,285,868             |
| Unrestricted.....                                    | 16,297,393                 | 7,540,022                   | 23,837,415            |
| <b>TOTAL NET ASSETS.....</b>                         | <b>\$ 81,350,905</b>       | <b>\$ 27,414,574</b>        | <b>\$ 108,765,479</b> |

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2004

| Functions/Programs                         | Expenses             | Program Revenues     |                                    |                                  | Net (Expense) Revenue  |
|--|----------------------|----------------------|------------------------------------|----------------------------------|------------------------|
|  |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |                        |
| <b>Primary Government:</b>                 |                      |                      |                                    |                                  |                        |
| <i>Governmental Activities:</i>            |                      |                      |                                    |                                  |                        |
| General government.....                    | \$ 2,483,215         | \$ 901,331           | \$ 31,631                          | \$ -                             | \$ (1,550,253)         |
| Public safety.....                         | 8,415,037            | 1,789,762            | 273,546                            | -                                | (6,351,729)            |
| Education.....                             | 35,398,044           | 1,384,992            | 13,024,354                         | -                                | (20,988,698)           |
| Public works.....                          | 5,221,322            | 528,213              | -                                  | 526,643                          | (4,166,466)            |
| Human services.....                        | 951,648              | 172,938              | 102,781                            | -                                | (675,929)              |
| Culture and recreation.....                | 1,378,748            | 280,258              | 41,359                             | -                                | (1,057,131)            |
| Pension benefits.....                      | 5,571,650            | -                    | 3,506,654                          | -                                | (2,064,996)            |
| Property and liability insurance.....      | 433,790              | -                    | -                                  | -                                | (433,790)              |
| Employee benefits.....                     | 4,375,357            | -                    | -                                  | -                                | (4,375,357)            |
| Interest.....                              | 1,042,414            | -                    | 530,090                            | -                                | (512,324)              |
| State and county charges.....              | 412,142              | -                    | -                                  | -                                | (412,142)              |
| <b>Total Governmental Activities.....</b>  | <b>65,683,367</b>    | <b>5,057,494</b>     | <b>17,510,415</b>                  | <b>526,643</b>                   | <b>(42,588,815)</b>    |
| <i>Business-Type Activities:</i>           |                      |                      |                                    |                                  |                        |
| Water.....                                 | 2,239,421            | 2,474,469            | 2,885                              | 438,375                          | 676,308                |
| Sewer.....                                 | 2,433,996            | 2,506,476            | 209,086                            | -                                | 281,566                |
| Golf.....                                  | 745,884              | 707,915              | 3,226                              | -                                | (34,743)               |
| <b>Total Business-Type Activities.....</b> | <b>5,419,301</b>     | <b>5,688,860</b>     | <b>215,197</b>                     | <b>438,375</b>                   | <b>923,131</b>         |
| <b>Total Primary Government.....</b>       | <b>\$ 71,102,668</b> | <b>\$ 10,746,354</b> | <b>\$ 17,725,612</b>               | <b>\$ 965,018</b>                | <b>\$ (41,665,684)</b> |

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (Continued)**

FISCAL YEAR ENDED JUNE 30, 2004

|   | Primary Government         |                             |                        |
|---|----------------------------|-----------------------------|------------------------|
|   | Governmental<br>Activities | Business-Type<br>Activities | Total                  |
| <b>Changes in net assets:</b>   |                            |                             |                        |
| Net (expense) revenue from previous page.....                               | \$ <b>(42,588,815)</b>     | \$ <b>923,131</b>           | \$ <b>(41,665,684)</b> |
| <i>General revenues:</i>  |                            |                             |                        |
| Real estate and personal property taxes,<br>net of tax refunds payable..... | 34,344,490                 | -                           | 34,344,490             |
| Motor vehicle excise taxes.....   | 3,101,500                  | -                           | 3,101,500              |
| Grants and contributions not restricted to<br>specific programs.....        | 3,334,516                  | -                           | 3,334,516              |
| Unrestricted investment income.....   | 333,872                    | -                           | 333,872                |
| Miscellaneous.....  | 236,980                    | -                           | 236,980                |
| <i>Transfers, net</i> .....   | 150,000                    | (150,000)                   | -                      |
| Total general revenues and transfers.....                                   | 41,501,358                 | (150,000)                   | 41,351,358             |
| Change in net assets.....   | (1,087,457)                | 773,131                     | (314,326)              |
| <i>Net Assets:</i>  |                            |                             |                        |
| Beginning of year.....  | 82,438,362                 | 26,641,443                  | 109,079,805            |
| End of year.....  | \$ <u>81,350,905</u>       | \$ <u>27,414,574</u>        | \$ <u>108,765,479</u>  |

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2004

| <b>ASSETS</b>                                      | General              | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|----------------------|-----------------------------------|--------------------------------|
| Cash and short-term investments.....               | \$ 12,237,629        | \$ 9,355,918                      | \$ 21,593,547                  |
| Investments.....                                   | -                    | 580,427                           | 580,427                        |
| Receivables, net of uncollectibles:                |                      |                                   |                                |
| Real estate and personal property taxes.....       | 637,900              | -                                 | 637,900                        |
| Tax liens.....                                     | 778,399              | -                                 | 778,399                        |
| Motor vehicle excise taxes.....                    | 379,850              | -                                 | 379,850                        |
| Departmental and other.....                        | 16,053               | 89,942                            | 105,995                        |
| Intergovernmental.....                             | 12,337,294           | 990,543                           | 13,327,837                     |
| Other assets.....                                  | -                    | 249,844                           | 249,844                        |
| <b>TOTAL ASSETS.....</b>                           | <b>\$ 26,387,125</b> | <b>\$ 11,266,674</b>              | <b>\$ 37,653,799</b>           |
| <br><b>LIABILITIES AND FUND BALANCES</b>           |                      |                                   |                                |
| <b>LIABILITIES:</b>                                |                      |                                   |                                |
| Warrants payable.....                              | \$ 879,092           | \$ 561,624                        | \$ 1,440,716                   |
| Accrued payroll.....                               | 1,460,907            | -                                 | 1,460,907                      |
| Tax refunds payable.....                           | 550,000              | -                                 | 550,000                        |
| Payroll withholdings.....                          | 517,426              | -                                 | 517,426                        |
| Abandoned property.....                            | 103,637              | -                                 | 103,637                        |
| Other liabilities.....                             | 216,490              | -                                 | 216,490                        |
| Deferred revenues.....                             | 14,031,795           | 1,080,485                         | 15,112,280                     |
| <b>TOTAL LIABILITIES.....</b>                      | <b>17,759,347</b>    | <b>1,642,109</b>                  | <b>19,401,456</b>              |
| <br><b>FUND BALANCES:</b>                          |                      |                                   |                                |
| Reserved for:                                      |                      |                                   |                                |
| Encumbrances and continuing appropriations.....    | 1,765,627            | -                                 | 1,765,627                      |
| Perpetual permanent funds.....                     | -                    | 357,178                           | 357,178                        |
| Unreserved:  |                      |                                   |                                |
| Designated for subsequent year's expenditures..... | 2,500,000            | -                                 | 2,500,000                      |
| Undesignated, reported in:                         |                      |                                   |                                |
| General fund.....                                  | 4,362,151            | -                                 | 4,362,151                      |
| Special revenue funds.....                         | -                    | 7,596,066                         | 7,596,066                      |
| Capital projects funds.....                        | -                    | 1,401,607                         | 1,401,607                      |
| Permanent funds.....                               | -                    | 269,714                           | 269,714                        |
| <b>TOTAL FUND BALANCES.....</b>                    | <b>8,627,778</b>     | <b>9,624,565</b>                  | <b>18,252,343</b>              |
| <b>TOTAL LIABILITIES AND FUND BALANCES.....</b>    | <b>\$ 26,387,125</b> | <b>\$ 11,266,674</b>              | <b>\$ 37,653,799</b>           |

