

CITY OF WORCESTER
MASSACHUSETTS



COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2004

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2004

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

June 30, 2004

Table of Contents

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	1 - 5
List of Elected and Appointed Officials	6
Organization Chart – Worcester City Government	7
Certificate of Achievement	8
FINANCIAL SECTION	
Independent Auditors’ Report	9 - 10
Management’s Discussion and Analysis – Required Supplementary Information	11 - 22
	Exhibit
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	1 23
Statement of Activities	2 24
Fund Financial Statements:	
Balance Sheet – Governmental Funds	3 25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4 26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5 27
Statement of Net Assets – Proprietary Funds	6 28
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	7 29
Statement of Cash Flows – Proprietary Funds	8 30
Statement of Fiduciary Net Assets	9 31
Statement of Changes in Fiduciary Net Assets	10 32
Notes to the Basic Financial Statements	33 - 68
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budgetary Basis – General Fund	69 - 73
Schedules of Funding Progress and Contributions from Employers	74

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

June 30, 2004

Table of Contents

	Statement/ Schedule	Page
Supplementary Statements and Schedules:		
Combining Balance Sheet – Nonmajor Governmental Funds	A-1	76 - 81
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits) Nonmajor Governmental Funds	A-2	82 - 87
Schedules of Revenues, Expenditures and Changes in Fund Balances (Deficits)		
Airport Fund	B-1	88
Golf Course Fund (nonmajor)	B-2	89
Sewer Fund	B-3	90
Water Fund	B-4	91
Capital Assets Used in the Operation of Governmental Activities:		
Comparative Schedule by Source	C-1	93
Schedule by Function and Activity	C-2	94 - 95
Schedule of Changes by Function and Activity	C-3	96

STATISTICAL SECTION

	Graph/Table	
General Fund Expenditures – GAAP Basis	1	98
General Fund Expenditures – GAAP Basis – Last Ten Fiscal Years	1	99
General Fund Revenues – GAAP Basis	2	100
General Fund Revenues – GAAP Basis – Last Ten Fiscal Years	2	101
Percentage of Current Property Taxes Collected – Budgetary Basis – Last Ten Fiscal Years	3	102
Property Tax Levies and Collections – Budgetary Basis – Last Ten Fiscal Years	3	103
Assessed Valuation – Last Ten Fiscal Years	4	104
Assessed and Estimated Actual Value of Taxable Property –Last Ten Fiscal Years	4	105
Property Tax Rates – Last Ten Fiscal Years	5	106
Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt Per Capita – Last Ten Fiscal Years	6	107
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund Expenditures – Last Ten Fiscal Years	7	108
Property Value and Construction – Last Ten Fiscal Years	8	109
Computation of Legal Debt Margin	9	110
Principal Taxpayers – Current Year and Nine Years Ago	10	111
Miscellaneous Statistics	11	112 - 113

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 29, 2004

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 year ended June 30, 2004 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 benefits. Also, the evaluation of costs and benefits requires estimates and judgments by management.

KPMG LLP, 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 year ended June 30, 2004 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. KPMG LLP has issued an unqualified opinion on the City of Worcester's basic financial statements for the fiscal year ended June 30, 2004. 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, 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 69 through 73 as part of required supplementary information.

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. A state sponsored study is being conducted to determine the most cost effective method of accomplishing this. 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. When completed, 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 operating deficit, exclusive of debt service. This contract has been renewed for a 3-year period. MassPort will continue to pay 100% of the deficit in fiscal 2005, with this percentage dropping 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.

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. 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 renovation and expansion project. The City is also focused on developing polluted former industrial sites called brownfields. A 25-acre site on the edge of downtown that was the former location of a drop forge operation has been cleared and a \$70 million mixed-use commercial project is planned for the site. Additionally, a 38-acre area, also on the edge of downtown, is being cleared and has had a 130-room hotel constructed on part of that site. There is another \$90 million in future investment planned for this site. This project is being done in conjunction with Worcester Polytechnic Institute.

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 \$300 million over a period of 5 to 7 years. Demolition is scheduled to start in the spring of 2005. Further, 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 \$9 million adjacent garage. A \$3.6 million bus port is also being constructed adjacent to the station. Also, the City's downtown common is being renovated as part of a \$6.8 million project with completion expected in December 2005.

Construction continued on the \$90 million vocational school with a total of \$38.4 million being spent through June 30, 2004. Ground breaking was in the fall of 2002 with completion scheduled for the 2006-2007 school year. Additionally, ground was broken for a 430,000 square-foot, \$180 million downtown courthouse annex to be constructed over a 3-year period. Also, the City has approved a 20-year 50% Tax Increment Exemption and an agreement with the United States Department of Housing and Urban Development for a \$5 million loan under the Section 108 Guaranteed Loan Program for a developer

who has proposed constructing 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 annex and is to be connected to a 1,000 space municipal garage and to the convention complex with pedestrian walkways.

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 complexes being constructed for various income levels. In fiscal 2004 Worcester's property values rose to an all-time high of \$8.8 billion, which was a 15.8% increase from the previous year. 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.

Pension and Other Postretirement Benefits

The City provides a defined benefit pension plan to certain employees through a cost-sharing multiple employer public employee retirement system. Membership is mandatory for all employees whose work week consists of 20 or more hours for the City and the Worcester Housing Authority (WHA), with exception of teachers and certain school administrators who participate in the Massachusetts Teachers' Retirement System. MGL Chapter 32 governs the retirement system. The fund is accounted for on a calendar-year basis. Each year, an independent actuary, engaged by the pension plan, calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. The City has no obligations to the Massachusetts Teachers' Retirement System. As of December 31, 2003, plan net assets and actuarial accrued liabilities were \$558.5 million and \$743.6 million, respectively.

The City also provides postretirement health and dental care benefits for certain retirees and their dependents. There are currently 4,171 retirees eligible to receive these benefits. Retirees who are members of the Worcester Retirement System are eligible for this benefit as are members of the State Teachers' Retirement System and who are retirees from the City's School Department. Accounting principles generally accepted in the United States of America currently do not require governments to report a liability in the basic financial statements in connection with an employer's obligation to provide these benefits.

Information on the City's pension arrangements and postretirement benefits can be found in the notes to the basic financial statements.

Cash Management

The Treasurer-Collector sets the City's investment policies. Investment options are governed by MGL and are limited by liquidity needs. Temporary idle cash was invested in money market accounts, savings accounts and short-term U.S. Government obligations. These investments were collateralized at a rate of 67.6% on June 30, 2004. The average yield on maturing investments was 1.21% on unrestricted assets and the amount of interest earned on such investments was \$475,783.

Risk Management

The City insures its buildings for fire, theft, natural disaster and earthquake. The policy for these buildings carries a \$100,000 deductible clause. The City also carries personal liability insurance for Worcester's Centrum Centre.

Indemnity coverage is provided to employees and retirees through Blue Cross and Blue Shield (BC/BS). The City pays for its share of these costs and for Blue Care 65 and for Blue Cross/Blue Choice and Medex on a claims basis. The City also provides coverage to employees and retirees through the Fallon Medical health maintenance organization plan, which is paid for on a premium basis. The employee and retiree share of the costs are 25% for the indemnity plan, 16% for Blue Care 65 and Fallon Senior, 13% for Blue Cross/Blue Choice and Medex and 10% for Fallon.

The City is self-insured in all other areas of risk including auto liability, workers' compensation and unemployment compensation. The City's Law Department defends the City in most cases for legal claims, except those requiring specialized expertise, in which case the City will periodically retain outside legal counsel. Settlements of legal claims are paid from the City's court judgments account. Claims and judgments are accrued in the government-wide financial statements to the extent they are probable and estimable; however, they are accrued in the fund-basis statements only to the extent that they are matured liabilities. The City's Human Resources Department administers risk management.

Additional information on the City's risk management activity can be found in the notes to the basic financial statements.

Awards and Acknowledgements

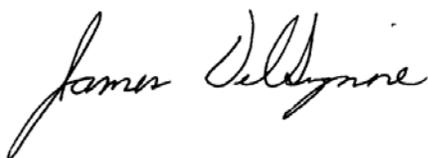
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Worcester, Massachusetts for its CAFR for the year ended June 30, 2003. The Certificate of Achievement is a prestigious national 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 eleven consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to 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, KPMG LLP, 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,

A handwritten signature in black ink, reading "James A. DelSignore". The signature is written in a cursive, flowing style.

James A. DelSignore, CPA
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

List of Elected and Appointed Officials

June 30, 2004

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
Michele Giangrande
Ruth Sarafinas

Chief Accountant
Systems Accountant
Administrative Assistant

BUDGET DIRECTOR

John P. Prankevicius

CITY ASSESSOR

Robert J. Allard

PURCHASING AGENT

John C. Orell

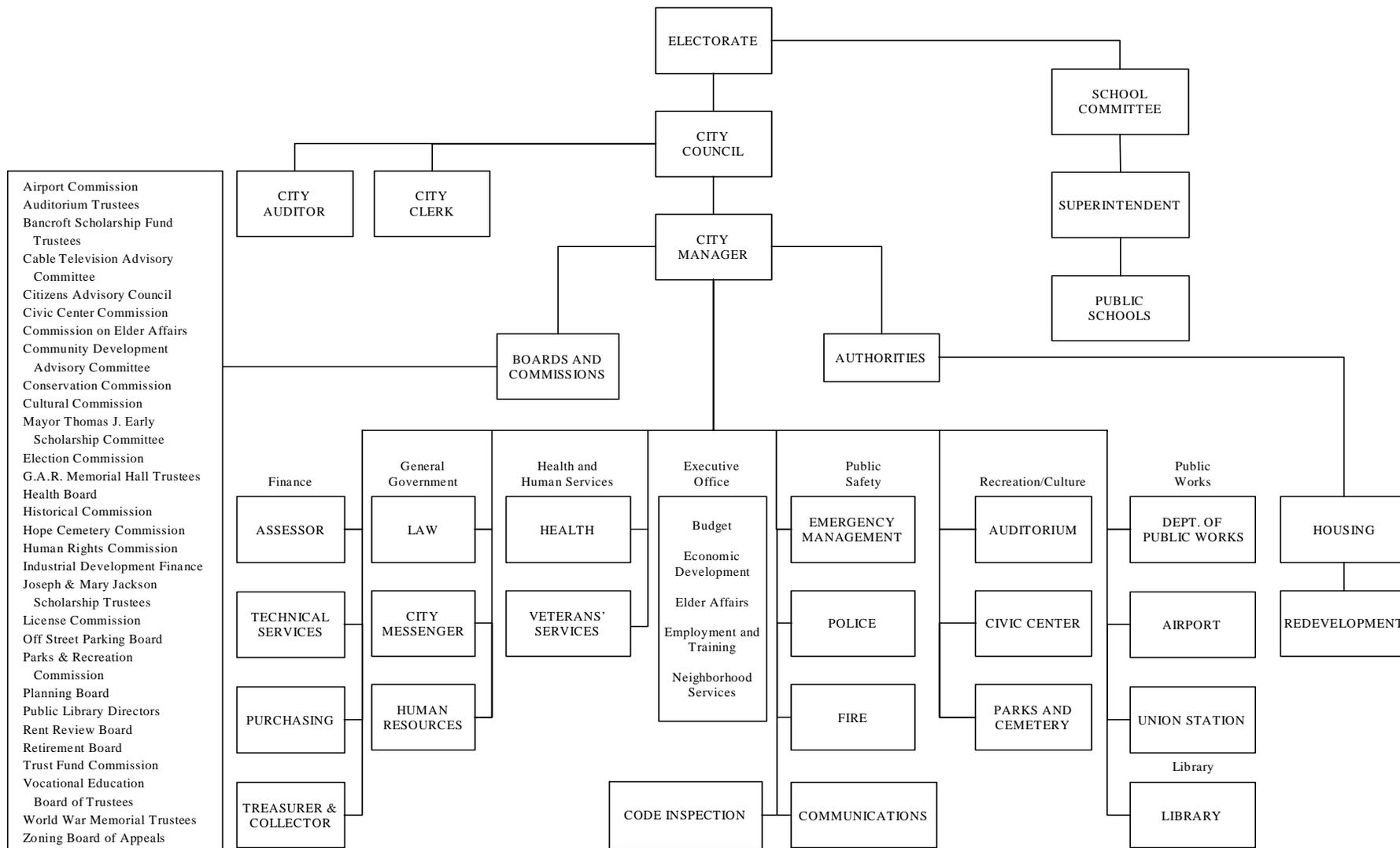
TREASURER & COLLECTOR

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, 2003

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.



President

Executive Director

FINANCIAL SECTION



KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.us.kpmg.com

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, 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.

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, 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.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 29, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the



internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 22, the schedule of revenues, expenditures and changes in fund balances – budgetary basis – general fund on pages 69 through 73 and the schedules of funding progress and contributions from employers on page 74 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 section 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.

KPMG LLP

November 29, 2004

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

(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, 2004 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 2004 by \$48,342.
- The City's total net assets increased by \$11,019.
- "Free Cash" certified by the State's Department of Revenue as of July 1, 2004 was \$1,145. This amount is unrestricted in the general fund and available for appropriation in fiscal 2005.
- At the end of fiscal 2004, unreserved fund balance for the general fund was \$10,385 or 2.5% of total general fund revenues.
- The City's total debt increased by \$23,023 during fiscal 2004 or 3.9%.

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 2004. 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, 2004

(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 23 and 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 fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 30 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund 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. 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 27.

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, 2004

(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 28 through 30.

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 31 and 32.

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 33 through 68.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information which includes the general fund's Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual and information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Other required supplementary information can be found on pages 69 through 74.

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 \$48,342 at the close of the most recent fiscal year.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

(In thousands of dollars)

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure, furniture, and equipment), 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.

	Net assets					
	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 139,041	119,048	21,307	18,168	160,348	137,216
Capital assets	374,432	351,003	219,181	218,929	593,613	569,932
Total assets	513,473	470,051	240,488	237,097	753,961	707,148
Long-term liabilities	534,288	484,680	111,486	102,190	645,774	586,870
Other liabilities	55,619	71,922	4,226	11,033	59,845	82,955
Total liabilities	589,907	556,602	115,712	113,223	705,619	669,825
Net assets:						
Invested in capital assets, net of related debt	140,687	118,339	117,755	110,722	258,442	229,061
Restricted	13,305	11,862	253	413	13,558	12,275
Unrestricted	(230,426)	(216,752)	6,768	12,739	(223,658)	(204,013)
Total net assets	\$ (76,434)	(86,551)	124,776	123,874	48,342	37,323

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 \$(230,426). However, this balance includes outstanding pension obligation bonds of \$201,049 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 \$40,779 at year's end. Absent the fore mentioned bond debt there is \$11,402 of unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of fiscal 2004, 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 2003.

