

CITY OF WORCESTER
MASSACHUSETTS



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2005

Prepared by:
The Office of the City Auditor
City of Worcester, Massachusetts

James A. DelSignore
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005

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INTRODUCTORY SECTION



CITY OF WORCESTER, MASSACHUSETTS

OFFICE OF THE CITY AUDITOR

CITY HALL 01608

JAMES A. DeSIGNORE
CITY AUDITOR

THOMAS J. CLAWSON
DEPUTY CITY AUDITOR

November 10, 2005

To the Honorable Members of the City Council
City of Worcester, Massachusetts:

The Comprehensive Annual Financial Report (CAFR) of the City of Worcester, Massachusetts (the City) for the fiscal year ended June 30, 2005 is presented for your review. The report was prepared by the Auditing Department in accordance with accounting principles generally accepted in the United States of America. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been made.

In evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed their anticipated benefits. Also, the evaluation of costs and benefits requires estimates and judgments by management.

Sullivan, Rogers & Company, LLC, a firm of licensed certified public accountants, has audited the City's basic financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Sullivan, Rogers & Company, LLC has issued an unqualified opinion on the City of Worcester's basic financial statements for the fiscal year ended June 30, 2005. The independent auditors' report is presented as the first component of the financial section of this report.

Pursuant to the Federal Single Audit Act of 1984 and the Single Audit Act Amendments of 1996, the City is also required to have an annual audit of the Federal financial assistance it has received. In addition to a financial statement audit, the Single Audit Act requires that an internal control review and a compliance audit be performed in accordance with the Federal Office of Management and Budget's Circular A-133. The United States Department of Housing and Urban Development was assigned audit cognizant responsibilities. The requirements of the Single Audit Act have been met. The auditors' reports on internal control and compliance have been furnished separately to the City.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Worcester's MD&A can be found immediately following the report of the independent auditors.

City of Worcester Government

Worcester was incorporated as a town on June 14, 1722 and as a city on February 29, 1848 under Acts of the Commonwealth of Massachusetts (the Commonwealth), which as amended, constitute the City's charter. The City is located in the east central part of Massachusetts. It is 39 miles from Boston, 43 miles from Providence, Rhode Island and 60 miles from Hartford, Connecticut. The Towns of Holden, West Boylston, Shrewsbury, Grafton, Millbury, Auburn, Leicester and Paxton border it. The City occupies 38.44 square miles and is the third largest city in New England with a population of 172,648, according to the 2000 Federal census. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City is also empowered to levy an excise tax on motor vehicles whose owner is a resident or business located in the City.

The City has operated under the council-manager form of government since 1950. An eleven-member City Council, six of whom are elected at-large and five of whom are elected from districts, performs the legislative function and policy-making. The City Council is responsible, among other things, for passing ordinances and adopting the budget. City Council members are elected biennially.

The City Manager, appointed by the City Council, is the chief executive officer with appointive and removal authority over department heads and other employees of the City. The City Manager is responsible for the implementation of policies established by the City Council and for overseeing the day-to-day operations of the government. The City Auditor and City Clerk are elected by and are employees of the City Council.

The Mayor is the councilor who receives the highest number of votes for Mayor provided he or she is also elected as one of the six at-large councilors. The Mayor serves as presiding officer of the council and ex-officio Chairperson of the School Committee.

An elected six-member School Committee, whose members are elected biennially, has exclusive jurisdiction over the City's public school system and appoints a Superintendent to administer the system's day-to-day affairs.

The City provides a full range of services including public safety, public roads, sanitation, water, sewer, health and social services, culture, recreation, airport, education, public improvements, planning and zoning, and general administrative services. The City is also financially responsible for the legally separate City of Worcester Contributory Retirement System (WRS), Upper Blackstone Water Pollution Abatement District (the District) and Worcester Redevelopment Authority (WRA), all of which are reported within the City's basic financial statements. Additional information on these legally separate entities can be found in the notes to the basic financial statements.

All department operating and capital budget requests are required to be submitted to the City Manager by mid-January. The City Manager then reviews these requests with every department head during a series of meetings. In accordance with MGL Chapter 44, the City Manager must then submit his proposed budget within 170 days after the City Council organizes in early January. The Council is required to hold public hearings and to adopt a final budget no later than 45 days after the budget is submitted to them. Budgetary control is centralized and enforced on a statutory account basis. Statutory accounts are maintained on a

departmental level and consist of salary, capital and ordinary maintenance accounts. Purchase requisitions, which would result in an overrun of an account balance, are not processed until additional appropriations are made available. Transfers between statutory accounts within a department require a simple majority approval by the City Council and transfers from one department to another require a two-thirds majority. Open encumbrances are reported as reservations of fund balances. All expenditures are subject to a pre-audit before being processed.

Budget-to-actual comparisons for the general fund are presented on pages 82 through 86 as part of required supplementary information.

Local economy

For the past several years Worcester has seen its employment base shift from manufacturing to services. In conjunction with that there have been several development projects related to health care and entertainment in the downtown area. The City has a diverse tax base with no concentration in any particular area. The employment base consists of 34% in services, 20% in trade and 12% in manufacturing.

Worcester has ten colleges and universities, most of which have been continually expanding. For example The University of Massachusetts Medical School is in the midst of a \$100 million plus renovation and expansion project. The City is also focused on developing polluted former industrial sites called brownfields. A 38-acre area brownfield site on the edge of downtown is being cleared and has had a 130-room hotel constructed on part of that site. Additionally, construction has started on a \$35 million technology center on this site. This project is being done in conjunction with Worcester Polytechnic Institute. The City has also been working to encourage downtown housing and has had an ongoing neighborhood improvements program that concentrates on improvements to infrastructure, recreational facilities, public safety, housing and outreach.

Factors Affecting Financial Condition

The City, with a large infusion of State and Federal assistance, is in the process of greatly enhancing its transportation access and egress. There are currently ten daily trains to Boston, and based on the demand, this service could be expanded in the near future. Additionally, construction continues to progress on a \$300 million project that will link the City's expressway to the Massachusetts Turnpike with a turnpike exit on a widened and improved Route 146. With completion, which is anticipated to be in 2007, the project will provide a direct link from the turnpike to the City's Main Street.

In January 2000, the Massachusetts Port Authority (MassPort) took over the operation of the City's airport. This was a five-year agreement in which MassPort also assumed a share of any airport-operating deficit. During fiscal 2004, MassPort offset 100% of the budgetary basis operating deficit, exclusive of debt service. This contract has been renewed for a 3-year period. MassPort continued to pay 100% of the deficit in fiscal 2005, but this percentage has dropped to 85% in fiscal 2006 and will drop further to 68% in fiscal 2007. The carrying value of the airports' net assets could be impaired without the continuing support of MassPort.

The City's 20-acre downtown mall and office complex has been purchased by a developer who plans to demolish the retail part of the complex and replace it with mixed uses including office, retail, entertainment and housing. The developer's total investment in the project is estimated to be about \$470 million over a period of 6 to 8 years. The City is to contribute about \$68 million and the state \$25 million mainly for the cost of demolition, infrastructure and an underground garage. The City will use District Improvement Financing legislation, which allows for the capitalization of interest and a 30-year loan term to finance its share of the costs. Demolition is scheduled to start in the fall of 2005 or winter of 2006. The City's Union

Station, which underwent a recent \$38 million renovation, has received a \$5 million grant from the state to help construct a 500 space \$13 million adjacent garage. A \$3.6 million bus port adjacent to the station has recently been completed. Also, the City's downtown common is being renovated as part of a \$6.8 million project to improve City Hall and its environs.

Construction continued on the \$90 million vocational school with a total of \$70.4 million being spent through June 30, 2005. Ground breaking was in the fall of 2002 with completion scheduled for the 2006-2007 school year. Additionally, construction continued on a 430,000 square-foot, \$180 million downtown regional courthouse to be completed in the summer of 2007. Also, construction has started on a \$22 million 200-room convention hotel adjacent to the City's convention center and arena complex. The proposed hotel is also adjacent to the new courthouse and is to be connected to a 1,000 space municipal garage and to the convention complex with enclosed pedestrian skywalks.

Worcester's total assessed property value has increased steadily since fiscal 1996. This has been because of increases in property values and a relentless single-family housing boom. There are also several apartment and condominium complexes being constructed for various income levels. In fiscal 2005 Worcester's property values rose to another all-time high of \$10.36 billion. This is an increase of 17.7% from the previous year's value, which had increased by 15.8% from the year before.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Worcester, Massachusetts for its CAFR for the year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate, a government must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last twelve consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Auditing Department. I also wish to acknowledge our indebtedness to personnel in other City departments who assisted in our preparation. I am grateful to the City's independent auditors, Sullivan, Rogers & Company, LLC, for the professional assistance and advice they have provided during the course of their audit. In addition, I would like to thank the members of the City Council for your support.

Respectfully submitted,



James A. DelSignore, CPA
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

List of Elected and Appointed Officials

June 30, 2005

Council – Manager Form of Government

CITY COUNCIL

Timothy P. Murray, Mayor

Councilors-at-Large

Juan A. Gomez
Dennis L. Irish
Konstantina B. Lukes
Michael C. Perotto
Joseph M. Petty

District Councilors

Paul P. Clancy, Jr.
Barbara G. Haller
Philip P. Palmieri
Federick C. Rushton
Thomas P. White

CITY MANAGER

Michael V. O'Brien

AUDITING DEPARTMENT

James A. DelSignore, City Auditor
Thomas J. Clawson, Deputy City Auditor

Michael T. Hennessy
Jeffrey Ugalde
Ruth Sarafinas

Chief Accountant
Systems Accountant
Administrative Assistant

BUDGET DIRECTOR

John P. Prankevicius

CITY ASSESSOR

Robert J. Allard

PURCHASING AGENT

John C. Orell

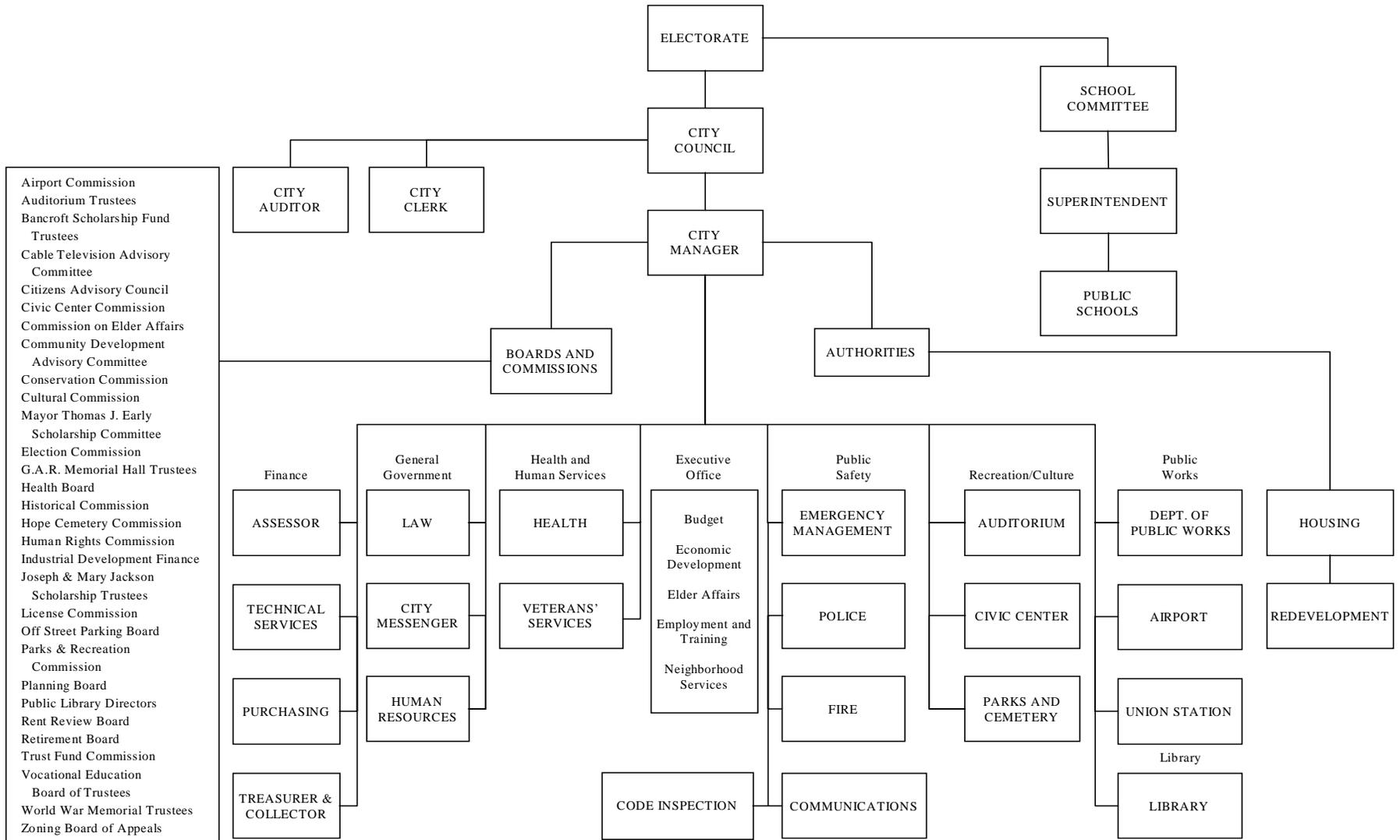
TREASURER & COLLECTOR

Thomas F. Zidelis

DIRECTOR OF TECHNICAL SERVICES

Paul R. Covello

WORCESTER CITY GOVERNMENT



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Worcester,
Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Zielke

President

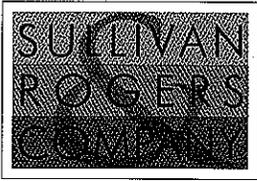
Jeffrey R. Emer

Executive Director

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FINANCIAL SECTION



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

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Independent Auditors' Report

The Honorable Mayor and City Council
City of Worcester, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Worcester, Massachusetts (the City), as of and for the year ended June 30, 2005 (except for the Worcester Contributory Retirement System, which is as of and for the year ended December 31, 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's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors. The financial statements of the City as of June 30, 2004, were audited by other auditors' whose opinion dated November 29, 2004, on those financial statements was unqualified. As more fully described in Note 16, the City has restated the beginning net assets of its governmental activities. The other auditors reported on the June 30, 2004, financial statements before the restatement.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Upper Blackstone Water Pollution Abatement District were not audited in accordance with *Government Auditing Standards*. 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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005 (except for the Worcester Contributory Retirement System, which is as of December 31, 2004) and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 16, the City has restated the beginning net assets of its governmental activities. We have audited the adjustments as described in Note 16 that were applied to restate the fiscal year 2004 basic financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the general fund schedule of revenues, expenditures and changes in fund balance – budget and actual - budgetary basis (located on pages 10 through 21 and pages 82 through 86, respectively), 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary statements and schedules, and statistical tables and graphs are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Sullivan, King & Company, LLC". The signature is written in a cursive, flowing style.

November 10, 2005

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

(In thousands of dollars)

This section of the City's annual financial report presents a discussion and analysis of the City's financial activities during the fiscal year ended June 30, 2005 to assist readers of the basic financial statements in understanding the financial activities of the City. Please read it in conjunction with the transmittal letter at the front of this report and the basic financial statements, which follow this section.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities (net assets) at the close of fiscal 2005 by \$177,878.
- The City's total net assets increased by \$9,209.
- "Free Cash", certified by the State's Department of Revenue as of July 1, 2005 was \$7,471. This amount is unrestricted in the general fund and available for appropriation in fiscal 2006.
- At the end of fiscal 2005, unreserved fund balance for the general fund was \$14,857 or 3.5% of total general fund revenues.
- The City's total debt increased by \$29,742 during fiscal 2005 or 4.9%.

Overview of the Financial Statements

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

Government-wide financial statements – The government-wide financial statements report information about the City with a broad overview of its finances using accounting methods similar to those used by a private-sector business.

The statement of net assets presents information of all of the City's 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 health of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during fiscal 2005. All changes in net assets are reported as soon as the underlying event causing the change takes place. Therefore, all of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid (e.g., uncollected taxes and earned but unused vacation leave, etc.).

The government-wide financial statements of the City are divided into three categories:

- **Governmental activities** – Governmental activities of the City such as general government, public works, public safety, public roads, sanitation, education, health, recreation, and culture are reported here. Property taxes, State aid, and local fees and charges finance most of these activities.
- **Business-type activities** – The City charges fees to users to help it cover costs of certain services it provides. The City's water, sewer, airport and golf course (nonmajor) operations are included here.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

(In thousands of dollars)

- Component units – The government-wide financial statements not only include the governmental and business-type activities (known as the primary government) but also legally separate entities. There are two legally separate component unit entities presented discretely in this report, which are the Worcester Redevelopment Authority and the Upper Blackstone Water Pollution Abatement District. These entities are included because the City is financially accountable for them.

The government-wide financial statements can be found on pages 22 through 24 of this report.

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. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Similar to the government activities in the government-wide financial statements, most of the City's basic services are presented here. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of available resources. They also focus on the balances of available resources at the end of the fiscal year. This information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is short-term and government-wide are long-term it is useful to compare similar information presented for governmental funds with governmental activities in the government-wide financial statements. This comparison may demonstrate the long-term implications of short-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 30 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and the stabilization fund, both of which are considered major funds. Data from the 28 other governmental funds are combined into a single aggregated presentation titled "other governmental funds". Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements.

The City adopts an annual budget for its general fund and its enterprise funds.

The governmental fund financial statements can be found on pages 25 through 28.

Proprietary funds – The City maintains two different 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 water, sewer, airport, and golf course operations, all but the golf course are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insured health plan. Because this service benefits predominantly governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

(In thousands of dollars)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Conversely, the internal service fund is shown as a single presentation in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 29 through 31.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that because of a trust arrangement can be used only for the trust beneficiaries and the agency fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 32 and 33.

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.

The notes to the basic financial statements can be found on pages 34 through 81.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information which includes the General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budgetary Basis.

Other required supplementary information can be found on pages 82 through 86.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the City's case, assets exceeded liabilities by \$177,878 at the close of the most recent fiscal year.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

(In thousands of dollars)

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, equipment and other, rolling equipment, infrastructure and construction in progress), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type Activities		Total	
	2005	2004 *	2005	2004	2005	2004
Current and other assets	\$ 268,644	259,369	21,817	21,307	290,461	280,676
Capital assets	412,002	374,432	222,495	219,181	634,497	593,613
Total assets	680,646	633,801	244,312	240,488	924,958	874,289
Long-term liabilities	561,748	534,288	114,180	111,486	675,928	645,774
Other liabilities	66,443	55,619	4,709	4,226	71,152	59,845
Total liabilities	628,191	589,907	118,889	115,712	747,080	705,619
Net assets:						
Invested in capital assets, net of related debt	234,732	256,677	109,124	117,755	343,856	374,432
Restricted	39,064	33,901	2,749	253	41,813	34,154
Unrestricted	(221,341)	(246,684)	13,550	6,768	(207,791)	(239,916)
Total net assets	\$ 52,455	43,894	125,423	124,776	177,878	168,670

* As restated, see Note 16.

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining amount of unrestricted net assets shows a balance of (\$207,791). However, this balance includes outstanding pension obligation bonds of \$196,259 for which there are no offsetting assets in the governmental funds. General obligation bonds were also issued to finance land acquisition and pollution remediation to make way for a for-profit hospital in the City's downtown. There are also no offsetting assets in the governmental funds for this debt, which had a balance of \$37,636 at year's end. Absent the fore mentioned bond debt, which is partially offset by a \$2,892 receivable from the Commonwealth to reimburse the City for debt related to the hospital, there is \$23,212 of unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of fiscal 2005, the City is able to report positive balances in all three categories of net assets for business-type activities and, because of the pension obligation and hospital bonds, all but unrestricted net assets in the governmental activities. The same situation existed at the end of fiscal 2004.

The City's governmental activities restricted net assets increased by \$5,163, which is the result of an increase in state and federal grant cash on hand at June 30, 2005.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

(In thousands of dollars)

The City's total net assets increased by \$9,208, or by about 5.5%. This increase is for the most part attributable to governmental activities and is primarily because revenues exceeded expenses during the year.

Governmental activities – Governmental activities increased the City's net assets by \$8,561, thereby accounting for 92.9% of the total growth in net assets of the City. The key elements of this increase are as follows:

	Governmental activities		Changes in net assets Business-type activities		Total	
	2005	2004*	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 26,560	25,203	45,851	40,536	72,411	65,739
Operating grants and contributions	264,033	245,428	1,241	1,202	265,274	246,630
Capital grants and contributions	3,573	3,753	499	2,101	4,072	5,854
General revenues:						
Property taxes	161,648	156,461	—	—	161,648	156,461
Motor vehicle excise taxes	13,503	12,581	—	—	13,503	12,581
Intergovernmental	43,026	39,406	—	—	43,026	39,406
Other	9,074	6,458	—	—	9,074	6,458
Total revenues	<u>521,417</u>	<u>489,290</u>	<u>47,591</u>	<u>43,839</u>	<u>569,008</u>	<u>533,129</u>
Expenses:						
General government	15,886	14,054	—	—	15,886	14,054
Public safety	103,152	97,015	—	—	103,152	97,015
Health and human services	21,452	17,328	—	—	21,452	17,328
Education	292,415	281,426	—	—	292,415	281,426
Libraries	6,844	6,651	—	—	6,844	6,651
Public works	28,929	32,247	—	—	28,929	32,247
Culture and recreation	7,608	9,294	—	—	7,608	9,294
Community development	4,189	4,429	—	—	4,189	4,429
Redevelopment	5,770	30	—	—	5,770	30
Intergovernmental	2,697	2,457	—	—	2,697	2,457
Interest on long-term debt	25,734	24,626	—	—	25,734	24,626
Water	—	—	21,535	20,804	21,535	20,804
Sewer	—	—	22,719	17,238	22,719	17,238
Airport	—	—	4,158	3,958	4,158	3,958
Golf course	—	—	1,026	1,030	1,026	1,030
Total expenses	<u>514,676</u>	<u>489,557</u>	<u>49,438</u>	<u>43,030</u>	<u>564,114</u>	<u>532,587</u>
Change in net assets before transfers and contributions	6,741	(267)	(1,847)	809	4,894	542
Transfers	88	1,168	(88)	(1,168)	—	—
Contributions	1,732	786	2,582	1,261	4,314	2,047
Change in net assets	<u>8,561</u>	<u>1,687</u>	<u>647</u>	<u>902</u>	<u>9,208</u>	<u>2,589</u>
Net assets – beginning	<u>43,894</u>	<u>42,207</u>	<u>124,776</u>	<u>123,874</u>	<u>168,670</u>	<u>166,081</u>
Net assets – ending	<u>\$ 52,455</u>	<u>43,894</u>	<u>125,423</u>	<u>124,776</u>	<u>177,878</u>	<u>168,670</u>

* As restated, see Note 16.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

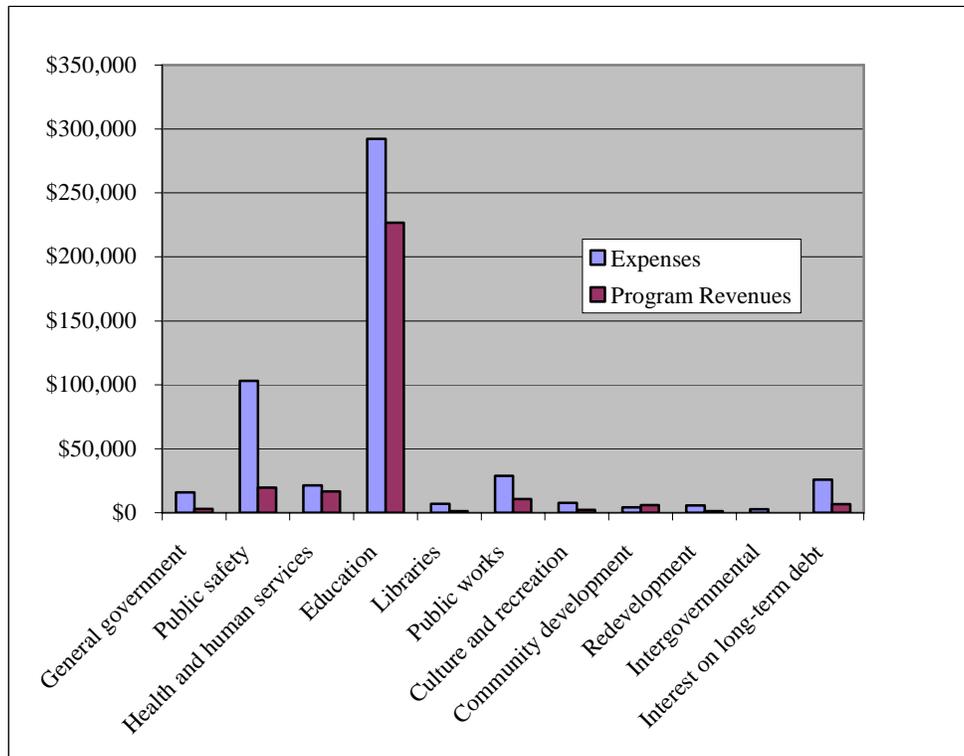
June 30, 2005

(In thousands of dollars)

Total revenues were \$521,417, which was a \$32,127 or a 6.6% increase over the previous fiscal year. Property tax revenue increased by \$5,187 or 3.3%, primarily because of an increase in taxes levied. Operating grants and contributions increased by \$18,605 or 7.6% due primarily to increases in grants of \$13,759 for schools and school related costs and \$3,061 for the Job Training Partnership Act. The City also received a new grant of \$2,024 for the COPS program. The remaining grants had a slight net decrease. Intergovernmental revenue increased by \$3,620 primarily because of an increase in discretionary state aid.