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2004

|   |              |                      |
|---|--------------|----------------------|
| Total governmental fund balances.....   |              | \$ 18,252,343        |
| Capital assets (net) used in governmental activities are not financial resources<br>and, therefore, are not reported in the funds.....                      |              | 72,736,974           |
| Accounts receivable are not available to pay for current-period<br>expenditures and, therefore, are deferred in the funds.....                              |              | 15,112,280           |
| Internal service funds are used by management to account for retirees'<br>health insurance and workers' compensation activities.                            |              |                      |
| The assets and liabilities of the internal service funds are included in<br>the governmental activities in the statement of net assets.....                 |              | 665,198              |
| In the statement of activities, interest is accrued on outstanding long-term debt,<br>whereas in governmental funds interest is not reported until due..... |              | (298,043)            |
| Long-term liabilities are not due and payable in the current period and, therefore,<br>are not reported in the governmental funds                           |              |                      |
| Bonds and notes payable.....  | (23,188,765) |                      |
| Capital lease obligations.....  | (67,508)     |                      |
| Compensated absences.....   | (1,861,574)  |                      |
| Net effect of reporting long-term liabilities.....  |              | <u>(25,117,847)</u>  |
| Net assets of governmental activities.....  |              | <u>\$ 81,350,905</u> |

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2004

|   | General             | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|-----------------------------------|--------------------------------|
| <b>REVENUES:</b>  |                     |                                   |                                |
| Real estate and personal property taxes,<br>net of tax refunds..... | \$ 34,514,611       | \$ -                              | \$ 34,514,611                  |
| Motor vehicle and other excise taxes.....                           | 3,015,316           | 6,580                             | 3,021,896                      |
| Intergovernmental.....  | 17,833,446          | 3,480,464                         | 21,313,910                     |
| Departmental and other.....   | 1,582,723           | 3,883,068                         | 5,465,791                      |
| Contributions.....  | -                   | 106,959                           | 106,959                        |
| Investment income.....  | 252,234             | 77,024                            | 329,258                        |
| <b>TOTAL REVENUES.....</b>  | <b>57,198,330</b>   | <b>7,554,095</b>                  | <b>64,752,425</b>              |
| <b>EXPENDITURES:</b>  |                     |                                   |                                |
| Current:  |                     |                                   |                                |
| General government.....   | 2,345,612           | 45,104                            | 2,390,716                      |
| Public safety.....  | 6,408,232           | 1,584,263                         | 7,992,495                      |
| Education.....  | 30,848,076          | 3,849,584                         | 34,697,660                     |
| Public works.....   | 3,682,536           | -                                 | 3,682,536                      |
| Human services.....   | 680,242             | 187,017                           | 867,259                        |
| Culture and recreation.....   | 980,386             | 300,176                           | 1,280,562                      |
| Pension benefits.....   | 5,571,650           | -                                 | 5,571,650                      |
| Property and liability insurance.....                               | 433,790             | -                                 | 433,790                        |
| Employee benefits.....  | 4,373,357           | -                                 | 4,373,357                      |
| State and county charges.....                                       | 412,142             | -                                 | 412,142                        |
| Capital outlay.....   | 334,650             | 701,413                           | 1,036,063                      |
| Debt service:   |                     |                                   |                                |
| Principal.....  | 1,579,218           | -                                 | 1,579,218                      |
| Interest.....   | 1,057,261           | -                                 | 1,057,261                      |
| <b>TOTAL EXPENDITURES.....</b>                                      | <b>58,707,152</b>   | <b>6,667,557</b>                  | <b>65,374,709</b>              |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES.....</b>   | <b>(1,508,822)</b>  | <b>886,538</b>                    | <b>(622,284)</b>               |
| <b>OTHER FINANCING SOURCES (USES):</b>                              |                     |                                   |                                |
| Premium from issuance of bonds.....                                 | 10,176              | -                                 | 10,176                         |
| Transfers in.....   | 1,105,000           | 880,000                           | 1,985,000                      |
| Transfers out.....  | (930,000)           | (955,000)                         | (1,885,000)                    |
| <b>TOTAL OTHER FINANCING SOURCES (USES).....</b>                    | <b>185,176</b>      | <b>(75,000)</b>                   | <b>110,176</b>                 |
| <b>NET CHANGE IN FUND BALANCES.....</b>                             | <b>(1,323,646)</b>  | <b>811,538</b>                    | <b>(512,108)</b>               |
| <b>FUND BALANCES AT BEGINNING OF YEAR.....</b>                      | <b>9,951,424</b>    | <b>8,813,027</b>                  | <b>18,764,451</b>              |
| <b>FUND BALANCES AT END OF YEAR.....</b>                            | <b>\$ 8,627,778</b> | <b>\$ 9,624,565</b>               | <b>\$ 18,252,343</b>           |

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2004

|  |                    |                           |
|--|--------------------|---------------------------|
| Net change in fund balances - total governmental funds.....  | \$                 | (512,108)                 |
| <p>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.</p>  |                    |                           |
| Capital outlay.....  | 1,025,019          |                           |
| Depreciation expense.....  | <u>(2,690,004)</u> |                           |
| Net effect of reporting capital assets.....  |                    | (1,664,985)               |
| <p>In the Statement of Activities, only the <i>gain</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>  |                    |                           |
|  |                    | (40,210)                  |
| <p>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.....</p>  |                    |                           |
|  |                    | (321,305)                 |
| <p>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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p> |                    |                           |
| Capital lease principal payments.....  | (53,889)           |                           |
| Debt service principal payments.....   | <u>1,579,218</u>   |                           |
| Net effect of reporting long-term debt.....  |                    | 1,525,329                 |
| <p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>   |                    |                           |
| Net change in compensated absences accrual.....  | (141,639)          |                           |
| Net change in accrued interest on long-term debt.....  | <u>14,847</u>      |                           |
| Net effect of recording long-term liabilities.....   |                    | (126,792)                 |
| <p>Internal service funds are used by management to account for workers' compensation activities.</p>  |                    |                           |
| The net activity of internal service funds is reported with Governmental Activities.....   |                    | <u>52,614</u>             |
| Change in net assets of governmental activities.....   | \$                 | <u><u>(1,087,457)</u></u> |

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET ASSETS

JUNE 30, 2004

|  | Business-type Activities - Enterprise Funds |                             |                            |                             | Governmental<br>Activities -<br>Internal Service<br>Funds |
|--|---|-----------------------------|----------------------------|-----------------------------|---|
|  | Water                                       | Sewer                       | Golf<br>Course             | Total                       |   |
| <b>ASSETS</b>  |   |                             |                            |                             |   |
| <b>CURRENT:</b>                                      |   |                             |                            |                             |   |
| Cash and short-term investments.....                 | \$ 3,217,500                                | \$ 1,929,206                | \$ 316,694                 | \$ 5,463,400                | \$ 696,198  |
| Receivables, net of allowance for uncollectibles:    |   |                             |                            |                             |   |
| User fees.....                                       | 897,741                                     | 821,373                     | -                          | 1,719,114                   | -   |
| Intergovernmental.....                               | -   | 36,132                      | -                          | 36,132                      | -   |
| Total current assets.....                            | <u>4,115,241</u>                            | <u>2,786,711</u>            | <u>316,694</u>             | <u>7,218,646</u>            | <u>696,198</u>  |
| <b>NONCURRENT:</b>                                   |   |                             |                            |                             |   |
| Receivables, net of allowance for uncollectibles:    |   |                             |                            |                             |   |
| Intergovernmental.....                               | -   | 854,234                     | -                          | 854,234                     | -   |
| Capital assets, net of accumulated depreciation:     |   |                             |                            |                             |   |
| Nondepreciable.....                                  | 331,485                                     | 566,550                     | 789,557                    | 1,687,592                   | -   |
| Depreciable.....                                     | 9,669,203                                   | 11,896,361                  | 737,593                    | 22,303,157                  | -   |
| Total noncurrent assets.....                         | <u>10,000,688</u>                           | <u>13,317,145</u>           | <u>1,527,150</u>           | <u>24,844,983</u>           | <u>-</u>  |
| <b>TOTAL ASSETS.....</b>                             | <u><u>14,115,929</u></u>                    | <u><u>16,103,856</u></u>    | <u><u>1,843,844</u></u>    | <u><u>32,063,629</u></u>    | <u><u>696,198</u></u>                                     |
| <b>LIABILITIES</b>                                   |   |                             |                            |                             |   |
| <b>CURRENT:</b>                                      |   |                             |                            |                             |   |
| Warrants payable.....                                | 363,640                                     | 56,786                      | 35,286                     | 455,712                     | -   |
| Accrued interest.....                                | -   | 53,101                      | 10,772                     | 63,873                      | -   |
| Other liabilities.....                               | -   | -                           | 294                        | 294                         | -   |
| Capital lease obligations.....                       | -   | -                           | 25,001                     | 25,001                      | -   |
| Compensated absences.....                            | 6,924                                       | 3,415                       | -                          | 10,339                      | -   |
| Workers' compensation.....                           | -   | -                           | -                          | -                           | 31,000  |
| Bonds and notes payable.....                         | -   | 189,855                     | 108,500                    | 298,355                     | -   |
| Total current liabilities.....                       | <u>370,564</u>                              | <u>303,157</u>              | <u>179,853</u>             | <u>853,574</u>              | <u>31,000</u>   |
| <b>NONCURRENT:</b>                                   |   |                             |                            |                             |   |
| Compensated absences.....                            | 2,640                                       | -                           | -                          | 2,640                       | -   |
| Bonds and notes payable.....                         | -   | 3,159,341                   | 633,500                    | 3,792,841                   | -   |
| Total noncurrent liabilities.....                    | <u>2,640</u>                                | <u>3,159,341</u>            | <u>633,500</u>             | <u>3,795,481</u>            | <u>-</u>  |
| <b>TOTAL LIABILITIES.....</b>                        | <u><u>373,204</u></u>                       | <u><u>3,462,498</u></u>     | <u><u>813,353</u></u>      | <u><u>4,649,055</u></u>     | <u><u>31,000</u></u>                                      |
| <b>NET ASSETS</b>                                    |   |                             |                            |                             |   |
| Invested in capital assets, net of related debt..... | 10,000,688                                  | 9,113,715                   | 760,149                    | 19,874,552                  | -   |
| Unrestricted.....                                    | 3,742,037                                   | 3,527,643                   | 270,342                    | 7,540,022                   | 665,198   |
| <b>TOTAL NET ASSETS.....</b>                         | <u><u>\$ 13,742,725</u></u>                 | <u><u>\$ 12,641,358</u></u> | <u><u>\$ 1,030,491</u></u> | <u><u>\$ 27,414,574</u></u> | <u><u>\$ 665,198</u></u>                                  |