Restricted net assets in the City's governmental funds increased by \$1,443 because investment income and contributions exceeded expenses in the permanent funds by approximately \$1,000. The remaining increase is attributable to additional assets restricted for renewal and replacement.

The City's total net assets increased by \$11,019, or by about 29.5%. This increase is for the most part attributable to governmental activities and is primarily because revenues exceeded expenses during the year.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

(In thousands of dollars)

Governmental activities – Governmental activities increased the City's net assets by \$10,117, thereby accounting for 91.8% 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	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 25,203	24,946	40,536	39,134	65,739	64,080
Operating grants and contributions	253,858	254,493	1,202	1,329	255,060	255,822
Capital grants and contributions	3,753	2,273	2,101	855	5,854	3,128
General revenues:						
Property taxes	156,461	144,316	—	—	156,461	144,316
Motor vehicle excise taxes	12,581	13,438	—	—	12,581	13,438
Intergovernmental	39,406	42,016	—	—	39,406	42,016
Other	6,458	7,174	—	—	6,458	7,174
Total revenues	<u>497,720</u>	<u>488,656</u>	<u>43,839</u>	<u>41,318</u>	<u>541,559</u>	<u>529,974</u>
Expenses:						
General government	14,054	13,707	—	—	14,054	13,707
Public safety	97,015	92,019	—	—	97,015	92,019
Health and human services	17,328	19,054	—	—	17,328	19,054
Education	281,426	274,480	—	—	281,426	274,480
Libraries	6,651	6,740	—	—	6,651	6,740
Public works	32,247	24,640	—	—	32,247	24,640
Culture and recreation	9,294	7,597	—	—	9,294	7,597
Community development	4,429	4,002	—	—	4,429	4,002
Redevelopment	30	4,238	—	—	30	4,238
Intergovernmental	2,457	2,254	—	—	2,457	2,254
Interest on long-term debt	24,626	24,913	—	—	24,626	24,913
Water	—	—	20,804	20,753	20,804	20,753
Sewer	—	—	17,238	16,310	17,238	16,310
Airport	—	—	3,958	4,389	3,958	4,389
Golf course	—	—	1,030	1,082	1,030	1,082
Total expenses	<u>489,557</u>	<u>473,644</u>	<u>43,030</u>	<u>42,534</u>	<u>532,587</u>	<u>516,178</u>
Increase (decrease) in net assets before transfers and contributions	8,163	15,012	809	(1,216)	8,972	13,796
Transfers	1,168	442	(1,168)	(442)	—	—
Contributions	786	65	1,261	615	2,047	680
Increase (decrease) in net assets	<u>10,117</u>	<u>15,519</u>	<u>902</u>	<u>(1,043)</u>	<u>11,019</u>	<u>14,476</u>
Net assets – beginning	<u>(86,551)</u>	<u>(102,070)</u>	<u>123,874</u>	<u>124,917</u>	<u>37,323</u>	<u>22,847</u>
Net assets – ending	<u>\$ (76,434)</u>	<u>(86,551)</u>	<u>124,776</u>	<u>123,874</u>	<u>48,342</u>	<u>37,323</u>

Total revenues were \$497,720, which was a \$9,064 or a 1.9% increase over the previous fiscal year. Property tax revenue increased by \$12,145 or 8.4%, primarily because of an increase in taxes levied. After several years of annual increases, fiscal 2004 saw a decrease in motor vehicle excise revenue due to a slow down of new car

CITY OF WORCESTER, MASSACHUSETTS

Management’s Discussion and Analysis

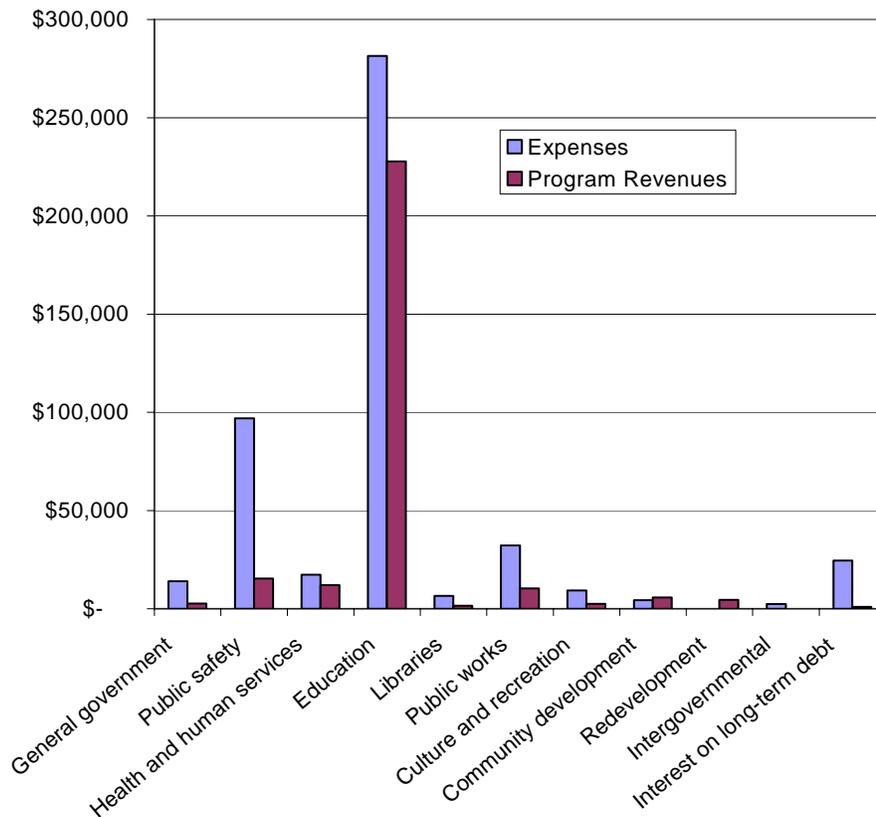
June 30, 2004

(In thousands of dollars)

sales. Intergovernmental revenue decreased primarily because Federal Medicare reimbursements were lower than in the previous year.

Total expenses were \$489,557, which was a \$15,913 or a 3.4% increase from the previous fiscal year. Educational expenses increased by \$6,946 partly because of salary increases but for the most part because of an increase in fringe benefit costs. Public safety expenses increased by \$4,996 because of a large increase in fringe benefit costs and a change in the City’s capitalization policy regarding police vehicles. Public works expenses increased by \$7,607 primarily because of increased fringe benefit costs and also because of a large increase in accrued landfill costs. Snow removal costs actually decreased by about \$2,000 from the previous year. Culture and recreation increased by \$1,697 because of the same combination of increased fringe benefit costs and a change in the City’s capitalization policy. Redevelopment costs decreased by \$4,208 because the City had made its final payment for Medical Center costs in the previous year.

FY 2004 Expenses and Program Revenues– Governmental Activities



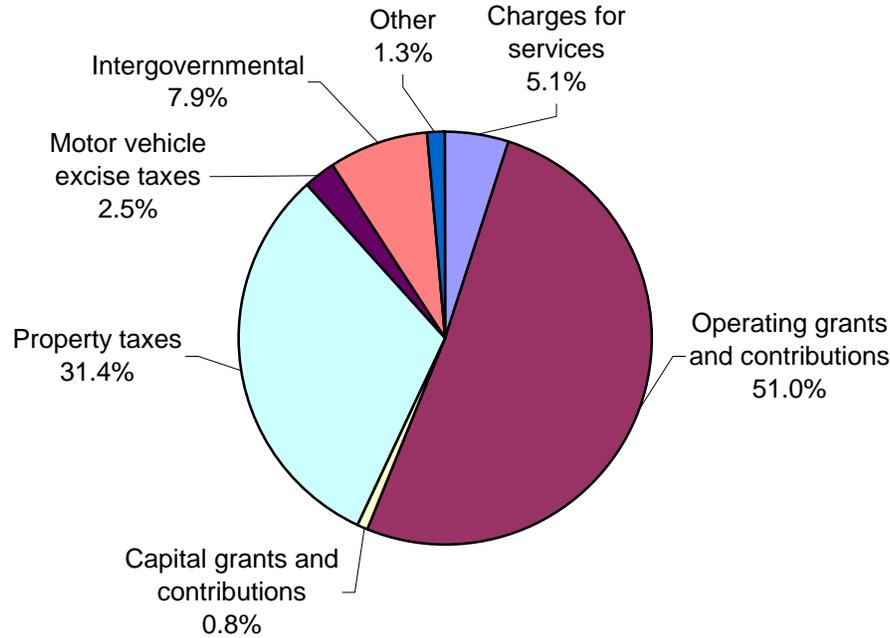
CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

(In thousands of dollars)

FY 2004 Revenues by Source – Governmental Activities



Business-type activities – Business-type activities increased the City's net assets by \$902. Factors contributing to these results are as follows:

- The water fund once again was a positive contributor towards net assets. Operating income of \$6,150 was partially offset by interest expense of \$3,746. However, the water fund still managed to contribute a \$2,089 positive change in net assets. This follows the previous year's \$1,879 increase in net assets.
- The sewer fund had an operating loss of \$383 compared with a loss of \$591 in the previous year. Net assets decreased by \$1,719, which follows the previous year's \$1,756 decrease.
- The airport fund had an increase of \$612 to its net assets because a net operating loss of \$2,989 was more than offset by subsidies from the City and MassPort.
- The golf course fund (nonmajor) had a reduction of \$1 to its net assets as interest expense and transfers out offset operating income of \$77.

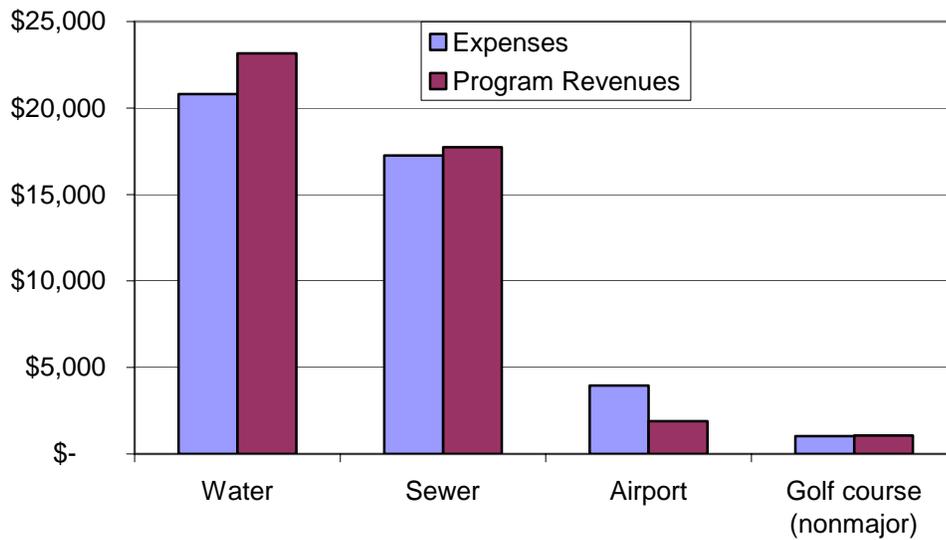
CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

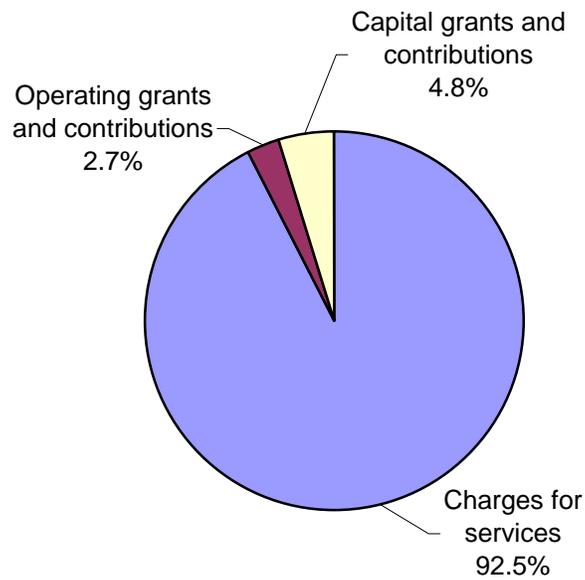
June 30, 2004

(In thousands of dollars)

FY 2004 Expenses and Program Revenues – Business-type Activities



FY 2004 Revenues by Source – Business-type Activities



CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

(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 2004, the City's governmental funds reported combined ending fund balances of \$85,426 an increase of \$41,495 from fiscal 2003. Approximately 57% of this ending fund balance, or \$48,485 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) to liquidate contracts and warrants of the period \$14,359, 2) for nonexpendable permanent funds \$11,211, 3) to provide funding for future pension costs (as required by legislation allowing the issuance of pension obligation bonds) \$1,618 and 4) to pay debt service \$9,753.

The general fund is the chief operating fund of the City. At the end of fiscal 2004 unreserved fund balance of the general fund was \$10,385 while total fund balance was \$12,002. 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 2.5% of total general fund revenues, while total fund balance equals approximately 2.9% of that same amount.

The fund balance of the City's general fund increased by \$947 during fiscal 2004. Total revenue exceeded expenditures by \$5,646, while transfers out exceeded transfers in by \$4,699.

The stabilization fund had a fund balance of \$9,753 at the end of fiscal 2004. During the year, \$6,344 was transferred in from the general fund. The fund expended \$4,838 for debt service and increased by \$1,592 from the beginning of the year.

Proprietary funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the end of fiscal 2004 totaled \$6,847. This was a \$5,892 decrease from the previous year. The components of this decrease were decreases of \$2,914, in the water fund, \$2,809 in the sewer fund and \$207 in the airport fund and an increase of \$38 in the golf course fund (nonmajor). Unrestricted net assets consisted of \$3,285 in the water fund, \$3,815 in the sewer fund, \$(238) 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, 2004

(In thousands of dollars)

Budgetary Highlights

The City's final general fund revenue budget was \$2,753 higher than the original amount. The majority of this change occurred in the intergovernmental category. The increase was due to an addition to the original estimate for state local aid and a \$2,137 reimbursement from the Worcester Redevelopment Authority (WRA) that was not anticipated when the budget was originally prepared.

The public safety budget was increased by \$2,445 from the original as a result of an appropriation from "Free Cash" and from the unanticipated reimbursement from the WRA. These funding sources were used to call back 20 police and 20 firefighters who had been laid off. Other budgets that were increased from the original were funded by transfers from the special revenue fund. The details of these transfers are on page 65 of the notes to the basic financial statements.