Total expenses were \$514,676, which was a \$25,119 or a 5.1% increase from the previous fiscal year. Educational expenses increased by \$10,989 partly because of salary increases but for the most part because of an increase in fringe benefit costs, which was a replay of the previous year. Public safety expenses increased by \$6,137, primarily because of a large increase in fringe benefit costs, similar to the prior year. Redevelopment costs increased by \$5,740 because funding was provided for the Gardner, Hammond and Kilby area housing and recreational construction program. Public works expenses decreased by \$3,318, primarily, because of the prior year effect of a large accrual for landfill costs. Snow removal costs actually increased by \$2,937 from the previous year.

FY 2005 Expenses and Program Revenues– Governmental Activities



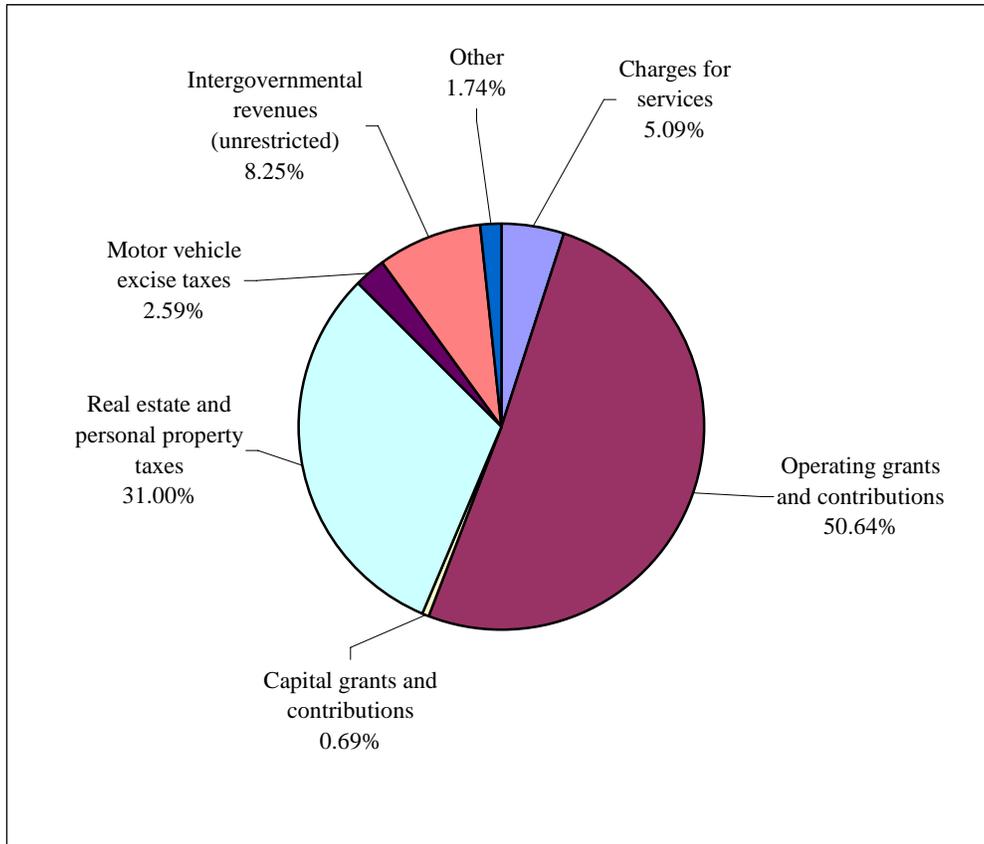
CITY OF WORCESTER, MASSACHUSETTS

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(In thousands of dollars)

FY 2005 Revenues by Source – Governmental Activities



Business-type activities – Business-type activities increased the City's net assets by \$647. Factors contributing to these results are as follows:

- The water fund once again was a positive contributor towards net assets. Operating income of \$6,378 was partially offset by interest expense of \$3,835. However, the water fund still managed to contribute a \$2,899 positive change in net assets. This follows the previous year's \$2,089 increase in net assets.
- The sewer fund had an operating loss of \$1,588 compared with a loss of \$383 in the previous year. Net assets decreased by \$1,447, which follows the previous year's \$1,719 decrease.
- The airport fund had a decrease of net assets of \$962, which follows an increase of \$612 to its net assets in the previous year. The net operating loss of \$2,987 was partially offset by subsidies from the City and MassPort.
- The golf course fund (nonmajor) had an increase of net assets of \$79, which followed a reduction of \$1 of its net assets in the previous year.

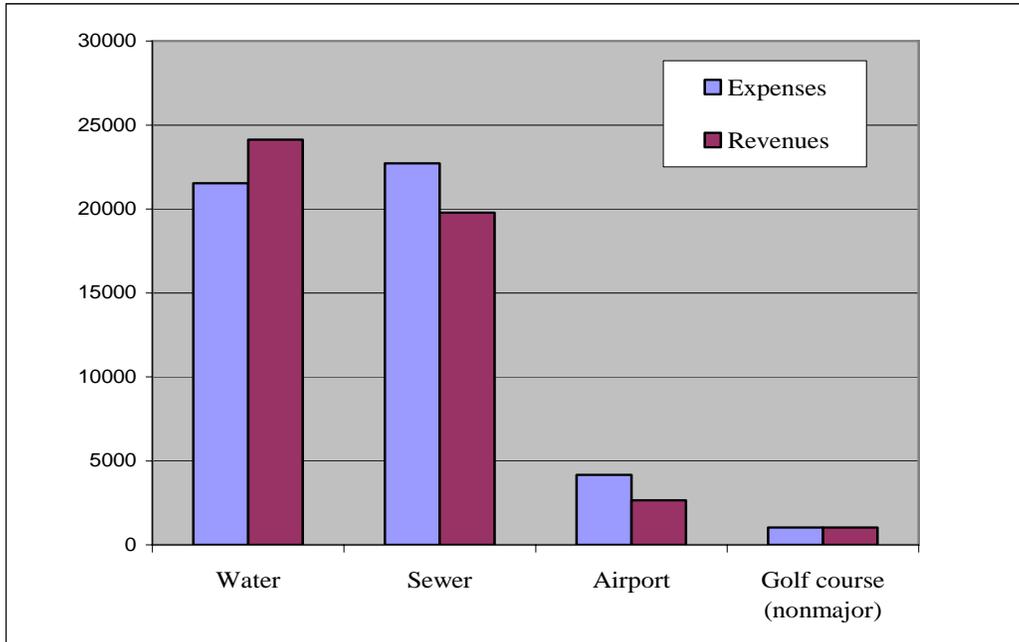
CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

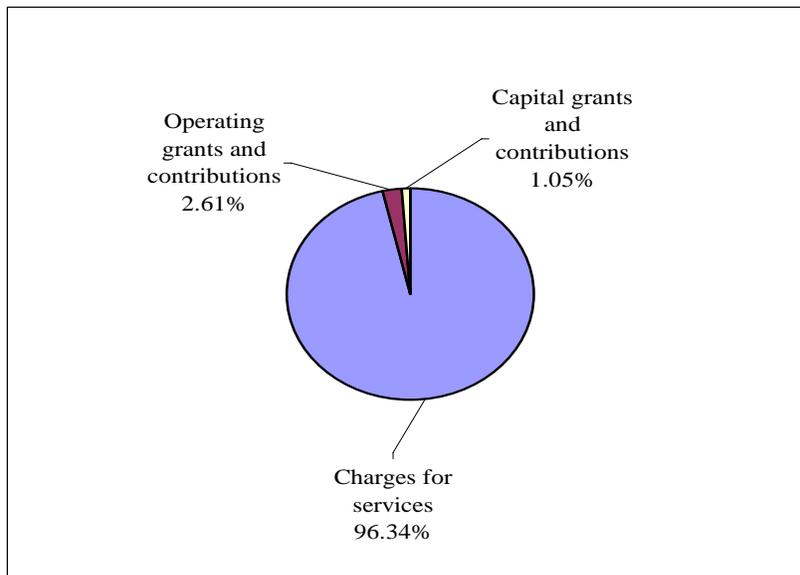
June 30, 2005

(In thousands of dollars)

FY 2005 Expenses and Program Revenues – Business-type Activities



FY 2005 Revenues by Source – Business-type Activities



CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

(In thousands of dollars)

Financial Analysis of the City'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 the City's governmental funds is to provide information on the near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's 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.

At the end of fiscal 2005, the City's governmental funds reported combined ending fund balances of \$91,491 an increase of \$6,064 from fiscal 2004. Approximately 57.4% of this ending fund balance, or \$52,486 is available for spending at the City's discretion (unreserved fund balance). The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) for nonexpendable permanent funds \$11,739; 2) to provide funding for future pension costs \$1,618 (as required by legislation allowing the issuance of pension obligation bonds); and 3) for other specific purposes \$25,648 (amounts restricted by outside parties).

The general fund is the chief operating fund of the City. At the end of fiscal 2005 unreserved fund balance of the general fund was \$14,857 while total fund balance was \$16,475. As a measure of liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund revenues. Unreserved fund balance represents approximately 3.5% of total general fund revenues, while total fund balance equals approximately 3.9% of that same amount.

During fiscal 2005 the City's general fund balance increased by \$4,473. Total revenue exceeded expenditures by \$1,664, while transfers out exceeded transfers in by \$522. The general fund also received a premium on loans of \$3,330.

The stabilization fund had a fund balance of \$10,187 at the end of fiscal 2005, a \$434 increase from the previous year. During the year, \$6,344 was transferred in from the general fund and \$6,040 was expended for debt service.

Enterprise funds – The City's enterprise funds provide the same type of information found in the government-wide financial statements (business-type activities), but in more detail.

Unrestricted net assets of the enterprise funds at the end of fiscal 2005 totaled \$13,550. This was a \$6,703 increase from the previous year. Three of the four enterprise funds contributed to this increase with increases of \$2,686, in the water fund, \$3,751 in the sewer fund and \$266 in the airport fund. The golf course fund (nonmajor) remained the same. Unrestricted net assets consisted of \$5,971 in the water fund, \$7,566 in the sewer fund, \$28 in the airport fund and \$(15) in the golf course fund (nonmajor). Other factors concerning the finances of these four funds have been addressed in the discussion of the City's business-type activities.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

(In thousands of dollars)

General Fund Budgetary Highlights

The City's final general fund revenue budget was \$1,098 higher than the original amount. The two categories that changed were intergovernmental and property taxes. Intergovernmental increased by \$1,763 because of supplemental state local aid and property taxes decreased by \$665 because abatement estimates were raised by \$312 and new construction growth that could increase the tax levy was not as great as originally estimated.

The final general fund expenditure budget was \$5,414 higher than the original. The largest increase was in the health insurance account, which increased by \$1,556 from the original to cover increased costs for employees that are self-insured by the City. The next largest increase was in the general government category that had \$1,539 added from the original budget. Within this category, the manager's office had \$590 added to its capital budget and other departments had their budgets increased as a result of planned transfers from special revenue accounts. The public works budget increased by \$1,000 from the original, primarily with state funds used to supplement the snow removal budget. The public safety budget was increased by \$1,092 to cover shortages in salary accounts. Transfers from the special revenue fund funded other budgets that were increased from the original. The details of these transfers are on page 76 of the notes to the basic financial statements.

Revenues were \$5,988 more than budgeted. Revenue accounts showing the largest positive variances were property taxes, investment earnings, licenses and permits and intergovernmental, while motor vehicle excise had the largest negative variance. Property taxes have shown positive variances for several years because of aggressive collections and the fact that actual abatements have been significantly below the original estimate. Investment earnings increased as interest rates rebounded from historical lows. Licenses and permits showed a positive variance because building permit revenues exceeded the estimate and intergovernmental revenue showed a positive variance because Federal Medicare reimbursements exceeded the estimate. Motor vehicle excise revenue was below the estimate for the second consecutive year after it was exceeded for several years as the estimate in this category has become more aggressive. The City also received a \$3,330 premium on loans, which was not estimated in the budget. Excluding the snow and ice budget, there were no major variances in the expenditure budget. The snow and ice budget was exceeded, as it is in most years. In fiscal 2005 snow and ice expenditures were \$5,379, \$2,937 more than in the previous year. There was a net increase in budgetary fund balance of \$5,082.

Capital Assets and Debt Administration

Capital assets – The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounted to \$634,498. This investment in capital assets includes land, buildings, improvements other than buildings, equipment and other, rolling equipment, infrastructure and construction in progress. The total increase in the City's investment in capital assets for the current year was \$40,884 or 6.9% (a 10.0% increase for governmental activities and a 0.2% increase for business-type activities).

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

- Streets and sidewalks were improved with costs amounting to \$6,326.
- Construction continued with \$30,301 being spent on the new \$90,000 vocational technical high school.

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June 30, 2005

(In thousands of dollars)

- Resources were allocated during the year to business-type building, infrastructure and other capital asset additions costing \$10,652. Additionally, business-type entities received \$2,582 in capital contributions from owners of subdivisions.

	Capital assets (net of depreciation)					
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 13,931	12,593	1,732	257	15,663	12,850
Buildings	235,122	236,141	44,030	43,706	279,152	279,847
Improvements, other than buildings	11,126	9,166	—	—	11,126	9,166
Equipment and other	4,702	5,696	264	347	4,966	6,043
Rolling equipment	6,552	6,423	2,552	2,779	9,104	9,202
Infrastructure	62,822	59,398	172,917	170,423	235,739	229,821
Construction in progress	77,747	45,015	1,001	1,670	78,748	46,685
Total	\$ 412,002	374,432	222,496	219,182	634,498	593,614

Additional information on the City's capital assets can be found in note 8 on pages 59 through 64 of this report.

Long-term debt – At the end of the current fiscal year the City of Worcester had total long-term debt outstanding of \$637,254, an increase of \$29,742 or 4.9% from the prior fiscal year. With the exception of the notes payable, the full faith and credit of the City back this entire amount.

	Long-term debt					
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 518,420	491,164	111,910	109,380	630,330	600,544
Notes payable	5,800	5,800	1,124	1,168	6,924	6,968
Total	\$ 524,220	496,964	113,034	110,548	637,254	607,512

On September 15, 2005 the City retired \$66,405 of temporary debt that was outstanding at the end of the year by issuing general obligation bonds. The proceeds consisted of \$54,915 for governmental activities and \$11,490 for business-type activities.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2005

(In thousands of dollars)

In relation to the above general obligation bond issues, the City applied for credit ratings with Moody's Investors Service and Standard and Poors. In both cases the City's credit rating with Standard and Poors and with Moody's Investors Service remained at A- and A3, respectively. Additionally, the City received an initial rating of A from Fitch Ratings.

Massachusetts General Law subjects the City to a dual-level general debt limit: the normal debt limit and double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without State approval. Authorizations under the double debt limit, however, require the approval of a board comprised of the State Auditor, State Treasurer, Attorney General and Director of Accounts. Additionally, certain categories of general obligation debt are exempt from the debt limit but subject to other limitations.

Additional information on the City's long-term debt can be found in note 10 beginning on page 65 of this report.

Economic Factors and Next Year's Budget and Rates

The City has a diverse economy that has significant employment in the education and health care sectors, which tend to stand up well during economic downturns. The City's unemployment rate was 5.8% at year-end, which was an improvement over the 6.0% rate that existed a year earlier. This compares with unemployment rates of 4.8% in Massachusetts and 5.0% nationally.

Worcester's downtown office space of 4.7 million square feet was 88.9% occupied, according to a recent study done by the Worcester Regional Research Bureau. This was an increase from the 88.5% that was occupied in the previous year. Residential vacancy rates continue to decrease. During fiscal 2005, single-family housing starts continued their multi-year surge. Much of the increase was due to a large demand by employees, who would like to take advantage of commuter rail service to Boston and those seeking housing prices lower than those in eastern Massachusetts. Property values have increased to their highest-ever level increasing for the ninth consecutive year and growing to \$10,360,089 in fiscal 2005 compared with \$8,818,752 in fiscal 2004.

The City finished fiscal 2005 with "Free Cash" of \$7,471 as certified by the Commonwealth's Department of Revenue. This amount is available to fund the fiscal 2006 budget.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the City Auditor, 455 Main Street, room 102, Worcester, Massachusetts 01608.

Basic Financial Statements

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Assets

June 30, 2005

	Primary government			Component units	
	Governmental activities	Business-type activities	Total	Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
Assets:					
Cash and cash equivalents	\$ 133,850,037	10,275,604	144,125,641	723,776	9,522,175
Investments	10,085,501	—	10,085,501	—	—
Receivables (net):					
Property taxes	3,958,049	—	3,958,049	—	—
Tax liens	4,470,195	—	4,470,195	—	—
Motor vehicle excise taxes	2,339,569	—	2,339,569	—	—
Charges for services	—	9,911,526	9,911,526	—	416,323
Special assessments	820,452	1,185,912	2,006,364	—	—
Departmental	1,535,822	—	1,535,822	—	—
Intergovernmental	111,420,696	607,164	112,027,860	597,326	30,546,569
Internal balances	163,910	(163,910)	—	—	—
Historic tax credit	—	—	—	2,318,965	—
Other	—	—	—	—	42,341
Other assets	—	—	—	124,511	—
Capital assets, not being depreciated	91,678,161	2,732,960	94,411,121	7,821,534	39,804,833
Capital assets, net of accumulated depreciation	320,323,779	219,762,307	540,086,086	43,306,672	32,305,456
Total assets	680,646,171	244,311,563	924,957,734	54,892,784	112,637,697
Liabilities:					
Accounts payable	40,707,726	2,152,154	42,859,880	903,489	5,209,567
Accrued liabilities	14,813,624	2,017,157	16,830,781	410,804	1,888,478
Retainage payable	3,523,523	339,586	3,863,109	—	—
Other liabilities	7,397,990	—	7,397,990	—	—
Notes payable	—	—	—	—	3,000,000
Noncurrent liabilities:					
Due within one year	38,759,568	8,976,782	47,736,350	3,502,192	2,751,952
Due in more than one year	522,988,638	105,403,019	628,391,657	6,389,751	82,551,929
Total liabilities	628,191,069	118,888,698	747,079,767	11,206,236	95,401,926
Net assets:					
Invested in capital assets, net of related debt	234,731,887	109,123,667	343,855,554	45,439,991	12,465,069
Restricted for:					
Renewal and replacement	—	2,748,844	2,748,844	—	—
Pension funding	1,617,804	—	1,617,804	—	—
Nonexpendable permanent funds	11,739,415	—	11,739,415	—	—
Expendable permanent funds	59,629	—	59,629	—	—
Other specific purposes	25,647,648	—	25,647,648	598,207	—
Unrestricted	(221,341,281)	13,550,354	(207,790,927)	(2,351,650)	4,770,702
Total net assets	\$ 52,455,102	125,422,865	177,877,967	43,686,548	17,235,771

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2005

<u>Functions/programs</u>	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Net (expense)/ revenue</u>
Primary government:					
Governmental activities:					
General government	\$ 15,885,929	1,685,153	1,235,508	117,480	(12,847,788)
Public safety	103,152,051	12,996,669	6,686,180	—	(83,469,202)
Health and human services	21,452,424	857,640	15,825,753	—	(4,769,031)
Education	292,415,183	2,518,097	223,749,414	361,777	(65,785,895)
Libraries	6,843,747	53,360	1,279,512	—	(5,510,875)
Public works	28,928,682	6,674,061	1,375,050	2,535,110	(18,344,461)
Culture and recreation	7,607,736	1,474,829	346,939	539,476	(5,246,492)
Community development	4,189,424	300,439	5,552,784	—	1,663,799
Redevelopment	5,769,530	—	1,258,136	19,542	(4,491,852)
Intergovernmental	2,696,843	—	—	—	(2,696,843)
Interest on debt	25,734,494	—	6,723,759	—	(19,010,735)
Total governmental activities	<u>514,676,043</u>	<u>26,560,248</u>	<u>264,033,035</u>	<u>3,573,385</u>	<u>(220,509,375)</u>
Business-type activities:					
Water	21,535,410	24,132,833	—	—	2,597,423
Sewer	22,719,285	19,774,733	—	—	(2,944,552)
Airport	4,157,628	914,811	1,241,001	498,858	(1,502,958)
Golf course (nonmajor)	1,025,398	1,029,116	—	—	3,718
Total business-type activities	<u>49,437,721</u>	<u>45,851,493</u>	<u>1,241,001</u>	<u>498,858</u>	<u>(1,846,369)</u>
Total primary government	<u>\$ 564,113,764</u>	<u>72,411,741</u>	<u>265,274,036</u>	<u>4,072,243</u>	<u>(222,355,744)</u>
Component units:					
Worcester Redevelopment Authority	\$ 3,021,110	1,324,779	3,100,210	—	1,403,879
Upper Blackstone Water Pollution Abatement District	<u>12,295,244</u>	<u>8,874,456</u>	<u>1,372,131</u>	<u>—</u>	<u>(2,048,657)</u>
Total component units	<u>\$ 15,316,354</u>	<u>10,199,235</u>	<u>4,472,341</u>	<u>—</u>	<u>(644,778)</u>

(Continued)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2005

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Total	Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
Changes in net assets:					
Net (expense) revenue (from previous page)	\$ (220,509,375)	(1,846,369)	(222,355,744)	1,403,879	(2,048,657)
General revenues:					
Property taxes	161,648,023	—	161,648,023	—	—
Motor vehicle excise taxes	13,502,833	—	13,502,833	—	—
Other taxes and in-lieu payments	1,824,089	—	1,824,089	—	—
Penalties and interest on taxes	2,867,406	—	2,867,406	—	—
Intergovernmental revenues (unrestricted)	43,026,283	—	43,026,283	—	—
Investment earnings	1,318,332	—	1,318,332	—	—
Miscellaneous	3,063,748	—	3,063,748	—	—
Transfers, net	88,278	(88,278)	—	—	—
Total general revenues and transfers (net)	227,338,992	(88,278)	227,250,714	—	—
Contributions to permanent funds	145,223	—	145,223	—	—
Contributed capital	1,586,360	2,582,060	4,168,420	—	—
Change in net assets	8,561,200	647,413	9,208,613	1,403,879	(2,048,657)
Net assets - beginning (as restated)	43,893,902	124,775,452	168,669,354	42,282,669	19,284,428
Net assets - ending	\$ 52,455,102	125,422,865	177,877,967	43,686,548	17,235,771

(Concluded)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Balance Sheet

Governmental Funds

June 30, 2005

Assets	General	Stabilization	Other governmental funds	Total governmental funds
Cash and cash equivalents	\$ 52,184,518	10,187,132	66,796,182	129,167,832
Investments	—	—	10,085,501	10,085,501
Receivables (net of allowance for uncollectibles of \$5,916,159)	13,124,087	—	—	13,124,087
Due from airport fund	163,910	—	—	163,910
Due from other governments	111,350,757	—	69,939	111,420,696
Total assets	\$ 176,823,272	10,187,132	76,951,622	263,962,026
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 35,974,105	—	4,733,621	40,707,726
Retainage payable	—	—	3,523,523	3,523,523
Deferred revenue	120,841,963	—	—	120,841,963
Other liabilities	3,532,060	—	3,865,930	7,397,990
Total liabilities	160,348,128	—	12,123,074	172,471,202
Fund balances:				
Reserved for:				
Nonexpendable permanent funds	—	—	11,739,415	11,739,415
Pension funding	1,617,804	—	—	1,617,804
Other specific purposes	—	—	25,647,648	25,647,648
Unreserved, reported in:				
General fund	14,857,340	—	—	14,857,340
Special revenue funds	—	10,187,132	10,459,023	20,646,155
Capital projects funds	—	—	16,922,833	16,922,833
Expendable permanent funds	—	—	59,629	59,629
Total fund balances	16,475,144	10,187,132	64,828,548	91,490,824
Total liabilities and fund balances	\$ 176,823,272	10,187,132	76,951,622	263,962,026

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Assets
 Year Ended June 30, 2005

Total governmental fund balances (Exhibit 3)	\$ 91,490,824
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore are not reported in the governmental funds.	412,001,940
Other assets are not available to pay for current period expenditures and, therefore are deferred in the governmental funds.	120,841,963
An internal service fund is used by management to charge the costs of self-insured health insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.	1,326,506
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.	(11,457,925)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:	
Bonds and notes payable, net of unamortized premiums	(527,518,046)
Judgments and claims	(14,927,021)
Compensated absences	(9,642,154)
Landfill closure costs	(7,544,000)
Public School early retirement costs	(2,116,985)
Net assets of governmental activities (Exhibit 1)	\$ 52,455,102