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

|   | Business-type Activities - Enterprise Funds |                      |                     |                      | Governmental<br>Activities -<br>Internal Service<br>Funds |
|---|---|----------------------|---------------------|----------------------|---|
|   | Water                                       | Sewer                | Golf<br>Course      | Total                |   |
| <b>OPERATING REVENUES:</b>                          |   |                      |                     |                      |   |
| Charges for services .....                          | \$ 2,474,469                                | \$ 2,506,476         | \$ 707,915          | \$ 5,688,860         | \$ -  |
| TOTAL OPERATING REVENUES .....                      | <u>2,474,469</u>                            | <u>2,506,476</u>     | <u>707,915</u>      | <u>5,688,860</u>     | <u>-</u>  |
| <b>OPERATING EXPENSES:</b>                          |   |                      |                     |                      |   |
| Cost of services and administration .....           | 1,907,761                                   | 1,598,023            | 636,475             | 4,142,259            | -   |
| Depreciation.....                                   | 331,660                                     | 525,260              | 71,355              | 928,275              | -   |
| Employee benefits .....                             | -   | -                    | -                   | -                    | 2,000   |
| TOTAL OPERATING EXPENSES .....                      | <u>2,239,421</u>                            | <u>2,123,283</u>     | <u>707,830</u>      | <u>5,070,534</u>     | <u>2,000</u>  |
| OPERATING INCOME (LOSS).....                        | <u>235,048</u>                              | <u>383,193</u>       | <u>85</u>           | <u>618,326</u>       | <u>(2,000)</u>  |
| <b>NONOPERATING REVENUES (EXPENSES):</b>            |   |                      |                     |                      |   |
| Investment income.....                              | 2,885                                       | -                    | 3,226               | 6,111                | 4,614   |
| Interest expense.....                               | -   | (310,713)            | (38,054)            | (348,767)            | -   |
| Intergovernmental.....                              | -   | 209,086              | -                   | 209,086              | -   |
| Capital grants.....                                 | 438,375                                     | -                    | -                   | 438,375              | -   |
| TOTAL NONOPERATING<br>REVENUES (EXPENSES), NET..... | <u>441,260</u>                              | <u>(101,627)</u>     | <u>(34,828)</u>     | <u>304,805</u>       | <u>4,614</u>  |
| INCOME (LOSS) BEFORE<br>OPERATING TRANSFERS.....    | <u>676,308</u>                              | <u>281,566</u>       | <u>(34,743)</u>     | <u>923,131</u>       | <u>2,614</u>  |
| <b>TRANSFERS:</b>                                   |   |                      |                     |                      |   |
| Transfers in.....                                   | -   | -                    | -                   | -                    | 50,000  |
| Transfers out.....                                  | -   | (150,000)            | -                   | (150,000)            | -   |
| TOTAL TRANSFERS.....                                | <u>-</u>                                    | <u>(150,000)</u>     | <u>-</u>            | <u>(150,000)</u>     | <u>50,000</u>   |
| CHANGE IN NET ASSETS.....                           | 676,308                                     | 131,566              | (34,743)            | 773,131              | 52,614  |
| NET ASSETS AT BEGINNING OF YEAR.....                | <u>13,066,417</u>                           | <u>12,509,792</u>    | <u>1,065,234</u>    | <u>26,641,443</u>    | <u>612,584</u>  |
| NET ASSETS AT END OF YEAR.....                      | <u>\$ 13,742,725</u>                        | <u>\$ 12,641,358</u> | <u>\$ 1,030,491</u> | <u>\$ 27,414,574</u> | <u>\$ 665,198</u>   |

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2004

|   | Business-type Activities - Enterprise Funds |                     |                   |                     | Governmental<br>Activities -<br>Internal Service<br>Funds |
|---|---|---------------------|-------------------|---------------------|---|
|   | Water                                       | Sewer               | Golf<br>Course    | Total               |   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |                     |                   |                     |   |
| Receipts from customers and users.....  | \$ 2,550,274                                | \$ 2,858,525        | \$ 707,915        | \$ 6,116,714        | \$ -  |
| Payments to vendors.....  | (1,188,560)                                 | (1,137,516)         | (250,315)         | (2,576,391)         | -   |
| Payments to employees.....  | (634,739)                                   | (431,495)           | (386,808)         | (1,453,042)         | -   |
| <b>NET CASH FROM OPERATING ACTIVITIES.....</b>  | <b>726,975</b>                              | <b>1,289,514</b>    | <b>70,792</b>     | <b>2,087,281</b>    | <b>-</b>  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>                                 |   |                     |                   |                     |   |
| Transfers out.....  | -   | (150,000)           | -                 | (150,000)           | -   |
| Intergovernmental subsidy.....  | -   | 70,846              | -                 | 70,846              | -   |
| <b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>                               | <b>-</b>                                    | <b>(79,154)</b>     | <b>-</b>          | <b>(79,154)</b>     | <b>50,000</b>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                        |   |                     |                   |                     |   |
| Capital contributions.....  | 438,375                                     | -                   | -                 | 438,375             | -   |
| Acquisition and construction of capital assets.....                                     | (1,636,231)                                 | (71,399)            | (29,270)          | (1,736,900)         | -   |
| Principal payments on bonds and notes.....  | -   | (336,303)           | (108,500)         | (444,803)           | -   |
| Principal payments on capital lease obligations.....                                    | -   | -                   | (21,644)          | (21,644)            | -   |
| Interest expense.....   | -   | (138,055)           | (39,748)          | (177,803)           | -   |
| <b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>                      | <b>(1,197,856)</b>                          | <b>(545,757)</b>    | <b>(199,162)</b>  | <b>(1,942,775)</b>  | <b>-</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |                     |                   |                     |   |
| Investment income.....  | 2,885                                       | -                   | 3,226             | 6,111               | 4,614   |
| <b>NET CASH FROM INVESTING ACTIVITIES.....</b>  | <b>2,885</b>                                | <b>-</b>            | <b>3,226</b>      | <b>6,111</b>        | <b>4,614</b>  |
| <b>NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....</b>                               | <b>(467,996)</b>                            | <b>664,603</b>      | <b>(125,144)</b>  | <b>71,463</b>       | <b>54,614</b>   |
| <b>CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....</b>                        | <b>3,685,496</b>                            | <b>1,264,603</b>    | <b>441,838</b>    | <b>5,391,937</b>    | <b>641,584</b>  |
| <b>CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....</b>                              | <b>\$ 3,217,500</b>                         | <b>\$ 1,929,206</b> | <b>\$ 316,694</b> | <b>\$ 5,463,400</b> | <b>\$ 696,198</b>   |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</b> |   |                     |                   |                     |   |
| Operating income (loss).....  | \$ 235,048                                  | \$ 383,193          | \$ 85             | \$ 618,326          | \$ (2,000)  |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: |   |                     |                   |                     |   |
| Depreciation.....   | 331,660                                     | 525,260             | 71,355            | 928,275             | -   |
| Changes in assets and liabilities:  |   |                     |                   |                     |   |
| User fees.....  | 75,805                                      | 352,049             | -                 | 427,854             | -   |
| Warrants payable.....   | 363,640                                     | 56,786              | 35,286            | 455,712             | -   |
| Other liabilities.....  | -   | -                   | 294               | 294                 | -   |
| Accrued compensated absences.....   | (279,178)                                   | (27,774)            | (36,228)          | (343,180)           | -   |
| Workers' compensation.....  | -   | -                   | -                 | -                   | 2,000   |
| Total adjustments.....  | 491,927                                     | 906,321             | 70,707            | 1,468,955           | 2,000   |
| <b>NET CASH FROM OPERATING ACTIVITIES.....</b>  | <b>\$ 726,975</b>                           | <b>\$ 1,289,514</b> | <b>\$ 70,792</b>  | <b>\$ 2,087,281</b> | <b>\$ -</b>   |
| <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>                            |   |                     |                   |                     |   |
| Intergovernmental subsidy of interest expense.....                                      |   | \$ 172,980          |                   |                     |   |