Revenues were \$3,007 more than budgeted. Revenue accounts showing the largest positive variances were property taxes, 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. 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 exceed the estimate. Motor vehicle excise revenue was below the estimate for the first time in several years because at the same time the estimate was increased actual revenue decreased. There were no major variances in the expenditure budget. The snow and ice account was under budgeted as is typical although fiscal 2004 expenditures of \$2,442 were \$1,833 less than in the previous year. There was a net increase in budgetary fund balance of \$190.

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, 2004 amounted to \$593,613. 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 \$23,681 or 4.2% (a 6.7% increase for governmental activities and a .12% 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 \$4,256 during the year.
- Construction continued on the new \$90,000 vocational high school with \$25,696 being spent during the year.
- Resources were allocated during the year to business-type building, infrastructure and other capital asset additions costing \$8,231. Additionally, business-type entities received \$1,261 in capital contributions from owners of subdivisions during the year.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

(In thousands of dollars)

	Capital assets (net of depreciation)					
	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 12,593	11,778	257	257	12,850	12,035
Buildings	236,141	223,626	43,706	45,182	279,847	268,808
Improvements, other than buildings	9,166	7,599	—	—	9,166	7,599
Equipment and other	5,696	6,767	347	394	6,043	7,161
Rolling equipment	6,423	7,727	2,779	2,385	9,202	10,112
Infrastructure	59,398	59,487	170,423	170,107	229,821	229,594
Construction in progress	45,015	34,019	1,670	604	46,685	34,623
Total	\$ 374,432	351,003	219,182	218,929	593,614	569,932

Additional information on the City's capital assets can be found in note 7 on pages 50 through 54 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 \$607,512, an increase of \$23,023 or 3.9% 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	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 491,164	451,740	109,380	101,169	600,544	552,909
Notes payable	5,800	—	1,168	—	6,968	—
Bond anticipation notes	—	24,285	—	7,295	—	31,580
Total	\$ 496,964	476,025	110,548	108,464	607,512	584,489

On July 1, 2003, the City issued \$31,580 of general obligation bonds. The proceeds consisted of \$23,595 for governmental activities and \$7,985 for business-type activities. In addition, the City was in receipt of a \$5,800 note from the Federal government to assist with low-income housing. Future receipts of the Community Development Block Grant are pledged to repay this note. Also, the City's sewer enterprise fund received a \$1,168 note from the state for a sewer project. User fees generated by the Sewer Fund will repay this note.

Additionally, on August 15, 2004 the City refunded \$51,955 of temporary debt that was outstanding at the end of the year by issuing general obligation bonds. The proceeds consisted of \$43,045 for governmental activities and \$8,910 for business-type activities.

In relation to the above general obligation bond issues, the City applied for credit ratings with Moody's Investors Service and Standard and Poors. Each time the City's credit rating with Standard and Poors and with Moody's Investors Service remained at A- and A3, respectively.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2004

(In thousands of dollars)

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 9 beginning on page 55 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 7.0% at year-end, which was the same percentage as a year earlier. This compares with unemployment rates of 5.3% in Massachusetts and 5.6% nationally.

Worcester's downtown office space of 5.0 million square feet was 88.5% occupied, according to a study done by the Worcester Regional Research Bureau. This is a decrease from the 89.5% that was occupied in the previous year. Residential vacancy rates continue to decrease. During fiscal 2004, 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. Property values have increased to their highest-ever level increasing for the eighth consecutive year and growing to \$8,818,752 in fiscal 2004 compared with \$7,621,078 in fiscal 2003.

The City finished fiscal 2004 with "Free Cash" of \$1,145 as certified by the Commonwealth's Department of Revenue. This amount is available to fund the fiscal 2005 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.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Assets

June 30, 2004

	Primary government			Component units	
	Governmental activities	Business-type activities	Total	Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
Assets:					
Cash and investments	\$ 122,574,469	10,461,436	133,035,905	850,894	8,126,025
Receivables (net):					
Real estate and personal property taxes	2,190,478	—	2,190,478	—	—
Tax liens	7,332,075	—	7,332,075	—	—
Motor vehicle excise taxes	3,060,452	—	3,060,452	—	—
Charges for services	—	9,742,087	9,742,087	—	341,193
Special assessments	807,581	281,342	1,088,923	—	—
Departmental	1,396,620	—	1,396,620	—	—
Intergovernmental	1,678,988	821,881	2,500,869	—	3,418,283
Historic tax credit	—	—	—	3,629,043	—
Other	—	—	—	84,023	80,447
Other assets	—	—	—	131,196	—
Capital assets, not being depreciated	57,608,159	1,927,475	59,535,634	4,250,634	14,989,593
Capital assets, net of accumulated depreciation	316,824,228	217,253,644	534,077,872	43,045,258	35,063,157
Total assets	<u>513,473,050</u>	<u>240,487,865</u>	<u>753,960,915</u>	<u>51,991,048</u>	<u>62,018,698</u>
Liabilities:					
Accounts payable	35,823,018	1,653,731	37,476,749	391,712	3,526,796
Accrued liabilities	13,486,771	2,035,463	15,522,234	—	598,090
Retainage payable	1,866,938	537,303	2,404,241	—	—
Other liabilities	4,442,545	—	4,442,545	185,336	—
Noncurrent liabilities:					
Due within one year	36,684,643	9,817,881	46,502,524	2,455,661	8,314,130
Due in more than one year	497,603,388	101,668,035	599,271,423	6,675,670	30,295,254
Total liabilities	<u>589,907,303</u>	<u>115,712,413</u>	<u>705,619,716</u>	<u>9,708,379</u>	<u>42,734,270</u>
Net assets:					
Invested in capital assets, net of related debt	140,687,236	117,754,700	258,441,936	41,331,758	12,866,382
Restricted for:					
Renewal and replacement	403,941	252,527	656,468	45,661	—
Pension funding	1,617,804	—	1,617,804	—	—
Nonexpendable permanent funds	11,211,053	—	11,211,053	—	—
Expendable permanent funds	71,784	—	71,784	—	—
Other	—	—	—	550,893	—
Unrestricted	(230,426,071)	6,768,225	(223,657,846)	354,357	6,418,046
Total net assets	<u>\$ (76,434,253)</u>	<u>124,775,452</u>	<u>48,341,199</u>	<u>42,282,669</u>	<u>19,284,428</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities
Year ended June 30, 2004

Functions/programs	Expenses	Net (expense) revenue and changes in net assets							
		Program revenues			Primary government			Component units	
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total	Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
Primary government:									
Governmental activities:									
General government	\$ 14,053,864	1,519,609	1,170,159	—	(11,364,096)	—	(11,364,096)	—	—
Public safety	97,015,106	12,043,442	3,398,947	—	(81,572,717)	—	(81,572,717)	—	—
Health and human services	17,328,616	1,168,037	10,915,392	—	(5,245,187)	—	(5,245,187)	—	—
Education	281,426,114	2,772,160	224,286,302	638,223	(53,729,429)	—	(53,729,429)	—	—
Libraries	6,651,383	56,240	1,498,283	—	(5,096,860)	—	(5,096,860)	—	—
Public works	32,246,862	6,337,288	1,252,245	2,864,376	(21,792,953)	—	(21,792,953)	—	—
Culture and recreation	9,293,789	1,192,097	1,106,093	250,000	(6,745,599)	—	(6,745,599)	—	—
Community development	4,428,746	113,941	5,683,554	—	1,368,749	—	1,368,749	—	—
Redevelopment	30,470	—	4,547,258	—	4,516,788	—	4,516,788	—	—
Intergovernmental	2,456,712	—	—	—	(2,456,712)	—	(2,456,712)	—	—
Interest on long-term debt	24,625,825	—	—	—	(24,625,825)	—	(24,625,825)	—	—
Total governmental activities	489,557,487	25,202,814	253,858,233	3,752,599	(206,743,841)	—	(206,743,841)	—	—
Business-type activities:									
Water	20,804,387	23,153,562	—	—	—	2,349,175	2,349,175	—	—
Sewer	17,237,577	15,626,858	—	—	—	(1,610,719)	(1,610,719)	—	—
Airport	3,957,868	686,540	1,201,545	2,101,161	—	31,378	31,378	—	—
Golf course (nonmajor)	1,030,401	1,068,816	—	—	—	38,415	38,415	—	—
Total business-type activities	43,030,233	40,535,776	1,201,545	2,101,161	—	808,249	808,249	—	—
Total primary government	\$ 532,587,720	65,738,590	255,059,778	5,853,760	(206,743,841)	808,249	(205,935,592)	—	—
Component units:									
Worcester Redevelopment Authority	\$ 4,786,854	1,280,039	5,766,301	388,865	—	—	—	2,648,351	—
Upper Blackstone Water Pollution Abatement District	11,668,285	5,438,334	657,188	—	—	—	—	—	(5,572,763)
Total component units	\$ 16,455,139	6,718,373	6,423,489	388,865	—	—	—	2,648,351	(5,572,763)
General revenues:									
Real estate and personal property taxes					156,461,340	—	156,461,340	—	—
Motor vehicle excise taxes					12,580,405	—	12,580,405	—	—
Other taxes and in-lieu payments					2,669,484	—	2,669,484	—	—
Penalties and interest on taxes					1,910,673	—	1,910,673	—	—
Intergovernmental revenues (unrestricted)					39,405,473	—	39,405,473	—	—
Investment earnings					480,026	—	480,026	93,615	71,125
Miscellaneous					1,398,272	—	1,398,272	—	—
Transfers					1,168,149	(1,168,149)	—	—	—
Total general revenues and transfers					216,073,822	(1,168,149)	214,905,673	93,615	71,125
Contributions to permanent funds					47,949	—	47,949	—	—
Contributed capital					738,300	1,261,143	1,999,443	—	—
Change in net assets					10,116,230	901,243	11,017,473	2,741,966	(5,501,638)
Net assets – beginning					(86,550,483)	123,874,209	37,323,726	39,540,703	24,786,066
Net assets – ending					\$ (76,434,253)	124,775,452	48,341,199	42,282,669	19,284,428

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Balance Sheet

Governmental Funds

June 30, 2004

Assets	<u>General</u>	<u>Stabilization</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Cash and cash equivalents	\$ 40,256,199	9,752,897	60,748,909	110,758,005
Investments	166,166	—	10,501,824	10,667,990
Receivables (net of allowance for uncollectibles of \$6,139,839)	14,787,206	—	—	14,787,206
Due from other governments	1,238,325	—	440,663	1,678,988
Total assets	<u>\$ 56,447,896</u>	<u>9,752,897</u>	<u>71,691,396</u>	<u>137,892,189</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 27,802,699	—	8,020,319	35,823,018
Deferred revenue	12,200,238	—	—	12,200,238
Other liabilities	4,442,545	—	—	4,442,545
Total liabilities	<u>44,445,482</u>	<u>—</u>	<u>8,020,319</u>	<u>52,465,801</u>
Fund balances:				
Reserved for:				
Encumbrances and continuing appropriations	—	—	14,359,086	14,359,086
Nonexpendable permanent funds	—	—	11,211,053	11,211,053
Pension benefits	1,617,804	—	—	1,617,804
Stabilization	—	9,752,897	—	9,752,897
Unreserved, reported in:				
General fund	10,384,610	—	—	10,384,610
Special revenue funds	—	—	22,034,713	22,034,713
Capital projects funds	—	—	15,994,441	15,994,441
Expendable permanent funds	—	—	71,784	71,784
Total fund balances	<u>12,002,414</u>	<u>9,752,897</u>	<u>63,671,077</u>	<u>85,426,388</u>
Total liabilities and fund balances	<u>\$ 56,447,896</u>	<u>9,752,897</u>	<u>71,691,396</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.				374,432,387
Other assets are not available to pay for current-period expenditures and, therefore are deferred in the funds.				12,200,238
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.				(1,594,918)
Accrued and long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds and notes payable				(496,683,105)
Accrued and long-term liabilities				(50,215,243)
Net assets of governmental activities				<u>\$ (76,434,253)</u>

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, 2004

	<u>General fund</u>	<u>Stabilization</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Property taxes	\$ 156,942,063	—	—	156,942,063
Motor vehicle excise taxes	13,205,251	—	—	13,205,251
Other taxes and in-lieu payments	2,123,216	—	—	2,123,216
Penalties and interest on taxes	2,669,484	—	—	2,669,484
Licenses and permits	5,486,375	—	—	5,486,375
Intergovernmental	220,481,741	—	72,283,867	292,765,608
Charges for services	3,864,203	—	12,893,711	16,757,914
Fines and forfeitures	2,553,962	—	—	2,553,962
Investment earnings	475,783	85,721	1,250,322	1,811,826
Donations	—	—	3,022,525	3,022,525
Contributions to permanent funds	—	—	47,949	47,949
Miscellaneous	732,906	—	978,559	1,711,465
Total revenues	<u>408,534,984</u>	<u>85,721</u>	<u>90,476,933</u>	<u>499,097,638</u>
Expenditures:				
General government	10,390,677	—	1,632,541	12,023,218
Public safety	63,358,916	—	9,517,380	72,876,296
Health and human services	2,841,241	—	11,214,007	14,055,248
Education	189,472,035	—	79,202,596	268,674,631
Libraries	3,771,188	—	880,009	4,651,197
Public works	15,086,033	—	9,747,044	24,833,077
Culture and recreation	3,068,230	—	3,594,517	6,662,747
Fringe benefits	68,145,483	—	—	68,145,483
Community development	—	—	4,428,746	4,428,746
Redevelopment	—	—	30,470	30,470
Intergovernmental	2,456,712	—	—	2,456,712
Debt service:				
Principal	22,918,553	2,673,396	1,624,444	27,216,393
Interest	21,380,091	2,164,687	970,401	24,515,179
Total expenditures	<u>402,889,159</u>	<u>4,838,083</u>	<u>122,842,155</u>	<u>530,569,397</u>
Excess (deficiency) of revenues over expenditures	<u>5,645,825</u>	<u>(4,752,362)</u>	<u>(32,365,222)</u>	<u>(31,471,759)</u>
Other financing sources (uses):				
Transfers in	3,646,479	6,344,263	4,257,536	14,248,278
Transfers out	(8,345,435)	—	(5,376,181)	(13,721,616)
Bond proceeds	—	—	72,440,000	72,440,000
Total other financing sources (uses)	<u>(4,698,956)</u>	<u>6,344,263</u>	<u>71,321,355</u>	<u>72,966,662</u>
Net change in fund balances	946,869	1,591,901	38,956,133	41,494,903
Fund balances – beginning	<u>11,055,545</u>	<u>8,160,996</u>	<u>24,714,944</u>	<u>43,931,485</u>
Fund balances – ending	<u>\$ 12,002,414</u>	<u>9,752,897</u>	<u>63,671,077</u>	<u>85,426,388</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, 2004