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

	<u>General fund</u>	<u>Stabilization</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Property taxes	\$ 163,705,622	—	—	163,705,622
Motor vehicle excise taxes	13,101,338	—	—	13,101,338
Other taxes and in-lieu payments	1,970,813	—	—	1,970,813
Penalties and interest on taxes	2,867,406	—	—	2,867,406
Licenses and permits	5,691,706	—	—	5,691,706
Intergovernmental	227,105,879	—	90,063,669	317,169,548
Charges for services	4,051,867	—	13,593,001	17,644,868
Fines and forfeitures	2,924,879	—	—	2,924,879
Investment earnings	1,170,178	130,215	755,333	2,055,726
Donations	—	—	2,908,159	2,908,159
Contributions to permanent funds	—	—	145,223	145,223
Miscellaneous	1,078,979	—	1,984,768	3,063,747
Total revenues	<u>423,668,667</u>	<u>130,215</u>	<u>109,450,153</u>	<u>533,249,035</u>
Expenditures:				
General government	11,215,488	—	2,646,057	13,861,545
Public safety	64,775,961	—	14,509,827	79,285,788
Health and human services	2,805,478	—	15,739,268	18,544,746
Education	190,911,489	—	94,882,272	285,793,761
Libraries	3,816,340	—	869,587	4,685,927
Public works	18,999,837	—	10,652,065	29,651,902
Culture and recreation	3,305,328	—	6,304,018	9,609,346
Fringe benefits	78,999,058	—	—	78,999,058
Community development	—	—	4,189,424	4,189,424
Redevelopment	—	—	5,769,530	5,769,530
Intergovernmental	2,696,843	—	—	2,696,843
Debt service:				
Principal	23,788,072	2,854,997	1,480,707	28,123,776
Interest	20,690,311	3,185,246	798,050	24,673,607
Total expenditures	<u>422,004,205</u>	<u>6,040,243</u>	<u>157,840,805</u>	<u>585,885,253</u>
Excess (deficiency) of revenues over expenditures	<u>1,664,462</u>	<u>(5,910,028)</u>	<u>(48,390,652)</u>	<u>(52,636,218)</u>
Other financing sources (uses):				
Transfers in	6,499,837	6,344,263	4,763,642	17,607,742
Transfers out	(7,021,796)	—	(10,497,668)	(17,519,464)
Premium on issuance of bonds and notes	3,330,227	—	367,149	3,697,376
Issuance of refunding bonds	—	—	18,240,626	18,240,626
Issuance of bonds	—	—	54,915,000	54,915,000
Payment to refunded bond escrow agent	—	—	(18,240,626)	(18,240,626)
Total other financing sources (uses)	<u>2,808,268</u>	<u>6,344,263</u>	<u>49,548,123</u>	<u>58,700,654</u>
Net change in fund balances	<u>4,472,730</u>	<u>434,235</u>	<u>1,157,471</u>	<u>6,064,436</u>
Fund balances – beginning	12,002,414	9,752,897	63,671,077	85,426,388
Fund balances – ending	<u>\$ 16,475,144</u>	<u>10,187,132</u>	<u>64,828,548</u>	<u>91,490,824</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit 5)	\$ 6,064,436
<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. This is the amount by which capital outlays exceeded depreciation in the current period:</p>	
Capital outlays	56,220,661
Capital contributions	1,586,360
Depreciation	(18,370,530)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the net change in deferred revenue.</p>	
	(11,686,430)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period:</p>	
Bond proceeds	(54,915,000)
Bond maturities	28,123,776
Amortization of bond premiums	(3,298,509)
Amortization of deferred losses on refundings	(745,208)
<p>In the statement of activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable</p>	
	(714,546)
<p>An internal service fund is used by management to charge the cost of self-insured health insurance to individual funds. The activity of the internal service fund is reported with governmental funds.</p>	
	2,921,424
<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 governmental funds. These amounts represent the net change:</p>	
Judgments and claims	843,859
Compensating absences	500,876
Landfill closure costs	1,655,000
Public School early retirement costs	375,031
	<u>843,859</u>
Change in net assets of governmental activities (Exhibit 2)	<u>\$ 8,561,200</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Assets

Proprietary Funds

June 30, 2005

	Business-type activities					Governmental
	Water	Major	Airport	Nonmajor	Totals	activities
		Sewer		Golf Course		Internal
					Service	Fund
Assets:						
Current assets:						
Cash and cash equivalents	\$ 5,561,719	4,621,639	—	92,246	10,275,604	4,682,205
Receivables (net)	5,168,051	5,881,908	654,643	—	11,704,602	—
Total current assets	10,729,770	10,503,547	654,643	92,246	21,980,206	4,682,205
Noncurrent assets:						
Capital assets:						
Land	1,509,000	116,500	106,400	—	1,731,900	—
Buildings	39,786,993	3,268,967	17,191,454	109,040	60,356,454	—
Infrastructure	112,585,723	123,969,586	22,638,497	633,063	259,826,869	—
Construction in progress	501,203	362,757	137,000	—	1,000,960	—
Equipment and other	324,125	119,366	444,610	6,340	894,441	—
Rolling equipment	1,837,773	3,152,461	944,938	—	5,935,172	—
Less accumulated depreciation	(43,147,273)	(48,947,886)	(14,792,087)	(363,283)	(107,250,529)	—
Capital assets, net	113,397,544	82,041,751	26,670,812	385,160	222,495,267	—
Total assets	124,127,314	92,545,298	27,325,455	477,406	244,475,473	4,682,205
Liabilities:						
Current liabilities:						
Accounts payable	858,603	967,444	233,861	92,246	2,152,154	—
Due to general fund	—	—	163,910	—	163,910	—
Accrued liabilities	1,334,487	600,107	68,963	13,600	2,017,157	3,355,699
Retainage payable	207,693	63,932	67,961	—	339,586	—
Judgments and claims	173,057	27,441	—	—	200,498	—
Compensated absences	343,879	151,655	39,225	—	534,759	—
Bonds and notes payable	5,650,129	2,081,729	396,470	113,197	8,241,525	—
Total current liabilities	8,567,848	3,892,308	970,390	219,043	13,649,589	3,355,699
Noncurrent liabilities:						
Judgments and claims	471,298	3,973	—	—	475,271	—
Compensated absences	100,817	27,383	7,928	—	136,128	—
Bonds and notes payable	68,934,003	31,116,667	4,165,016	575,934	104,791,620	—
Total noncurrent liabilities	69,506,118	31,148,023	4,172,944	575,934	105,403,019	—
Total liabilities	78,073,966	35,040,331	5,143,334	794,977	119,052,608	3,355,699
Net assets:						
Invested in capital assets, net of related debt	38,605,719	48,779,423	22,041,365	(302,840)	109,123,667	—
Restricted for:						
Renewal and replacement	1,476,526	1,159,471	112,847	—	2,748,844	—
Unrestricted	5,971,103	7,566,073	27,909	(14,731)	13,550,354	1,326,506
Total net assets	\$ 46,053,348	57,504,967	22,182,121	(317,571)	125,422,865	1,326,506

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Revenues, Expenses, and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2005

	Business-type activities					Governmental
					Totals	activities
	Water	Major Sewer	Airport	Nonmajor Golf Course		Internal Service Fund
Operating revenues:						
Charges for services	\$ 22,378,783	19,490,493	—	—	41,869,276	—
Employer contributions	—	—	—	—	—	45,770,000
Employee contributions	—	—	—	—	—	7,786,934
Fees	920,651	—	671,924	1,021,831	2,614,406	—
Miscellaneous	833,399	284,240	242,887	7,285	1,367,811	—
Total operating revenues	24,132,833	19,774,733	914,811	1,029,116	45,851,493	53,556,934
Operating expenses:						
Salaries and benefits	8,407,346	4,473,876	1,051,363	276,060	14,208,645	—
Benefit payments	—	—	—	—	—	50,705,062
Ordinary maintenance	3,243,247	10,477,532	1,178,708	592,357	15,491,844	—
Indirect costs	1,811,772	2,688,844	—	88,345	4,588,961	—
Depreciation	4,292,815	3,722,518	1,671,435	35,542	9,722,310	—
Total operating expenses	17,755,180	21,362,770	3,901,506	992,304	44,011,760	50,705,062
Operating income (loss)	6,377,653	(1,588,037)	(2,986,695)	36,812	1,839,733	2,851,872
Nonoperating revenues						
(expenses):						
Intergovernmental	—	—	1,739,859	—	1,739,859	—
Investment income	—	—	—	—	—	69,552
Interest expense	(3,835,049)	(1,373,769)	(261,356)	(34,376)	(5,504,550)	—
Total nonoperating revenues (expenses)	(3,835,049)	(1,373,769)	1,478,503	(34,376)	(3,764,691)	69,552
Income (loss) before capital contributions and transfers	2,542,604	(2,961,806)	(1,508,192)	2,436	(1,924,958)	2,921,424
Capital contributions	1,092,410	1,489,650	—	—	2,582,060	—
Transfers in	300,000	510,554	776,143	105,320	1,692,017	—
Transfers out	(1,035,694)	(485,878)	(229,982)	(28,741)	(1,780,295)	—
Change in net assets	2,899,320	(1,447,480)	(962,031)	79,015	568,824	2,921,424
Total net assets – beginning	43,154,028	58,952,447	23,144,152	(396,586)	124,854,041	(1,594,918)
Total net assets – ending	\$ 46,053,348	57,504,967	22,182,121	(317,571)	125,422,865	1,326,506

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2005

	Business-type activities				Governmental	
	Water	Major Sewer	Airport	Nonmajor Golf Course	Totals	Internal Service Fund
Cash flows from operating activities:						
Receipts from customers	\$ 24,265,020	18,594,722	888,626	1,029,116	44,777,484	53,556,934
Payments for interfund service provided					—	(50,092,755)
Payments to suppliers	(4,742,901)	(13,007,744)	(1,066,297)	(655,641)	(19,472,583)	—
Payments to employees	(8,375,923)	(4,430,507)	(1,049,957)	(273,239)	(14,129,626)	—
Net cash provided (used) by operating activities	11,146,196	1,156,471	(1,227,628)	100,236	11,175,275	3,464,179
Cash flows from noncapital financing activities:						
Advance from general fund	—	—	163,910	—	163,910	—
Transfers in	300,000	510,554	776,143	105,320	1,692,017	—
Transfers (out)	(1,035,694)	(485,878)	(229,982)	(28,741)	(1,780,295)	—
Intergovernmental subsidies	—	—	1,389,444	—	1,389,444	—
Net cash provided (used) by noncapital financing activities	(735,694)	24,676	2,099,515	76,579	1,465,076	—
Cash flows from capital and related financing activities:						
Issuance of capital debt	10,020,000	10,675,132	270,000	—	20,965,132	—
Acquisition and construction of capital assets	(5,534,132)	(4,647,441)	(470,542)	—	(10,652,115)	—
Principal paid on capital debt	(10,603,268)	(6,945,086)	(433,065)	(114,000)	(18,095,419)	—
Interest paid on capital debt	(3,495,106)	(1,250,957)	(262,785)	(34,933)	(5,043,781)	—
Net cash (used) by capital and related financing activities	(9,612,506)	(2,168,352)	(896,392)	(148,933)	(12,826,183)	—
Cash flows from investing activities:						
Investment income	—	—	—	—	—	69,552
Net increase (decrease) in cash and cash equivalents	797,996	(987,205)	(24,505)	27,882	(185,832)	3,533,731
Cash and cash equivalents at beginning of year	4,763,723	5,608,844	24,505	64,364	10,461,436	1,148,474
Cash and cash equivalents at end of year	\$ 5,561,719	4,621,639	—	92,246	10,275,604	4,682,205
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 6,377,653	(1,588,037)	(2,986,695)	36,812	1,839,733	2,851,872
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	4,292,815	3,722,518	1,671,435	35,542	9,722,310	—
(Increase) decrease in accounts receivable	132,187	(1,180,011)	(26,185)	—	(1,074,009)	—
Increase in accounts payable	178,716	174,742	117,083	27,882	498,423	—
Increase in accrued liabilities	—	—	—	—	—	612,307
Increase (decrease) in judgments and claims payable	146,960	31,414	(3,266)	—	175,108	—
Increase (decrease) in compensated absences payable	17,865	(4,155)	—	—	13,710	—
Total adjustments	4,768,543	2,744,508	1,759,067	63,424	9,335,542	612,307
Net cash provided (used) by operating activities	\$ 11,146,196	1,156,471	(1,227,628)	100,236	11,175,275	3,464,179

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Fiduciary Net Assets

June 30, 2005

	Pension Trust Fund (As of December 31, 2004)	Agency Fund
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 10,057,275	402,457
Receivables:		
Intergovernmental	2,038,988	—
Interest and dividends	1,258,943	—
Settlement for securities sold	82,830	—
Total receivables	<u>3,380,761</u>	<u>—</u>
Investments, at fair value:		
Equities	249,236,483	—
Fixed income	95,134,334	—
Pooled equities	113,711,946	—
Pooled fixed income	57,939,203	—
Real estate	52,479,214	—
Alternative investments	27,234,799	—
Total investments	<u>595,735,979</u>	<u>—</u>
Securities lending collateral	18,859,680	—
Total assets	<u>628,033,695</u>	<u>402,457</u>
Liabilities:		
Accounts payable and accrued expenses	555,235	23,549
Due to student groups	—	378,908
Intergovernmental	1,849,210	—
Payable for securities purchased	669,954	—
Securities lending collateral	18,859,680	—
Total liabilities	<u>21,934,079</u>	<u>402,457</u>
Net assets:		
Held in trust for pension benefits	\$ <u>606,099,616</u>	<u>—</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

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CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the City of Worcester (the City) are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

(a) *Financial Reporting Entity*

The City's basic financial statements present the City (the primary government) and its component units. The component units, discussed below, are included in the City's reporting entity because of the significance of their operational and financial relationship with the City.

Primary Government

The City operates under the Council-Manager form of government. Legislative authority is vested in an eleven-member City Council (the Council), of which six members are elected at-large and five are elected from districts. The School Committee, whose members are elected biennially, has exclusive jurisdiction over the City's public school system and appoints a superintendent to administer the system's day-to-day affairs.

The City provides a variety of public services. All funds of the City are included in the basic financial statements. The financial condition and results of operations of the City's funds are presented as of and for the year ended June 30, 2005, except for the City of Worcester Contributory Retirement System (WRS), which is presented as of and for the year ended December 31, 2004.

Blended Component Unit

WRS provides services almost entirely to the City. While legally separate, WRS is presented as if it were part of the primary government through a method of inclusion known as blending.

WRS is a cost-sharing, multiple-employer defined benefit pension plan established by the City on June 12, 1944 under Chapter 32 of the Massachusetts General Laws (MGL) and is regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). WRS covers certain eligible employees of the City, the Worcester Redevelopment Authority, and the Worcester Housing Authority.

WRS is administered by a five-member Retirement Board comprised of the City Auditor, who serves as *ex-officio*; two members elected by participants in or retired from service under WRS; a fourth member appointed by the City Manager; and a fifth member appointed by the other members. WRS is accounted for as a pension trust fund. Complete financial statements for WRS are publicly available and can be obtained from the Retirement Office, 455 Main Street, Room 103, Worcester, Massachusetts 01608.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Discretely Presented Component Units

These component units are reported in separate columns to emphasize that they are legally separate from the City but are included in the City's reporting entity because the City is financially accountable for them. The City is financially accountable for, and is able to impose its will on these organizations. The City appoints a voting majority of each organization's governing body and there is a potential for each organization either to provide specific financial benefits or to impose specific financial burdens on the City. The notes to the basic financial statements pertain to the primary government, unless otherwise indicated. A description of the discretely presented component units and their relationship with the City follows:

- The **Upper Blackstone Water Pollution Abatement District** (the District) is a special-purpose municipal corporation whose primary responsibility is to provide sewage treatment services to participating municipalities. The District was established under Chapter 752 of the Acts of 1968 of the Commonwealth. The District's area of potential service includes the City of Worcester, the Towns of Auburn, Boylston, Holden, Leicester, Millbury, Oxford, Paxton, Rutland, Shrewsbury, and West Boylston and all the sewer districts representing a portion of any of the above towns. The City of Worcester and the Towns of Auburn, Holden, Millbury, Rutland, West Boylston, and the Cherry Valley Sewer District of Leicester are the members of the District. The District is governed by a board of directors comprised of residents of the member governments. Each member government appoints one board member, with the City appointing a sufficient number of board members to have a majority vote. Complete financial statements for the District can be obtained from the District's administrative offices at Route 20, Millbury, Massachusetts 01527.
- The **Worcester Redevelopment Authority** (WRA) was organized under state law as a body corporate and politic having the authority to oversee and direct the City's redevelopment activities. WRA exercises its redevelopment powers through a five-member board, of which four members are appointed without restriction by the City Manager. Complete financial statements can be obtained from WRA's administrative offices at 455 Main Street, Room 309, Worcester, Massachusetts 01608.

Joint Venture

Municipal joint ventures pool resources to share the costs, risks, and rewards of providing services to their participants, the general public or others. The City is a participant in a joint venture to operate the Worcester Regional Transit Authority (WRTA), a component unit of the Commonwealth. Created in 1974 as a body corporate and politic and political subdivision of the Commonwealth, WRTA provides rapid transit and other mass transportation services to the City and 36 other municipalities within its jurisdiction. Each participating municipality is represented by one member on WRTA's governing board. The City's representative is appointed by the City Manager. While the level of service provided to each member affects the weight of each member's vote, the City's vote does not constitute a voting majority. The City is indirectly liable for debt and other expenses incurred by WRTA. The City's assessment from WRTA for fiscal 2005 amounted to \$1,995, which represented approximately 73% of the total of such assessments on all participating cities and towns.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Complete financial statements for WRTA can be obtained from WRTA's administrative offices at 287 Grove Street, Worcester, Massachusetts 01605.

Related Organization

The City Manager is responsible for appointing four out of five board members to the Worcester Housing Authority subject to confirmation by the City Council. However, the City's accountability for this organization does not extend beyond making these appointments.

(b) Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its discretely presented component units. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely for the most part on fees and charges for support. Likewise, the primary government is reported separately from legally separate component units for which the primary government is financially accountable.

The statement of activities presents both the gross and net cost per functional category. Direct expenses are those that are clearly identifiable with a specific function and program revenues must be directly associated with that function. Program revenues include charges to customers or applicants who purchase goods, services, or privileges as well as grants and contributions that are restricted to meeting operational or capital requirements of the function. Other revenue sources, such as taxes and investment earnings not properly included among program revenues, are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. However, fiduciary funds are not included in government-wide statements since these assets are held for the benefit of private parties and pension participants and cannot be used to satisfy obligations of the primary government. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements and the proprietary, fiduciary, and component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Employer contributions to the pension trust fund are recognized as revenue and recorded as a receivable when appropriated by the participating employers. Member and other contributions are recognized when due. Benefits and refunds to plan members and beneficiaries are recognized as expenses when due and payable in accordance with the terms of the plan.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues.

The City also reports proprietary funds. The focus in proprietary funds is upon determination of operating income, changes in net assets, financial position, and cash flows. The City's discretely presented component units, along with the water, sewer, airport, and golf course (nonmajor) enterprises, fit into this category. The accounting principles used are similar to those used for private sector businesses. The City and its component units apply to these funds accounting standards and interpretations of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those principles conflict with or contradict pronouncements of GASB. After such date, the City follows GASB pronouncements.

The City applies the susceptible-to-accrual criteria to intergovernmental revenues. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible-to-accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

Property taxes and motor vehicle excise taxes are recorded as revenue in the year for which the taxes have been levied, provided they are collected within 60 days after year-end. Investment income is recorded as earned. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

Expenditures are recorded when the liability is incurred except for (1) interest on general obligation debt, which is recorded when due; and (2) early retirement costs, claims, and judgments (including self-insurance), compensated absences and landfill closure and postclosure care costs, all of which are recorded as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources.

The City reports the following major governmental funds:

- **General Fund** – The general fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in a separate fund.
- **Stabilization Fund** – The stabilization fund was established to reduce the impact of debt service costs on future budgets. The funding source is from the Massachusetts School Building Authority (MSBA) for construction costs related to the Vocational Technical High School.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

The City also reports the following major enterprise funds:

- **Water Fund** – The water fund is used to account for the utility that purifies and distributes water to City users.
- **Sewer Fund** – The sewer fund is used to account for the utility that treats sewerage and storm water run-off in the City.
- **Airport Fund** – The airport fund is used to account for the operations of the City's municipal airport.

Additionally, the City reports the following fund types:

- **Pension Trust Fund** – The pension trust fund is used to account for the activities of WRS, which accumulates resources for pension benefit payments to qualified employees.
- **Agency Fund** – The agency fund is used to account for student activity funds.

The City also uses an internal service fund to account for self-insured health costs. Although the fund is presented in a separate column in the accompanying financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the water, sewer, and golf course (nonmajor) functions and other functions. These charges are reflected as charges to the proprietary funds and expense credits to the servicing functions.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues are those that cannot be associated directly with program activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for services, fees, facility rental, and miscellaneous operating revenues. Operating expenses of these funds are salaries and benefits, ordinary maintenance, indirect costs, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(d) Assets, Liabilities, and Net Assets or Equity

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents consist of highly liquid financial instruments with original maturities of three months or less.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Basis of Investment Valuation

Investments are stated at fair value. Fair values are based on quotations from a national securities exchange except for alternative investments and real estate funds, for which fair value is determined through estimates by fund managers.

The City's alternative investments are recorded at fair market value as determined in good faith by the general partners of the alternative investment firms. The City's investments in real estate funds are recorded at fair value, based on independent third party appraisals as reported by the investment managers of the funds. As there is no readily available market for these investments, estimated values may differ significantly from the values that may be realized upon liquidation.

Basis of Investment Transactions

Purchases and sales of investments are recorded on the trade date. Transactions unsettled as of year-end are recorded as payables for securities purchased and as receivables for securities sold.

Property Taxes

Real and personal property taxes are based on values levied (assessed) and liened as of each January 1 in accordance with Massachusetts General Laws. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Once levied, these taxes are recorded as receivables, net of estimated uncollectibles. In the governmental fund financial statements property tax revenues have been recorded using the modified accrual basis of accounting, which is described in note 1(c). The government-wide financial statements recognize property tax revenue when taxes are levied net of estimated abatements and exemptions.

The City bills and collects its property taxes on a quarterly basis. Taxes must be billed at least 30 days prior to their due date. The scheduled due dates for quarterly tax billings are August 1, November 1, February 1 and May 1. Overdue property taxes are subject to interest and penalties. The City has an ultimate right to foreclose on properties for which taxes have not been paid.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the City. A secondary limitation is that no levy in any fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a City-wide referendum vote.

Inventory

The cost of supplies and other inventoriable items is recorded as an expenditure at the time of purchase (purchase method). No significant inventory balances were on hand at June 30, 2005.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs, gutters, streets, sidewalks, and drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$50 (\$5 in previous years) and an estimated useful life in excess of two years. These assets are valued at cost or estimated historical cost if actual cost is not available. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Net interest costs related to construction projects, for business-type activities, are capitalized during the construction period if material. Such costs were not considered material during fiscal 2005. Donated capital assets are valued at their estimated fair value at the time received. Capital assets held by the discretely presented component units are accounted for in the applicable component unit. Depreciation is provided by the City and the WRA on a straight-line basis over the estimated useful lives of the assets, which are 5 to 10 years for vehicles and equipment, 40 years for facilities and 50 years for infrastructure. The District provides depreciation on a straight-line basis over the estimated useful lives of the assets, which are 3 to 20 years for equipment and 20 to 40 years for facilities.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, eligible employees are compensated for unused sick and vacation leave (subject to certain limitations) at specified payment rates established by contract, regulation, or policy. The cost of compensated absences for employees is recorded as earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if it has matured (i.e., come due for payment). To the extent it is probable that unused sick days will result in termination payments, a liability based on established payment rates and the City's past experience in making such termination payments, adjusted for other current factors and expectations, has been recorded.

Net Assets Restrictions/Fund Balance Reservations

Net assets and fund balances are reported as restricted and reserved, respectively, when amounts are specified by outside parties for a specific future use. The City reports the following restrictions and reservations:

"Pension funding" represents amounts set aside in accordance with debt covenants to pay future pension costs.

"Nonexpendable permanent funds" represents amounts held in trust for which only investment earnings may be expended.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

“Expendable permanent funds” represents amounts held in trust whereby expenditures are subject to various trust agreements.

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

Securities Lending Transactions

Collateral received on securities lending transactions is reported as an asset with a corresponding liability to the borrower. The underlying securities lent to the borrower under these transactions are reported as investments. Borrower rebates and administrative fees are reported as expenses; interest and dividends on the underlying securities and related collateral are reported as revenues.

Landfill Closure and Postclosure Care Costs

State and Federal regulations require the City to place final covers on its municipal solid waste landfill (MSWLF) sites when such sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. The City determines its liability related to closure and postclosure care for all MSWLFs based on landfill capacity used to date. At June 30, 2005, 100% of the City’s expected MSWLF capacity had been used and none of the sites had accepted solid waste for several years. The City has covered, is in the process of covering, or plans to cover each of its MSWLFs in accordance with applicable laws and regulations.

The liability for closure and postclosure care is estimated based on current cost, which is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. This estimate is subject to changes due to inflation, deflation, technology or applicable laws, and regulations. Such costs are recognized as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources; the remaining liability is reported in the governmental activities statement of net assets. Expenditures related to MSWLF closure and postclosure care in fiscal 2005 were \$1,655.

Judgments and Claims

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers’ compensation. In the fund financial statements, expenditures for judgments and claims (other than workers’ compensation and condemnation proceedings) are recorded on the basis of whether the liability has matured in the current period. Expenditures for workers’ compensation are recorded when paid. Settlements relating to condemnation proceedings are reported when the liability is estimable. In the government-wide financial statements the estimated liability for all judgments and claims is recorded as a liability and as an expense.