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

|   | Private<br>Purpose<br>Trust Funds | Agency<br>Funds |
|---|-----------------------------------|-----------------|
| <b>ASSETS</b>                                     |                                   |                 |
| CURRENT:  |                                   |                 |
| Cash and short-term investments.....              | \$ 304,463                        | \$ 261,295      |
| Receivables, net of allowance for uncollectibles: |                                   |                 |
| Departmental and other.....                       | -                                 | 1,477           |
| TOTAL ASSETS.....                                 | <u>304,463</u>                    | <u>262,772</u>  |
| <b>LIABILITIES</b>                                |                                   |                 |
| Warrants payable.....                             | 7,500                             | 4,290           |
| Accrued liabilities.....                          | -                                 | 196,677         |
| Liabilities due depositors.....                   | -                                 | 61,805          |
| TOTAL LIABILITIES.....                            | <u>7,500</u>                      | <u>262,772</u>  |
| <b>NET ASSETS</b>                                 |                                   |                 |
| Held in trust.....                                | \$ <u>296,963</u>                 | \$ <u>-</u>     |

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2004

|                                      | <u>Private<br/>Purpose<br/>Trust Funds</u> |
|--------------------------------------|--|
| <u>ADDITIONS:</u>                    |  |
| Net investment income (loss):        |  |
| Interest.....                        | \$ <u>2,173</u>                            |
| <u>DEDUCTIONS:</u>                   |  |
| Other.....                           | 860  |
| Educational scholarships.....        | <u>7,500</u>                               |
| TOTAL DEDUCTIONS.....                | <u>8,360</u>                               |
| CHANGE IN NET ASSETS.....            | (6,187)                                    |
| NET ASSETS AT BEGINNING OF YEAR..... | <u>303,150</u>                             |
| NET ASSETS AT END OF YEAR.....       | \$ <u><u>296,963</u></u>                   |

See notes to basic financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic 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 basic 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 basic financial statements.

**B. Government-Wide and Fund Financial Statements*****Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

***Fund Financial Statements***

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

***Major Fund Criteria***

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

### 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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

#### *Fund Financial Statements*

**Governmental** fund financial statements are reported using 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, and certain compensated absences, capital lease obligations, and claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered 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 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.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) 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 Enterprise and Permanent Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

**Proprietary** fund financial statements are reported using 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 when the liabilities are incurred.

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

The following major proprietary fund is reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

The *golf course enterprise fund* is used to account for the golf course activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to workers' compensation.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

#### *Government-Wide and Fund Financial Statements*

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

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.

#### E. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

#### ***Real Estate, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> 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 1<sup>st</sup> and May 1<sup>st</sup> 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 of the levy.

Real estate tax liens are processed after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate and personal property taxes receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

#### ***Motor Vehicle Excise***

Motor vehicle excise taxes are assessed annually for each vehicle registered in the City and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

**User Fees**

Water and Sewer user fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and Sewer liens are processed every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**Departmental and Other**

Departmental and other receivables are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

**Intergovernmental**

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

**F. Inventories*****Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

**G. Capital Assets*****Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

| <u>Capital Asset Type</u> | <u>Estimated Useful Life (in years)</u> |
|---------------------------|---|
| Land improvements.....    | 20-30                                   |
| Buildings.....            | 20-40                                   |
| Equipment.....            | 5-10                                    |
| Vehicles.....             | 5-15                                    |
| Infrastructure.....       | 40-50                                   |

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

*Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

*Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

*Government-Wide Financial Statements*

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

*Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other purposes” represents restrictions placed on assets from outside parties.

*Fund Financial Statements (Fund Balances)*

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

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.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2005 operating budget.

#### L. Long-term debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

##### *Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

#### M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

#### N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

##### *Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

##### *Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

#### O. Post Retirement Benefits

##### *Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 50-70% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2004, this expense/expenditure totaled approximately \$1,046,000. There were approximately 386 participants eligible to receive benefits at June 30, 2004.

#### P. Fund Deficits

There are several individual fund deficits within the Special Revenue Funds and the Capital Project Funds. These deficits will be funded by available funds and federal and state grants.

## Q. Use of Estimates

### *Government-Wide and Fund Financial Statements*

The preparation of basic 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 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.

## R. Restatement of Net Assets

### *Government-Wide Financial Statements*

Beginning governmental net assets have been adjusted by \$2,643,074 to report \$1,096,074 in additional infrastructure assets and to reduce the liability for compensated absences by \$1,547,000. Accordingly, an adjustment has been made in this report to restate the net assets of the governmental activities, as of June 30, 2003, from \$79,795,288 to \$82,438,362.

## S. Total Column

### *Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

### *Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

## **NOTE 2 – CASH AND INVESTMENTS**

A cash and investment pool is maintained 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 funds.

Statutes authorize the investment 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 Pool 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 who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Short-term investments and 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.

At fiscal year-end, the carrying amount of deposits totaled \$25,696,718 and the bank balance totaled \$26,607,235. Of the bank balance, \$1,297,412 was covered by Federal Depository Insurance, \$9,298,978 was covered by the Depositors Insurance Fund, and \$16,010,845 was uninsured and uncollateralized.

The following details the carrying amount of cash and short-term investments and investments as reported in the basic financial statements at June 30, 2004:

|   | Cash and<br>Short-term<br>Investments | Investments              | Total                       |
|---|---------------------------------------|--------------------------|-----------------------------|
| <b>Cash balances at June 30, 2004:</b>  |                                       |                          |                             |
| Checking, savings and NOW accounts.....   | \$ 8,868,129                          | \$ -                     | \$ 8,868,129                |
| Certificates of deposit.....  | 8,261,049                             | -                        | 8,261,049                   |
| Money market deposits.....  | 8,567,540                             | -                        | 8,567,540                   |
|   | <u>25,696,718</u>                     | <u>-</u>                 | <u>25,696,718</u>           |
| Investments not subject to categorization:  |                                       |                          |                             |
| MMDT.....   | 1,725,707                             | -                        | 1,725,707                   |
| Mutual funds.....   | 896,478                               | -                        | 896,478                     |
| Investments subject to categorization (Category 3):   |                                       |                          |                             |
| Equity securities.....  | -                                     | 580,427                  | 580,427                     |
|   | <u>2,622,185</u>                      | <u>580,427</u>           | <u>3,202,612</u>            |
| <b>Total cash and short-term investments and<br/>investments as reported in the financial statements.....</b> | <b>\$ <u>28,318,903</u></b>           | <b>\$ <u>580,427</u></b> | <b>\$ <u>28,899,330</u></b> |