Net change in fund balances – total governmental funds (Exhibit 4)	\$ 41,494,903
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
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.	22,773,542
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,330,372)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(45,066,061)
An internal service fund is used by management to charge the cost of self- insured health insurance to individual funds.	(1,594,918)
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.	<u>(6,160,864)</u>
Change in net assets of governmental activities (Exhibit 2)	<u>\$ 10,116,230</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Assets

Proprietary Funds

Year ended June 30, 2004

	Business-type activities					Governmental activities
				Nonmajor	Totals	Internal Service Fund
	Water	Major Sewer	Airport	Golf Course		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 4,763,723	5,608,844	24,505	64,364	10,461,436	1,148,474
Receivables (net)	5,300,238	5,267,029	278,043	—	10,845,310	—
Total current assets	10,063,961	10,875,873	302,548	64,364	21,306,746	1,148,474
Noncurrent assets:						
Capital assets:						
Land	34,000	116,500	106,400	—	256,900	—
Buildings	38,842,279	2,367,196	17,191,454	109,040	58,509,969	—
Infrastructure	108,351,443	119,020,062	21,978,704	633,063	249,983,272	—
Construction in progress	687,488	586,810	396,277	—	1,670,575	—
Equipment and other	501,186	133,266	450,705	6,340	1,091,497	—
Rolling equipment	1,988,417	2,721,418	944,938	—	5,654,773	—
Less accumulated depreciation	(39,292,111)	(45,239,268)	(13,126,747)	(327,741)	(97,985,867)	—
Capital assets, net	111,112,702	79,705,984	27,941,731	420,702	219,181,119	—
Total noncurrent assets	111,112,702	79,705,984	27,941,731	420,702	219,181,119	—
Total assets	121,176,663	90,581,857	28,244,279	485,066	240,487,865	1,148,474
Liabilities:						
Current liabilities:						
Accounts payable	679,887	792,702	116,778	64,364	1,653,731	—
Accrued liabilities	1,359,191	510,883	71,512	15,288	1,956,874	2,743,392
Retainage payable	256,578	142,738	137,987	—	537,303	—
Judgments and claims	105,396	—	—	—	105,396	—
Compensated absences	337,007	146,900	43,159	—	527,066	—
Bonds and notes payable	6,593,269	2,110,085	368,065	114,000	9,185,419	—
Total current liabilities	9,331,328	3,703,308	737,501	193,652	13,965,789	2,743,392
Noncurrent liabilities:						
Judgments and claims	391,999	—	—	—	391,999	—
Compensated absences	89,824	36,293	7,260	—	133,377	—
Bonds and notes payable, net of deferred amounts on refundings	68,209,484	27,889,809	4,355,366	688,000	101,142,659	—
Total noncurrent liabilities	68,691,307	27,926,102	4,362,626	688,000	101,668,035	—
Total liabilities	78,022,635	31,629,410	5,100,127	881,652	115,633,824	2,743,392
Net assets:						
Invested in capital assets, net of related debt	39,755,290	55,136,331	23,244,377	(381,298)	117,754,700	—
Reserved for:						
Renewal and replacement	113,880	720	137,927	—	252,527	—
Unrestricted	3,284,858	3,815,396	(238,152)	(15,288)	6,846,814	(1,594,918)
Total net assets	\$ 43,154,028	58,952,447	23,144,152	(396,586)	124,854,041	(1,594,918)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(78,589)	
Net assets of business-type activities					\$ 124,775,452	

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, 2004

	Business-type activities				Totals	Governmental activities
	Water	Major	Airport	Nonmajor		Internal Service Fund
		Sewer		Golf Course		
Operating revenues:						
Charges for services	\$ 21,516,485	15,074,035	—	—	36,590,520	37,375,599
Employee contributions	—	—	—	—	—	6,730,491
Fees	803,494	—	561,856	1,059,055	2,424,405	—
Miscellaneous	833,583	552,823	124,684	9,761	1,520,851	39,758
Total operating revenues	23,153,562	15,626,858	686,540	1,068,816	40,535,776	44,145,848
Operating expenses:						
Salaries and benefits	8,100,623	4,011,570	1,096,776	296,888	13,505,857	—
Benefit payments	—	—	—	—	—	46,382,253
Ordinary maintenance	2,991,929	5,815,709	960,048	588,745	10,356,431	—
Indirect costs	1,789,887	2,718,661	—	69,668	4,578,216	—
Depreciation	4,120,898	3,464,259	1,618,511	36,175	9,239,843	—
Total operating expenses	17,003,337	16,010,199	3,675,335	991,476	37,680,347	46,382,253
Operating income (loss)	6,150,225	(383,341)	(2,988,795)	77,340	2,855,429	(2,236,405)
Nonoperating revenues (expenses):						
Intergovernmental	—	—	3,302,706	—	3,302,706	—
Interest expense	(3,746,231)	(1,210,124)	(277,299)	(37,643)	(5,271,297)	—
Total nonoperating revenues (expenses)	(3,746,231)	(1,210,124)	3,025,407	(37,643)	(1,968,591)	—
Income (loss) before capital contributions and transfers	2,403,994	(1,593,465)	36,612	39,697	886,838	(2,236,405)
Capital contributions	541,300	719,843	—	—	1,261,143	—
Transfers in (out)	(856,475)	(845,866)	575,069	(40,877)	(1,168,149)	641,487
Change in net assets	2,088,819	(1,719,488)	611,681	(1,180)	979,832	(1,594,918)
Total net assets – beginning	41,065,209	60,671,935	22,532,471	(395,406)	—	—
Total net assets – ending	\$ 43,154,028	58,952,447	23,144,152	(396,586)	—	(1,594,918)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(78,589)	
Change in net assets of business-type activities (page 24)					\$ 901,243	

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2004

	Business-type activities					Governmental activities
	Water	Major Sewer	Airport	Nonmajor Golf Course	Totals	Internal Service Fund
Cash flows from operating activities:						
Receipts from customers	\$ 22,682,003	14,842,170	703,612	1,068,816	39,296,601	—
Payments for interfund service provided	—	—	—	—	—	44,145,848
Payments to suppliers	(4,931,574)	(8,446,345)	(956,969)	(630,049)	(14,964,937)	(43,638,861)
Payments to employees	(8,063,879)	(3,969,898)	(1,099,338)	(298,708)	(13,431,823)	—
Net cash provided (used) by operating activities	9,686,550	2,425,927	(1,352,695)	140,059	10,899,841	506,987
Cash flows from noncapital financing activities:						
Repayment of activities	—	—	(71,222)	—	(71,222)	—
Transfers in	10,867	38,446	677,007	110,579	836,899	641,487
Transfers (out)	(867,342)	(884,312)	(101,938)	(151,456)	(2,005,048)	—
Intergovernmental subsidies	—	—	3,606,687	—	3,606,687	—
Net cash provided (used) by noncapital financing activities	(856,475)	(845,866)	4,110,534	(40,877)	2,367,316	641,487
Cash flows from capital and related financing activities:						
Proceeds from capital debt	7,810,000	9,534,962	105,000	25,000	17,474,962	—
Acquisition and construction of capital assets	(3,015,428)	(2,801,415)	(2,177,278)	—	(7,994,121)	—
Principal paid on capital debt	(9,811,449)	(5,666,282)	(378,874)	(122,000)	(15,978,605)	—
Interest paid on capital debt	(3,753,634)	(1,149,911)	(282,182)	(38,984)	(5,224,711)	—
Net cash (used) by capital and related financing activities	(8,770,511)	(82,646)	(2,733,334)	(135,984)	(11,722,475)	—
Net increase (decrease) in cash and cash equivalents	59,564	1,497,415	24,505	(36,802)	1,544,682	1,148,474
Cash and cash equivalents at beginning of year	4,704,159	4,111,429	—	101,166	8,916,754	—
Cash and cash equivalents at end of year	\$ 4,763,723	5,608,844	24,505	64,364	10,461,436	1,148,474
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 6,150,225	(383,341)	(2,988,795)	77,340	2,855,429	(2,236,405)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	4,120,898	3,464,259	1,618,511	36,175	9,239,843	—
(Increase) decrease in accounts receivable	(471,559)	(784,688)	17,072	—	(1,239,175)	—
Increase in accounts payable	28,635	104,817	2,580	29,119	165,151	—
Increase in accrued liabilities	—	—	—	—	—	2,743,392
(Decrease) in judgments and claims payable	(148,271)	—	—	—	(148,271)	—
Increase (decrease) in compensated absences payable	6,622	24,880	(2,063)	(2,575)	26,864	—
Total adjustments	3,536,325	2,809,268	1,636,100	62,719	8,044,412	2,743,392
Net cash provided (used) by operating activities	\$ 9,686,550	2,425,927	(1,352,695)	140,059	10,899,841	506,987

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2004

	Pension Trust Fund (Year ended December 31, 2003)
	<u> </u>
Additions:	
Contributions:	
Employers	\$ 18,928,252
Plan members	11,691,887
Commonwealth of Massachusetts	2,457,884
Reimbursements from other systems	325,384
	<u> </u>
Total contributions	33,403,407
Investment earnings (loss):	
Interest and dividends	10,786,402
Securities lending income	70,065
Net appreciation in fair value of investments	107,885,292
Less: management fees	(3,068,593)
Less: borrower rebates and fees under securities lending program	(58,222)
	<u> </u>
Net investment earnings	115,614,944
Total additions	<u>149,018,351</u>
Deductions:	
Benefits	47,848,502
Reimbursements to other systems	1,559,321
Refunds and transfers of plan member accounts to other systems	2,307,517
Administrative expenses	440,294
	<u> </u>
Total deductions	52,155,634
Change in net assets	96,862,717
Net assets – beginning	<u>461,653,761</u>
Net assets – ending	<u><u>\$ 558,516,478</u></u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

Table of Contents

	Page
Note 1 Summary of Significant Accounting Policies	35
Note 2 Property Taxes	43
Note 3 Deposits, Investments, and Securities Lending	43
Note 4 City of Worcester Contributory Retirement System	46
Note 5 Massachusetts Teachers' Retirement System, A Noncontributing Employer Plan	48
Note 6 Other Postemployment Benefits	49
Note 7 Capital Assets	50
Note 8 Operating Leases	54
Note 9 Long-Term Obligations	55
Note 10 Temporary Borrowings	62
Note 11 Transfers	64
Note 12 Environmental Remediation – The District	65
Note 13 Risk Management	66
Note 14 Contingency	68

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CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(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, 2004, except for the City of Worcester Contributory Retirement System (WRS), which is presented as of and for the year ended December 31, 2003.

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 *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, City Hall, Worcester, Massachusetts 01608.

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

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 Twenty Washington Square, Suite 400, Worcester, Massachusetts 01604.

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 2004 amounted to \$1,946, which represented approximately 73% of the total of such assessments on all participating cities and towns. Complete financial statements for WRTA can be obtained from WRTA's administrative offices at 287 Grove Street, Worcester, Massachusetts 01605.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

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.

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

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. Funding sources are primarily intergovernmental reimbursement for Medicaid-related public school expenditures and increases in school building assistance from the Commonwealth.

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

- **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.

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

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 lienied 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, 2004.

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

capitalized during the construction period if material. Such costs were not considered material during fiscal 2004. 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.

Encumbrances and Continuing Appropriations

Encumbrance accounting, under which purchase orders, contracts, and other commitments for fund expenditures are recorded in order to reserve portions of applicable appropriations, is employed in governmental funds. Open encumbrances at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Certain unexpended and unencumbered appropriations for incomplete projects are carried over to succeeding years. Such continuing appropriations are accounted for similar to encumbrances. Other unencumbered appropriations lapse at year-end.

Other Fund Balance Reservations

Certain other reservations of fund balances have been established to indicate that the related assets are not available for discretionary appropriation (i.e., trust fund balance).

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

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, 2004, 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 2004 were \$122.

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.

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.

(e) *Reconciliation of Government-Wide and Fund Financial Statements*

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net assets for governmental activities as shown on the

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

government-wide statement of net assets is presented in the schedule on the governmental funds balance sheet. A corresponding reconciliation is also provided between the net change in governmental activities to the net change in fund balances as an accompanying schedule to the statement of revenues, expenditures and changes in fund balance. The reconciliation differences stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting, while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

(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

State and local statutes place limitations on the nature of deposits and investments 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, 2004

(In thousands of dollars)

(a) Deposits

The following summary presents the amount of deposits at June 30, 2004 (except deposits of the pension trust fund, which are presented at December 31, 2003). Deposits that are fully insured or collateralized with securities held by the entity or its agent in the entity's name are shown in Category 1. Deposits collateralized with securities held by the pledging institution's trust department or agent in the entity's name are shown in Category 2. Deposits that are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name) are shown in Category 3.

	<u>Bank balance</u>			<u>Total bank balance</u>	<u>Total carrying amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Primary government:					
Funds presented at					
June 30, 2004	\$ 1,257	—	122,889	124,146	122,368
Agency fund	—	—	431	431	431
Pension trust fund, at					
December 31, 2003	—	—	8,748	8,748	7,941
Total primary government	<u>1,257</u>	<u>—</u>	<u>132,068</u>	<u>133,325</u>	<u>130,740</u>
Discretely presented component units (at June 30, 2004):					
The District	100	388	—	488	492
WRA	194	683	—	877	851
Total discretely presented component units	<u>294</u>	<u>1,071</u>	<u>—</u>	<u>1,365</u>	<u>1,343</u>
Total deposits	<u>\$ 1,551</u>	<u>1,071</u>	<u>132,068</u>	<u>134,690</u>	<u>132,083</u>

(b) Investments

The following summary presents the amount of investments at June 30, 2004 (except investments of the pension trust fund, which are presented at December 31, 2003). Investments are categorized according to the level of risk assumed by the entity. Category 1 includes investments that are insured, registered or held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered securities held by the counterparty's trust department or its agent but not in the entity's name. MMDT, pooled funds, international equity funds, real estate funds, and alternative investment funds are not categorized because they are managed investment pools.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

	Carrying amount			Not categorized	Fair value
	Category				
	1	2	3		
Primary government:					
Funds presented at June 30, 2004:					
MMDT	\$ —	—	—	101	101
Money market funds	—	—	65	—	65
U.S. Government obligations	1,685	—	—	—	1,685
Debt securities	2,950	—	—	—	2,950
Common and preferred stocks	5,867	—	—	—	5,867
Subtotal funds presented at June 30, 2004	10,502	—	65	101	10,668
Pension fund, at December 31, 2003:					
U.S. Government obligations	45,453	—	—	—	45,453
Debt securities	43,041	—	—	—	43,041
Common and preferred stocks	141,627	—	—	—	141,627
Pooled domestic equity funds	—	—	—	111,322	111,322
Pooled domestic fixed income funds	—	—	—	49,757	49,757
Pooled international equity funds	—	—	—	89,517	89,517
Real estate funds	—	—	—	41,719	41,719
Alternative investment funds	—	—	—	24,063	24,063
Subtotal pension fund	230,121	—	—	316,378	546,499
Investments held by broker-dealer under securities loans:					
Common and preferred stocks	—	—	—	3,974	3,974
Debt securities	—	—	—	1,052	1,052
Subtotal	—	—	—	5,026	5,026
Subtotal pension fund	230,121	—	—	321,404	551,525
Total primary government	240,623	—	65	321,505	562,193
Discretely presented component units:					
The District:					
MMDT	—	—	—	214	214
Short-term investments	102	—	—	—	102
U.S. Government obligations	—	6,793	—	—	6,793
Common and preferred stocks	—	725	—	—	725
Money market funds	—	14	—	—	14
Total discretely presented component units	102	7,532	—	214	7,848
Total investments	\$ 240,725	7,532	65	321,719	570,041
Pension fund, at December 31, 2003:					
Securities lending short-term collateral investment pool	\$ —	—	—	5,254	5,254

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(c) ***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 broker 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 broker 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 broker. 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 broker for the year ended December 31, 2003. 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, 2003, 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, 2003 were \$5,254 and \$5,026, respectively. Gross income received under the program in 2003 was \$70, and borrower rebates and fees paid to the broker were \$58.