Long-Term Liabilities

For long-term liabilities, only that portion, which is matured, is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide statement of net assets. Long-term liabilities expected to be financed from discretely presented component unit operations are accounted for in those component unit financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Investment Income

Except for the permanent funds, investment income derived from governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law.

Except for investment income of the internal service fund, investment income from proprietary funds is voluntarily assigned to the general fund.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Property Taxes

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and operating transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all nonproperty tax revenue and operating transfers projected to be received by the City, including available surplus funds.

(3) Deposits, Investments, and Securities Lending

The Massachusetts General Laws (MGL) place limitations on the nature of deposits and investments that are available to the City. Deposits (including demand and term deposits) in any one financial institution may not exceed certain prescribed levels without collateralization or insurance protection by the financial institution involved. Investments can be made in securities unconditionally guaranteed by the U.S. Government with maturities of less than one year from the date of purchase, or in repurchase agreements having maturities of 90 days or less which are collateralized by such securities. The City also has the authority to purchase units in the Massachusetts Municipal Depository Trust (MMDT), a pooled fund managed for the Commonwealth. The City's pension trust fund and certain other trust funds have expanded investment powers, including the ability to invest in equity securities, corporate bonds, and other specified investments.

The composition of the City's deposits and investments fluctuates throughout the year depending primarily on the timing of property tax receipts, water and sewer revenues, proceeds from borrowings, collections of state and federal aid, and capital outlays.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(a) Deposits and Investments of the City (excluding component units)

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. The City's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$100 of deposits held at each financial institution. As of June 30, 2005, \$42,973 of the City's bank balance of \$138,980 was collateralized with securities held by pledging financial institutions, and \$94,033 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2005, are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 1,532	457	952	123	-
U.S. Agencies.....	452	71	248	100	33
Corporate bonds.....	1,903	657	1,021	225	-
Money market mutual funds.....	592	592	-	-	-
Total debt securities.....	4,479	1,777	2,221	447	33
<u>Other Investments:</u>					
External investment pools.....	103				
Equity securities.....	6,199				
Equity mutual funds.....	1,062				
Total other investments.....	7,363				
Total investments.....	\$ 11,842				

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

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Investments (Debt Securities) - Interest Rate Risk

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. Except for certain trust funds, the City does not have a policy for interest rate risk of debt securities since MGL limit the City's investments to U.S. backed securities that mature no more than one year from the initial investment date. Policies regarding interest rate risk for certain trust fund investments are identified in the individual trust agreements.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the City. As of June 30, 2005, none of the City's investments were exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. Except for certain trust funds, the City does not have a policy for credit risk of debt securities since MGL limits the City's investments to U.S. backed securities or AAA rated money market mutual funds. Policies regarding credit risk for certain trust fund investments are identified in the individual trust agreements. As of June 30, 2005, the credit quality ratings of the City's investment in debt securities are as follows:

<u>Quality Ratings*</u>	<u>Corporate Bonds</u>	<u>Money Market Mutual Funds</u>	<u>Mutual Bond Funds</u>	<u>Total</u>
A+.....	\$ 772	-	-	772
A.....	504	-	-	504
AA-.....	295	-	-	295
BB+.....	140	-	-	140
BB.....	150	-	-	150
BBB+.....	21	-	-	21
BBB-.....	20	-	-	20
Unrated.....	-	592	103	695
Total.....	\$ <u>1,903</u>	<u>592</u>	<u>103</u>	<u>2,598</u>

* Per the rating scale of Standard & Poors (a national credit rating organization)

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(b) Deposits and Investments of the WRS

Deposits and investments made by the WRS are governed by the MGL. The WRS has the ability to invest in equity securities, corporate bonds, annuities and other specified investments in accordance with state laws and regulations.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the WRS's deposits may not be recovered. The WRS's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$100 of deposits held at each financial institution. As of December 31, 2004, \$582 of the WRS's bank balance of \$688 was uninsured and uncollateralized.

Investments Summary

The WRS's investments at December 31, 2004 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 34,039	150	7,557	15,845	10,487
U.S. Agencies.....	15,700	847	2,357	271	12,225
Corporate bonds.....	46,243	654	7,584	24,156	13,849
Money market mutual funds.....	41,307	41,307	-	-	-
Mutual bond funds.....	25,780	25,780	-	-	-
Total debt securities.....	163,069	68,739	17,498	40,271	36,561
<u>Other Investments:</u>					
Equity securities.....	144,177				
Equity mutual funds.....	218,772				
Real estate investments.....	52,479				
Alternative investments.....	27,235				
Total other investments.....	442,662				
Total investments.....	\$ 605,731				

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

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Investments (Debt Securities) - Interest Rate Risk

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The WRS's policies for interest rate risk intend that the average duration of investments remain fairly stable over time and be focused in the intermediate range. The WRS's debt security managers are not permitted to make large-scale changes in portfolio duration in an attempt to anticipate interest rate changes. However, they are permitted to shift portfolio duration within a limited range (defined by their guidelines) in an effort to enhance performance.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the WRS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The WRS's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the WRS. As of December 31, 2004, none of the WRS's investments were exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The WRS's policies for credit risk of debt securities sets minimum average quality requirements for investment strategies employed, among other limitations. In monitoring credit risk, the WRS relies on credit ratings assigned by Moody's and Standard & Poor's. As of December 31, 2004, the credit quality ratings the WRS's investment in debt securities are as follows:

<u>Quality Ratings</u>	<u>Corporate Bonds</u>	<u>Money Market Mutual Funds</u>	<u>Mutual Bond Funds</u>	<u>Total</u>
AAA.....	\$ 11,502	-	10,512	22,014
AA.....	2,300	-	727	3,027
A.....	4,817	-	2,470	7,287
Baa.....	-	-	2,276	2,276
BBB.....	10,012	-	575	10,588
BB.....	9,124	-	3,889	13,013
B.....	6,620	-	3,172	9,791
CCC.....	1,214	-	418	1,633
Unrated.....	652	41,307	1,741	43,701
Total.....	\$ <u>46,243</u>	<u>41,307</u>	<u>25,780</u>	<u>113,331</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The WRS’s policy is to limit investments in non-U.S. dollar-denominated securities to not exceed 10% of the total market value of investments at all times. As of June 30, 2005, the WRS’s exposure to foreign currency risk is as follows:

<u>Deposit/Investment Type</u>	<u>U.S. Dollar Balances</u>	<u>Currency</u>
U.S. Agencies.....	\$ 675	Singapore dollar
Corporate bonds.....	1,128	British pound sterling
Corporate bonds.....	1,115	Mexican peso
Corporate bonds.....	613	Singapore dollar
Corporate bonds.....	247	Canadian dollar
Corporate bonds.....	32	Colombian peso
Alternative investments.....	<u>7,356</u>	Euro
Total.....	<u>\$ 11,165</u>	

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the WRS’s investment in a single issuer. The WRS’s policy for concentration of credit risk instructs investment managers not to invest more than 5% of their portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. Obligations of the U.S. Treasury, U.S. government agencies and money market funds are exempted from this restriction. As of December 31, 2004, the WRS’s investments with a single issuer that represent 5 percent or more of the WRS’s total investments are as follows:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>
SSGA S&P 500 Flagship SL Provisional Fund.....	\$ 70,571	11.7%
Boston Co. Int. ACWI Equity Fund.....	62,779	10.4%
Boston Co. Premier Value Equity Daily Pooled Fund.....	43,141	7.1%
SSGA MSCI EAFE Index Fund.....	42,281	7.0%
Bailard Fund Services, Inc.....	35,696	5.9%
Merrill Lynch RET PRES Trust Fund.....	32,159	5.3%

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(c) Deposits and Investments of the District

State and local statutes place certain limitations on the nature of deposits and investments available to the District.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be recovered. The District's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$100 of deposits held at each financial institution and collateralize the remaining amounts. At June 30, 2005, the District's deposits were fully insured and collateralized.

Investments Summary

The District's investments at June 30, 2005, are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 1,105	-	721	384	-
U.S. Agencies.....	3,419	34	3,382	-	3
Money market mutual funds.....	85	85	-	-	-
Total debt securities.....	<u>4,609</u>	<u>119</u>	<u>4,103</u>	<u>384</u>	<u>3</u>
<u>Other Investments:</u>					
External investment pools.....	3,668				
Equity securities.....	<u>986</u>				
Total other investments.....	<u>4,654</u>				
Total investments.....	<u>\$ 9,263</u>				

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

Investments (Debt Securities) - Interest Rate Risk

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The District's policies for interest rate risk permit the investment manager discretion to recommend a duration that is pegged at the Shearson Lehman Intermediate Treasury Benchmark. The portfolio's duration may be shorter or longer than the benchmark depending upon the investment manager's interest rate forecast. The benchmark duration averages 3.5 years. Deviation of the portfolio's duration to the benchmark typically will not exceed two years.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's policy for custodial credit risk of investments requires that all investments are either insured and/or registered in the name of the District. As of June 30, 2005, none of the District's investments were exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The District's policies for credit risk of debt securities restricts investment to debt obligations maintaining a AAA rating by Standard & Poors or Moody's rating services or are full faith obligations of the U.S. Treasury. As of June 30, 2005, the credit quality ratings of the District's debt securities were AAA rated or backed by full faith of the U.S. Treasury.

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The District's policy is to limit investments in non-U.S. dollar-denominated securities to not exceed 5% of the total market value of investments at all times. As of June 30, 2005, the District's exposure to foreign currency risk is as follows:

<u>Deposit/Investment Type</u>	<u>U.S. Dollar Balances</u>	<u>Currency</u>
Equity securities.....	\$ <u>32</u>	Euro

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's policy for concentration of credit risk instructs investment managers not to invest more than 5% of their portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. Obligations of the U.S. Treasury, U.S. government agencies and money market funds are exempted from this restriction. As of June 30, 2005, the District had no investments with a single issuer that represented 5 percent or more of the District's total investments.

(d) Deposits and Investments of the WRA

State and local statutes place certain limitations on the nature of deposits and investments available to the WRA.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the WRA's deposits may not be recovered. The WRA does not have a policy for custodial credit risk of deposits. As of June 30, 2005, \$660 of the WRA's bank balance of \$833 was collateralized with securities held by pledging financial institutions. The remaining balance of \$173 is uninsured and uncollateralized.

(e) Securities Lending

The Massachusetts Division of Public Employee Retirement Administration Commission (PERAC) has issued supplemental regulations that permit WRS to engage in securities lending transactions. These transactions are conducted by one of WRS's brokers, who lend certain securities owned by WRS to other broker-dealers and banks pursuant to a form of loan agreement. WRS and the borrowers maintain the right to terminate all securities lending transactions on demand.

The custodian lends, at the direction of the lending agent, WRS's securities and cash received (including both U.S. and foreign currency), U.S. Government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. The lending agent does not have the ability to pledge or sell collateral securities delivered unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

WRS does not impose any restrictions on the amount of securities lent on its behalf by the lending agent. There were no failures by any borrowers to return loaned securities or pay distributions thereon, nor were there any losses from default of the borrowers or the lending agent for the year ended December 31, 2004. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which WRS could not determine. At December 31, 2004, WRS had no credit risk exposure to borrowers because the amounts WRS owed the borrowers exceeded the amounts owed to WRS. The cash collateral held and the fair value of securities on loan for WRS at December 31, 2004 and 2003 was \$18,860 and \$18,814 and \$5,254 and \$5,026,

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respectively. Borrower rebates and fees paid to the broker were \$274 for the year ended December 31, 2004.

(4) City of Worcester Contributory Retirement System (WRS or the Plan)

(a) Plan Description and Membership

The City provides pension benefits to certain employees through WRS, a cost-sharing, multiple-employer public employee retirement system regulated by PERAC. WRS is a defined benefit pension plan that covers eligible employees of the City (which includes the Worcester Redevelopment Authority) and the Worcester Housing Authority. For the year ended June 30, 2005, the City's payroll for employees covered by WRS was approximately \$131,000; the City's total payroll was approximately \$290,000.

Membership in WRS is mandatory immediately upon commencement of employment for all permanent, full-time employees working at least 20 hours weekly, except for (1) employees eligible to participate in the Massachusetts Teachers' Retirement System (as discussed in note 5); and (2) employees of the District, who are covered by the State Retirement System. Disclosures applicable to the District's retirement plan are not material.

Membership in WRS was as follows at December 31, 2004:

Pensioners and beneficiaries	2,964
Inactive employees with vested rights	<u>1,017</u>
Total members	<u><u>7,479</u></u>
Number of participating employers	<u><u>2</u></u>

(b) Significant Plan Provisions and Requirements

Benefit provisions and contribution requirements of WRS are established by state law.

Members of WRS become vested after 10 years of creditable service. Normal retirement occurs at age 65 except for special situations and the City's police officers and firefighters, whose normal retirement age is 55. Retired employees receive an allowance based upon the average of their three highest consecutive salary years of service multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. Assuming normal retirement at age 65, this percentage is 2.5%, which is reduced for individuals who retire prior to age 65 to reflect the longer payout period. Employees may elect early retirement after 20 years of service or at any time after

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attaining age 55 with 10 years of eligible service. Plan members who become permanently and totally disabled may be eligible to receive a disability retirement allowance.

The amount of benefits to be received depends on several factors, including the member's age, compensation, veteran status, years of creditable service, and whether or not the disability is work-related. In addition, certain death benefits exist for beneficiaries of employees who die in active service.

(c) Funding Policy

Depending on their employment date, active Plan members must contribute either 5%, 7%, 8%, or 9% of their gross regular compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30. These deductions earn interest at a rate determined by PERAC that vests based upon years of service.

Member employers are required to contribute the remaining amounts necessary to finance benefits, except for certain cost-of-living adjustments (COLAs) granted before July 1, 1998, which are reimbursed by the Commonwealth.

The current and two preceding years' apportionment of the annual pension cost between the employers required the City to contribute approximately 89% of the total

(d) Annual Pension Cost

The City's required and actual contributions to WRS for the years ended June 30, 2005, 2004, and 2003 were \$18,110, \$17,161, and \$11,606, respectively. At June 30, 2005, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2005, actuarial valuation using the entry age normal cost method. The actuarial assumptions and other relative information is as follows:

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Amortization method	Payments increase 1.5% per year on the 2002 ERI liability, 4.5% per year on the remaining unfunded liability and level payments on the 2003 ERI liability and the Section 90 ACD liability
Remaining amortization period	The remaining effective amortization period is 16 years and the period was closed
Asset valuation method	Sum of actuarial value at beginning of year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of market value at end of year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value
Actuarial assumptions:	
Investment rate of return	8.5% (inflation of 4.0%)
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% for the first \$12 of retirement income

The following schedules present the WRS's funding progress and employer contributions:

Schedule of funding progress						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Annual Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/2005	\$ 606,100	771,948	165,849	78.52%	\$ 147,127	112.72%
1/1/2004	577,123	743,570	166,447	77.62%	138,797	119.92%
1/1/2003	554,190	715,856	161,666	77.42%	142,803	113.21%
1/1/2002	620,814	671,877	51,063	92.40%	148,765	34.32%
1/1/2001	630,715	628,681	(2,034)	100.32%	136,001	(1.50)%
1/1/2000	614,895	598,179	(16,716)	102.79%	130,377	(12.82)%

Schedule of contributions from employers		
Year Ended December 31,	Annual required contributions	Percentage contributed
2004	\$ 20,150	100%
2003	18,928	100%
2002	12,957	100%
2001	9,480	100%
2000	8,280	100%
1999	8,205	100%

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Notes to the Basic Financial Statements

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(d) Legally Required Reserve Accounts

The balances in WRS's legally required reserves as of December 31, 2004 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 122,749	Active members' contribution balance
Annuity Reserve Fund	49,482	Retired members' contribution account
Military Service Fund	17	Members' contribution account while on military leave
Pension Reserve Fund	310,651	Amounts appropriated to fund future retirement benefits
Pension Fund	<u>123,201</u>	Remaining net assets
Total	\$ <u><u>606,100</u></u>	

All reserve accounts are funded at levels required by state law.

(5) Massachusetts Teachers' Retirement System, a Noncontributing Employer Plan

(a) Plan Description

Teachers, certain administrators, and other professionals of the School Department participate in a contributory defined benefit plan administered by the Massachusetts Teachers' Retirement System. The City's payroll covered by this plan in fiscal 2005 was approximately \$133,000. Eligibility requirements for participation are as follows:

- The employee must be employed on at least a half-time basis in a contracted professional position within a public school system located in Massachusetts.
- The employee must be certified by the Massachusetts Department of Education for a position, which requires certification.

Benefit provisions and contribution requirements are established by state law.

Participation in the plan requires that members contribute a fixed percentage of their compensation (either 5%, 7%, 8%, or 9%) each pay period. This percentage varies depending upon the date of employment. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30. Employee contributions vest immediately. After 10 years of service employee benefits become fully vested. After 20 years of service, or upon having attained the age of 55 with at least 10 years of service, employees are eligible to receive benefits under the plan. Benefits are based on the average of the three highest consecutive salaried years of employee service and are determined in a manner similar to the provisions of WRS (see note 4). MGL Chapter 114 of the Acts of 2000 allows for all eligible members of the Massachusetts Teachers' Retirement System to contribute at a flat 11% rate as of July 1, 2001 in order to receive a retirement benefit enhancement. This benefit enhancement requires a minimum of five years of contribution at this 11% rate and at least thirty years of creditable service in order to receive accelerated retirement

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benefits up to the statutory maximum of 80%. Contribution at this 11% was voluntary for existing members of the retirement system and is mandated to all new members as of July 1, 2001.

The City has no obligation to contribute to this plan. The Commonwealth funds plan benefits to the extent that funding is not provided through employee contributions. However, the Commonwealth does not separately calculate the amount of its annual contribution attributable to benefits earned by City employees.

(b) Special Termination Benefits

In prior years, the City elected to make certain employees who participate in the Massachusetts Teachers' Retirement System eligible for an early retirement incentive program. The remaining additional accrued liability incurred as of June 30, 2005 was \$2,117. This liability has been recorded in the applicable governmental activities statement of net assets. Scheduled payments are as follows:

	<u>Amount</u>
Year ending June 30:	
2006	\$ 390
2007	406
2008	423
2009	440
2010	<u>458</u>
	<u>\$ 2,117</u>

(6) Other Postemployment Benefits

In addition to the pension benefits described in notes 4 and 5, the City provides health and life insurance benefits to retirees, their dependents and beneficiaries in accordance with MGL Chapter 32B under various contributory plans. Specific benefit provisions and contribution rates are established by collective-bargaining agreements, state law, and City ordinance. Currently, approximately 4,200 retirees are eligible to receive such benefits. All benefits are provided through third-party insurance carriers and health maintenance organizations that administer, assume, and pay all claims for specific plans, while the City partially self-funds the claims for the remaining plans. Depending on the plan involved, between 50% and 90% of the calculated contribution is paid by the retirees through pension benefit deductions. The remainder of such cost is funded by the City. During fiscal 2005, expenditures for other postemployment benefits, net of participant contributions, were \$20,054.

CITY OF WORCESTER, MASSACHUSETTS

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June 30, 2005

(In thousands of dollars)

(7) Accounts Receivable

At June 30, 2005, receivables for the individual major governmental funds and nonmajor governmental, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross</u> <u>Amount</u>	<u>Allowance</u> <u>for</u> <u>Uncollectibles</u>	<u>Net</u> <u>Amount</u>
<u>Receivables:</u>			
Property taxes	\$ 5,158	(1,200)	3,958
Tax liens	5,493	(1,023)	4,470
Motor vehicle excise taxes	4,698	(2,358)	2,340
Special assessments	821	-	821
Departmental and other	4,211	(1,334)	2,877
Intergovernmental	<u>113,460</u>	<u>-</u>	<u>113,460</u>
 Total	 <u>\$ 133,841</u>	 <u>(5,915)</u>	 <u>127,926</u>

At June, 30, 2005, receivables for the enterprise funds are as follows:

	<u>Gross</u> <u>Amount</u>	<u>Allowance</u> <u>for</u> <u>Uncollectibles</u>	<u>Net</u> <u>Amount</u>
<u>Receivables:</u>			
Charges for services	\$ 9,912	-	9,912
Special assessments	1,186	-	1,186
Intergovernmental	<u>607</u>	<u>-</u>	<u>607</u>
 Total	 <u>\$ 11,705</u>	 <u>-</u>	 <u>11,705</u>

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Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of deferred revenue reported in the governmental funds:

<u>Receivable type:</u>	<u>General Fund</u>
Property taxes	\$ 2,590
Tax liens	4,470
Motor vehicle excise taxes	1,280
Special assessments	821
Departmental	1,536
Intergovernmental (school construction)	107,254
Intergovernmental (other state and federal)	<u>2,891</u>
Total	<u>\$ 120,842</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the MSBA, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2005, \$14,496 of such assistance was received. Approximately \$187,749 will be received in future fiscal years. Of this amount, approximately \$80,495 represents reimbursement of long-term interest costs, and approximately \$107,254 represents reimbursement of approved construction costs. Accordingly, a \$107,254 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(8) Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 12,593	1,440	102	13,931
Construction in progress	<u>45,015</u>	<u>37,340</u>	<u>4,608</u>	<u>77,747</u>
Total capital assets, not being depreciated	<u>57,608</u>	<u>38,780</u>	<u>4,710</u>	<u>91,678</u>
Capital assets, being depreciated:				
Buildings	338,184	9,072	700	346,556
Improvements other than buildings	10,235	2,434	—	12,669
Rolling equipment	20,097	1,776	215	21,658
Equipment and other	12,210	258	—	12,468
Infrastructure	<u>107,146</u>	<u>8,570</u>	<u>—</u>	<u>115,716</u>
	<u>487,872</u>	<u>22,110</u>	<u>915</u>	<u>509,067</u>
Less accumulated depreciation for:				
Buildings	102,043	9,890	499	111,434
Improvements other than buildings	1,069	474	—	1,543
Rolling equipment	13,674	1,609	177	15,106
Equipment and other	6,514	1,252	—	7,766
Infrastructure	<u>47,748</u>	<u>5,146</u>	<u>—</u>	<u>52,894</u>
	<u>171,048</u>	<u>18,371</u>	<u>676</u>	<u>188,743</u>
Total capital assets, being depreciated, net	<u>316,824</u>	<u>3,739</u>	<u>239</u>	<u>320,324</u>
Governmental capital assets, net	\$ <u><u>374,432</u></u>	<u><u>42,519</u></u>	<u><u>4,949</u></u>	<u><u>412,002</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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

Governmental activities:		
General government	\$	102
Public safety		1,736
Public works		5,929
Education		6,470
Library		748
Health and human services		265
Culture and recreation		<u>3,121</u>
Total depreciation expense – governmental activities	\$	<u><u>18,371</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities:				
Water:				
Capital assets, not being depreciated:				
Land	\$ 34	1,475	—	1,509
Construction in progress	688	484	671	501
Total capital assets, not being depreciated	<u>722</u>	<u>1,959</u>	<u>671</u>	<u>2,010</u>
Capital assets, being depreciated:				
Buildings	38,842	945	—	39,787
Rolling equipment	1,989	—	151	1,838
Infrastructure	108,351	4,344	110	112,585
Equipment and other	501	—	177	324
Total capital assets, being depreciated	<u>149,683</u>	<u>5,289</u>	<u>438</u>	<u>154,534</u>
Less accumulated depreciation for:				
Buildings	9,922	998	—	10,920
Rolling equipment	918	241	151	1,008
Infrastructure	28,014	3,025	110	30,929
Equipment and other	438	29	177	290
Total accumulated depreciation	<u>39,292</u>	<u>4,293</u>	<u>438</u>	<u>43,147</u>
Total capital assets, being depreciated, net	<u>110,391</u>	<u>996</u>	<u>—</u>	<u>111,387</u>
Water capital assets, net	<u>111,113</u>	<u>2,955</u>	<u>671</u>	<u>113,397</u>
Sewer:				
Capital assets, not being depreciated:				
Land	117	—	—	117
Construction in progress	586	340	564	362
Total capital assets, not being depreciated	<u>703</u>	<u>340</u>	<u>564</u>	<u>479</u>
Capital assets, being depreciated:				
Buildings	2,367	902	—	3,269
Rolling equipment	2,721	431	—	3,152
Infrastructure	119,020	4,949	—	123,969
Equipment and other	134	—	14	120
Total capital assets, being depreciated	<u>124,242</u>	<u>6,282</u>	<u>14</u>	<u>130,510</u>
Less accumulated depreciation for:				
Buildings	696	87	—	783
Rolling equipment	1,279	341	—	1,620
Infrastructure	43,174	3,282	—	46,456
Equipment and other	90	12	14	88
Total accumulated depreciation	<u>45,239</u>	<u>3,722</u>	<u>14</u>	<u>48,947</u>
Total capital assets, being depreciated, net	<u>79,003</u>	<u>2,560</u>	<u>—</u>	<u>81,563</u>
Sewer capital assets, net	<u>79,706</u>	<u>2,900</u>	<u>564</u>	<u>82,042</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

	Beginning balance	Increases	Decreases	Ending balance
Airport:				
Capital assets, not being depreciated:				
Land	\$ 106	—	—	106
Construction in progress	397	137	396	138
Total capital assets, not being depreciated	<u>503</u>	<u>137</u>	<u>396</u>	<u>244</u>
Capital assets, being depreciated:				
Buildings	17,191	—	—	17,191
Rolling equipment	945	—	—	945
Infrastructure	21,979	659	—	22,638
Equipment and other	451	—	6	445
Total capital assets, being depreciated	<u>40,566</u>	<u>659</u>	<u>6</u>	<u>41,219</u>
Less accumulated depreciation for:				
Buildings	4,102	434	—	4,536
Rolling equipment	677	78	—	755
Infrastructure	8,138	1,116	—	9,254
Equipment and other	210	43	6	247
Total accumulated depreciation	<u>13,127</u>	<u>1,671</u>	<u>6</u>	<u>14,792</u>
Total capital assets, being depreciated, net	<u>27,439</u>	<u>(1,012)</u>	<u>—</u>	<u>26,427</u>
Airport capital assets, net	<u>27,942</u>	<u>(875)</u>	<u>396</u>	<u>26,671</u>
Golf course (nonmajor):				
Capital assets, being depreciated:				
Buildings	109	—	—	109
Infrastructure	633	—	—	633
Equipment and other	6	—	—	6
Total capital assets, being depreciated	<u>748</u>	<u>—</u>	<u>—</u>	<u>748</u>
Less accumulated depreciation for:				
Buildings	85	3	—	88
Infrastructure	237	32	—	269
Equipment and other	5	1	—	6
Total accumulated depreciation	<u>327</u>	<u>36</u>	<u>—</u>	<u>363</u>
Golf course capital assets, net	<u>421</u>	<u>(36)</u>	<u>—</u>	<u>385</u>
Business-type activities capital assets, net	<u>\$ 219,182</u>	<u>4,944</u>	<u>1,631</u>	<u>222,495</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

	Beginning balance	Increases	Decreases	Ending balance
Discretely presented component				
units – The District:				
Capital assets, not being depreciated:				
Land	\$ 702	—	—	702
Construction in progress	14,288	24,815	—	39,103
Total capital assets, not being depreciated	14,990	24,815	—	39,805
Capital assets, being depreciated:				
Treatment facilities	54,463	14	—	54,477
Equipment and other	6,866	36	—	6,902
Total capital assets, being depreciated	61,329	50	—	61,379
Less accumulated depreciation for:				
Treatment facilities	20,891	2,465	—	23,356
Equipment and other	5,375	343	—	5,718
Total accumulated depreciation	26,266	2,808	—	29,074
Total capital assets, being depreciated, net	35,063	(2,758)	—	32,305
The District's capital assets, net	\$ <u>50,053</u>	<u>22,057</u>	<u>—</u>	<u>72,110</u>
Discretely presented component				
units – WRA:				
Capital assets, not being depreciated:				
Land	\$ 2,870	—	—	2,870
Construction in progress	1,381	4,356	785	4,952
Total capital assets, not being depreciated	4,251	4,356	785	7,822
Capital assets, being depreciated:				
Buildings	47,732	1,404	—	49,136
Equipment and other	72	104	—	176
Total capital assets, being depreciated	47,804	1,508	—	49,312
Less accumulated depreciation for:				
Buildings	4,689	1,245	—	5,934
Equipment and other	70	2	—	72
Total accumulated depreciation	4,759	1,247	—	6,006
Total capital assets, being depreciated, net	43,045	261	—	43,306
WRA capital assets, net	\$ <u>47,296</u>	<u>4,617</u>	<u>785</u>	<u>51,128</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

Construction Commitments

The City has active construction projects as of June 30, 2005. The projects include the renovation of the police station, building renovations, new school replacements/additions, school renovations, street, and land improvement projects. At year-end, the City's commitments with contractors are as follows.