### NOTE 3 – RECEIVABLES

At June 30, 2004, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|  | Gross<br>Amount             | Allowance<br>for<br>Uncollectibles | Net<br>Amount               |
|--|-----------------------------|------------------------------------|-----------------------------|
| <b>Receivables:</b>                          |                             |                                    |                             |
| Real estate and personal property taxes..... | \$ 637,900                  | \$ -                               | \$ 637,900                  |
| Tax liens.....                               | 778,399                     | -                                  | 778,399                     |
| Motor vehicle and other excise taxes.....    | 644,377                     | (264,527)                          | 379,850                     |
| Departmental and other.....                  | 105,995                     | -                                  | 105,995                     |
| Intergovernmental.....                       | 13,327,837                  | -                                  | 13,327,837                  |
|  | <u>15,494,508</u>           | <u>(264,527)</u>                   | <u>15,229,981</u>           |
| Total.....                                   | <b>\$ <u>15,494,508</u></b> | <b>\$ <u>(264,527)</u></b>         | <b>\$ <u>15,229,981</u></b> |

At June 30, 2004, receivables for the enterprise funds consist of the following:

|                        | <u>Gross<br/>Amount</u> | <u>Allowance<br/>for<br/>Uncollectibles</u> | <u>Net<br/>Amount</u> |
|------------------------|-------------------------|---|-----------------------|
| <u>Receivables:</u>    |                         |   |                       |
| User charges.....      | \$ 1,719,114            | \$ -  | \$ 1,719,114          |
| Intergovernmental..... | 890,366                 | -   | 890,366               |
| Total.....             | <u>\$ 2,609,480</u>     | <u>\$ -</u>                                 | <u>\$ 2,609,480</u>   |

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. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

|  | <u>General<br/>Fund</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>         |
|--|-------------------------|---|----------------------|
| <u>Receivable type:</u>                      |                         |   |                      |
| Real estate and personal property taxes..... | \$ 520,199              | \$ -                                    | \$ 520,199           |
| Tax liens.....                               | 778,399                 | -                                       | 778,399              |
| Motor vehicle excise taxes.....              | 379,850                 | -                                       | 379,850              |
| Departmental and other.....                  | 16,053                  | 89,942                                  | 105,995              |
| Intergovernmental.....                       | 12,337,294              | 990,543                                 | 13,327,837           |
| Total.....                                   | <u>\$ 14,031,795</u>    | <u>\$ 1,080,485</u>                     | <u>\$ 15,112,280</u> |

**NOTE 4 – CAPITAL ASSETS**

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

**Governmental Activities**

|  | Beginning<br>Balance | Increases             | Decreases          | Ending<br>Balance    |
|--|----------------------|-----------------------|--------------------|----------------------|
| <b>Governmental Activities:</b>                        |                      |                       |                    |                      |
| <u>Capital assets not being depreciated:</u>           |                      |                       |                    |                      |
| Land.....  | \$ 3,534,821         | \$ 155,748            | \$ -               | \$ 3,690,569         |
| Total capital assets not being depreciated.....        | <u>3,534,821</u>     | <u>155,748</u>        | <u>-</u>           | <u>3,690,569</u>     |
| <u>Capital assets being depreciated:</u>               |                      |                       |                    |                      |
| Land improvements.....                                 | 940,285              | 24,880                | -                  | 965,165              |
| Buildings.....   | 37,560,884           | 242,490               | -                  | 37,803,374           |
| Equipment.....   | 1,715,311            | 41,863                | -                  | 1,757,174            |
| Vehicles.....  | 4,009,897            | 98,257                | (95,815)           | 4,012,339            |
| Infrastructure.....                                    | <u>57,193,213</u>    | <u>461,781</u>        | <u>-</u>           | <u>57,654,994</u>    |
| Total capital assets being depreciated.....            | <u>101,419,590</u>   | <u>869,271</u>        | <u>(95,815)</u>    | <u>102,193,046</u>   |
| <u>Less accumulated depreciation for:</u>              |                      |                       |                    |                      |
| Land improvements.....                                 | (565,030)            | (29,007)              | -                  | (594,037)            |
| Buildings.....   | (14,639,663)         | (875,440)             | -                  | (15,515,103)         |
| Equipment.....   | (1,274,744)          | (101,281)             | -                  | (1,376,025)          |
| Vehicles.....  | (1,995,227)          | (367,089)             | 55,605             | (2,306,711)          |
| Infrastructure.....                                    | <u>(12,037,578)</u>  | <u>(1,317,187)</u>    | <u>-</u>           | <u>(13,354,765)</u>  |
| Total accumulated depreciation.....                    | <u>(30,512,242)</u>  | <u>(2,690,004)</u>    | <u>55,605</u>      | <u>(33,146,641)</u>  |
| Total capital assets being depreciated, net.....       | <u>70,907,348</u>    | <u>(1,820,733)</u>    | <u>(40,210)</u>    | <u>69,046,405</u>    |
| Total governmental activities capital assets, net..... | <u>\$ 74,442,169</u> | <u>\$ (1,664,985)</u> | <u>\$ (40,210)</u> | <u>\$ 72,736,974</u> |

**Business-Type Activities**

Fixed assets for the water enterprise fund are as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|------------------|---------------------------|
| <b>Water Activities:</b>                         |                              |                     |                  |                           |
| <u>Capital assets not being depreciated:</u>     |                              |                     |                  |                           |
| Land.....  | \$ 5,212                     | \$ 326,273          | \$ -             | \$ 331,485                |
| Total capital assets not being depreciated.....  | <u>5,212</u>                 | <u>326,273</u>      | <u>-</u>         | <u>331,485</u>            |
| <u>Capital assets being depreciated:</u>         |                              |                     |                  |                           |
| Buildings.....                                   | -                            | 830,727             | -                | 830,727                   |
| Equipment.....                                   | 54,384                       | -                   | -                | 54,384                    |
| Vehicles.....                                    | 215,141                      | -                   | -                | 215,141                   |
| Infrastructure.....                              | <u>15,018,362</u>            | <u>479,231</u>      | <u>-</u>         | <u>15,497,593</u>         |
| Total capital assets being depreciated.....      | <u>15,287,887</u>            | <u>1,309,958</u>    | <u>-</u>         | <u>16,597,845</u>         |
| <u>Less accumulated depreciation for:</u>        |                              |                     |                  |                           |
| Buildings.....                                   | -                            | (10,384)            | -                | (10,384)                  |
| Equipment.....                                   | (51,664)                     | (2,720)             | -                | (54,384)                  |
| Vehicles.....                                    | (140,799)                    | (13,783)            | -                | (154,582)                 |
| Infrastructure.....                              | <u>(6,404,519)</u>           | <u>(304,773)</u>    | <u>-</u>         | <u>(6,709,292)</u>        |
| Total accumulated depreciation.....              | <u>(6,596,982)</u>           | <u>(331,660)</u>    | <u>-</u>         | <u>(6,928,642)</u>        |
| Total capital assets being depreciated, net..... | <u>8,690,905</u>             | <u>978,298</u>      | <u>-</u>         | <u>9,669,203</u>          |
| Total water activities capital assets, net.....  | <u>\$ 8,696,117</u>          | <u>\$ 1,304,571</u> | <u>\$ -</u>      | <u>\$ 10,000,688</u>      |

Fixed assets for the sewer enterprise fund are as follows:

|  | Beginning<br>Balance | Increases           | Decreases       | Ending<br>Balance    |
|--|----------------------|---------------------|-----------------|----------------------|
| <b>Sewer Activities:</b>                         |                      |                     |                 |                      |
| <u>Capital assets not being depreciated:</u>     |                      |                     |                 |                      |
| Land.....  | \$ 565,704           | \$ 846              | \$ -            | \$ 566,550           |
| Total capital assets not being depreciated.....  | <u>565,704</u>       | <u>846</u>          | <u>-</u>        | <u>566,550</u>       |
| <u>Capital assets being depreciated:</u>         |                      |                     |                 |                      |
| Buildings.....                                   | -                    | 2,154               | -               | 2,154                |
| Equipment.....                                   | 24,600               | 49,072              | (12,000)        | 61,672               |
| Vehicles.....                                    | 347,073              | 19,328              | (14,800)        | 351,601              |
| Infrastructure.....                              | <u>25,005,774</u>    | <u>-</u>            | <u>-</u>        | <u>25,005,774</u>    |
| Total capital assets being depreciated.....      | <u>25,377,447</u>    | <u>70,554</u>       | <u>(26,800)</u> | <u>25,421,201</u>    |
| <u>Less accumulated depreciation for:</u>        |                      |                     |                 |                      |
| Buildings.....                                   | -                    | (27)                | -               | (27)                 |
| Equipment.....                                   | (23,370)             | (3,684)             | 12,000          | (15,054)             |
| Vehicles.....                                    | (147,272)            | (32,536)            | 14,800          | (165,008)            |
| Infrastructure.....                              | <u>(12,855,738)</u>  | <u>(489,013)</u>    | <u>-</u>        | <u>(13,344,751)</u>  |
| Total accumulated depreciation.....              | <u>(13,026,380)</u>  | <u>(525,260)</u>    | <u>26,800</u>   | <u>(13,524,840)</u>  |
| Total capital assets being depreciated, net..... | <u>12,351,067</u>    | <u>(454,706)</u>    | <u>-</u>        | <u>11,896,361</u>    |
| Total sewer activities capital assets, net.....  | <u>\$ 12,916,771</u> | <u>\$ (453,860)</u> | <u>\$ -</u>     | <u>\$ 12,462,911</u> |