(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, 2004, the City's payroll for employees covered by WRS was approximately \$128,000; the City's total payroll was approximately \$284,000.

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

Membership in WRS was as follows at December 31, 2003:

Active employees	3,409
Pensioners and beneficiaries	2,996
Inactive employees with vested rights	1,102
Total members	<u>7,507</u>
Number of participating employers	2

(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 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 City's required and actual contributions to WRS for the years ended December 31, 2003, 2002, and 2001 were \$17,161, \$11,606, and \$8,363, respectively.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(d) Legally Required Reserve Accounts

The balances in WRS's legally required reserves as of December 31, 2003 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 115,780	Active members' contribution balance
Annuity Reserve Fund	50,158	Retired members' contribution account
Military Service Fund	17	Members' contribution account while on military leave
Pension Reserve Fund	145,802	Amounts appropriated to fund future retirement benefits
Pension Fund	246,759	Remaining net assets
Total	<u>\$ 558,516</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 2004 was approximately \$131,000. 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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

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, 2004 was \$2,492. 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:	
2005	\$ 375
2006	390
2007	406
2008	423
2009-2010	<u>898</u>
	<u>\$ 2,492</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 2004, expenditures for other postemployment benefits, net of participant contributions, were \$17,523.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(7) Capital Assets

Capital asset activity for the year ended June 30, 2004 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	\$ 11,778	815	—	12,593
Construction in progress	<u>34,019</u>	<u>30,577</u>	<u>19,581</u>	<u>45,015</u>
Total capital assets, not being depreciated	<u>45,797</u>	<u>31,392</u>	<u>19,581</u>	<u>57,608</u>
Capital assets, being depreciated:				
Buildings	318,033	21,921	1,770	338,184
Improvements other than buildings	8,300	1,935	—	10,235
Rolling equipment	19,703	541	147	20,097
Equipment and other	12,142	335	267	12,210
Infrastructure	<u>102,331</u>	<u>4,815</u>	<u>—</u>	<u>107,146</u>
	<u>460,509</u>	<u>29,547</u>	<u>2,184</u>	<u>487,872</u>
Less accumulated depreciation for:				
Buildings	94,406	9,407	1,770	102,043
Improvements other than buildings	702	367	—	1,069
Rolling equipment	11,976	1,845	147	13,674
Equipment and other	5,376	1,405	267	6,514
Infrastructure	<u>42,843</u>	<u>4,905</u>	<u>—</u>	<u>47,748</u>
	<u>155,303</u>	<u>17,929</u>	<u>2,184</u>	<u>171,048</u>
Total capital assets, being depreciated, net	<u>305,206</u>	<u>11,618</u>	<u>—</u>	<u>316,824</u>
Governmental capital assets, net	\$ <u><u>351,003</u></u>	<u><u>43,010</u></u>	<u><u>19,581</u></u>	<u><u>374,432</u></u>

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

Governmental activities:	
General government	\$ 119
Public safety	1,888
Public works	5,690
Education	6,236
Library	747
Health and human services	266
Culture and recreation	<u>2,983</u>
Total depreciation expense – governmental activities	\$ <u><u>17,929</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities:				
Water:				
Capital assets, not being depreciated:				
Land	\$ 34	—	—	34
Construction in progress	319	604	235	688
Total capital assets, not being depreciated	353	604	235	722
Capital assets, being depreciated:				
Buildings	38,946	—	104	38,842
Rolling equipment	1,808	407	226	1,989
Infrastructure	105,522	2,829	—	108,351
Equipment and other	520	—	19	501
Total capital assets, being depreciated	146,796	3,236	349	149,683
Less accumulated depreciation for:				
Buildings	9,051	975	104	9,922
Rolling equipment	893	251	226	918
Infrastructure	25,163	2,851	—	28,014
Equipment and other	413	44	19	438
Total accumulated depreciation	35,520	4,121	349	39,292
Total capital assets, being depreciated, net	111,276	(885)	—	110,391
Water capital assets, net	111,629	(281)	235	111,113
Sewer:				
Capital assets, not being depreciated:				
Land	117	—	—	117
Construction in progress	117	564	95	586
Total capital assets, not being depreciated	234	564	95	703
Capital assets, being depreciated:				
Buildings	2,367	—	—	2,367
Rolling equipment	2,162	612	53	2,721
Infrastructure	116,528	2,492	—	119,020
Equipment and other	166	—	32	134
Total capital assets, being depreciated	121,223	3,104	85	124,242
Less accumulated depreciation for:				
Buildings	632	64	—	696
Rolling equipment	1,044	288	53	1,279
Infrastructure	40,078	3,096	—	43,174
Equipment and other	107	15	32	90
Total accumulated depreciation	41,861	3,463	85	45,239
Total capital assets, being depreciated, net	79,362	(359)	—	79,003
Sewer capital assets, net	79,596	205	95	79,706

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Airport:				
Capital assets, not being depreciated:				
Land	\$ 106	—	—	106
Construction in progress	168	299	70	397
Total capital assets, not being depreciated	<u>274</u>	<u>299</u>	<u>70</u>	<u>503</u>
Capital assets, being depreciated:				
Buildings	17,191	—	—	17,191
Rolling equipment	1,179	—	234	945
Infrastructure	19,949	2,030	—	21,979
Equipment and other	396	55	—	451
Total capital assets, being depreciated	<u>38,715</u>	<u>2,085</u>	<u>234</u>	<u>40,566</u>
Less accumulated depreciation for:				
Buildings	3,668	434	—	4,102
Rolling equipment	825	86	234	677
Infrastructure	7,080	1,058	—	8,138
Equipment and other	169	41	—	210
Total accumulated depreciation	<u>11,742</u>	<u>1,619</u>	<u>234</u>	<u>13,127</u>
Total capital assets, being depreciated, net	<u>26,973</u>	<u>466</u>	<u>—</u>	<u>27,439</u>
Airport capital assets, net	<u>27,247</u>	<u>765</u>	<u>70</u>	<u>27,942</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	82	3	—	85
Infrastructure	205	32	—	237
Equipment and other	4	1	—	5
Total accumulated depreciation	<u>291</u>	<u>36</u>	<u>—</u>	<u>327</u>
Total capital assets, being depreciated, net	<u>457</u>	<u>(36)</u>	<u>—</u>	<u>421</u>
Golf course capital assets, net	<u>457</u>	<u>(36)</u>	<u>—</u>	<u>421</u>
Business-type activities capital assets, net	\$ <u>218,929</u>	<u>653</u>	<u>400</u>	<u>219,182</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Discretely presented component units – The District:				
Capital assets, not being depreciated:				
Land	\$ 702	—	—	702
Construction in progress	6,553	7,803	68	14,288
Total capital assets, not being depreciated	<u>7,255</u>	<u>7,803</u>	<u>68</u>	<u>14,990</u>
Capital assets, being depreciated:				
Treatment facilities	54,457	6	—	54,463
Equipment and other	6,745	121	—	6,866
Total capital assets, being depreciated	<u>61,202</u>	<u>127</u>	<u>—</u>	<u>61,329</u>
Less accumulated depreciation for:				
Treatment facilities	18,426	2,465	—	20,891
Equipment and other	4,862	513	—	5,375
Total accumulated depreciation	<u>23,288</u>	<u>2,978</u>	<u>—</u>	<u>26,266</u>
Total capital assets, being depreciated, net	<u>37,914</u>	<u>(2,851)</u>	<u>—</u>	<u>35,063</u>
The District's capital assets, net	\$ <u>45,169</u>	<u>4,952</u>	<u>68</u>	<u>50,053</u>
Discretely presented component units – WRA:				
Capital assets, not being depreciated:				
Land	\$ 2,386	484	—	2,870
Construction in progress	1,443	1,381	1,443	1,381
Total capital assets, not being depreciated	<u>3,829</u>	<u>1,865</u>	<u>1,443</u>	<u>4,251</u>
Capital assets, being depreciated:				
Buildings	47,732	—	—	47,732
Equipment and other	72	—	—	72
Total capital assets, being depreciated	<u>47,804</u>	<u>—</u>	<u>—</u>	<u>47,804</u>
Less accumulated depreciation for:				
Buildings	3,462	1,227	—	4,689
Equipment and other	64	6	—	70
Total accumulated depreciation	<u>3,526</u>	<u>1,233</u>	<u>—</u>	<u>4,759</u>
Total capital assets, being depreciated, net	<u>44,278</u>	<u>(1,233)</u>	<u>—</u>	<u>43,045</u>
WRA capital assets, net	\$ <u>48,107</u>	<u>632</u>	<u>1,443</u>	<u>47,296</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

Construction Commitments

The City has active construction projects as of June 30, 2004. 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, 2004	Remaining commitment
Dam rehabilitation	\$ 273	8
Building renovations	353	791
Land improvements	485	1,777
Street improvements	913	360
School renovations	1,943	1,532
New school construction	37,937	42,920
Total	\$ 41,904	47,388

The commitments for the dam rehabilitation, building renovations and school projects are being funded by general obligation bonds. The commitments for the street improvements are being funded by a Massachusetts highway grant and a federal economic development grant. The commitments for the land improvement projects are being funded by a federal grant and general obligation bonds.

(8) Operating Leases

The City occasionally leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases were \$216 for the year ended June 30, 2004. There were no future minimum payments for these leases.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(9) 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%) \$	77,362	12,480	10,726	79,116	10,866
Outside debt limit	(2.00%-8.50%)	374,378	11,115	16,490	369,003	17,258
BANs (see note 10)	(1.75%-2.00%)	—	43,045	—	43,045	—
Notes payable – Section 108	(2.31%-6.01%)	—	5,800	—	5,800	—
Accrued early retirement costs, net		2,492	—	—	2,492	375
Judgments and claims		14,377	3,762	2,368	15,771	1,439
Compensated absences		10,783	6,781	7,421	10,143	6,747
Landfill closure and postclosure care costs		5,411	3,910	122	9,199	—
Less unamortized deferred amounts on refundings		(123)	—	(16)	(107)	—
Less unamortized deferred financing costs		—	(197)	(23)	(174)	—
		<u>\$ 484,680</u>	<u>86,696</u>	<u>37,088</u>	<u>534,288</u>	<u>36,685</u>

For governmental activities, 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.

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%) \$	8,557	1,055	1,615	7,997	1,457
Outside debt limit	(2.00%-7.00%)	92,612	6,930	7,069	92,473	7,684
BANs (see note 10)	(1.75%-2.00%)	—	8,910	—	8,910	—
MWPAT note payable	(2.00%-5.50%)	—	1,168	—	1,168	44
Judgments and claims		645	118	266	497	106
Compensated absences		633	561	534	660	527
Less unamortized deferred amounts on refundings		(257)	—	(38)	(219)	—
		<u>\$ 102,190</u>	<u>18,742</u>	<u>9,446</u>	<u>111,486</u>	<u>9,818</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(b) Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2004 matures as follows:

	Governmental activities		Business-type activities			
	General fund		Water		Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2005	\$ 28,124	23,287	6,593	3,484	2,066	1,086
2006	26,997	21,864	5,461	3,216	1,566	1,033
2007	25,821	20,665	5,325	2,920	1,694	925
2008	22,748	19,507	4,878	2,669	1,586	862
2009	21,243	18,569	4,381	2,389	1,212	708
2010-2014	98,662	89,755	24,036	8,423	6,513	2,686
2015-2019	98,975	53,519	17,423	2,473	6,399	1,264
2020-2024	68,224	29,459	2,938	228	2,939	269
2025-2028	57,325	9,228	—	—	—	—
	<u>\$ 448,119</u>	<u>285,853</u>	<u>71,035</u>	<u>25,802</u>	<u>23,975</u>	<u>8,833</u>
			Business-type activities		Business-type activities totals	
	Airport		Golf (nonmajor)		Principal	Interest
	Principal	Interest	Principal	Interest		
Year ending June 30:						
2005	\$ 368	262	114	35	9,141	4,867
2006	388	240	113	30	7,528	4,519
2007	403	217	112	26	7,534	4,088
2008	363	194	59	22	6,886	3,747
2009	348	173	65	18	6,006	3,288
2010-2014	1,895	550	269	46	32,713	11,705
2015-2019	893	56	50	12	24,765	3,805
2020-2024	—	—	20	1	5,897	498
	<u>\$ 4,658</u>	<u>1,692</u>	<u>802</u>	<u>190</u>	<u>100,470</u>	<u>36,517</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(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, 2004 is as follows:

Inside debt limit:		
School construction	\$	41,570
Building rehabilitation		18,836
Worcester Center Boulevard Garage		7,000
Departmental equipment		3,838
Street construction		2,389
Franklin Square fire station construction		2,000
Worcester Common rehabilitation		1,800
Parks improvements		1,080
Building demolition		419
Bridge construction		414
Land acquisition		225
Dam improvements		175
Sewer infiltration and inflow		100
Water land acquisition		100
Library design		60
Surface drain construction		50
Urban Systems Gateway		2
Total inside debt limit		<u>80,058</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

Outside debt limit:		
Vocational School construction	\$	49,850
Sewer construction		4,187
Water filtration		2,735
Water mains		2,179
Airport improvements		1,385
Sewer drainage		1,120
Greenhill Park improvements		1,050
Union Station		975
Reservoir rehabilitation		930
Water equipment		423
Landfill closure		400
Water land acquisition		300
Water reservoir tank		200
Dam improvements		105
Watershed land		100
Water meters		50
Sewer pumping facility		50
		<hr/>
Total outside debt limit		66,039
		<hr/>
Total inside and outside debt limit	\$	<u>146,097</u>

At June 30, 2004, in addition to debt authorized but unissued, the City may issue \$182,058 of additional general obligation debt under the normal debt limit. The City had \$500,226 of outstanding debt exempt from the debt limit, of which \$38,750 are BANs that are presented as long-term obligations.