Project	Spent through June 30, 2005	Remaining commitment
New school construction	\$ 71,609	8,356
Land improvements	2,657	373
School renovations	1,367	128
Building renovations	1,214	130
Parking garage renovations	591	246
Street improvements	452	56
Dam rehabilitation	294	18
Building improvements	191	78
Total	\$ <u>78,375</u>	<u>9,385</u>

The commitments for the dam rehabilitation, building renovations, parking garage renovations and school projects are being funded by general obligation bonds. The commitments for the street improvements are being funded by a federal grant. The commitments for the land improvement projects and building improvements are being funded by federal grants and general obligation bonds.

(9) Operating Leases

The City occasionally leases building and office facilities and other equipment under noncancelable operating leases. There were no costs for such leases for the year ended June 30, 2005. The future minimum lease payments for these leases are as follows:

	Amount
Year ending June 30:	
2006	\$ 114
2007	114
2008	114
	\$ <u>342</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

(10) Long-Term Obligations

(a) Primary Government

The following is a summary of changes in noncurrent governmental bond principal and other long-term obligations, including portions due within one year, as reported in the statement of net assets.

	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>	<u>Due within one year</u>
General obligation bonds:						
Inside debt limit	(2.00%-8.00%) \$	90,386	24,126	15,021	99,491	10,289
Outside debt limit	(2.00%-8.50%)	400,778	49,055	30,904	418,929	19,759
Notes payable – Section 108	(2.31%-6.01%)	5,800	—	—	5,800	—
Accrued early retirement costs, net		2,492	—	375	2,117	390
Judgments and claims		15,771	1,473	2,317	14,927	1,418
Compensated absences		10,143	6,246	6,747	9,642	6,504
Landfill closure and postclosure care costs		9,199	—	1,655	7,544	—
Deferred amounts on bond premium		—	3,697	399	3,298	399
Less unamortized deferred amounts on refundings		(107)	—	(107)	—	—
Less unamortized deferred financing costs		(174)	—	(174)	—	—
		<u>\$ 534,288</u>	<u>84,597</u>	<u>57,137</u>	<u>561,748</u>	<u>38,759</u>

For governmental activities, bonds and notes payable are liquidated by the general fund, stabilization fund and various other governmental funds. Accrued early retirement, claims and judgments, and compensated absences are generally liquidated by the general fund. Landfill closure and postclosure care is generally liquidated by the capital projects fund.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

The following is a summary of changes in noncurrent business-type bond principal and other long-term obligations, including portions due within one year as reported in the statement of net assets.

	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>	<u>Due within one year</u>
General obligation bonds:						
Inside debt limit	(2.00%-7.00%) \$	9,932	1,727	1,708	9,951	1,231
Outside debt limit	(2.00%-7.00%)	99,448	21,081	18,570	101,959	6,965
MWPAT note payable	(2.00%-5.50%)	1,168	—	44	1,124	45
Judgments and claims		497	446	267	676	200
Compensated absences		660	538	527	671	535
Less unamortized deferred amounts on refundings		(219)	—	(219)	—	—
		<u>\$ 111,486</u>	<u>23,792</u>	<u>20,897</u>	<u>114,381</u>	<u>8,976</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(b) Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2005 matures as follows:

	Governmental activities		Business-type activities			
	Governmental Funds		Water		Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2006	\$ 30,048	24,906	5,650	3,415	2,037	1,294
2007	32,753	24,512	5,882	3,246	2,368	1,301
2008	29,583	23,052	5,478	2,986	2,306	1,200
2009	28,039	21,772	4,984	2,687	1,981	1,071
2010	27,879	20,460	5,155	2,449	1,789	991
2011-2015	124,453	97,044	27,803	8,347	8,450	3,894
2016-2020	116,063	54,740	15,046	2,417	7,832	1,970
2021-2025	85,332	27,383	4,297	434	4,986	473
2026-2028	44,270	5,645	289	6	326	7
	<u>\$ 518,420</u>	<u>299,514</u>	<u>74,584</u>	<u>25,987</u>	<u>32,075</u>	<u>12,201</u>
			Business-type activities		Business-type activities totals	
			Airport	Golf (nonmajor)	Principal	Interest
			Principal	Interest	Principal	Interest
Year ending June 30:						
2006	\$ 397	247	113	30	8,197	4,986
2007	435	227	112	26	8,797	4,800
2008	393	202	69	22	8,246	4,410
2009	378	180	63	18	7,406	3,956
2010	398	159	64	15	7,406	3,614
2011-2015	2,096	451	208	35	38,557	12,727
2016-2020	465	15	50	9	23,393	4,411
2021-2025	—	—	10	—	9,293	907
2026-2028	—	—	—	—	615	13
	<u>\$ 4,562</u>	<u>1,481</u>	<u>689</u>	<u>155</u>	<u>111,910</u>	<u>39,824</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(c) ***Authorized and Unissued Debt***

The City is subject to a dual-level general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively; of the valuation of taxable property in the City as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Municipal Finance Oversight Board. Additionally, certain categories of general obligation debt are exempt from the debt limit but subject to other limitations.

Authorized and unissued debt at June 30, 2005 is as follows:

Inside debt limit:		
School construction	\$	41,980
Building rehabilitation		16,201
Worcester Center Boulevard Garage		9,475
Union Station garage		8,190
Departmental equipment		3,863
Street construction		2,419
South Worcester industrial park		2,000
Dam improvements		1,600
Worcester Common rehabilitation		1,430
Franklin Square fire station construction		1,050
Parks improvements		500
Building demolition		419
Bridge construction		209
Land acquisition		125
Gateway bridge construction		105
Library design		60
Sewer infiltration and inflow		50
Surface drain construction		50
Urban Systems Gateway		2
		<hr/>
Total inside debt limit		89,728

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Outside debt limit:		
Vocational School construction	\$	16,000
Sewer construction		5,672
Water filtration		2,735
Reservoir rehabilitation		2,065
Water land acquisition		1,380
Airport improvements		1,180
Greenhill Park improvements		1,050
Water mains		984
Sewer drainage		595
Landfill closure		250
Surface drain construction		200
Water reservoir tank		150
Dam improvements		130
Watershed land		100
Reservoir remodeling		30
Water equipment		8
		<hr/>
Total outside debt limit		32,529
		<hr/>
Total inside and outside debt limit	\$	<u>122,257</u>

At June 30, 2005, in addition to debt authorized but unissued, the City may issue \$285,562 of additional general obligation debt under the normal debt limit. The City had \$520,888 of outstanding debt exempt from the debt limit, of which \$45,110 are BANs that are presented as long-term obligations.

(d) Advance Refundings

On September 23, 2004, the City issued \$29,585 in general obligation bonds with an average interest rate of 4.48% to advance-refund \$28,940 of various other bonds with an average interest rate of 5.20%. The transaction met the requirements of an “in-substance defeasance” as defined by accounting principals generally accepted in the United States of America, and as a result, the liability for the refunded bonds have been removed from the financial statements. The transaction resulted in a reduction of approximately \$1,293 in debt service payments over the remaining life of the bonds, and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,034.

The principal amount of debt refunded through prior year in-substance defeasance transactions and still outstanding at June 30, 2005 was \$81,280.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(e) Subsequent Event

On July 14, 2005, the City issued \$70,200 of general obligation bonds to advance-refund outstanding debt obligations. Series A was issued in the amount of \$43,230 with an average interest rate of 4.87% to advance-refund \$42,865 of various other bonds with an average interest rate of 5.24%. Series B was issued in the amount of \$26,970 with an average interest rate of 4.88% to advance-refund \$26,015 of various other bonds with an average interest rate of 5.74%.

(f) Discretely Presented Component Units – The District

Long-term obligations consisted of the following at June 30, 2005:

Pollution Abatement Trust. The bonds are payable in varying principal amounts at an average coupon rate of 5.53% with a final payment due February 1, 2017.	\$	9,476
1999 General Obligation Bonds payable in varying annual installments at an average coupon rate of 5.32% with a final payment due August 1, 2019.		9,345
1999 General Obligation Bonds issued to the Massachusetts Water Pollution Abatement Trust. The Bonds are payable in varying principal amounts at an average coupon rate of 5.25% with a final payment due February 1, 2020.		856
2001 General Obligation Bonds issued to the Massachusetts Water Pollution Abatement Trust. The Bonds are payable in varying principal amounts at an average coupon rate of 5.10% with a final payment due February 1, 2021.		426
2003 General Obligation Bonds payable in varying annual installments at an average coupon rate of 4.84% with a final payment due March 15, 2023.		10,285
2004 General Obligation Bonds issued to the Massachusetts Water Pollution Abatement Trust. The Bonds are payable in varying principal amounts at an average coupon rate of 4.84% with a final payment due August 1, 2034.		52,620
Unamortized bond premium		2,660
Less: unamortized deferred financing costs		(590)
Other		226
		<hr/>
Total long-term obligations		85,304
Less portion due within one year		(2,752)
		<hr/>
Amount due in more than one year	\$	<u><u>82,552</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Scheduled bond principal and interest repayments and related anticipated subsidies are as follows:

	<u>Gross payments</u>			<u>Anticipated subsidy</u>	<u>Net payments</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
Year ending June 30:					
2006	\$ 2,603	3,965	6,568	1,576	4,992
2007	2,680	3,859	6,539	1,542	4,997
2008	2,774	3,740	6,514	1,508	5,006
2009	2,876	3,608	6,484	1,472	5,012
2010	2,979	3,484	6,463	1,436	5,027
2011-2015	16,467	15,331	31,798	6,591	25,207
2016-2020	17,064	10,973	28,037	4,681	23,356
2021-2025	11,500	7,375	18,875	3,286	15,589
2026-2030	10,960	4,658	15,618	2,619	12,999
2031-2035	13,105	1,681	14,786	1,783	13,003
	<u>\$ 83,008</u>	<u>58,674</u>	<u>141,682</u>	<u>26,494</u>	<u>115,188</u>

(g) *Discretely Presented Component Units – WRA*

Long-term obligations consisted of the following at June 30, 2005:

Note payable, City of Worcester, unsecured, with interest calculated at the rate paid by the City on the sale of its general obligation bonds (5.147% as of June 30, 2004).	79
Other amounts payable to primary government	<u>1,581</u>
Subtotal – due to primary government	<u>4,204</u>
Bond and notes payable, secured by garage revenues and grant proceeds, due in installments of principal from June 2005 through June 2019. Interest is due semi-annually at rates varying from 4.40% to 6.00% during the life of the obligation.	5,745
Less: unamortized bond discount, net	<u>(57)</u>
Subtotal – bonds and notes payable, net	<u>5,688</u>
Total long-term obligations	9,892
Less portion due within one year	<u>(3,502)</u>
Amount due in more than one year	<u>\$ 6,390</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Scheduled bond and note principal and interest repayments are as follows:

	Gross repayments		
	Principal	Interest	Total
Year ending June 30:			
2006	\$ 290	295	585
2007	305	281	586
2008	320	266	586
2009	340	250	590
2010	355	233	588
2011-2015	760	943	1,703
2016-2019	3,375	694	4,069
Bonds and notes payable, gross	<u>5,745</u>	\$ <u>2,962</u>	<u>8,707</u>
Less unamortized discount	<u>(57)</u>		
Bonds and notes payable, net	<u>\$ 5,688</u>		

(11) Temporary Borrowings

(a) Primary Government

Under state law and by authorization of the City Council, the City is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through the issuance of revenue or tax anticipation notes (RANs or TANs);
- Special revenue, capital project, and enterprise fund costs incurred prior to obtaining permanent financing through the issuance of bond anticipation notes (BANs); and
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through the issuance of federal and state aid anticipation notes (FAANs and SAANs).

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Temporary loans are general obligations of the City and carry maturity dates limited by statute. Interest expenditures on temporary borrowings for the year ended June 30, 2005 in the general fund, stabilization fund, nonmajor governmental funds, and enterprise funds were \$133, \$426, \$15, and \$110, respectively. At June 30, 2005, the following 3.00% to 4.75% BANs (maturing through September 2005) were outstanding:

	Outstanding as of <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding as of <u>June 30, 2005</u>
Bond anticipation notes payable:				
School	\$ 30,475	33,850	30,475	33,850
General	12,570	20,800	12,570	20,800
Water	4,010	6,275	4,010	6,275
Sewer	4,835	5,275	4,835	5,275
Airport	<u>65</u>	<u>205</u>	<u>65</u>	<u>205</u>
Total	\$ <u>51,955</u>	<u>66,405</u>	<u>51,955</u>	<u>66,405</u>

(b) Subsequent Event

On September 15, 2005, the City issued \$66,405,000 of general obligation bonds to refinance BANs outstanding at June 30, 2005. Accordingly, these amounts have been included as long-term debt at June 30, 2005.

(c) Discretely Presented Component Units – The District

The District issues short-term notes as preliminary financing for major capital additions. Notes payable activity for the year ended June 30, 2005 was as follows:

	Outstanding as of <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding as of <u>June 30, 2005</u>
Short-term notes	\$ <u>6,577</u>	<u>21,492</u>	<u>25,069</u>	<u>3,000</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(12) Interfund Receivables, Payables and Transfers

Receivables and payables between funds at June 30, 2005 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Airport Fund	\$ <u>164</u> (1)

(1) Represents temporary transfer to cover cash deficit.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Transfers and their purposes during the year ended June 30, 2005 were as follows:

	Governmental funds			Enterprise funds			
	General Fund	Stabilization Fund	Other Governmental Funds	Water Fund	Major Sewer Fund	Airport Fund	Nonmajor Golf Fund
Damage settlements – reimbursement for damage to city property	\$ 139	–	(139)	–	–	–	–
Damage settlements – to fund operating costs	22	–	(22)	–	–	–	–
Premium on loans – to fund bond refunding, issuance and debt service costs	334	–	(334)	–	–	–	–
Federal reimbursement – to fund indirect services related to federal grants	627	–	(627)	–	–	–	–
Real estate sales - to fund land acquisition	440	–	(440)	–	–	–	–
Real estate sales - to fund construction projects	150	–	(256)	–	–	–	106
Cemetery lot sales – reimbursement of parks operational costs	44	–	(44)	–	–	–	–
Parking – to cover parking operations	268	–	(268)	–	–	–	–
Sewer connection fees to fund public works engineering operations	118	–	(118)	–	–	–	–
Sewer connection fees to fund sewer operations	–	–	(487)	–	487	–	–
Construction permits – to fund public works engineering operations	54	–	(54)	–	–	–	–
Stabilization fund - to fund public safety	1,235	–	(1,235)	–	–	–	–
Tax stabilization reserve - to fund tax rate reduction	1,000	–	(1,000)	–	–	–	–
FEMA reimbursement to fund snow and ice removal	691	–	(691)	–	–	–	–
Passenger facility charges – to fund airport operations	–	–	(104)	–	–	104	–
General fund – to fund debt payments	(6,344)	6,344	–	–	–	–	–
General fund – to fund airport operating costs	(665)	–	–	–	–	665	–
Enterprises – to fund debt payments	1,365	–	–	(761)	(486)	(89)	(29)
Capital – to fund capital project acquisitions	–	–	85	25	23	(133)	–
Total	\$ (522)	6,344	(5,734)	(736)	24	547	77

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(13) Environmental Remediation – The District

Plant Improvements

In settlement of its appeal of its National Pollutant Discharge Elimination System (NPDES) permit, the District entered into a consent agreement with the U.S. Environmental Protection Agency to implement a plant improvement plan that will achieve more stringent discharge standards within the coming 15 years. The plan was developed through District facilities planning, completed to identify the most cost-effective approach to modernizing the District's 25-year-old plant and achieving revised standards for the river.

The plan envisions completion of design and construction of the facilities needed to achieve new standards by August 2009 with design and construction of other facilities (solids management facilities and future capacities) occurring on an as-needed basis. This results on a four phased approach to construction of the facilities.

- Phase I** Peak flow management, headworks, primary treatment, disinfection, odor control, and miscellaneous other support systems. (approx. \$58,000)
- Phase II** Advanced treatment facilities required for projected 2010 flows. (approx. \$75,000)
- Phase III** Solids management facilities. (approx. \$12,000)
- Phase IV** Facilities required for future flows (beyond 2010). (approx. \$18,000)

The above referenced costs are planning level estimates escalated to the mid-point of construction of each phase, with the total cost estimated to be \$163,000 in escalated dollars. In accordance with the District's agreement with EPA, Phase I is to be completed in 2006, and Phase II by August 2009. Phases III and IV are not required within the EPA agreement. The solids management improvement slated for Phase III can be completed as needed, or as finances permit. Phase IV facilities would only be completed if sufficient regional growth occurs to warrant their construction.

The District intends to finance the above costs through long-term borrowing. As of June 30, 2005, the District has spent and capitalized approximately \$38,918, including capitalized interest of \$884.

(14) Risk Management

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health and life insurance claims.

Buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$100 per incident. The City is self-insured for other types of general liability; however, Chapter 258 of Massachusetts General Laws limits the City's liability to a maximum of \$100 per claimant in all matters except actions relating to Federal civil rights, eminent domain, and breach of contract. The City is also self-insured for unemployment and workers' compensation.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

The City provides a variety of health insurance benefits to employees including Blue Cross/Blue Shield Blue Choice, Medex, Master Medical and Managed Blue as well as Fallon Direct, Select and Senior plans. The partially self-insured Blue Choice, Medex and Master Medical plans (premium based in fiscal year 2003) are paid through an established internal service fund based on total claims, while the Managed Blue and Fallon plans are based on premiums. Specific stop loss insurance is purchased for claims that exceed \$90 for each participating member of the self-insured health plans. Between 10% and 25% of employee contributions are made depending on the calculated contribution rate of the plan involved. The remainder of such costs is funded by the City. The City provides 50% of the cost of life insurance benefits to employees. The City also provides health and life insurance benefits to certain retirees, as discussed in note 6.

Liabilities for self-insured judgments and claims are recorded in the entity wide financial statements if it is probable that a loss has been incurred and the amount can be reasonably estimated. The City accounts for its self-insurance costs that have matured in the general fund in the fund-basis statements.

The City has established a liability for judgments and claims based on a case-by-case review of all known claims, estimates of losses incurred but not reported, incremental costs incurred only because of claims, historical trends of previous years, and attorneys' estimates of pending matters and lawsuits in which the City is involved.

Changes in the self-insurance liability for health claims for the years ended June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Health claims, beginning of year	\$ 2,822	—
Incurred claims	49,272	44,528
Payments of claims attributable to events of the current and prior fiscal years:		
Health	<u>(48,738)</u>	<u>(41,706)</u>
Health claims, end of year	\$ <u>3,356</u>	<u>2,822</u>

Changes in judgments and claims liability for the years ended June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Judgments and claims, beginning of year	\$ 16,268	15,022
Additions to estimated claims liability	1,919	3,880
Payments of claims attributable to events of the current and prior fiscal years:		
Court judgments and legal settlements	(915)	(1,150)
Workers' compensation	<u>(1,669)</u>	<u>(1,484)</u>
Judgments and claims, end of year	\$ <u>15,603</u>	<u>16,268</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

Judgments and claims consisted of the following at June 30:

	<u>2005</u>	<u>2004</u>
Workers' compensation	\$ 14,903	14,853
Court judgments and legal settlements	700	1,415
	<u>\$ 15,603</u>	<u>16,268</u>

The fiscal 2005 liability for judgments and claims consist of governmental and business-type activities in the amount of \$14,927 and \$676, respectively.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The liability for workers' compensation is reported at net present value using a discount rate of 5.5%.

There are various other pending matters and lawsuits in which the City is involved. The City and its legal counsel estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the City's financial position.

(15) Contingency

In January 2000, the Massachusetts Port Authority (MassPort) took over the operation of the City's airport. This was a five-year agreement in which MassPort also assumed a share of any airport-operating deficit. During fiscal 2005, MassPort offset 100% of the operating deficit, exclusive of debt service. During fiscal year 2005, this contract was renewed for a 3-year period. MassPort continued to pay 100% of the deficit in fiscal 2005. This percentage will drop to 85% in fiscal 2006 and to 68% in fiscal 2007. The carrying value of the airports' net assets could be impaired without the continuing support of MassPort.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

(16) Prior Period Adjustment

The City has made certain adjustments related to its governmental activities, which are identified below:

Net assets of governmental activities at June 30, 2004, as previously reported	\$ (76,434)
To record receivable for amounts due from the MSBA for approved school construction costs	115,990
To record receivable for amounts due from the Commonwealth for the construction of the Worcester Medical Center	<u>4,338</u>
Net assets of governmental activities at June 30, 2004, as restated	<u>\$ 43,894</u>

(17) Implementation of GASB Pronouncements

During fiscal year 2005, the City implemented GASB Statement #40 – *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, which established and modified disclosure requirements for deposit and investment risks (see Note 3).

(18) Future Implementation of GASB Pronouncements

The GASB has issued the following statements:

- Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented during fiscal year 2006.
- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2007.
- Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented during fiscal year 2006.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2005

(In thousands of dollars)

- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2008.

- Statement #46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*, which is required to be implemented during fiscal year 2006.

- Statement #47, *Accounting for Termination Benefits*, which is required to be implemented during fiscal year 2006.