Fixed assets for the golf enterprise fund are as follows:

|  | Beginning<br>Balance | Increases          | Decreases   | Ending<br>Balance   |
|--|----------------------|--------------------|-------------|---------------------|
| <b>Golf Course Activities:</b>                   |                      |                    |             |                     |
| <u>Capital assets not being depreciated:</u>     |                      |                    |             |                     |
| Land.....  | \$ 789,557           | \$ -               | \$ -        | \$ 789,557          |
| Total capital assets not being depreciated.....  | <u>789,557</u>       | <u>-</u>           | <u>-</u>    | <u>789,557</u>      |
| <u>Capital assets being depreciated:</u>         |                      |                    |             |                     |
| Land improvements.....                           | 767,088              | -                  | -           | 767,088             |
| Buildings.....                                   | 114,755              | -                  | -           | 114,755             |
| Equipment.....                                   | 357,690              | 29,271             | -           | 386,961             |
| Vehicles.....                                    | 79,149               | -                  | -           | 79,149              |
| Total capital assets being depreciated.....      | <u>1,318,682</u>     | <u>29,271</u>      | <u>-</u>    | <u>1,347,953</u>    |
| <u>Less accumulated depreciation for:</u>        |                      |                    |             |                     |
| Land improvements.....                           | (269,881)            | (32,644)           | -           | (302,525)           |
| Buildings.....                                   | (31,755)             | (3,343)            | -           | (35,098)            |
| Equipment.....                                   | (170,275)            | (31,924)           | -           | (202,199)           |
| Vehicles.....                                    | (67,094)             | (3,444)            | -           | (70,538)            |
| Total accumulated depreciation.....              | <u>(539,005)</u>     | <u>(71,355)</u>    | <u>-</u>    | <u>(610,360)</u>    |
| Total capital assets being depreciated, net..... | <u>779,677</u>       | <u>(42,084)</u>    | <u>-</u>    | <u>737,593</u>      |
| Total water activities capital assets, net.....  | <u>\$ 1,569,234</u>  | <u>\$ (42,084)</u> | <u>\$ -</u> | <u>\$ 1,527,150</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

|   |                     |
|---|---------------------|
| General government.....                                   | \$ 26,474           |
| Public safety.....  | 331,850             |
| Education.....  | 692,735             |
| Public works.....   | 1,476,071           |
| Human services.....                                       | 6,400               |
| Culture and recreation.....                               | <u>156,474</u>      |
| Total depreciation expense - governmental activities..... | <u>\$ 2,690,004</u> |

**Business-Type Activities:**

|  |                   |
|--|-------------------|
| Water.....   | \$ 331,660        |
| Sewer.....   | 525,260           |
| Golf course.....   | <u>71,355</u>     |
| Total depreciation expense - business-type activities..... | <u>\$ 928,275</u> |

**NOTE 5 – INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2004, are summarized as follows:

| Transfers Out:                   | Transfers In:       |                             |                        | Total               |
|----------------------------------|---------------------|-----------------------------|------------------------|---------------------|
|                                  | General Fund        | Nonmajor Governmental Funds | Internal Service Funds |                     |
| General Fund.....                | \$ -                | \$ 880,000                  | \$ 50,000              | \$ 930,000 (1)      |
| Nonmajor Governmental Funds..... | 955,000             | -                           | -                      | 955,000 (2)         |
| Sewer Enterprise Fund.....       | 150,000             | -                           | -                      | 150,000 (3)         |
| Total.....                       | <u>\$ 1,105,000</u> | <u>\$ 880,000</u>           | <u>\$ 50,000</u>       | <u>\$ 2,035,000</u> |

- (1) Represents budgeted transfers to the internal service fund and a transfer of \$880,000 of bond proceeds to the DPW facility capital project fund.
- (2) Represents budgeted transfers from the stabilization, ambulance and police detail special revenue funds.
- (3) Represents a budgeted transfer to the General Fund from sewer enterprise fund.

**NOTE 6 – CAPITAL LEASES**

The City has entered into several lease/purchase agreements, including tax-exempt lease purchases (TELP) agreements, to finance the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The City has entered into capital lease obligations for approximately \$297,000 for ambulances and approximately \$117,000 for golf carts.

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2004, are as follows:

| Fiscal Years Ending June 30                  | Governmental Activities | Business-Type Activities |
|--|-------------------------|--------------------------|
| 2005.....                                    | \$ 39,111               | \$ 26,103                |
| 2006.....                                    | 35,565                  | -                        |
| Total minimum lease payments.....            | 74,676                  | 26,103                   |
| Less: amounts representing interest.....     | (7,168)                 | (1,102)                  |
| Present value of minimum lease payments..... | <u>\$ 67,508</u>        | <u>\$ 25,001</u>         |

**NOTE 7 – SHORT-TERM FINANCING**

Short-term debt may be authorized and issued 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 and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund, special revenue and enterprise funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2004, is as follows:

| Type | Purpose           | Rate (%) | Due Date | Balance at June 30, 2003 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2004 |
|------|-------------------|----------|----------|--------------------------|-----------------|-------------------|--------------------------|
| BAN  | DPW facility..... | 2.00     | 11/13/03 | \$ 880,000               | \$ -            | \$ 880,000        | \$ -                     |
| BAN  | Fire truck.....   | 2.00     | 11/13/03 | 750,000                  | -               | 750,000           | -                        |
|      | Total.....        |          |          | \$ 1,630,000             | \$ -            | \$ 1,630,000      | \$ -                     |

**NOTE 8 – LONG-TERM DEBT**

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2004, and the debt service requirements are as follows:

**Bonds and Notes Payable Schedule – Governmental Funds**

| Project   | Interest Rate (%) | Outstanding at June 30, 2003 | Issued      | Redeemed            | Outstanding at June 30, 2004 |
|---|-------------------|------------------------------|-------------|---------------------|------------------------------|
| School Project.....                             | 7.50              | \$ 7,980,000                 | \$ -        | \$ 540,000          | \$ 7,440,000                 |
| School Project.....                             | 4.49              | 7,880,000                    | -           | 530,000             | 7,350,000                    |
| Junior High Heat and Oil.....                   | 4.98              | 614,500                      | -           | 76,500              | 538,000                      |
| Tuckahoe Land Acquisition.....                  | 4.93              | 660,000                      | -           | 60,000              | 600,000                      |
| Fire Headquarters.....                          | 4.93              | 1,225,000                    | -           | 105,000             | 1,120,000                    |
| High School Library.....                        | 4.15              | 710,000                      | -           | 40,000              | 670,000                      |
| Library.....                                    | 4.15              | 4,025,000                    | -           | 225,000             | 3,800,000                    |
| Land Acquisition.....                           | 2.00 - 4.40       | 880,000                      | -           | -                   | 880,000                      |
| Fire Equipment.....                             | 2.00 - 4.40       | 750,000                      | -           | -                   | 750,000                      |
| Title V sewer*.....                             | 0.00              | 43,483                       | -           | 2,718               | 40,765                       |
|   |                   |                              |             |                     |                              |
| Total governmental bonds and notes payable..... |                   | \$ <u>24,767,983</u>         | \$ <u>-</u> | \$ <u>1,579,218</u> | \$ <u>23,188,765</u>         |

\*Massachusetts Water Pollution Abatement Trust (MWPAT) Note.