(d) Advance Refundings

The principal amount of debt refunded through prior year in-substance defeasance transactions and still outstanding at June 30, 2004 was \$58,900.

(e) Subsequent Event

On September 23, 2004, the City issued \$29,595 of 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%.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(f) Discretely Presented Component Units – The District

Long-term obligations consisted of the following at June 30, 2004:

1997 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 5.406% with a final payment due February 1, 2017.	\$	10,126
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.		9,755
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 5.83% with a final payment due February 1, 2020.		902
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 5.667% with a final payment due February 1, 2021.		447
2003 General Obligation Bonds payable in varying annual installments at an average coupon rate of 5.14% with a final payment due March 15, 2023.		10,650
Less: unamortized deferred financing costs		(248)
Other		400
		<u>32,032</u>
Less portion due within one year		<u>(1,737)</u>
Amount due in more than one year	\$	<u><u>30,295</u></u>

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:					
2005	\$ 1,492	1,534	3,026	637	2,389
2006	1,550	1,461	3,011	618	2,393
2007	1,609	1,384	2,993	598	2,395
2008	1,680	1,307	2,987	577	2,410
2009	1,735	1,232	2,967	556	2,411
2010-2014	9,770	4,860	14,630	2,445	12,185
2015-2019	10,009	2,244	12,253	1,249	11,004
2020-2024	4,035	409	4,444	45	4,399
	<u>\$ 31,880</u>	<u>14,431</u>	<u>46,311</u>	<u>6,725</u>	<u>39,586</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(g) Discretely Presented Component Units – WRA

Long-term obligations consisted of the following at June 30, 2004:

Due to primary government consisted of the following as of June 30:		
Note payable, City of Worcester, unsecured, with interest calculated at the rate paid by the City on the sale of its general obligation bonds (3.930% as of June 30, 2004).	\$	1,507
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>3,167</u>
Bond 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.		6,025
Less: unamortized bond discount, net		<u>(61)</u>
		<u>5,964</u>
Subtotal – long-term obligations		9,131
Less portion due within one year		<u>(2,456)</u>
Amount due in more than one year	\$	<u><u>6,675</u></u>

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

	Gross repayments		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 280	308	588
2006	290	296	586
2007	305	281	586
2008	320	266	586
2009	340	250	590
2010-2014	1,115	998	2,113
2015-2019	<u>3,375</u>	<u>871</u>	<u>4,246</u>
	<u>6,025</u>	\$ <u>3,270</u>	<u>9,295</u>
Less unamortized discount	<u>(61)</u>		
	\$ <u><u>5,964</u></u>		

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(10) 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).

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, 2004 in the general fund, stabilization fund, special revenue fund, and business-type activities were \$219, \$102, \$15, and \$76, respectively. At June 30, 2004, the following 1.75% to 2.00% BANs (maturing through August 2004) were outstanding:

	Outstanding as of June 30, 2003	Additions	Reductions	Outstanding as of June 30, 2004
Bond anticipation notes payable:				
General	\$ 18,530	12,570	18,530	12,570
School	5,755	30,475	5,755	30,475
Water	3,575	4,010	3,575	4,010
Sewer	3,665	4,835	3,665	4,835
Airport	40	65	40	65
Golf Course	15	—	15	—
Total	<u>\$ 31,580</u>	<u>51,955</u>	<u>31,580</u>	<u>51,955</u>

(b) Subsequent Event

On August 15, 2004, the City issued \$51,955 of general obligation bonds to refinance BANs outstanding at June 30, 2004.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(c) *Discretely Presented Component Units – The District*

The District issues short-term notes as preliminary financing for major capital additions. Note payable activity for the year ended June 30, 2004 was as follows:

	Outstanding as of June 30, 2003	Additions	Reductions	Outstanding as of June 30, 2004
Short-term notes	\$ —	6,577	—	6,577

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(11) Transfers

Transfers and their purposes during the year ended June 30, 2004 were as follows:

	Governmental funds			Internal Service Fund	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	\$ 52	—	(63)	—	11	—	—	—
Damage settlements – to fund operating costs	113	—	(113)	—	—	—	—	—
Premium on loans – to fund bond refunding, issuance and debt service costs	514	—	(514)	—	—	—	—	—
Federal reimbursement – to fund indirect services related to federal grants	388	—	(388)	—	—	—	—	—
Federal reimbursement – to fund operating costs	159	—	(159)	—	—	—	—	—
Section 108 loan origination fees-to fund promotion of tourism	100	—	(100)	—	—	—	—	—
Cemetery lot sales – reimbursement of parks operational costs	51	—	(51)	—	—	—	—	—
Parking – to cover parking operations	278	—	(278)	—	—	—	—	—
Sewer connection fees to fund public works engineering operations	108	—	(108)	—	—	—	—	—
Sewer connection fees to fund sewer operations	—	—	(39)	—	—	39	—	—
Construction permits – to fund public works engineering operations	43	—	(43)	—	—	—	—	—
FEMA reimbursement to fund snow and ice removal	553	—	(553)	—	—	—	—	—
Passenger facility charges – to fund airport operations	—	—	(21)	—	—	—	21	—
General fund – to fund debt payments	(6,344)	6,344	—	—	—	—	—	—
General fund – to fund airport operating costs	(656)	—	—	—	—	—	656	—
General fund – to fund Golf Course operating costs	(111)	—	—	—	—	—	—	111
General Fund – to fund police grant salary match	(1,235)	—	1,235	—	—	—	—	—
Health insurance proceeds – to fund self-insured health insurance plans	—	—	(641)	641	—	—	—	—
Enterprises – to fund debt payments	1,288	—	—	—	(697)	(463)	(102)	(26)
Capital – to fund capital project acquisitions	—	—	718	—	(170)	(422)	—	(126)
Total	\$ (4,699)	6,344	(1,118)	641	(856)	(846)	575	(41)

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(12) Environmental Remediation – The District

(a) 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. \$62,500)
Phase II	Advanced treatment facilities required for projected 2010 flows. (approx. \$40,500)
Phase III	Solids management facilities. (approx. \$9,700)
Phase IV	Facilities required for future flows (beyond 2010). (approx. \$17,300)

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 \$130,000 in escalated dollars (about \$105,000 current cost). 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, 2004, the District has spent and capitalized approximately \$12,543, including capitalized interest of \$361.

(b) Facility Plan

The objective of the project is to complete facility planning for the Upper Blackstone Water Pollution Abatement District (UBWPAD). Planning will encompass a review of the wastewater quantities and characteristics of the communities within the District's statutory service area, including both member and nonmember communities; a comprehensive evaluation of existing facilities; screening and identification of process improvements and additions needed to achieve revised effluent standards; and recommendations for a capital improvement program aimed at provision of the recommended improvements over a ten-year period. The project will provide comprehensive management planning upon which the District will base future decisions related to treatment plant improvements. The project encompasses the statutory District service area, including

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

the City and surrounding Towns of Auburn, Boylston, Holden, Leicester, Millbury, Oxford, Paxton, Rutland, Shrewsbury, and West Boylston.

A draft plan was completed in May 2001. The plan recommends completion of phased improvements (see plant improvements). Pilot plant studies of the recommended process improvements have commenced as part of the facility plan. Design of the first phase of the improvement commenced in fiscal year 2002.

The facility plan cost, estimated at \$2,000, will be financed by a state revolving fund loan. As of June 30, 2004, the District has spent and capitalized approximately \$1,682 on this project, including capitalized interest of \$15.

(13) 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.

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

Changes in the self-insurance liability for the years ended June 30, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Health claims, beginning of year	\$ —	—
Incurred claims	44,528	—
Payments of claims attributable to events of the current fiscal year:		
Health	<u>(41,706)</u>	—
Health claims, end of year	<u>\$ 2,822</u>	<u>—</u>

Changes in judgments and claims liability for the years ended June 30, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Judgments and claims, beginning of year	\$ 15,022	15,174
Additions to estimated claims liability	3,880	2,498
Payments of claims attributable to events of the current and prior fiscal years:		
Court judgments and legal settlements	(1,150)	(775)
Workers' compensation	<u>(1,484)</u>	<u>(1,875)</u>
Judgments and claims, end of year	<u>\$ 16,268</u>	<u>15,022</u>

Judgments and claims consisted of the following at June 30:

	<u>2004</u>	<u>2003</u>
Workers' compensation	\$ 14,853	12,847
Court judgments and legal settlements	<u>1,415</u>	<u>2,175</u>
	<u>\$ 16,268</u>	<u>15,022</u>

The liability for judgments and claims consist of governmental and business-type activities in the amount of \$15,771 and \$497, 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2004

(In thousands of dollars)

(14) 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 2004, MassPort offset 100% of the operating deficit, exclusive of debt service. This contract has been renewed for a 3-year period. MassPort will continue to pay 100% of the deficit in fiscal 2005, with this percentage dropping 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

Required Supplementary Information

Year ended June 30, 2004

(Amounts expressed in thousands)

General Fund

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

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Property taxes	\$ 153,379	153,439	156,343	2,904
Motor vehicle excise taxes	13,900	13,900	13,047	(853)
Penalties and interest on taxes	2,200	2,200	2,123	(77)
Other taxes and in-lieu payments	2,370	2,370	2,670	300
Licenses and permits	4,561	4,561	5,486	925
Intergovernmental	216,904	219,597	220,482	885
Charges for services	4,289	4,289	3,864	(425)
Fines and forfeitures	2,675	2,675	2,554	(121)
Investment earnings	750	750	476	(274)
Miscellaneous	990	990	733	(257)
Total revenues	402,018	404,771	407,778	3,007
Expenditures:				
General government:				
Council	237	237	237	—
Mayor	100	89	89	—
Manager	1,079	1,676	1,676	—
Auditor	451	569	569	—
Treasurer and Collector	1,480	1,825	1,825	—
Assessor	630	602	602	—
License Commission	13	13	13	—
Law	1,097	1,118	1,118	—
Clerk	555	563	563	—
Messenger	361	398	398	—
Election Commission	386	309	309	—
Purchasing	209	283	283	—
Technical Services	1,771	1,901	1,901	—
Human Resources	816	808	808	—
Total general government	9,185	10,391	10,391	—
Public safety:				
Police	29,772	30,731	30,731	—
Fire	27,364	28,961	28,961	—
Code Inspection	1,632	1,553	1,553	—
Communications	2,131	2,097	2,097	—
Emergency Management	15	17	17	—
Total public safety	60,914	63,359	63,359	—

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

Year ended June 30, 2004

(Amounts expressed in thousands)

General Fund

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

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Health and human services:				
Health	\$ 1,747	1,673	1,673	—
Elder Affairs	627	624	624	—
Veteran's Services	452	544	544	—
Total health and human services	<u>2,826</u>	<u>2,841</u>	<u>2,841</u>	<u>—</u>
Education:				
Public Schools	178,051	177,027	177,020	7
Intergovernmental	11,056	12,369	12,452	(83)
Total education	<u>189,107</u>	<u>189,396</u>	<u>189,472</u>	<u>(76)</u>
Libraries:				
Public library	3,476	3,600	3,600	—
Regional library	149	171	171	—
Total libraries	<u>3,625</u>	<u>3,771</u>	<u>3,771</u>	<u>—</u>
Public works:				
General operations	9,353	9,663	9,663	—
Snow and ice removal	1,171	1,800	2,442	(642)
Street lighting	2,558	2,541	2,541	—
Union Station	440	440	440	—
Total public works	<u>13,522</u>	<u>14,444</u>	<u>15,086</u>	<u>(642)</u>
Culture and recreation:				
Parks and Cemetery	2,722	2,983	2,983	—
Auditorium	103	85	85	—
Total culture and recreation	<u>2,825</u>	<u>3,068</u>	<u>3,068</u>	<u>—</u>
Intergovernmental	<u>2,028</u>	<u>2,286</u>	<u>2,457</u>	<u>(171)</u>
Debt service:				
Principal	22,882	22,919	22,919	—
Interest	21,635	21,380	21,380	—
Total debt service	<u>44,517</u>	<u>44,299</u>	<u>44,299</u>	<u>—</u>
Fringe benefits:				
Retirement	13,933	15,315	15,315	—
Workers' and unemployment comp.	3,268	2,778	2,778	—
Insurance	50,209	50,052	50,052	—
Total fringe benefits	<u>67,410</u>	<u>68,145</u>	<u>68,145</u>	<u>—</u>

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

Year ended June 30, 2004

(Amounts expressed in thousands)

General Fund

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

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Contingency	\$ —	—	—	—
Total expenditures	395,959	402,000	402,889	(889)
Excess of expenditures over revenues	6,059	2,771	4,889	2,118
Other financing sources (uses):				
Transfers in	1,288	3,646	3,646	—
Transfers out	(7,000)	(8,345)	(8,345)	—
Total other financing (uses)	(5,712)	(4,699)	(4,699)	—
Net changes in fund balances	347	(1,928)	190	2,118
Budgetary fund balance – beginning	9,225	9,225	9,225	—
Budgetary fund balance – ending	\$ 9,572	7,297	9,415	2,118

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

See accompanying independent auditors' report.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

General Fund

Notes to Schedule of Revenues, Expenditures, and Changes in
Fund Balances – Budget and Actual – Budgetary Basis

June 30, 2004

(Amounts expressed in thousands)

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 2004, the original general fund budget was decreased by transfers totaling \$4,699.

The City's annual budget is prepared on a basis other than GAAP. The "actual" results columns of the Statements of Revenues and Expenditures – 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 Balances – Budget and Actual – Budgetary Basis

June 30, 2004

(Amounts expressed in thousands)

The following reconciliation summarizes the differences between budgetary and GAAP-basis accounting principles for the year ended June 30, 2004:

	<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	\$ 407,778	402,889	(4,699)	190
Adjustment of revenues to a modified basis	757	—	—	757
Adjustment of expenditures to a modified basis	—	—	—	—
As reported on a GAAP basis	<u>\$ 408,535</u>	<u>402,889</u>	<u>(4,699)</u>	<u>947</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).