These pronouncements will be implemented by the required year of implementation.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

Year ended June 30, 2005

General Fund

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Budgetary Basis

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Property taxes	\$ 160,937,406	160,272,108	164,252,134	3,980,026
Motor vehicle excise taxes	13,500,000	13,500,000	13,163,913	(336,087)
Penalties and interest on taxes	2,550,000	2,550,000	2,867,406	317,406
Other taxes and in-lieu payments	2,150,000	2,150,000	1,970,813	(179,187)
Licenses and permits	5,373,799	5,373,799	5,691,706	317,907
Intergovernmental	224,339,584	226,103,146	227,105,879	1,002,733
Charges for services	3,976,200	3,976,200	4,051,867	75,667
Fines and forfeitures	2,650,000	2,650,000	2,924,879	274,879
Investment earnings	750,000	750,000	1,170,178	420,178
Miscellaneous	965,000	965,000	1,078,979	113,979
Total revenues	417,191,989	418,290,253	424,277,754	5,987,501
Expenditures:				
General government:				
Council	236,246	235,765	235,765	—
Mayor	89,586	88,077	88,077	—
Manager	1,443,603	2,271,937	2,271,937	—
Auditor	467,979	583,916	583,916	—
Treasurer and Collector	1,463,814	1,796,760	1,796,760	—
Assessor	618,355	583,439	583,439	—
License Commission	12,555	12,219	12,219	—
Law	1,226,688	1,165,681	1,165,681	—
Clerk	556,752	568,197	568,197	—
Messenger	403,046	421,762	421,762	—
Election Commission	320,074	313,339	313,339	—
Purchasing	192,456	291,559	291,559	—
Information Services	1,817,145	2,049,035	2,049,035	—
Human Resources	828,639	833,802	833,802	—
Total general government	9,676,938	11,215,488	11,215,488	—
Public safety:				
Police	31,258,133	31,885,173	31,884,406	767
Fire	28,605,752	29,082,192	29,082,192	—
Code Inspection	1,677,337	1,697,572	1,697,572	—
Communications	2,128,548	2,097,112	2,097,112	—
Emergency Management	14,760	14,679	14,679	—
Total public safety	63,684,530	64,776,728	64,775,961	767

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

Year ended June 30, 2005

General Fund

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Budgetary Basis

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Health and human services:				
Health	\$ 1,609,609	1,583,185	1,583,185	—
Elder Affairs	635,118	608,198	608,198	—
Veteran’s Services	487,196	614,095	614,095	—
Total health and human services	2,731,923	2,805,478	2,805,478	—
Education:				
Public Schools	176,845,940	177,094,860	177,094,860	—
Intergovernmental	14,049,445	13,689,279	13,816,629	(127,350)
Total education	190,895,385	190,784,139	190,911,489	(127,350)
Libraries:				
Public library	3,588,667	3,665,156	3,665,156	—
Regional library	151,184	151,184	151,184	—
Total libraries	3,739,851	3,816,340	3,816,340	—
Public works:				
General operations	9,570,479	9,882,986	9,882,986	—
Snow and ice removal	1,171,000	1,887,996	5,379,465	(3,491,469)
Street lighting	2,527,000	2,497,386	2,497,386	—
Union Station	1,240,000	1,240,000	1,240,000	—
Total public works	14,508,479	15,508,368	18,999,837	(3,491,469)
Culture and recreation:				
Parks and Cemetery	3,056,068	3,215,774	3,215,774	—
Auditorium	96,700	89,554	89,554	—
Total culture and recreation	3,152,768	3,305,328	3,305,328	—
Intergovernmental	2,588,645	2,582,232	2,696,843	(114,611)
Debt service:				
Principal	23,937,820	23,968,072	23,788,072	180,000
Interest	20,737,922	20,510,311	20,690,311	(180,000)
Total debt service	44,675,742	44,478,383	44,478,383	—
Fringe benefits:				
Retirement	16,313,899	16,492,762	16,492,762	—
Workers’ and unemployment comp.	2,012,864	2,173,798	2,173,798	—
Insurance	58,776,947	60,332,498	60,332,498	—
Total fringe benefits	77,103,710	78,999,058	78,999,058	—

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

Year ended June 30, 2005

General Fund

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Budgetary Basis

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Contingency	\$ 100,000	—	—	—
Total expenditures	412,857,971	418,271,542	422,004,205	(3,732,663)
Excess of revenues over expenditures	4,334,018	18,711	2,273,549	2,254,838
Other financing sources (uses):				
Transfers in	2,604,733	6,499,837	6,499,837	—
Transfers out	(6,938,751)	(7,021,796)	(7,021,796)	—
Premium on loans	—	—	3,330,227	3,330,227
Total other financing (uses)	(4,334,018)	(521,959)	2,808,268	3,330,227
Net changes in fund balances	—	(503,248)	5,081,817	5,585,065
Budgetary fund balance – beginning	9,415,446	9,415,446	9,415,446	—
Budgetary fund balance – ending	\$ 9,415,446	8,912,198	14,497,263	5,585,065

See accompanying notes to schedule of revenues, expenditures, and changes in fund balance – budget and actual – budgetary basis.

See accompanying independent auditors' report.

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

General Fund

Notes to Schedule of Revenues, Expenditures, and Changes in

Fund Balance – Budget and Actual – Budgetary Basis

June 30, 2005

(In thousands of dollars)

Budgetary Basis of Accounting

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the City adopts an annual budget for all general fund functions as well as for those enterprise funds for which the provisions of Chapter 44, Section 53F 1/2 have been adopted.

All portions of the annual budget, except for that of public schools, are prepared under the direction of the City Manager. The School Department budget is prepared under the direction of the Superintendent. The budget must be approved by the City Council, which may reduce or reject any item in the budget but may not increase or add items without the recommendation of the City Manager. The level of expenditure may not legally exceed appropriations for each department or undertaking in the following categories:

- Salaries and wages
- Ordinary maintenance
- Capital outlays

Once adopted, budgets within the above categories may not be amended by management without seeking City Council approval.

In fiscal 2005, the original general fund expenditure budget was increased by \$5,414.

The City's annual budget is prepared on a basis other than GAAP. The "actual" results columns of the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - Budgetary Basis are presented on a "budgetary basis" to provide a meaningful comparison with the budgets.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

General Fund

Notes to Schedule of Revenues, Expenditures, and Changes in

Fund Balance – Budget and Actual – Budgetary Basis

June 30, 2005

(In thousands of dollars)

The following reconciliation summarizes the differences between budgetary and GAAP-basis accounting principles for the year ended June 30, 2005:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing uses</u>	<u>Excess revenue and other sources (expenditures and uses)</u>
General fund:				
As reported on a budgetary basis	\$ 424,278	422,004	2,808	5,082
Adjustment of revenues to a modified basis	<u>(609)</u>	<u>—</u>	<u>—</u>	<u>(609)</u>
As reported on a GAAP basis	<u>\$ 423,669</u>	<u>422,004</u>	<u>2,808</u>	<u>4,473</u>

The major differences between the budgetary basis and the GAAP basis are:

- Revenues are recorded when cash is received (budgetary), as opposed to when susceptible to accrual (GAAP).
- Claims are recorded as expenditures when paid (budgetary), as opposed to a liability when incurred (GAAP).

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2005, expenditures exceeded appropriations for snow and ice and intergovernmental (education) expenditures. These over-expenditures will be funded by available funds during fiscal year 2006.

Fund Deficits

At June 30, 2005, the golf course enterprise fund and the DCU Center nonmajor governmental fund reported deficit balances totaling \$317,571 and \$1,713,116, respectively. These deficits will be funded in future fiscal years via charges for services.

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2005

Nonmajor Governmental Funds – A combining balance sheet and combining statement of revenues, expenditures and changes in fund balances is provided for other (nonmajor) governmental funds.

Special Revenue

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

DCU Center – accounts for the operations of the City’s civic center.

School Lunch – accounts for the operations of the public school lunch program.

Police Auxiliary – accounts for police off-duty details.

Off-Street Parking – accounts for the operation of the City’s off-street parking lots.

City Revolving – accounts for City activities that are allowed, by an act of the State legislature, to use program revenues for operating expenditures.

School Revolving – accounts for school activities that are allowed, by an act of the State legislature, to use program revenues for operating expenditures.

Receipts Reserved – accounts for revenues reserved for appropriation that have been segregated by law or administrative action.

Community Development – accounts for grants received from the U.S. Department of Housing and Urban Development.

Job Training Partnership Act – accounts for revenue received from the U.S. Department of Labor to assist individuals to become productive members of the labor force.

School Grants – accounts for school programs funded by intergovernmental revenue.

City Grants – accounts for various grants received from the Federal and State governments for programs administered by City departments.

Capital Projects

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

DCU Center Construction – accounts for improvements to the City’s civic center.

Street and Sidewalk – accounts for the construction and improvement of streets and sidewalks.

Rehabilitation of Public Buildings – accounts for improvements to City owned buildings.

Capital Equipment – accounts for the acquisition of equipment.

School Construction – accounts for the construction and rehabilitation of school buildings.

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2005

Parks Improvements – accounts for grants and bond proceeds used for parks improvements.

Union Station Garage – accounts for financial resources used for the union station garage construction.

Other – accounts for various small construction projects.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Hope Cemetery – accounts for funds used for the perpetual care of the municipal cemetery.

Health Department – accounts for funds used for public health purposes.

Libraries – accounts for funds held in trust for the City's public libraries.

Schools – accounts for funds held in trust to provide scholarships for qualified students.

Parks – accounts for funds held in trust to improve the City's parks.

Police – accounts for funds held in trust to beautify the landscape at the police headquarters building.

Public Works – accounts for funds held in trust to provide street lighting.

Memorial – accounts for funds held in trust to maintain various monuments and fountains.

Other – accounts for various trusts.

Enterprise Funds – Separate schedules of revenues, expenditures and changes in fund balance – budget and actual – budgetary basis are provided for the airport, golf, sewer and water enterprise funds. The “actual” results columns of the Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - Budgetary Basis are presented on a “budgetary basis” to provide a meaningful comparison with the budgets. Actual amounts can vary from GAAP amounts.

Capital Assets – Three separate schedules are provided for capital assets used in the operation of governmental activities.

Agency Funds – The agency fund is a fiduciary fund used to account for assets held in a custodial capacity.

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

	Special Revenue Funds				
	DCU Center	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Assets:					
Cash and cash equivalents	\$ 2,152,814	1,283,206	177,302	435,914	1,017,683
Investments	—	—	—	—	—
Due from other governments	—	—	—	—	—
Total assets	<u>\$ 2,152,814</u>	<u>1,283,206</u>	<u>177,302</u>	<u>435,914</u>	<u>1,017,683</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ —	208,836	157,337	63,885	3,871
Retainage payable	—	—	—	—	—
Other liabilities	3,865,930	—	—	—	—
Total liabilities	<u>3,865,930</u>	<u>208,836</u>	<u>157,337</u>	<u>63,885</u>	<u>3,871</u>
Fund balances:					
Reserved for:					
Nonexpendable permanent funds	—	—	—	—	—
Other specific purposes	—	—	—	—	—
Unreserved	(1,713,116)	1,074,370	19,965	372,029	1,013,812
Total fund balances	<u>(1,713,116)</u>	<u>1,074,370</u>	<u>19,965</u>	<u>372,029</u>	<u>1,013,812</u>
Total liabilities and fund balances	<u>\$ 2,152,814</u>	<u>1,283,206</u>	<u>177,302</u>	<u>435,914</u>	<u>1,017,683</u>

Special Revenue Funds

<u>School Revolving</u>	<u>Receipts Reserved</u>	<u>Community Development</u>	<u>Job Training Partnership Act</u>	<u>School Grants</u>	<u>City Grants</u>	<u>Subtotal</u>
1,314,247	8,402,567	215,320	1,520,946	18,702,982	6,715,210	41,938,191
—	—	—	—	—	—	—
—	—	17,521	—	—	46,048	63,569
<u>1,314,247</u>	<u>8,402,567</u>	<u>232,841</u>	<u>1,520,946</u>	<u>18,702,982</u>	<u>6,761,258</u>	<u>42,001,760</u>
24,851	—	182,254	200,651	468,189	719,285	2,029,159
—	—	—	—	—	—	—
—	—	—	—	—	—	3,865,930
<u>24,851</u>	<u>—</u>	<u>182,254</u>	<u>200,651</u>	<u>468,189</u>	<u>719,285</u>	<u>5,895,089</u>
—	—	—	—	—	—	—
—	—	50,587	1,320,295	18,234,793	6,041,973	25,647,648
<u>1,289,396</u>	<u>8,402,567</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,459,023</u>
<u>1,289,396</u>	<u>8,402,567</u>	<u>50,587</u>	<u>1,320,295</u>	<u>18,234,793</u>	<u>6,041,973</u>	<u>36,106,671</u>
<u>1,314,247</u>	<u>8,402,567</u>	<u>232,841</u>	<u>1,520,946</u>	<u>18,702,982</u>	<u>6,761,258</u>	<u>42,001,760</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

	Capital Projects Funds				
	DCU Center Construction	Street and Sidewalk	Rehabilitation of Public Buildings	Capital Equipment	School Construction
Assets:					
Cash and cash equivalents	\$ 2,395,487	3,283,027	2,807,233	528,515	11,335,765
Investments	—	—	—	—	—
Due from other governments	—	6,370	—	—	—
Total assets	<u>\$ 2,395,487</u>	<u>3,289,397</u>	<u>2,807,233</u>	<u>528,515</u>	<u>11,335,765</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 95,153	338,495	243,684	114,889	1,721,733
Retainage payable	—	104,899	128,672	—	3,137,207
Other liabilities	—	—	—	—	—
Total liabilities	<u>95,153</u>	<u>443,394</u>	<u>372,356</u>	<u>114,889</u>	<u>4,858,940</u>
Fund balances:					
Reserved for:					
Nonexpendable permanent funds	—	—	—	—	—
Other specific purposes	—	—	—	—	—
Unreserved	2,300,334	2,846,003	2,434,877	413,626	6,476,825
Total fund balances	<u>2,300,334</u>	<u>2,846,003</u>	<u>2,434,877</u>	<u>413,626</u>	<u>6,476,825</u>
Total liabilities and fund balances	<u>\$ 2,395,487</u>	<u>3,289,397</u>	<u>2,807,233</u>	<u>528,515</u>	<u>11,335,765</u>

Capital Projects Funds			
Parks Improvements	Union Station Garage	Other	Subtotal
1,084,956	653,866	1,051,714	23,140,563
—	—	—	—
—	—	—	6,370
<u>1,084,956</u>	<u>653,866</u>	<u>1,051,714</u>	<u>23,146,933</u>
64,370	113,547	8,706	2,700,577
148,308	—	4,437	3,523,523
—	—	—	—
<u>212,678</u>	<u>113,547</u>	<u>13,143</u>	<u>6,224,100</u>
—	—	—	—
—	—	—	—
<u>872,278</u>	<u>540,319</u>	<u>1,038,571</u>	<u>16,922,833</u>
<u>872,278</u>	<u>540,319</u>	<u>1,038,571</u>	<u>16,922,833</u>
<u>1,084,956</u>	<u>653,866</u>	<u>1,051,714</u>	<u>23,146,933</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

	Permanent Funds				
	Hope Cemetery	Health Department	Libraries	Schools	Parks
Assets:					
Cash and cash equivalents	\$ 337,011	291,584	875,496	100,646	42,818
Investments	1,979,076	1,712,311	5,141,299	591,036	251,447
Due from other governments	—	—	—	—	—
Total assets	<u>\$ 2,316,087</u>	<u>2,003,895</u>	<u>6,016,795</u>	<u>691,682</u>	<u>294,265</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ —	—	3,385	500	—
Retainage payable	—	—	—	—	—
Other liabilities	—	—	—	—	—
Total liabilities	<u>—</u>	<u>—</u>	<u>3,385</u>	<u>500</u>	<u>—</u>
Fund balances:					
Reserved for:					
Nonexpendable permanent funds	2,306,864	2,003,895	5,997,409	668,264	291,053
Other specific purposes	—	—	—	—	—
Unreserved	9,223	—	16,001	22,918	3,212
Total fund balances	<u>2,316,087</u>	<u>2,003,895</u>	<u>6,013,410</u>	<u>691,182</u>	<u>294,265</u>
Total liabilities and fund balances	<u>\$ 2,316,087</u>	<u>2,003,895</u>	<u>6,016,795</u>	<u>691,682</u>	<u>294,265</u>

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Other	Subtotal	
886	37,848	29,901	1,239	1,717,428	66,796,182
5,203	222,257	175,593	7,278	10,085,501	10,085,501
—	—	—	—	—	69,939
<u>6,089</u>	<u>260,105</u>	<u>205,494</u>	<u>8,517</u>	<u>11,802,929</u>	<u>76,951,622</u>
—	—	—	—	3,885	4,733,621
—	—	—	—	—	3,523,523
—	—	—	—	—	3,865,930
—	—	—	—	3,885	12,123,074
6,089	259,543	197,781	8,517	11,739,415	11,739,415
—	—	—	—	—	25,647,648
—	562	7,713	—	59,629	27,441,485
<u>6,089</u>	<u>260,105</u>	<u>205,494</u>	<u>8,517</u>	<u>11,799,044</u>	<u>64,828,548</u>
<u>6,089</u>	<u>260,105</u>	<u>205,494</u>	<u>8,517</u>	<u>11,802,929</u>	<u>76,951,622</u>

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

June 30, 2005

	Special Revenue Funds				
	DCU Center	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Revenues:					
Intergovernmental	\$ —	6,974,813	—	—	—
Investment earnings	—	—	—	—	—
Charges for services	896,388	1,109,373	6,380,702	—	233,649
Donations	—	—	—	—	—
Contributions to permanent funds	—	—	—	—	—
Miscellaneous	—	—	—	—	—
Total revenues	896,388	8,084,186	6,380,702	—	233,649
Expenditures:					
Current:					
General government	—	—	—	—	314,065
Public safety	—	—	6,362,889	—	—
Health and human services	—	—	—	—	—
Education	—	8,005,406	—	—	—
Libraries	—	—	—	—	—
Public works	—	—	—	1,053,738	156,092
Culture and recreation	578,723	—	—	—	—
Community development	—	—	—	—	—
Redevelopment	—	—	—	—	—
Debt service:	—	—	—	—	—
Principal	261,609	—	—	397,670	160,000
Interest	144,021	—	—	126,258	117,600
Total expenditures	984,353	8,005,406	6,362,889	1,577,666	747,757
Excess (deficiency) of revenues over expenditures	(87,965)	78,780	17,813	(1,577,666)	(514,108)
Other financing sources (uses):					
Transfers in	—	—	—	1,724,826	—
Transfers (out)	(1,895,000)	—	—	—	—
Premium on issuance of bonds and notes	—	—	—	—	—
Issuance of refunding bonds	—	—	—	—	—
Issuance of bonds	—	—	—	—	—
Payments to refunded bond escrow agent	—	—	—	—	—
Total other financing sources (uses)	(1,895,000)	—	—	1,724,826	—
Net change in fund balances	(1,982,965)	78,780	17,813	147,160	(514,108)
Fund balances – beginning	269,849	995,590	2,152	224,869	1,527,920
Fund balances – ending	\$ (1,713,116)	1,074,370	19,965	372,029	1,013,812

Special Revenue Funds

School Revolving	Receipts Reserved	Community Development	Job Training Partnership Act	School Grants	City Grants	Subtotal
—	2,796,000	5,552,784	6,792,042	49,933,789	14,460,398	86,509,826
—	—	—	—	—	17,939	17,939
1,004,325	3,718,130	68,539	412	—	181,483	13,593,001
—	—	—	—	958,715	1,949,444	2,908,159
—	1,984,768	—	—	—	—	—
—	—	—	—	—	—	1,984,768
<u>1,004,325</u>	<u>8,498,898</u>	<u>5,621,323</u>	<u>6,792,454</u>	<u>50,892,504</u>	<u>16,609,264</u>	<u>105,013,693</u>
—	—	—	—	—	1,014,136	1,328,201
—	—	—	—	—	5,404,634	11,767,523
—	—	—	6,527,988	—	8,967,645	15,495,633
1,091,716	—	—	—	46,470,743	—	55,567,865
—	—	—	—	—	636,487	636,487
—	—	—	—	—	416,587	1,626,417
—	—	—	—	—	309,105	887,828
—	—	4,189,424	—	—	—	4,189,424
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	556,576	—	—	74,852	1,450,707
—	—	205,350	—	—	181,483	774,712
<u>1,091,716</u>	<u>—</u>	<u>4,951,350</u>	<u>6,527,988</u>	<u>46,470,743</u>	<u>17,004,929</u>	<u>93,724,797</u>
(87,391)	8,498,898	669,973	264,466	4,421,761	(395,665)	11,288,896
—	—	—	1,999	200,927	—	1,927,752
—	(6,415,754)	(662,744)	—	—	(503,298)	(9,476,796)
—	367,149	—	—	—	—	367,149
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	(6,048,605)	(662,744)	1,999	200,927	(503,298)	(7,181,895)
(87,391)	2,450,293	7,229	266,465	4,622,688	(898,963)	4,107,001
1,376,787	5,952,274	43,358	1,053,830	13,612,105	6,940,936	31,999,670
<u>1,289,396</u>	<u>8,402,567</u>	<u>50,587</u>	<u>1,320,295</u>	<u>18,234,793</u>	<u>6,041,973</u>	<u>36,106,671</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

June 30, 2005

	Capital Projects Funds				
	DCU Construction	Street and Sidewalk	Rehabilitation of Public Buildings	Capital Equipment	School Construction
Revenues:					
Intergovernmental	\$ —	2,535,110	479,257	—	—
Investment earnings	—	—	—	—	—
Charges for services	—	—	—	—	—
Donations	—	—	—	—	—
Contributions to permanent funds	—	—	—	—	—
Miscellaneous	—	—	—	—	—
Total revenues	—	2,535,110	479,257	—	—
Expenditures:					
Current:					
General government	—	—	986,094	331,762	—
Public safety	—	—	319,317	1,476,213	—
Health and human services	—	—	74,123	19,512	—
Education	—	—	5,123,709	451,986	33,732,262
Libraries	—	—	75,156	32,912	—
Public works	—	6,585,268	609,893	624,360	—
Culture and recreation	2,872,012	—	—	349,111	—
Community development	—	—	—	—	—
Redevelopment	—	—	—	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Total expenditures	2,872,012	6,585,268	7,188,292	3,285,856	33,732,262
Excess (deficiency) of revenues over expenditures	(2,872,012)	(4,050,158)	(6,709,035)	(3,285,856)	(33,732,262)
Other financing sources (uses):					
Transfers in	2,235,890	—	—	—	—
Transfers (out)	—	(6,300)	(894,690)	(23,530)	—
Premium on issuance of bonds and notes	—	—	—	—	—
Issuance of refunding bonds	4,868,849	—	2,548,732	—	10,802,162
Issuance of bonds	2,575,000	4,255,000	7,080,000	3,055,000	33,850,000
Payments to refunded bond escrow agent	(4,868,849)	—	(2,548,732)	—	(10,802,162)
Total other financing sources (uses)	4,810,890	4,248,700	6,185,310	3,031,470	33,850,000
Net change in fund balances	1,938,878	198,542	(523,725)	(254,386)	117,738
Fund balances – beginning	361,456	2,647,461	2,958,602	668,012	6,359,087
Fund balances – ending	\$ 2,300,334	2,846,003	2,434,877	413,626	6,476,825

Capital Projects Funds			
Parks Improvements	Union Station Garage	Other	Subtotal
539,476	—	—	3,553,843
—	—	19,542	19,542
—	—	—	—
—	—	—	—
—	—	—	—
539,476	—	19,542	3,573,385
—	—	—	1,317,856
—	—	946,774	2,742,304
—	—	—	93,635
—	—	—	39,307,957
—	—	—	108,068
—	269,681	927,838	9,017,040
2,175,067	—	—	5,396,190
—	—	—	—
—	—	5,769,530	5,769,530
—	—	—	—
—	—	—	—
2,175,067	269,681	7,644,142	63,752,580
(1,635,591)	(269,681)	(7,624,600)	(60,179,195)
600,000	—	—	2,835,890
(31,452)	—	(64,900)	(1,020,872)
—	—	—	—
—	—	20,883	18,240,626
1,100,000	810,000	2,190,000	54,915,000
—	—	(20,883)	(18,240,626)
1,668,548	810,000	2,125,100	56,730,018
32,957	540,319	(5,499,500)	(3,449,177)
839,321	—	6,538,071	20,372,010
872,278	540,319	1,038,571	16,922,833

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

June 30, 2005

	Permanent Funds				
	Hope Cemetery	Health Department	Libraries	Schools	Parks
Revenues:					
Intergovernmental	\$ —	—	—	—	—
Investment earnings	109,997	82,540	449,991	32,018	14,116
Charges for services	—	—	—	—	—
Donations	—	—	—	—	—
Contributions to permanent funds	23,879	—	3,935	3,260	—
Miscellaneous	—	—	—	—	—
Total revenues	<u>133,876</u>	<u>82,540</u>	<u>453,926</u>	<u>35,278</u>	<u>14,116</u>
Expenditures:					
Current:					
General government	—	—	—	—	—
Public safety	—	—	—	—	—
Health and human services	—	150,000	—	—	—
Education	—	—	—	6,450	—
Libraries	—	—	125,032	—	—
Public works	—	—	—	—	—
Culture and recreation	20,000	—	—	—	—
Community development	—	—	—	—	—
Redevelopment	—	—	—	—	—
Debt service:					
Principal	30,000	—	—	—	—
Interest	23,338	—	—	—	—
Total expenditures	<u>73,338</u>	<u>150,000</u>	<u>125,032</u>	<u>6,450</u>	<u>—</u>
Excess (deficiency) of revenues over expenditures	<u>60,538</u>	<u>(67,460)</u>	<u>328,894</u>	<u>28,828</u>	<u>14,116</u>
Other financing sources (uses):					
Transfers in	—	—	—	—	—
Transfers (out)	—	—	—	—	—
Premium on issuance of bonds and notes	—	—	—	—	—
Issuance of refunding bonds	—	—	—	—	—
Issuance of bonds	—	—	—	—	—
Payments to refunded bond escrow agent	—	—	—	—	—
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net change in fund balances	60,538	(67,460)	328,894	28,828	14,116
Fund balances – beginning	<u>2,255,549</u>	<u>2,071,355</u>	<u>5,684,516</u>	<u>662,354</u>	<u>280,149</u>
Fund balances – ending	<u>\$ 2,316,087</u>	<u>2,003,895</u>	<u>6,013,410</u>	<u>691,182</u>	<u>294,265</u>