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

| Year        | Principal            | Interest            | Total                |
|-------------|----------------------|---------------------|----------------------|
| 2005.....   | \$ 1,709,218         | \$ 994,852          | \$ 2,704,070         |
| 2006.....   | 1,704,218            | 923,619             | 2,627,837            |
| 2007.....   | 1,704,718            | 853,904             | 2,558,622            |
| 2008.....   | 1,704,718            | 782,638             | 2,487,356            |
| 2009.....   | 1,704,718            | 709,783             | 2,414,501            |
| 2010.....   | 1,699,718            | 635,862             | 2,335,580            |
| 2011.....   | 1,699,718            | 560,797             | 2,260,515            |
| 2012.....   | 1,622,718            | 486,314             | 2,109,032            |
| 2013.....   | 1,622,718            | 412,981             | 2,035,699            |
| 2014.....   | 1,622,718            | 338,673             | 1,961,391            |
| 2015.....   | 1,482,717            | 266,571             | 1,749,288            |
| 2016.....   | 1,382,717            | 199,462             | 1,582,179            |
| 2017.....   | 1,372,717            | 134,151             | 1,506,868            |
| 2018.....   | 1,327,717            | 69,482              | 1,397,199            |
| 2019.....   | 317,717              | 30,584              | 348,301              |
| 2020.....   | 255,000              | 17,659              | 272,659              |
| 2021.....   | 255,000              | 5,897               | 260,897              |
| Totals..... | \$ <u>23,188,765</u> | \$ <u>7,423,229</u> | \$ <u>30,611,994</u> |

**Bonds and Notes Payable Schedule – Sewer and Golf Enterprise Funds**

| Project  | Interest Rate (%) | Outstanding at June 30, 2003 | Issued      | Redeemed          | Outstanding at June 30, 2004 |
|--|-------------------|------------------------------|-------------|-------------------|------------------------------|
| <b>Sewer Enterprise Fund</b>                             |                   |                              |             |                   |                              |
| Feeding Hills Sewer IV.....                              | 6.75              | \$ 150,000                   | \$ -        | \$ 150,000        | \$ -                         |
| Campbell/Florida drive sewer.....                        | 4.15              | 460,000                      | -           | 30,000            | 430,000                      |
| Main Street Sewer.....                                   | 4.15              | 715,000                      | -           | 35,000            | 680,000                      |
| Westfield River Pump Station*.....                       | 0.00              | 664,136                      | -           | 40,355            | 623,781                      |
| CSO Project*.....  | 0.00              | <u>1,696,363</u>             | <u>-</u>    | <u>80,948</u>     | <u>1,615,415</u>             |
| Total sewer enterprise fund bonds and notes payable..... |                   | <u>3,685,499</u>             | <u>-</u>    | <u>336,303</u>    | <u>3,349,196</u>             |
| <b>Golf Enterprise Fund</b>                              |                   |                              |             |                   |                              |
| Agawam Country Club.....                                 | 4.98              | 665,500                      | -           | 83,500            | 582,000                      |
| Golf Course Irrigation.....                              | 4.93              | <u>185,000</u>               | <u>-</u>    | <u>25,000</u>     | <u>160,000</u>               |
| Total golf enterprise fund bonds and notes payable.....  |                   | <u>850,500</u>               | <u>-</u>    | <u>108,500</u>    | <u>742,000</u>               |
| Total enterprise fund bonds and notes payable.....       |                   | \$ <u>4,535,999</u>          | \$ <u>-</u> | \$ <u>444,803</u> | \$ <u>4,091,196</u>          |

\* Massachusetts Water Pollution Abatement Trust (MWPAT) Note.

Debt service requirements for principal and interest for sewer enterprise fund bonds and notes payable in future fiscal years are as follows:

| <u>Year</u>    | <u>Principal</u> | <u>Interest</u>     | <u>Total</u>        |
|----------------|------------------|---------------------|---------------------|
| 2005..... \$   | 189,855          | \$ 163,141          | \$ 352,996          |
| 2006.....      | 193,689          | 154,538             | 348,227             |
| 2007.....      | 198,073          | 145,828             | 343,901             |
| 2008.....      | 203,347          | 136,092             | 339,439             |
| 2009.....      | 208,656          | 126,262             | 334,918             |
| 2010.....      | 213,913          | 116,397             | 330,310             |
| 2011.....      | 218,157          | 105,988             | 324,145             |
| 2012.....      | 225,799          | 95,025              | 320,824             |
| 2013.....      | 233,635          | 83,401              | 317,036             |
| 2014.....      | 237,396          | 71,394              | 308,790             |
| 2015.....      | 245,647          | 59,014              | 304,661             |
| 2016.....      | 171,217          | 46,337              | 217,554             |
| 2017.....      | 180,495          | 37,400              | 217,895             |
| 2018.....      | 180,495          | 27,875              | 208,370             |
| 2019.....      | 184,772          | 18,186              | 202,958             |
| 2020.....      | 194,050          | 8,259               | 202,309             |
| 2021.....      | 70,000           | 1,619               | 71,619              |
| Totals..... \$ | <u>3,349,196</u> | <u>\$ 1,396,756</u> | <u>\$ 4,745,952</u> |

Debt service requirements for principal and interest for golf enterprise fund bonds and notes payable in future fiscal years are as follows:

| <u>Year</u>    | <u>Principal</u> | <u>Interest</u>   | <u>Total</u>      |
|----------------|------------------|-------------------|-------------------|
| 2005..... \$   | 108,500          | \$ 34,794         | \$ 143,294        |
| 2006.....      | 108,500          | 29,732            | 138,232           |
| 2007.....      | 108,000          | 24,512            | 132,512           |
| 2008.....      | 108,000          | 19,091            | 127,091           |
| 2009.....      | 103,000          | 13,644            | 116,644           |
| 2010.....      | 103,000          | 8,239             | 111,239           |
| 2011.....      | 103,000          | 2,762             | 105,762           |
| Totals..... \$ | <u>742,000</u>   | <u>\$ 132,774</u> | <u>\$ 874,774</u> |

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$890,366 and interest costs for \$1,483,078. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$859,504. The future principal subsidies are recorded as an intergovernmental receivable at year end. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2004 principal and interest subsidies totaled \$34,739 and \$172,980, respectively.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2004, approximately \$1,101,000 of such assistance was received. The City will be receiving \$15,376,120 in future fiscal years. Of this amount, \$3,038,830 represents reimbursement of long-term interest costs, and \$12,337,290 represents reimbursement of approved construction costs. Accordingly, a \$12,337,290 intergovernmental receivable and corresponding

deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2004, the City had the following authorized and unissued debt:

| Purpose                    | Amount            |
|----------------------------|-------------------|
| CSO Project.....           | \$ 132,241        |
| Stormwater Management..... | 314,000           |
| Total.....                 | <u>\$ 446,241</u> |

Changes in Long-term Liabilities

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

|  | Balance<br>June 30,<br>2003 | Additions         | Reductions            | Balance<br>June 30,<br>2004 | Current<br>Portion  |
|--|-----------------------------|-------------------|-----------------------|-----------------------------|---------------------|
| <b>Governmental Activities:</b>                            |                             |                   |                       |                             |                     |
| Long-Term Bonds and Notes..                                | \$ 24,767,983               | \$ -              | \$ (1,579,218)        | \$ 23,188,765               | \$ 1,709,218        |
| Compensated Absences.....                                  | 1,719,935                   | 141,639           | -                     | 1,861,574                   | 843,343             |
| Capital Leases.....  | 13,619                      | 113,787           | (52,730)              | 74,676                      | 35,527              |
| Total governmental activity<br>long-term liabilities.....  | <u>\$ 26,501,537</u>        | <u>\$ 255,426</u> | <u>\$ (1,631,948)</u> | <u>\$ 25,125,015</u>        | <u>\$ 2,588,088</u> |
| <b>Business-Type Activities:</b>                           |                             |                   |                       |                             |                     |
| Long-Term Bonds and Notes..                                | \$ 4,535,999                | \$ -              | \$ (444,803)          | \$ 4,091,196                | \$ 298,355          |
| Compensated Absences.....                                  | 359,159                     | -                 | (346,180)             | 12,979                      | 10,339              |
| Capital Leases.....  | 46,645                      | -                 | (24,424)              | 22,221                      | 25,001              |
| Total business-type activity<br>long-term liabilities..... | <u>\$ 4,941,803</u>         | <u>\$ -</u>       | <u>\$ (815,407)</u>   | <u>\$ 4,126,396</u>         | <u>\$ 333,695</u>   |

**NOTE 9 – 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 a premium-based health care plan for its active employees.