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information – Schedules of Funding Progress
and Contributions from Employers

June 30, 2004

(Amounts expressed in thousands)

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)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
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)%
1/1/1999	529,999	538,803	8,804	98.37%	115,742	7.61%

Schedule of contributions from employers

Year Ended December 31,	Annual required contributions	Percentage contributed
2003	\$ 18,928	100%
2002	12,957	100%
2001	9,480	100%
2000	8,280	100%
1999	8,189	100%
1998	241,214	100%

Notes to Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuation as of January 1, 2004 as follows:

Actuarial cost method	Entry age normal cost
Amortization method	Payments increase 1.5% per year on the 2002 ERI liability, 4.5% per year on remaining unfunded liability and level payments on the 2003 ERI liability
Remaining amortization period	14 years from July 1, 2004 for the 2002 ERI liability, 15 years from July 1, 2004 for the 2003 ERI liability and 21 years from July 1, 2004 for the remaining unfunded liability
Asset valuation method	5-year smoothing of investment returns greater/(less) than expected
Actuarial assumptions:	
Investment rate of return	8.5% (inflation of 4%)
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% of first \$12 of retirement income

CITY OF WORCESTER, MASSACHUSETTS

Nonmajor Governmental Funds

June 30, 2004

Special Revenue

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

Worcester's Centrum Centre – 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 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.

Centrum 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.

Medical Center – accounts for the acquisition and development of the Medical Center project site.

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Nonmajor Governmental Funds

June 30, 2004

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

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 program.

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

Health and Code 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.

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CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Special Revenue Funds					
Assets	Worcester's Centrum Centre	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Cash and cash equivalents	\$ 269,849	1,254,234	143,949	258,454	1,528,679
Investments	—	—	—	—	—
Due from other governments	—	—	—	—	—
Total assets	<u>\$ 269,849</u>	<u>1,254,234</u>	<u>143,949</u>	<u>258,454</u>	<u>1,528,679</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ —	258,644	141,797	33,585	759
Total liabilities	<u>—</u>	<u>258,644</u>	<u>141,797</u>	<u>33,585</u>	<u>759</u>
Fund balances:					
Reserved for:					
Encumbrances and continuing appropriations	115,812	90,618	—	224,869	72,146
Nonexpendable permanent funds	—	—	—	—	—
Unreserved	154,037	904,972	2,152	—	1,455,774
Total fund balances	<u>269,849</u>	<u>995,590</u>	<u>2,152</u>	<u>224,869</u>	<u>1,527,920</u>
Total liabilities and fund balances	<u>\$ 269,849</u>	<u>1,254,234</u>	<u>143,949</u>	<u>258,454</u>	<u>1,528,679</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>
1,391,384	5,952,274	89,501	1,166,402	13,947,694	6,770,824	32,773,244
—	—	—	—	—	—	—
—	—	—	—	—	416,127	416,127
<u>1,391,384</u>	<u>5,952,274</u>	<u>89,501</u>	<u>1,166,402</u>	<u>13,947,694</u>	<u>7,186,951</u>	<u>33,189,371</u>
14,597	—	46,143	112,572	335,589	246,015	1,189,701
<u>14,597</u>	<u>—</u>	<u>46,143</u>	<u>112,572</u>	<u>335,589</u>	<u>246,015</u>	<u>1,189,701</u>
37,120	—	—	1,053,830	3,734,326	4,636,236	9,964,957
—	—	—	—	—	—	—
<u>1,339,667</u>	<u>5,952,274</u>	<u>43,358</u>	<u>—</u>	<u>9,877,779</u>	<u>2,304,700</u>	<u>22,034,713</u>
<u>1,376,787</u>	<u>5,952,274</u>	<u>43,358</u>	<u>1,053,830</u>	<u>13,612,105</u>	<u>6,940,936</u>	<u>31,999,670</u>
<u>1,391,384</u>	<u>5,952,274</u>	<u>89,501</u>	<u>1,166,402</u>	<u>13,947,694</u>	<u>7,186,951</u>	<u>33,189,371</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Capital Projects Funds				
	Centrum Construction	Street and Sidewalk	Rehabilitation of Public Buildings	Capital Equipment	School Construction
Cash and cash equivalents	\$ 364,181	2,708,058	3,154,228	668,012	12,703,734
Investments	—	—	—	—	—
Due from other governments	—	24,536	—	—	—
Total assets	\$ 364,181	2,732,594	3,154,228	668,012	12,703,734
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 2,725	85,133	195,626	—	6,344,647
Total liabilities	2,725	85,133	195,626	—	6,344,647
Fund balances:					
Reserved for:					
Encumbrances and continuing appropriations	45,081	1,689,922	1,947,189	64,884	191,539
Nonexpendable permanent funds	—	—	—	—	—
Unreserved	316,375	957,539	1,011,413	603,128	6,167,548
Total fund balances	361,456	2,647,461	2,958,602	668,012	6,359,087
Total liabilities and fund balances	\$ 364,181	2,732,594	3,154,228	668,012	12,703,734

Capital Projects Funds			
Medical Center	Parks Improvements	Other	Subtotal
—	1,017,546	6,544,130	27,159,889
—	—	—	—
—	—	—	24,536
—	1,017,546	6,544,130	27,184,425
—	178,225	6,059	6,812,415
—	178,225	6,059	6,812,415
—	369,612	69,342	4,377,569
—	—	—	—
—	469,709	6,468,729	15,994,441
—	839,321	6,538,071	20,372,010
—	1,017,546	6,544,130	27,184,425

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Permanent Funds					
Assets	Hope Cemetery	Health and Code Dept.	Libraries	Schools	Parks
Cash and cash equivalents	\$ 186,030	149,312	356,464	68,341	21,636
Investments	2,069,519	1,922,043	5,339,805	600,463	258,513
Due from other governments	—	—	—	—	—
Total assets	\$ 2,255,549	2,071,355	5,696,269	668,804	280,149
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ —	—	11,753	6,450	—
Total liabilities	—	—	11,753	6,450	—
Fund balances:					
Reserved for:					
Encumbrances and continuing appropriations	—	—	10,460	2,565	—
Nonexpendable permanent funds	2,235,549	2,071,355	5,649,633	643,836	276,937
Unreserved	20,000	—	24,423	15,953	3,212
Total fund balances	2,255,549	2,071,355	5,684,516	662,354	280,149
Total liabilities and fund balances	\$ 2,255,549	2,071,355	5,696,269	668,804	280,149

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Other	Subtotal	
387	12,800	20,266	540	815,776	60,748,909
5,407	122,874	175,636	7,564	10,501,824	10,501,824
—	—	—	—	—	440,663
<u>5,794</u>	<u>135,674</u>	<u>195,902</u>	<u>8,104</u>	<u>11,317,600</u>	<u>71,691,396</u>
—	—	—	—	18,203	8,020,319
—	—	—	—	18,203	8,020,319
—	3,535	—	—	16,560	14,359,086
5,794	131,656	188,189	8,104	11,211,053	11,211,053
—	483	7,713	—	71,784	38,100,938
<u>5,794</u>	<u>135,674</u>	<u>195,902</u>	<u>8,104</u>	<u>11,299,397</u>	<u>63,671,077</u>
<u>5,794</u>	<u>135,674</u>	<u>195,902</u>	<u>8,104</u>	<u>11,317,600</u>	<u>71,691,396</u>

CITY OF WORCESTER, MASSACHUSETTS

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

June 30, 2004

	Special Revenue Funds				
	Worcester's Centrum Centre	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Revenues:					
Intergovernmental	\$ —	6,761,303	—	—	—
Investment earnings	—	—	—	—	—
Charges for services	712,256	1,288,870	5,703,194	—	172,503
Donations	—	—	—	—	—
Contributions to permanent funds	—	—	—	—	—
Miscellaneous	—	—	—	—	—
Total revenues	712,256	8,050,173	5,703,194	—	172,503
Expenditures:					
Current:					
General government	—	—	—	—	236,129
Public safety	—	—	5,716,252	—	—
Health and human services	—	—	—	—	—
Education	—	8,145,815	—	—	—
Libraries	—	—	—	—	—
Public works	—	—	—	1,194,315	53,181
Culture and recreation	542,856	—	—	—	—
Community development	—	—	—	—	—
Redevelopment	—	—	—	—	—
Debt service:					
Principal	203,795	—	—	393,600	160,000
Interest	142,397	—	—	110,713	125,600
Total expenditures	889,048	8,145,815	5,716,252	1,698,628	574,910
Excess (deficiency) of revenues over expenditures	(176,792)	(95,642)	(13,058)	(1,698,628)	(402,407)
Other financing sources (uses):					
Transfers in	—	—	—	1,525,510	—
Transfers (out)	—	—	—	—	(3,000)
Proceeds from bond issues	—	—	—	—	—
Total other financing sources (uses)	—	—	—	1,525,510	(3,000)
Net change in fund balances	(176,792)	(95,642)	(13,058)	(173,118)	(405,407)
Fund balances (deficits) – beginning	446,641	1,091,232	15,210	397,987	1,933,327
Fund balances – ending	\$ 269,849	995,590	2,152	224,869	1,527,920

Special Revenue Funds						
School Revolving	Receipts Reserved	Community Development	Job Training Partnership Act	School Grants	City Grants	Subtotal
—	574,994	5,683,554	3,730,889	41,927,615	9,852,913	68,531,268
—	—	—	—	—	22,150	22,150
1,073,637	3,864,745	55,706	—	22,800	—	12,893,711
—	—	—	5,000	1,105,282	1,910,743	3,021,025
—	665,366	—	—	—	—	—
—	—	—	—	—	—	665,366
<u>1,073,637</u>	<u>5,105,105</u>	<u>5,739,260</u>	<u>3,735,889</u>	<u>43,055,697</u>	<u>11,785,806</u>	<u>85,133,520</u>
—	—	—	—	—	886,239	1,122,368
—	—	—	—	—	2,667,401	8,383,653
—	—	—	4,276,055	—	6,721,568	10,997,623
932,256	—	—	—	38,644,421	—	47,722,492
—	—	—	—	—	761,842	761,842
—	—	—	—	—	924,381	2,171,877
—	—	—	—	—	934,387	1,477,243
—	—	4,428,746	—	—	—	4,428,746
—	—	—	—	—	—	—
—	—	550,549	—	—	316,500	1,624,444
—	—	233,191	—	—	358,500	970,401
<u>932,256</u>	<u>—</u>	<u>5,212,486</u>	<u>4,276,055</u>	<u>38,644,421</u>	<u>13,570,818</u>	<u>79,660,689</u>
141,381	5,105,105	526,774	(540,166)	4,411,276	(1,785,012)	5,472,831
—	—	—	49,612	396,081	1,307,641	3,278,844
—	(4,398,135)	(713,246)	—	—	—	(5,114,381)
—	—	—	—	—	—	—
—	(4,398,135)	(713,246)	49,612	396,081	1,307,641	(1,835,537)
141,381	706,970	(186,472)	(490,554)	4,807,357	(477,371)	3,637,294
1,235,406	5,245,304	229,830	1,544,384	8,804,748	7,418,307	28,362,376
<u>1,376,787</u>	<u>5,952,274</u>	<u>43,358</u>	<u>1,053,830</u>	<u>13,612,105</u>	<u>6,940,936</u>	<u>31,999,670</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

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

June 30, 2004

	Capital Projects Funds				
	Centrum Construction	Street and Sidewalk	Rehabilitation of Public Buildings	Capital Equipment	School Construction
Revenues:					
Intergovernmental	\$ —	2,864,376	638,223	—	—
Investment earnings	—	—	—	—	—
Charges for services	—	—	—	—	—
Donations	—	—	—	—	—
Contributions to permanent funds	—	—	—	—	—
Miscellaneous	—	313,193	—	—	—
Total revenues	<u>—</u>	<u>3,177,569</u>	<u>638,223</u>	<u>—</u>	<u>—</u>
Expenditures:					
Current:					
General government	—	—	323,482	186,691	—
Public safety	—	—	382,636	751,091	—
Health and human services	—	—	57,694	8,690	—
Education	—	—	3,170,707	645,992	27,645,352
Libraries	—	—	11,950	—	—
Public works	—	4,255,674	—	706,044	—
Culture and recreation	233,539	—	—	253,641	—
Community development	—	—	—	—	—
Redevelopment	—	—	—	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Total expenditures	<u>233,539</u>	<u>4,255,674</u>	<u>3,946,469</u>	<u>2,552,149</u>	<u>27,645,352</u>
Excess (deficiency) of revenues over expenditures	<u>(233,539)</u>	<u>(1,078,105)</u>	<u>(3,308,246)</u>	<u>(2,552,149)</u>	<u>(27,645,352)</u>
Other financing sources (uses):					
Transfers in	190,250	—	—	209,892	—
Transfers (out)	—	—	(261,800)	—	—
Proceeds from bond issues	315,000	4,945,000	9,730,000	5,435,000	35,630,000
Total other financing sources (uses)	<u>505,250</u>	<u>4,945,000</u>	<u>9,468,200</u>	<u>5,644,892</u>	<u>35,630,000</u>
Net change in fund balances	271,711	3,866,895	6,159,954	3,092,743	7,984,648
Fund balances (deficits) – beginning	89,745	(1,219,434)	(3,201,352)	(2,424,731)	(1,625,561)
Fund balances – ending	\$ <u>361,456</u>	<u>2,647,461</u>	<u>2,958,602</u>	<u>668,012</u>	<u>6,359,087</u>

Capital Projects Funds			
Medical Center	Parks Improvements	Other	Subtotal
—	250,000	—	3,752,599
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	313,193
—	250,000	—	4,065,792
—	—	—	510,173
—	—	—	1,133,727
—	—	—	66,384
—	—	—	31,462,051
—	—	—	11,950
—	—	2,606,768	7,568,486
—	1,572,094	20,000	2,079,274
—	—	—	—
—	—	30,470	30,470
—	—	—	—
—	—	—	—
—	1,572,094	2,657,238	42,862,515
—	(1,322,094)	(2,657,238)	(38,796,723)
—	190,500	388,050	978,692
—	—	—	(261,800)
5,965,000	1,670,000	8,750,000	72,440,000
5,965,000	1,860,500	9,138,050	73,156,892
5,965,000	538,406	6,480,812	34,360,169
(5,965,000)	300,915	57,259	(13,988,159)
—	839,321	6,538,071	20,372,010