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Other	Subtotal	
—	—	—	—	—	90,063,669
295	18,890	9,592	413	717,852	755,333
—	—	—	—	—	13,593,001
—	—	—	—	—	2,908,159
—	114,149	—	—	145,223	145,223
—	—	—	—	—	1,984,768
295	133,039	9,592	413	863,075	109,450,153
—	—	—	—	—	2,646,057
—	—	—	—	—	14,509,827
—	—	—	—	150,000	15,739,268
—	—	—	—	6,450	94,882,272
—	—	—	—	125,032	869,587
—	8,608	—	—	8,608	10,652,065
—	—	—	—	20,000	6,304,018
—	—	—	—	—	4,189,424
—	—	—	—	—	5,769,530
—	—	—	—	30,000	1,480,707
—	—	—	—	23,338	798,050
—	8,608	—	—	363,428	157,840,805
295	124,431	9,592	413	499,647	(48,390,652)
—	—	—	—	—	4,763,642
—	—	—	—	—	(10,497,668)
—	—	—	—	—	367,149
—	—	—	—	—	18,240,626
—	—	—	—	—	54,915,000
—	—	—	—	—	(18,240,626)
—	—	—	—	—	49,548,123
295	124,431	9,592	413	499,647	1,157,471
5,794	135,674	195,902	8,104	11,299,397	63,671,077
6,089	260,105	205,494	8,517	11,799,044	64,828,548

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Airport Enterprise Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance –
Budget and Actual – Budgetary Basis

Year ended June 30, 2005

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Fees	\$ 643,000	643,000	638,978	(4,022)
Intergovernmental	1,996,810	1,996,810	1,241,001	(755,809)
Miscellaneous	107,000	107,000	249,648	142,648
Total revenues	<u>2,746,810</u>	<u>2,746,810</u>	<u>2,129,627</u>	<u>(617,183)</u>
Expenditures:				
Salaries and benefits	1,478,372	1,536,292	1,054,629	481,663
Ordinary maintenance	1,240,518	1,255,518	1,123,703	131,815
Debt service	632,988	630,850	630,850	—
Total expenditures	<u>3,351,878</u>	<u>3,422,660</u>	<u>2,809,182</u>	<u>613,478</u>
(Deficiency) of revenues over expenditures	<u>(605,068)</u>	<u>(675,850)</u>	<u>(679,555)</u>	<u>(3,705)</u>
Other financing sources (uses):				
Transfers in	694,488	776,143	776,143	—
Transfers (out)	(89,420)	(96,558)	(96,558)	—
Total other financing sources	<u>605,068</u>	<u>679,585</u>	<u>679,585</u>	<u>—</u>
Net changes in fund balances	<u>—</u>	<u>3,735</u>	<u>30</u>	<u>(3,705)</u>
Budgetary fund balance – beginning	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Budgetary fund balance – ending	<u>\$ —</u>	<u>3,735</u>	<u>30</u>	<u>(3,705)</u>

CITY OF WORCESTER, MASSACHUSETTS

Golf Course Enterprise Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance –
Budget and Actual – Budgetary Basis

Year ended June 30, 2005

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget favorable (negative)
Revenues:				
Fees	\$ 1,213,476	1,213,476	1,021,831	(191,645)
Miscellaneous	16,000	16,000	7,285	(8,715)
Total revenues	<u>1,229,476</u>	<u>1,229,476</u>	<u>1,029,116</u>	<u>(200,360)</u>
Expenditures:				
Salaries and benefits	308,866	286,623	276,060	10,563
Ordinary maintenance	665,206	665,206	592,357	72,849
Debt service	155,409	155,409	148,933	6,476
Indirect costs	71,254	93,497	88,345	5,152
Total expenditures	<u>1,200,735</u>	<u>1,200,735</u>	<u>1,105,695</u>	<u>95,040</u>
Excess (deficiency) of revenues over expenditures	<u>28,741</u>	<u>28,741</u>	<u>(76,579)</u>	<u>(105,320)</u>
Other financing sources (uses):				
Transfers in	—	105,320	105,320	—
Transfers (out)	(28,741)	(28,741)	(28,741)	—
Total other financing sources (uses)	<u>(28,741)</u>	<u>76,579</u>	<u>76,579</u>	<u>—</u>
Net changes in fund balances	—	105,320	—	(105,320)
Budgetary fund balance – beginning	—	—	—	—
Budgetary fund balance – ending	<u>\$ —</u>	<u>105,320</u>	<u>—</u>	<u>(105,320)</u>

CITY OF WORCESTER, MASSACHUSETTS

Sewer Enterprise Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance –
Budget and Actual – Budgetary Basis

Year ended June 30, 2005

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Charges for services	\$ 19,004,390	19,004,390	18,310,482	(693,908)
Miscellaneous	440,000	440,000	284,240	(155,760)
Total revenues	<u>19,444,390</u>	<u>19,444,390</u>	<u>18,594,722</u>	<u>(849,668)</u>
Expenditures:				
Salaries and benefits	4,471,385	4,570,087	4,478,031	92,056
Ordinary maintenance	8,311,646	8,212,944	8,056,606	156,338
Capital	24,500	24,500	10,708	13,792
Debt service	3,444,317	3,444,317	3,361,043	83,274
Indirect costs	2,706,664	2,706,664	2,688,844	17,820
Total expenditures	<u>18,958,512</u>	<u>18,958,512</u>	<u>18,595,232</u>	<u>363,280</u>
Excess of revenues over expenditures	<u>485,878</u>	<u>485,878</u>	<u>(510)</u>	<u>(486,388)</u>
Other financing sources (uses):				
Transfers in	—	487,024	487,024	—
Transfers (out)	(485,878)	(485,878)	(485,878)	—
Total other financing sources (uses)	<u>(485,878)</u>	<u>1,146</u>	<u>1,146</u>	<u>—</u>
Net changes in fund balances	—	487,024	636	(486,388)
Budgetary fund balance – beginning	<u>(636)</u>	<u>(636)</u>	<u>(636)</u>	<u>—</u>
Budgetary fund balance – ending	<u>\$ (636)</u>	<u>486,388</u>	<u>—</u>	<u>(486,388)</u>

CITY OF WORCESTER, MASSACHUSETTS

Water Enterprise Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance –
Budget and Actual – Budgetary Basis

Year ended June 30, 2005

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Charges for services	\$ 22,063,440	22,063,440	22,510,970	447,530
Fees	1,217,000	1,217,000	920,651	(296,349)
Miscellaneous	815,522	815,522	833,399	17,877
Total revenues	<u>24,095,962</u>	<u>24,095,962</u>	<u>24,265,020</u>	<u>169,058</u>
Expenditures:				
Salaries and benefits	8,654,041	8,654,042	8,389,481	264,561
Ordinary maintenance	2,596,913	2,596,913	2,467,330	129,583
Debt service	10,229,979	10,229,979	10,088,374	141,605
Indirect costs	1,854,335	1,854,335	1,811,772	42,563
Total expenditures	<u>23,335,268</u>	<u>23,335,269</u>	<u>22,756,957</u>	<u>578,312</u>
Excess of revenues over expenditures	<u>760,694</u>	<u>760,693</u>	<u>1,508,063</u>	<u>747,370</u>
Other financing sources (uses):				
Transfers in	—	—	—	—
Transfers (out)	(760,694)	(1,035,694)	(1,035,694)	—
Total other financing sources (uses)	<u>(760,694)</u>	<u>(1,035,694)</u>	<u>(1,035,694)</u>	<u>—</u>
Net changes in fund balances	—	(275,001)	472,369	747,370
Budgetary fund balance – beginning	<u>390,188</u>	<u>390,188</u>	<u>390,188</u>	<u>—</u>
Budgetary fund balance – ending	<u>\$ 390,188</u>	<u>115,187</u>	<u>862,557</u>	<u>747,370</u>

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CITY OF WORCESTER, MASSACHUSETTS

Capital Assets Used in the Operation of Governmental Activities
Comparative Schedule by Type and Source

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Governmental activities capital assets, by type:		
Land	\$ 13,931,412	12,593,412
Buildings	235,121,771	59,397,760
Improvements other than buildings	11,126,909	9,166,935
Rolling equipment	6,551,467	5,696,125
Equipment and other	4,701,947	6,422,661
Infrastructure	62,821,685	236,140,747
Construction in progress	<u>77,746,749</u>	<u>45,014,747</u>
Total governmental activities capital assets	<u>\$ 412,001,940</u>	<u>374,432,387</u>
Investments in governmental activities capital assets by source:		
General fund	\$ 1,284,876	1,047,993
Special revenue fund	28,863,033	27,030,048
Capital projects fund	380,439,935	344,699,060
Donations	<u>1,414,096</u>	<u>1,655,286</u>
Total governmental activities capital assets	<u>\$ 412,001,940</u>	<u>374,432,387</u>

CITY OF WORCESTER, MASSACHUSETTS

Capital Assets Used in the Operation of Governmental Activities
Schedule by Function and Activity

June 30, 2005

Function and activity	Land	Buildings	Improvements other than buildings
General government:			
Manager	\$ 3,525,231	—	—
Assessor	—	—	—
Auditor	—	—	—
Information Services	—	—	—
Election Commission	—	—	—
Law	—	—	—
Human Resources	—	—	—
Purchasing	—	—	—
Treasurer	—	—	—
Total general government	<u>3,525,231</u>	<u>—</u>	<u>—</u>
Public safety:			
Police	514,500	3,301,393	—
Fire	1,074,600	7,447,718	—
Code Inspection	209,905	527,636	—
Communications	—	—	—
Total public safety	<u>1,799,005</u>	<u>11,276,747</u>	<u>—</u>
Health and human services:			
Employment and Training	—	—	—
Health	—	—	—
Elder Affairs	—	3,075,752	53,265
Total health and human services	<u>—</u>	<u>3,075,752</u>	<u>53,265</u>
Public works	<u>1,889,339</u>	<u>3,400,090</u>	<u>408,602</u>
Education	<u>3,453,537</u>	<u>142,472,467</u>	<u>236,954</u>
Library	<u>305,000</u>	<u>19,157,255</u>	<u>—</u>
Culture and recreation:			
Auditorium	150,000	1,977,789	—
DCU Center	263,000	48,333,934	—
Hope Cemetery	290,000	1,030,711	—
Parks	2,256,300	4,397,026	10,428,088
Total culture and recreation	<u>2,959,300</u>	<u>55,739,460</u>	<u>10,428,088</u>
Total governmental activities capital assets	<u>\$ 13,931,412</u>	<u>235,121,771</u>	<u>11,126,909</u>

Rolling equipment	Equipment and other	Infrastructure	Construction in progress	Total
—	—	—	206,473	3,731,704
—	1,666	—	—	1,666
—	598	—	—	598
—	162,363	—	—	162,363
—	1,613	—	—	1,613
—	39,122	—	—	39,122
—	650	—	—	650
—	8,760	—	—	8,760
—	8,372	—	—	8,372
—	223,144	—	206,473	3,954,848
713,360	458,840	—	45,512	5,033,605
2,901,464	504,195	—	46,774	11,974,751
16,393	20,012	—	6,965	780,911
—	444,603	—	—	444,603
3,631,217	1,427,650	—	99,251	18,233,870
—	24,670	—	—	24,670
29,441	83,334	—	—	112,775
—	26,288	—	4,389	3,159,694
29,441	134,292	—	4,389	3,297,139
2,223,228	106,276	62,756,360	2,108,113	72,892,008
116,273	1,155,011	—	73,315,269	220,749,511
—	1,263,800	—	—	20,726,055
—	—	—	—	2,127,789
—	161,616	—	26,300	48,784,850
70,048	25,246	—	—	1,416,005
481,260	204,912	65,325	1,986,954	19,819,865
551,308	391,774	65,325	2,013,254	72,148,509
6,551,467	4,701,947	62,821,685	77,746,749	412,001,940

CITY OF WORCESTER, MASSACHUSETTS

Capital Assets Used in the Operation of Governmental Activities
Schedule of Changes by Function and Activity

Year ended June 30, 2005

Function and activity	Governmental activities capital assets July 1, 2004	Additions	Deductions	Governmental activities capital assets June 30, 2005
General government:				
Manager	\$ 3,089,720	646,127	4,143	3,731,704
Assessor	3,956	—	2,290	1,666
Auditor	1,793	—	1,195	598
Clerk	718	—	718	—
Information Services	236,812	—	74,449	162,363
Election Commission	2,950	—	1,337	1,613
Law	47,809	—	8,687	39,122
Human Resources	2,293	—	1,643	650
Purchasing	12,264	—	3,504	8,760
Treasurer	12,768	—	4,396	8,372
Total general government	3,411,083	646,127	102,362	3,954,848
Public safety:				
Police	5,641,109	217,619	825,123	5,033,605
Fire	10,764,911	2,140,099	930,259	11,974,751
Code Inspection	609,387	231,057	59,533	780,911
Communications	638,521	—	193,918	444,603
Total public safety	17,653,928	2,588,775	2,008,833	18,233,870
Health and human services:				
Employment and Training	31,975	—	7,305	24,670
Health	151,143	—	38,368	112,775
Elder Affairs	3,305,194	74,123	219,623	3,159,694
Total health and human services	3,488,312	74,123	265,296	3,297,139
Public works	69,311,014	9,562,056	5,981,062	72,892,008
Education	190,486,998	38,593,879	8,331,366	220,749,511
Libraries	21,418,550	55,000	747,495	20,726,055
Culture and recreation:				
Auditorium	2,116,621	150,000	138,832	2,127,789
DCU Center	48,053,196	2,818,421	2,086,767	48,784,850
Hope Cemetery	1,485,277	—	69,272	1,416,005
Parks	17,007,408	3,719,481	907,024	19,819,865
Total culture and recreation	68,662,502	6,687,902	3,201,895	72,148,509
Total governmental activities capital assets	\$ 374,432,387	58,207,862	20,638,309	412,001,940

CITY OF WORCESTER, MASSACHUSETTS

Agency Fund

Statement of Changes in Assets and Liabilities

Year ended June 30, 2005

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
ASSETS				
Cash and cash equivalents	\$ 431,113	565,473	(594,129)	402,457
LIABILITIES				
Accounts payable and accrued expenses	\$ —	23,549	—	23,549
Due to student groups	431,113	565,473	(617,678)	378,908
Total liabilities	\$ 431,113	589,022	(617,678)	402,457

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STATISTICAL SECTION

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CITY OF WORCESTER, MASSACHUSETTS
General Fund Expenditures – GAAP Basis
Year ended June 30, 2005

Graph 1

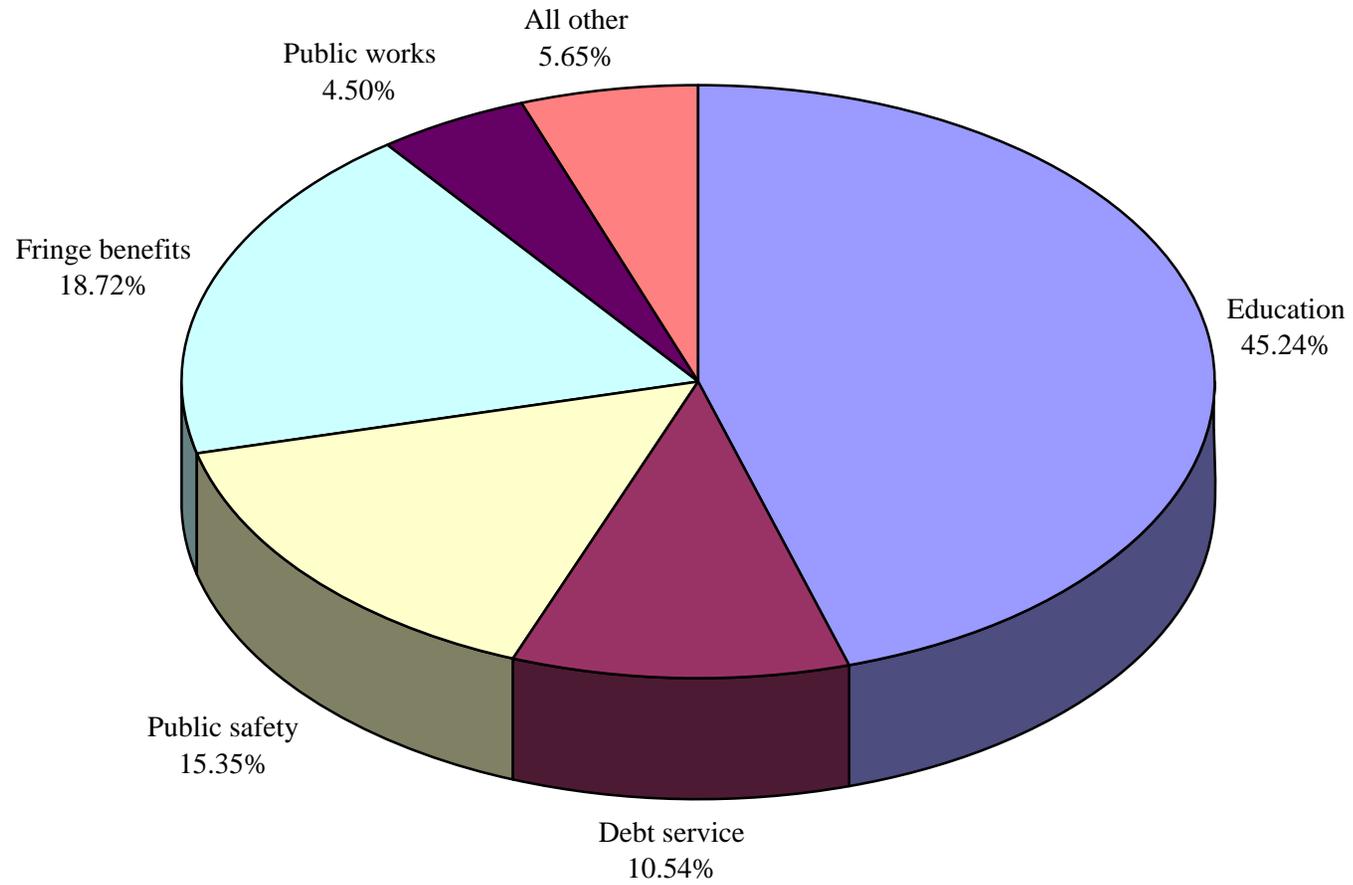


Table 1**CITY OF WORCESTER, MASSACHUSETTS**

General Fund Expenditures – GAAP Basis

Last Ten Fiscal Years

(Amounts expressed in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
General government	\$ 11,216	10,391	10,326	14,726	12,990	12,760	11,015	10,504	11,362	10,690
Public safety	64,776	63,359	64,045	62,954	58,025	56,609	58,069	47,440	47,250	44,800
Health and human services	2,805	2,841	3,658	5,595	5,426	5,267	4,886	4,573	4,177	3,302
Education	190,912	189,472	181,006	179,401	172,357	165,579	156,265	149,893	139,948	128,682
Libraries	3,816	3,771	4,093	4,183	3,717	3,661	3,755	4,030	4,155	4,045
Public works	19,000	15,086	17,598	14,848	17,165	13,183	13,639	12,887	13,272	15,910
Culture and recreation	3,305	3,068	3,880	4,238	4,111	3,694	3,397	3,514	3,339	2,794
Fringe benefits (1)	78,999	68,145	53,965	43,286	39,003	38,993	49,734	47,220	43,536	43,977
Intergovernmental	2,697	2,457	2,424	2,276	2,132	3,041	1,971	2,043	1,969	2,043
Debt service (1)	44,478	44,299	44,971	44,501	44,488	41,474	22,273	21,223	18,801	16,158
Totals	\$ <u>422,004</u>	<u>402,889</u>	<u>385,966</u>	<u>376,008</u>	<u>359,414</u>	<u>344,261</u>	<u>325,004</u>	<u>303,327</u>	<u>287,809</u>	<u>272,401</u>

(1) In fiscal year 1999 the City issued \$220,979 in Pension Obligation Bonds. The expenditures associated with this debt are shown in the debt service category and decrease the fringe benefits expenditures.

CITY OF WORCESTER, MASSACHUSETTS
General Fund Revenues – GAAP Basis
Year ended June 30, 2005

Graph 2

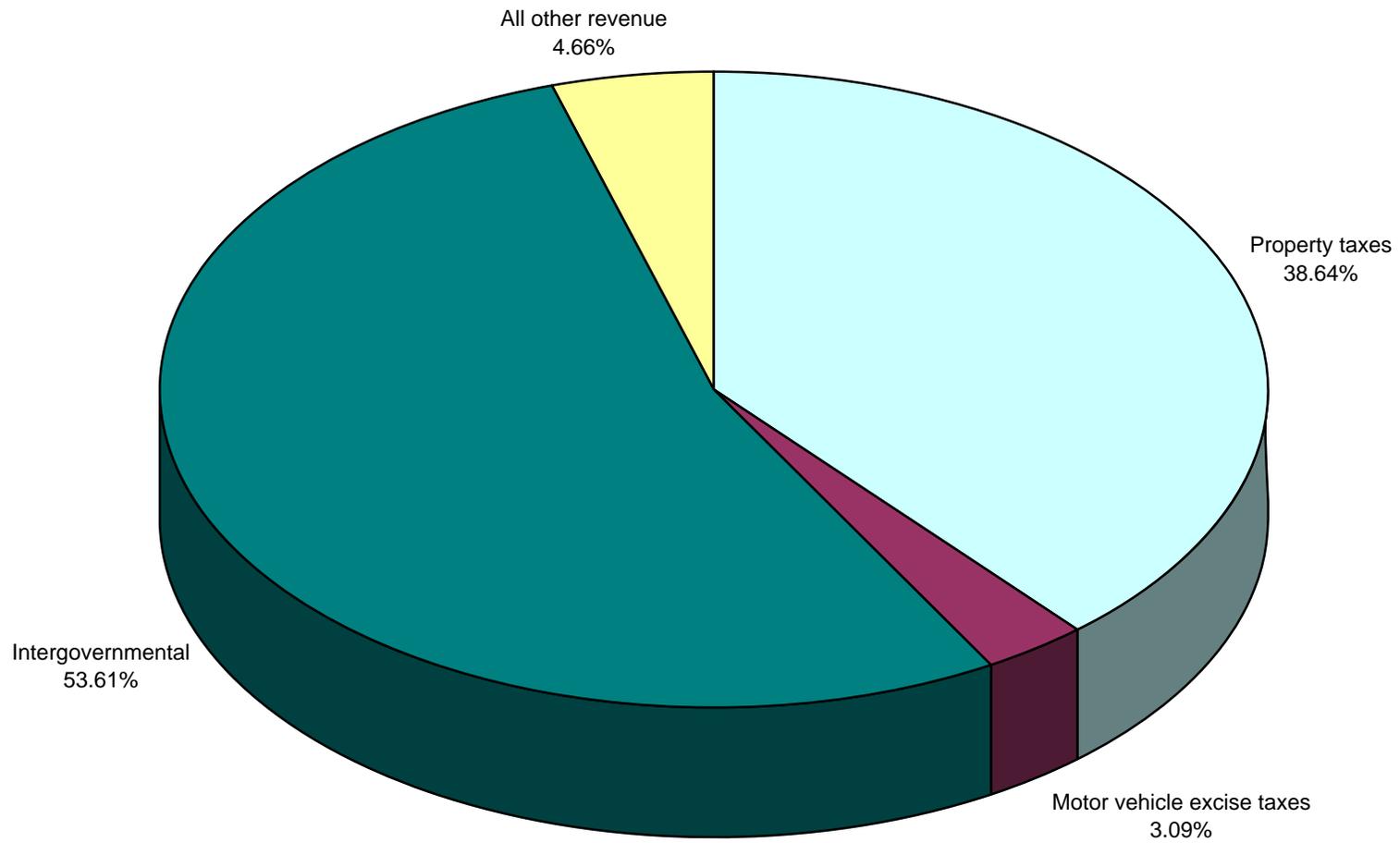


Table 2**CITY OF WORCESTER, MASSACHUSETTS**

General Fund Revenues – GAAP Basis

Last Ten Fiscal Years

(Amounts expressed in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Property taxes	\$ 163,706	156,942	148,322	140,712	133,885	130,798	126,888	121,189	116,559	112,279
Motor vehicle excise taxes	13,101	13,205	14,085	13,091	12,460	11,134	9,961	10,521	8,875	8,388
Other taxes and in-lieu payments	1,971	2,123	2,215	2,411	2,338	1,867	2,300	1,661	1,672	1,203
Penalties and interest on taxes	2,867	2,670	2,702	1,977	1,938	2,114	1,845	1,848	1,425	1,839
Licenses and permits	5,692	5,486	5,266	4,468	4,577	4,401	4,329	4,048	3,859	3,855
Intergovernmental	227,106	220,482	210,289	205,068	202,269	189,378	173,108	160,326	146,439	131,165
Charges for services	4,052	3,864	3,613	2,477	2,355	2,373	2,273	2,276	2,310	2,247
Fines and forfeitures	2,925	2,554	2,636	2,122	2,024	2,195	2,378	2,401	2,628	2,378
Investment earnings	1,170	476	664	1,321	2,921	2,263	3,056	2,515	1,672	2,720
Miscellaneous	1,079	733	895	1,257	2,218	1,159	945	799	1,344	2,849
Totals	\$ <u>423,669</u>	<u>408,535</u>	<u>390,687</u>	<u>374,904</u>	<u>366,985</u>	<u>347,682</u>	<u>327,083</u>	<u>307,584</u>	<u>286,783</u>	<u>268,923</u>