The City is self-insured for its workers' compensation and unemployment compensation activities. Workers' compensation activities are accounted for in the internal service 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 \$38,000 for the fiscal year.

*Workers' Compensation*

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis 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 estimated future workers' compensation liability is based on history and injury type.

At June 30, 2004, the amount of the liability for workers' compensation claims totaled \$31,000. Changes in the reported liability since July 1, 2002, are as follows:

|                       | Balance at<br>Beginning of<br>Fiscal Year | Current Year<br>Claims and<br>Changes in<br>Estimate | Claims<br>Payments | Balance at<br>Fiscal<br>Year-End |
|-----------------------|---|--|--------------------|----------------------------------|
| Fiscal Year 2003..... | \$ 22,000                                 | \$ 14,001  | \$ (7,001)         | \$ 29,000                        |
| Fiscal Year 2004..... | 29,000                                    | 4,000  | (2,000)            | 31,000                           |

The City's liability for unemployment compensation is not material at June 30, 2004, and therefore is not reported.

**NOTE 10 – 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 Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$3,505,000 for the fiscal year ended June 30, 2004, 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 unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. 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 that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32 of the MGL governs the contributions of plan members and the City. The City contributions to the System for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,103,079, \$1,811,194, and \$1,701,346, 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 noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2004 totaled approximately \$24,000.

**NOTE 11 – CONTINGENCIES**

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2004, 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 it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. 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, 2004, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2004.

**NOTE 12 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During fiscal year 2004, the following GASB pronouncements were implemented:

The GASB issued Statement #39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement #14*. Management has determined that no additional component units were required to be presented in the basic financial statements.

*Other Future GASB Pronouncements:*

The GASB issued Statement #40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3*, which is required to be implemented during fiscal year 2005. This pronouncement will only require changes to the note disclosure.

The GASB issued Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented in Fiscal 2006. Management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in Fiscal 2009. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented in Fiscal 2006. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section. The presentation of a statistical section is not required by this pronouncement. This pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in Fiscal 2009. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

***Required Supplementary Information***

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

FISCAL YEAR ENDED JUNE 30, 2004

|   | Budgeted Amounts    |                     | Actual<br>Budgetary<br>Amounts | Amounts<br>Carried Forward<br>To Next Year | Variance to<br>Final Budget |
|---|---------------------|---------------------|--------------------------------|--|-----------------------------|
|   | Original<br>Budget  | Final<br>Budget     |                                |  |                             |
| <b>REVENUES:</b>  |                     |                     |                                |  |                             |
| Real estate and personal property taxes,<br>net of tax refunds..... | \$ 33,681,550       | \$ 33,681,550       | \$ 35,064,599                  | \$ -                                       | \$ 1,383,049                |
| Motor vehicle and other excise taxes.....                           | 2,731,626           | 2,731,626           | 3,015,316                      | -  | 283,690                     |
| Intergovernmental.....  | 13,956,527          | 13,956,527          | 14,328,446                     | -  | 371,919                     |
| Departmental and other.....   | 1,150,000           | 1,094,560           | 1,582,723                      | -  | 488,163                     |
| Investment income.....  | 200,000             | 200,000             | 252,234                        | -  | 52,234                      |
| <b>TOTAL REVENUES.....</b>  | <b>51,719,703</b>   | <b>51,664,263</b>   | <b>54,243,318</b>              | <b>-</b>                                   | <b>2,579,055</b>            |
| <b>EXPENDITURES:</b>  |                     |                     |                                |  |                             |
| Current:  |                     |                     |                                |  |                             |
| General government.....   | 2,632,865           | 2,757,518           | 2,345,612                      | 356,779                                    | 55,127                      |
| Public safety.....  | 6,515,216           | 6,553,378           | 6,408,232                      | 6,119                                      | 139,027                     |
| Education.....  | 31,316,237          | 31,260,797          | 30,848,076                     | 372,004                                    | 40,717                      |
| Public works.....   | 4,096,304           | 4,110,770           | 3,682,536                      | 319,797                                    | 108,437                     |
| Human services.....   | 695,787             | 695,787             | 680,242                        | -  | 15,545                      |
| Culture and recreation.....   | 1,004,754           | 1,004,754           | 980,386                        | 2,854                                      | 21,514                      |
| Pension benefits.....   | 2,110,457           | 2,084,957           | 2,066,650                      | -  | 18,307                      |
| Property and liability insurance.....                               | 850,000             | 789,500             | 433,790                        | 355,710                                    | -                           |
| Employee benefits.....  | 4,495,500           | 4,581,000           | 4,373,357                      | -  | 207,643                     |
| Reserve fund.....   | 500,000             | 267,720             | -                              | -  | 267,720                     |
| State and county charges.....                                       | 343,506             | 343,506             | 412,142                        | -  | (68,636)                    |
| Capital outlay.....   | 631,515             | 687,014             | 334,650                        | 352,364                                    | -                           |
| Debt service:   |                     |                     |                                |  |                             |
| Principal.....  | 1,698,218           | 1,698,218           | 1,579,218                      | -  | 119,000                     |
| Interest.....   | 1,109,725           | 1,109,725           | 1,057,261                      | -  | 52,464                      |
| <b>TOTAL EXPENDITURES.....</b>                                      | <b>58,000,084</b>   | <b>57,944,644</b>   | <b>55,202,152</b>              | <b>1,765,627</b>                           | <b>976,865</b>              |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>       | <b>(6,280,381)</b>  | <b>(6,280,381)</b>  | <b>(958,834)</b>               | <b>(1,765,627)</b>                         | <b>3,555,920</b>            |
| <b>OTHER FINANCING SOURCES (USES):</b>                              |                     |                     |                                |  |                             |
| Premium from issuance of bonds.....                                 | -                   | -                   | 10,176                         | -  | 10,176                      |
| Transfers in.....   | 945,000             | 945,000             | 1,105,000                      | -  | 160,000                     |
| Transfers out.....  | (50,000)            | (50,000)            | (50,000)                       | -  | -                           |
| <b>TOTAL OTHER FINANCING SOURCES (USES).....</b>                    | <b>895,000</b>      | <b>895,000</b>      | <b>1,065,176</b>               | <b>-</b>                                   | <b>170,176</b>              |
| <b>NET CHANGE IN FUND BALANCE.....</b>                              | <b>(5,385,381)</b>  | <b>(5,385,381)</b>  | <b>106,342</b>                 | <b>(1,765,627)</b>                         | <b>3,726,096</b>            |
| <b>BUDGETARY FUND BALANCE, Beginning of year.....</b>               | <b>9,833,747</b>    | <b>9,833,747</b>    | <b>9,833,747</b>               | <b>-</b>                                   | <b>-</b>                    |
| <b>BUDGETARY FUND BALANCE, End of year.....</b>                     | <b>\$ 4,448,366</b> | <b>\$ 4,448,366</b> | <b>\$ 9,940,089</b>            | <b>\$ (1,765,627)</b>                      | <b>\$ 3,726,096</b>         |

See notes to required supplementary information.

A. Budgetary Information

Municipal Law requires the adoption of 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 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. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, 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.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2004 approved budget, including amounts carried forward from the prior fiscal years authorized approximately \$58,050,000 in appropriations and other amounts to be raised.

The City Auditor has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2004, is presented below:

|   |                       |
|---|-----------------------|
| Net change in fund balance, budgetary basis.....          | \$ 106,342            |
| <u>Basis of accounting differences:</u>                   |                       |
| Net change in revenues in recording revenue accruals..... | 12                    |
| Tax refunds payable.....                                  | (550,000)             |
| Transfer of bond proceeds to a capital project fund.....  | (880,000)             |
| Recognition of revenue for on-behalf payments.....        | 3,505,000             |
| Recognition of expenditures for on-behalf payments.....   | <u>(3,505,000)</u>    |
| Net change in fund balance, GAAP basis.....               | <u>\$ (1,323,646)</u> |

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2004, actual expenditures and encumbrances exceeded appropriations for State and County Charges. These over expenditures will be funded by available funds during fiscal year 2005.