CITY OF WORCESTER, MASSACHUSETTS
Percentage of Current Property Taxes Collected - Budgetary Basis
Last Ten Fiscal Years

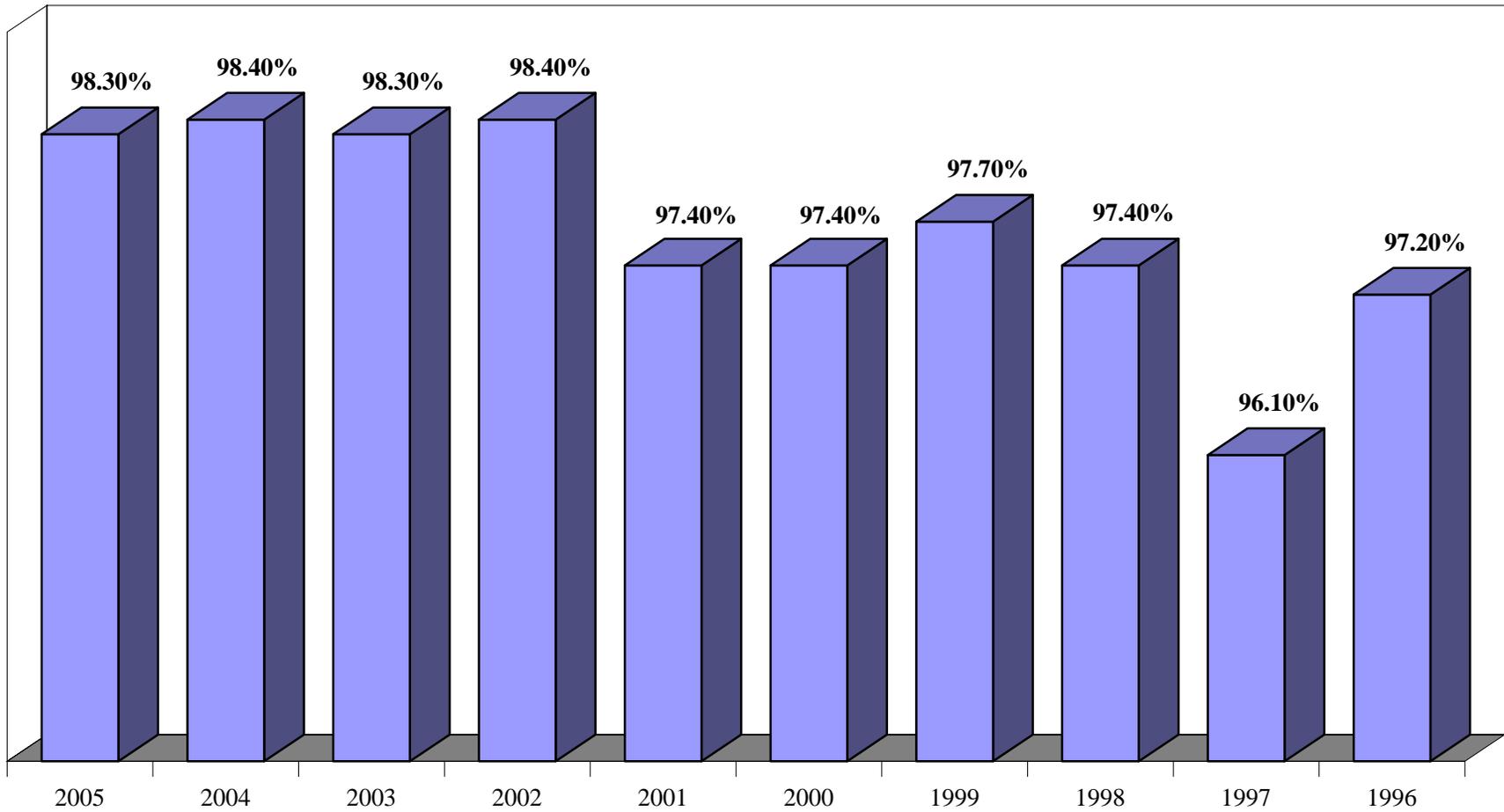


Table 3

CITY OF WORCESTER, MASSACHUSETTS
Property Tax Levies and Collections – Budgetary Basis
Last Ten Fiscal Years
(Amounts expressed in thousands)

Fiscal year	Total tax levy	(1) Net tax levy	(2) Current tax collections	Percent of net levy collected	Delinquent tax collections	(2) Total tax collections	Percent of total tax collections to net tax levy	Outstanding delinquent taxes	Percent of delinquent taxes to net tax levy
2005	\$ 163,420	160,927	158,142	98.3%	\$ 2,096	160,238	99.6%	\$ 4,099	2.5%
2004	156,839	154,129	151,667	98.4	1,814	153,481	99.6	3,734	2.4
2003	149,328	146,579	144,143	98.3	1,735	145,878	99.5	3,681	2.5
2002	141,738	138,507	136,322	98.4	1,420	137,742	99.4	3,566	2.6
2001	135,424	133,476	129,998	97.4	1,120	131,118	98.2	3,759	2.8
2000	131,860	129,628	126,292	97.4	1,879	128,171	98.9	5,030	3.9
1999	129,638	125,499	122,660	97.7	756	123,416	98.3	4,483	3.6
1998	124,744	120,870	117,733	97.4	1,931	119,664	99.0	4,424	3.7
1997	120,481	118,136	113,578	96.1	1,240	114,818	97.2	6,454	5.5
1996	114,525	110,933	107,865	97.2	1,606	109,471	98.7	3,891	3.5

(1) Adjusted for abatements and transfers to tax title.

(2) Does not include tax title collections.

CITY OF WORCESTER, MASSACHUSETTS

Graph 4

Assessed Valuation
Last Ten Fiscal Years

(Amounts expressed in millions)

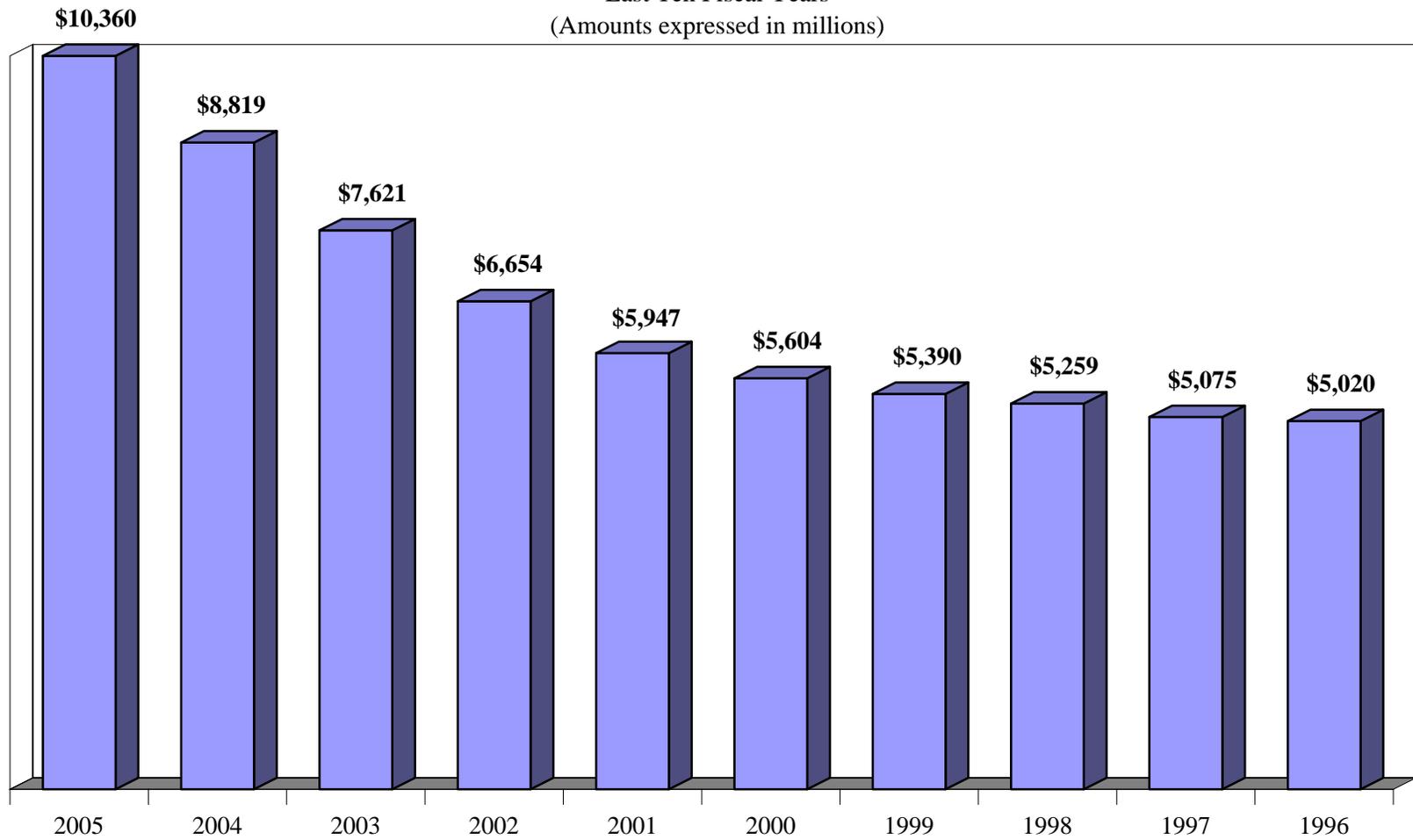


Table 4

CITY OF WORCESTER, MASSACHUSETTS
 Assessed and Estimated Actual Value of Taxable Property
 Last Ten Fiscal Years
 (Amounts expressed in thousands)

Fiscal year	Assessed value			U.S. census population	Total assessed value per capita	State equalized value	Ratio of assessed to equalized value
	Real property	Personal property	Total				
2005	\$ 10,048,802	311,287	10,360,089	172,648	\$ 60,007	9,694,618	106.9%
2004	8,482,475	336,277	8,818,752	172,648	51,079	7,248,688	121.7
2003	7,294,129	326,949	7,621,078	172,648	44,142	7,248,688	105.1
2002	6,340,098	314,115	6,654,213	172,648	38,542	6,010,162	110.7
2001	5,643,444	303,520	5,946,964	172,648	34,446	6,010,162	98.9
2000	5,322,322	281,778	5,604,100	169,759	33,012	5,536,578	101.2
1999	5,106,597	282,949	5,389,546	169,759	31,748	5,536,578	97.3
1998	4,976,139	282,798	5,258,937	169,759	30,979	5,409,542	97.2
1997	4,798,042	276,494	5,074,536	169,759	29,893	5,409,542	93.8
1996	4,759,652	260,841	5,020,493	169,759	29,574	5,788,437	86.7

Table 5**CITY OF WORCESTER, MASSACHUSETTS**

Property Tax Rates

Last Ten Fiscal Years

(Per \$1,000 of Assessed Value)

Fiscal year		Residential	Open Space	Commercial	Industrial	Personal	Combined
2005	\$	13.18	13.18	27.60	27.60	27.60	15.77
2004		14.75	14.75	29.60	29.60	29.60	17.75
2003		16.16	16.16	31.44	31.44	31.44	19.59
2002		17.85	17.85	31.46	31.46	31.46	21.27
2001		18.47	18.47	34.24	34.24	34.24	22.74
2000		18.47	18.47	36.34	36.34	36.34	23.52
1999		18.48	18.48	37.63	37.63	37.63	24.05
1998		18.06	18.06	37.63	37.63	37.63	23.72
1997		18.67	18.67	35.69	35.69	35.69	23.63
1996		17.41	17.41	35.93	35.93	35.93	22.80

Table 6

CITY OF WORCESTER, MASSACHUSETTS

Ratio of Net Bonded Debt to Assessed Value
and Net Bonded Debt Per Capita

Last Ten Fiscal Years

(Amounts expressed in thousands)

Fiscal Year	U.S. Census population	Assessed valuation	Gross bonded debt	Less self supporting debt	Net bonded debt	Ratio of net bonded debt to assessed value	Net bonded debt per capita (amounts expressed in whole dollars)
2005	172,648	\$ 10,360,089	630,330	111,910	518,420	5.00%	\$ 3,003
2004	172,648	8,818,752	600,544	110,540	490,004	5.56	2,838
2003	172,648	7,621,078	552,909	101,169	451,740	5.93	2,617
2002	172,648	6,654,213	554,019	101,504	452,515	6.80	2,621
2001	172,648	5,946,964	554,623	97,438	457,185	7.69	2,648
2000	169,759	5,604,100	527,456	95,225	432,231	7.71	2,546
1999	169,759	5,389,546	495,379	91,845	403,534	7.49	2,377
1998	169,759	5,258,937	260,383	86,775	173,608	3.30	1,023
1997	169,759	5,074,535	223,186	76,567	146,619	2.89	864
1996	169,759	5,020,493	204,989	75,026	129,963	2.59	766

Table 7**CITY OF WORCESTER, MASSACHUSETTS**Ratio of Annual Debt Service Expenditures for General
Bonded Debt to Total General Fund Expenditures

Last Ten Fiscal Years

(Amounts expressed in thousands)

Fiscal year		Principal	Interest	Total bonded debt service	Total general fund expenditures	Ratio of bonded debt service to general fund expenditures
2005	\$	23,788	20,690	44,478	422,004	10.54%
2004		22,919	21,380	44,299	402,889	11.00
2003		23,014	21,957	44,971	385,965	11.65
2002		23,001	21,500	44,501	376,008	11.84
2001		21,459	23,029	44,488	359,414	12.38
2000		18,508	22,966	41,474	344,261	12.05
1999		12,759	7,539	20,298	325,004	6.25
1998		12,220	6,373	18,593	303,327	6.13
1997		11,702	5,351	17,053	290,816	5.86
1996		9,135	5,652	14,787	272,401	5.43

Table 8

CITY OF WORCESTER, MASSACHUSETTS

Property Value and Construction

Last Ten Fiscal Years

(Amounts expressed in thousands)

Fiscal Year	Construction			Property value			
	Commercial	Residential	Total	Commercial	Residential	Total taxable	Nontaxable
2005	\$ 75,367	91,837	167,204	1,861,176	8,498,913	10,360,089	2,445,616
2004	63,733	78,974	142,707	1,782,479	7,036,273	8,818,752	2,449,628
2003	76,010	87,125	163,135	1,708,997	5,912,081	7,621,078	2,110,469
2002	76,028	54,251	130,279	1,669,860	4,984,353	6,654,213	1,830,384
2001	80,478	38,087	118,565	1,611,705	4,335,259	5,946,964	1,689,279
2000	49,037	32,731	81,768	1,582,130	4,021,970	5,604,100	1,694,931
1999	38,168	11,113	49,281	1,566,928	3,822,618	5,389,546	1,661,179
1998	57,772	13,292	71,064	1,520,838	3,738,099	5,258,937	1,653,646
1997	65,052	12,159	77,211	1,480,246	3,594,289	5,074,535	1,699,565
1996	52,276	12,579	64,855	1,461,799	3,558,694	5,020,493	1,703,253

Table 9

CITY OF WORCESTER, MASSACHUSETTS

Legal Debt Margin
Last Ten Fiscal Years
(Amounts expressed in thousands)

	1996	1997	1998	1999	2000	2001 (2)	2002	2003	2004	2005
Debt Limit (1)	\$ 144,711	135,239	135,239	138,414	138,414	283,599	150,254	181,217	362,434	484,731
Total net debt applicable to limit	142,162	102,105	131,860	125,481	128,856	250,307	125,014	170,375	180,376	199,169
Legal debt limit	\$ <u>2,549</u>	<u>33,134</u>	<u>3,379</u>	<u>12,933</u>	<u>9,558</u>	<u>33,292</u>	<u>25,240</u>	<u>10,842</u>	<u>182,058</u>	<u>285,562</u>
Total net debt applicable to the limit as a percentage of debt limit	98.24%	75.50%	97.50%	90.66%	93.09%	88.26%	83.20%	94.02%	49.77%	41.09%

Legal Debt Margin Calculation for Fiscal Year 2005

Equalized valuation - real estate and personal property (January 1, 2004)	\$	9,694,618
Debt limit - 5% of equalized valuation		484,731
Total bonded debt (including authorized and unissued of \$188,661,588)		752,586
Less bonded debt not included in computation of legal debt margin as defined by Massachusetts statutes		(520,888)
Less bonded debt authorized but not yet issued which is outside the debt limit		<u>(32,529)</u>
Legal debt margin	\$	<u>285,562</u>

(1) In fiscal 2004 Massachusetts statute raised the debt limit from 2 1/2% to 5% of equalized valuation.

(2) In fiscal 2001 the City received a temporary increase of its debt limit in the amount of \$133,345 because school construction was temporarily categorized as inside the debt limit due to a change in state statute.

Table 10

CITY OF WORCESTER, MASSACHUSETTS
Principal Taxpayers - Current Year and Nine Years Ago
June 30, 2005
(Amounts expressed in thousands)

Taxpayer	Type of business	2005			1996		
		Assessed valuation	Fiscal 2005 tax bill	Percentage of tax levy	Assessed valuation	Fiscal 1996 tax bill	Percentage of tax levy
Massachusetts Electric Co.	Electric utility	\$ 123,608	3,412	2.09%	106,514	3,827	3.34%
St. Vincent Hospital LLC	Health care facilities	62,139	1,715	1.05	—	—	—
Allmerica Financial	Insurance/financial	51,494	1,421	0.87	45,945	1,637	1.43
Greendale Mall	Shopping mall	50,816	1,403	0.86	31,217	1,122	0.98
Nstar	Gas utility	47,412	1,309	0.80	35,609	1,279	1.12
Worcester TC LLC (B.A.S.F.)	Biotechnology research	42,611	1,261	0.81	37,467	1,346	1.18
Verizon	Telephone utility	40,386	1,115	0.68	53,592	1,926	1.68
ARE- (BioTech 1, 4, & 5)	Biotechnology park	32,271	1,029	0.63	—	—	—
Worcester Renaissance LLC	Office/Shopping mall	34,390	949	0.58	49,470	1,777	1.55
Liberty Properties Corp.	Industrial park	28,095	775	0.47	—	—	—
Worcester Business Development Corp.	Biotechnology park developer	—	—	—	36,865	1,325	1.16
Saint-Gobain Abrasives, Inc.	Abrasives manufacturer	—	—	—	26,272	940	0.82
Nobility Hill Realty	Bank/office	—	—	—	19,379	696	0.61
	Totals	\$ 513,222	14,389	8.84%	442,330	15,875	13.87%

Table 11

CITY OF WORCESTER, MASSACHUSETTS

Full Time Employees

Last Eight Fiscal Years*

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General government	334	248	238	236	241	201	189	188
Public safety								
Police								
Officers	470	464	450	472	459	424	468	456
Civilians	68	57	60	33	56	39	45	47
Fire								
Officers	458	458	447	456	445	398	429	421
Civilians	24	17	35	22	11	12	16	10
Other public safety	61	56	56	58	56	105	95	98
Health and human services	191	188	205	206	206	89	89	92
Education	3,966	3,762	4,046	4,060	4,111	3,905	3,821	3,698
Libraries	105	101	94	94	97	87	80	82
Public works	233	221	221	224	217	196	182	183
Culture and recreation	141	64	63	85	65	56	52	51
Water	122	126	127	126	120	117	114	112
Sewer	55	61	57	55	56	52	58	54
Airport	24	22	22	21	23	21	16	16
Golf course	13	4	3	3	3	3	2	3
Totals	<u>6,265</u>	<u>5,849</u>	<u>6,124</u>	<u>6,151</u>	<u>6,166</u>	<u>5,705</u>	<u>5,656</u>	<u>5,511</u>

Source: Payroll database as of June 30th of each respective year

* Data is being accumulated from fiscal year 1998 and forward

Table 12

CITY OF WORCESTER, MASSACHUSETTS

Operating Indicators by Function
Last Ten Fiscal/Calendar Years

Function	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Police (1), (2)										
Total arrests	n/a	8,966	10,266	9,619	9,047	8,108	7,759	8,033	6,482	7,014
Different individuals arrested	n/a	6,586	7,329	6,938	6,578	6,081	5,938	6,041	5,154	5,366
Arrests for selected charges										
Drug-related	n/a	2,148	2,197	2,077	2,118	2,122	2,403	2,792	1,611	1,638
Aggravated assault	n/a	667	743	737	806	629	579	667	633	540
Disorderly conduct, disturbing peace	n/a	1,729	2,130	2,082	1,834	1,563	1,654	1,679	1,357	1,351
Prostitution and related	n/a	310	163	246	138	152	204	230	195	234
Sexual assault, including rape	n/a	34	42	51	31	34	43	59	23	22
Armed robbery	n/a	43	48	37	55	48	54	52	73	73
Murder /manslaughter, attempted murder	n/a	28	27	26	40	26	33	46	24	46
Fire (1)										
Total Incidents	22,428	24,231	25,871	27,717	27,427	32,681	33,054	29,350	22,839	21,778
Selected incidents										
EMS	6,992	10,422	12,216	13,023	12,356	13,516	13,377	14,624	16,038	15,383
Structure fires	1,011	970	874	896	799	799	797	716	454	417
Arson fires	n/a	n/a	n/a	n/a	68	25	30	43	42	31
Vehicle fires	1,077	963	858	828	804	710	1,013	805	901	804
Good intent	1,955	1,972	1,799	1,742	1,983	2,092	2,201	3,658	1,019	1,149
False alarm	2,034	1,631	1,423	1,539	1,701	1,708	1,632	1,591	1,542	1,705
Highways and streets										
Streets and resurfacing (1), (3)	18	20	9	15	9	8	8	9	16	
Potholes repaired	n/a	n/a	n/a	n/a	n/a	11,481	9,105	13,268	15,596	7,895
Sanitation										
Refuse collected (tons/day)	92.85	93.74	96.34	99.73	104.68	109.39	112.70	106.62	107.05	104.15
Recyclable collected (tons/day)	51.07	40.53	38.13	38.50	41.23	43.04	36.70	36.99	38.71	37.70
Water										
New connections	158	215	203	277	321	312	377	389	463	454
Water main breaks	7	42	181	280	349	288	199	61	65	76
Average daily consumption (thousands of gallons)	24,377	22,043	21,688	23,430	22,844	22,589	23,578	24,091	23,932	23,595
Wastewater										
Average daily sewage treatment (thousands of gallons)	33,535	30,637	35,219	37,683	34,172	30,541	33,195	31,944	27,743	31,364

Source: Various government departments

- (1) Based on a calendar year rather than a fiscal year.
- (2) Data for years prior to 2003 represent the number of times each category of charges was involved in an arrest. Thus, three charges or instances of a crime filed on a single arrest would be coded as three charges rather than one arrest.
Since 2003, the numbers represent the numbers of arrests in which one or more of the charges in a category were filed i.e. one arrest would be recorded instead of three charges.
- (3) During the following years the miles noted were resurfaced by the State of Massachusetts and are included in the miles resurfaced above
1966 - 2.48, 1997 - .96, 1998 - 1.39, 1999 - 4.15, 2001 - 1.18, 2002 - .93, 2003 - .14, 2004 - 1.56

Table 13

CITY OF WORCESTER, MASSACHUSETTS

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Public safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	12	12	12	12	12	12	12	12	11	11
Education:										
Schools	52	52	51	52	51	52	52	52	49	49
Libraries	3	3	3	3	3	3	3	3	3	3
Public works										
Streets:										
Streets (miles)	422	402	406	408	406	423	411	411	414	414
Sidewalks (miles)	607	612	612	613	596	606	606	606	473	473
Streetlights	12,570	12,540	12,545	12,640	12,693	12,716	12,752	12,772	12,972	12,994
Water:										
Main pipes (miles)	583	587	588	592	654	655	659	614	592	592
Fire hydrants	6,049	6,069	6,077	6,088	5,277	5,095	5,490	5,481	5,940	5,940
Reservoirs	10	10	10	10	10	10	10	10	10	10
Reservoir gallons of capacity (in thousands)	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	
Sewers:										
Sanitary sewers (miles)	375	376	376	377	380	381	381	387	389	390
Combined sewers (miles)	61	61	61	61	61	61	65	65	66	65
Surface sewers Miles	346	347	347	349	351	353	353	358	361	362
Municipal parking garages:										
Capacity - cars										
Pearl Elm	800	800	800	800	800	800	800	800	800	800
Federal Plaza	511	511	511	511	511	511	511	511	511	511
Culture and recreation										
Parks	51	51	51	51	52	52	52	53	54	54
Parks and playground acreage	1,208	1,207	1,207	1,207	1,280	1,280	1,285	1,722	1,734	1,736
Civic Center										
Seating capacities										
Center stage	15,011	15,011	15,011	15,011	15,011	15,011	14,639	14,639	14,639	14,639
End stage	14,500	14,500	14,500	14,500	14,500	14,500	14,751	14,751	14,751	14,751
Basketball	13,800	13,800	13,800	13,800	13,800	13,800	13,500	13,500	13,500	13,500
Hockey	12,405	12,405	12,405	12,405	12,405	12,405	12,239	12,239	12,239	12,239
Ice show	13,033	13,033	13,033	13,033	13,033	13,033	11,888	11,888	11,888	11,888
Municipal cemeteries	1	1	1	1	1	1	1	1	1	1

Source: Various government departments