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

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

June 30, 2004

	Permanent Funds				
	Hope Cemetery	Health and Code Dept.	Libraries	Schools	Parks
Revenues:					
Intergovernmental	\$ —	—	—	—	—
Investment earnings	224,400	227,200	649,080	65,530	28,112
Charges for services	—	—	—	—	—
Donations	—	—	500	1,000	—
Contributions to permanent funds	35,518	—	1,650	4,012	—
Miscellaneous	—	—	—	—	—
Total revenues	259,918	227,200	651,230	70,542	28,112
Expenditures:					
Current:					
General government	—	—	—	—	—
Public safety	—	—	—	—	—
Health and human services	—	150,000	—	—	—
Education	—	—	—	18,053	—
Libraries	—	—	106,217	—	—
Public works	—	—	—	—	—
Culture and recreation	—	—	—	—	38,000
Community development	—	—	—	—	—
Redevelopment	—	—	—	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Total expenditures	—	150,000	106,217	18,053	38,000
Excess (deficiency) of revenues over expenditures	259,918	77,200	545,013	52,489	(9,888)
Other financing sources (uses):					
Transfers in	—	—	—	—	—
Transfers (out)	—	—	—	—	—
Proceeds from bond issues	—	—	—	—	—
Total other financing sources (uses)	—	—	—	—	—
Net change in fund balances	259,918	77,200	545,013	52,489	(9,888)
Fund balances (deficits) – beginning	1,995,631	1,994,155	5,139,503	609,865	290,037
Fund balances – ending	\$ 2,255,549	2,071,355	5,684,516	662,354	280,149

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Other	Subtotal	
—	—	—	—	—	72,283,867
588	13,347	19,093	822	1,228,172	1,250,322
—	—	—	—	—	12,893,711
—	6,490	279	—	1,500	3,022,525
—	—	—	—	47,949	47,949
—	—	—	—	—	978,559
588	19,837	19,372	822	1,277,621	90,476,933
—	—	—	—	—	1,632,541
—	—	—	—	—	9,517,380
—	—	—	—	150,000	11,214,007
—	—	—	—	18,053	79,202,596
—	—	—	—	106,217	880,009
—	6,681	—	—	6,681	9,747,044
—	—	—	—	38,000	3,594,517
—	—	—	—	—	4,428,746
—	—	—	—	—	30,470
—	—	—	—	—	1,624,444
—	—	—	—	—	970,401
—	6,681	—	—	318,951	122,842,155
588	13,156	19,372	822	958,670	(32,365,222)
—	—	—	—	—	4,257,536
—	—	—	—	—	(5,376,181)
—	—	—	—	—	72,440,000
—	—	—	—	—	71,321,355
588	13,156	19,372	822	958,670	38,956,133
5,206	122,518	176,530	7,282	10,340,727	24,714,944
5,794	135,674	195,902	8,104	11,299,397	63,671,077

CITY OF WORCESTER, MASSACHUSETTS

Airport Fund

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

Year ended June 30, 2004

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Fees	\$ 596,400	596,400	585,315	(11,085)
Intergovernmental	2,277,549	2,277,549	1,201,545	(1,076,004)
Miscellaneous	59,100	59,100	118,297	59,197
Total revenues	<u>2,933,049</u>	<u>2,933,049</u>	<u>1,905,157</u>	<u>(1,027,892)</u>
Expenditures:				
Salaries and benefits	1,569,703	1,569,703	1,098,839	470,864
Ordinary maintenance	1,308,023	1,308,023	760,331	547,692
Debt service	620,953	621,056	621,056	—
Total expenditures	<u>3,498,679</u>	<u>3,498,782</u>	<u>2,480,226</u>	<u>1,018,556</u>
(Deficiency) of revenues over expenditures	<u>(565,630)</u>	<u>(565,733)</u>	<u>(575,069)</u>	<u>(9,336)</u>
Other financing sources (uses):				
Transfers in	667,568	677,007	677,007	—
Transfers (out)	(101,938)	(101,938)	(101,938)	—
Total other financing sources	<u>565,630</u>	<u>575,069</u>	<u>575,069</u>	<u>—</u>
Net changes in fund balances	—	9,336	—	(9,336)
Budgetary fund balance – beginning	—	—	—	—
Budgetary fund balance – ending	<u>\$ —</u>	<u>9,336</u>	<u>—</u>	<u>(9,336)</u>

CITY OF WORCESTER, MASSACHUSETTS

Golf Course Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balances (Deficits) –
Budget and Actual – Budgetary Basis

Year ended June 30, 2004

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget favorable (negative)</u>
Revenues:				
Fees	\$ 1,315,837	1,315,837	1,059,055	(256,782)
Miscellaneous	14,500	14,500	9,761	(4,739)
Total revenues	<u>1,330,337</u>	<u>1,330,337</u>	<u>1,068,816</u>	<u>(261,521)</u>
Expenditures:				
Salaries and benefits	330,548	338,335	299,463	38,872
Ordinary maintenance	659,894	659,894	588,745	71,149
Capital	90,000	90,000	—	90,000
Debt service	153,771	145,984	145,984	—
Indirect costs	69,668	69,668	69,668	—
Total expenditures	<u>1,303,881</u>	<u>1,303,881</u>	<u>1,103,860</u>	<u>200,021</u>
Excess (deficiency) of revenues over expenditures	<u>26,456</u>	<u>26,456</u>	<u>(35,044)</u>	<u>(61,500)</u>
Other financing sources (uses):				
Transfers in	—	110,579	110,579	—
Transfers (out)	(26,456)	(26,456)	(26,456)	—
Total other financing sources (uses)	<u>(26,456)</u>	<u>84,123</u>	<u>84,123</u>	<u>—</u>
Net changes in fund balances	<u>—</u>	<u>110,579</u>	<u>49,079</u>	<u>(61,500)</u>
Budgetary fund balance (deficit) – beginning	<u>(49,079)</u>	<u>(49,079)</u>	<u>(49,079)</u>	<u>—</u>
Budgetary fund balance (deficit) – ending	<u>\$ (49,079)</u>	<u>61,500</u>	<u>—</u>	<u>(61,500)</u>

CITY OF WORCESTER, MASSACHUSETTS

Sewer Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balances (Deficits) –
Budget and Actual – Budgetary Basis

Year ended June 30, 2004

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Charges for services	\$ 14,703,481	14,703,481	14,289,347	(414,134)
Miscellaneous	339,000	339,000	552,823	213,823
Total revenues	<u>15,042,481</u>	<u>15,042,481</u>	<u>14,842,170</u>	<u>(200,311)</u>
Expenditures:				
Salaries and benefits	4,096,408	4,098,032	3,986,690	111,342
Ordinary maintenance	4,605,810	4,605,810	4,581,480	24,330
Debt service	3,152,817	3,151,193	3,151,193	—
Indirect costs	2,724,811	2,724,811	2,718,661	6,150
Total expenditures	<u>14,579,846</u>	<u>14,579,846</u>	<u>14,438,024</u>	<u>141,822</u>
Excess of revenues over expenditures	<u>462,635</u>	<u>462,635</u>	<u>404,146</u>	<u>(58,489)</u>
Other financing sources (uses):				
Transfers in	—	38,446	38,446	—
Transfers (out)	(462,635)	(462,635)	(462,635)	—
Total other financing (uses)	<u>(462,635)</u>	<u>(424,189)</u>	<u>(424,189)</u>	<u>—</u>
Net changes in fund balances	—	38,446	(20,043)	(58,489)
Budgetary fund balance – beginning	19,407	19,407	19,407	—
Budgetary fund balance (deficit) – ending	<u>\$ 19,407</u>	<u>57,853</u>	<u>(636)</u>	<u>(58,489)</u>

CITY OF WORCESTER, MASSACHUSETTS

Water Fund

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

Year ended June 30, 2004

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Charges for services	\$ 21,388,664	21,388,664	21,044,926	(343,738)
Fees	1,127,000	1,127,000	803,494	(323,506)
Miscellaneous	665,522	665,522	833,583	168,061
Total revenues	<u>23,181,186</u>	<u>23,181,186</u>	<u>22,682,003</u>	<u>(499,183)</u>
Expenditures:				
Salaries and benefits	8,120,767	8,228,307	8,094,001	134,306
Ordinary maintenance	2,428,913	2,439,780	2,415,998	23,782
Debt service	10,150,642	10,036,952	9,990,083	46,869
Indirect costs	1,783,737	1,789,887	1,789,887	—
Total expenditures	<u>22,484,059</u>	<u>22,494,926</u>	<u>22,289,969</u>	<u>204,957</u>
Excess of revenues over expenditures	<u>697,127</u>	<u>686,260</u>	<u>392,034</u>	<u>(294,226)</u>
Other financing sources (uses):				
Transfers in	—	10,867	10,867	—
Transfers (out)	(697,127)	(697,127)	(697,127)	—
Total other financing (uses)	<u>(697,127)</u>	<u>(686,260)</u>	<u>(686,260)</u>	<u>—</u>
Net changes in fund balances	—	—	(294,226)	(294,226)
Budgetary fund balance – beginning	684,414	684,414	684,414	—
Budgetary fund balance – ending	<u>\$ 684,414</u>	<u>684,414</u>	<u>390,188</u>	<u>(294,226)</u>

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CITY OF WORCESTER, MASSACHUSETTS

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

June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Governmental activities capital assets, by type:		
Land	\$ 12,593,412	11,777,812
Buildings	59,397,760	223,626,582
Improvements other than buildings	9,166,935	7,598,625
Rolling equipment	5,696,125	6,767,027
Equipment and other	6,422,661	7,726,778
Infrastructure	236,140,747	59,487,460
Construction in progress	45,014,747	34,018,413
Total governmental funds capital assets	<u>\$ 374,432,387</u>	<u>351,002,697</u>
Investments in governmental activities capital assets by source:		
General fund	\$ 1,047,993	1,237,023
Special revenue fund	27,030,048	26,725,872
Capital projects fund	344,699,060	321,025,242
Donations	1,655,286	2,014,560
Total governmental activities capital assets	<u>\$ 374,432,387</u>	<u>351,002,697</u>

CITY OF WORCESTER, MASSACHUSETTS

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

June 30, 2004

Function and activity	Land	Buildings	Improvements other than buildings
General government:			
Manager	\$ 2,985,231	—	—
Assessor	—	—	—
Auditor	—	—	—
Clerk	—	—	—
Information Services	—	—	—
Election Commission	—	—	—
Law	—	—	—
Human Resources	—	—	—
Purchasing	—	—	—
Treasurer	—	—	—
Total general government	<u>2,985,231</u>	<u>—</u>	<u>—</u>
Public safety:			
Police	514,500	3,530,713	—
Fire	208,600	7,898,857	—
Code Inspection	209,905	341,688	—
Communications	—	—	—
Total public safety	<u>933,005</u>	<u>11,771,258</u>	<u>—</u>
Health and human services:			
Employment and Training	—	—	—
Health	—	—	—
Elder Affairs	—	3,216,388	56,144
Total health and human services	<u>—</u>	<u>3,216,388</u>	<u>56,144</u>
Public works	<u>1,889,339</u>	<u>3,627,289</u>	<u>431,546</u>
Education	<u>3,521,537</u>	<u>142,710,318</u>	<u>139,459</u>
Library	<u>305,000</u>	<u>19,672,834</u>	<u>—</u>
Culture and recreation:			
Auditorium	150,000	1,966,621	—
Centrum Centre	263,000	47,483,728	—
Hope Cemetery	290,000	1,059,518	—
Parks	2,256,300	4,632,793	8,539,786
Total culture and recreation	<u>2,959,300</u>	<u>55,142,660</u>	<u>8,539,786</u>
Total governmental activities capital assets	<u>\$ 12,593,412</u>	<u>236,140,747</u>	<u>9,166,935</u>

Rolling equipment	Equipment and other	Infrastructure	Construction in progress	Total
—	4,144	—	—	2,989,375
1,624	2,332	—	100,345	104,301
—	1,793	—	—	1,793
—	718	—	—	718
—	236,812	—	—	236,812
—	2,950	—	—	2,950
—	47,809	—	—	47,809
—	2,293	—	—	2,293
—	12,264	—	—	12,264
—	12,768	—	—	12,768
1,624	323,883	—	100,345	3,411,083
1,027,018	568,878	—	—	5,641,109
2,342,325	315,129	—	—	10,764,911
31,789	26,005	—	—	609,387
—	638,521	—	—	638,521
3,401,132	1,548,533	—	—	17,653,928
48,535	31,975	—	—	80,510
—	102,608	—	—	102,608
—	32,662	—	—	3,305,194
48,535	167,245	—	—	3,488,312
2,218,881	132,384	59,397,760	1,613,815	69,311,014
216,265	1,550,575	—	42,348,844	190,486,998
—	1,440,716	—	—	21,418,550
—	—	—	54,650	2,171,271
—	251,818	—	—	47,998,546
104,063	31,696	—	—	1,485,277
432,161	249,275	—	897,093	17,007,408
536,224	532,789	—	951,743	68,662,502
6,422,661	5,696,125	59,397,760	45,014,747	374,432,387

CITY OF WORCESTER, MASSACHUSETTS

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

Year ended June 30, 2004

Function and activity	Governmental activities capital assets June 30, 2003	Additions	Deductions	Governmental activities capital assets June 30, 2004
General government:				
Manager	\$ 3,002,429	100,345	13,054	3,089,720
Assessor	9,453	—	5,497	3,956
Auditor	2,988	—	1,195	1,793
Clerk	2,152	—	1,434	718
Information Services	168,594	130,650	62,432	236,812
Election Commission	19,537	—	16,587	2,950
Law	56,497	—	8,688	47,809
Human Resources	4,279	—	1,986	2,293
Purchasing	15,768	—	3,504	12,264
Treasurer	17,164	—	4,396	12,768
Total general government	3,298,861	230,995	118,773	3,411,083
Public safety:				
Police	6,149,955	52,277	722,176	5,480,056
Fire	11,434,810	348,770	857,616	10,925,964
Code Inspection	676,826	—	67,439	609,387
Communications	906,027	—	267,506	638,521
Total public safety	19,167,618	401,047	1,914,737	17,653,928
Health and human services:				
Employment and Training	40,729	—	8,754	31,975
Health	192,258	—	41,115	151,143
Elder Affairs	3,464,050	57,584	216,440	3,305,194
Total health and human services	3,697,037	57,584	266,309	3,488,312
Public works	67,936,790	7,213,958	5,839,734	69,311,014
Education	165,780,762	31,976,178	7,269,942	190,486,998
Libraries	22,165,544	—	746,994	21,418,550
Culture and recreation:				
Auditorium	2,251,704	—	135,083	2,116,621
Centrum Centre	50,019,332	54,650	2,020,786	48,053,196
Hope Cemetery	1,570,061	—	84,784	1,485,277
Parks	15,114,988	2,856,155	963,735	17,007,408
Total culture and recreation	68,956,085	2,910,805	3,204,388	68,662,502
Total governmental activities capital assets	\$ 351,002,697	42,790,567	19,360,877	374,432,387

STATISTICAL SECTION

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CITY OF WORCESTER, MASSACHUSETTS
General Fund Expenditures – GAAP Basis
Year ended June 30, 2004

Graph 1

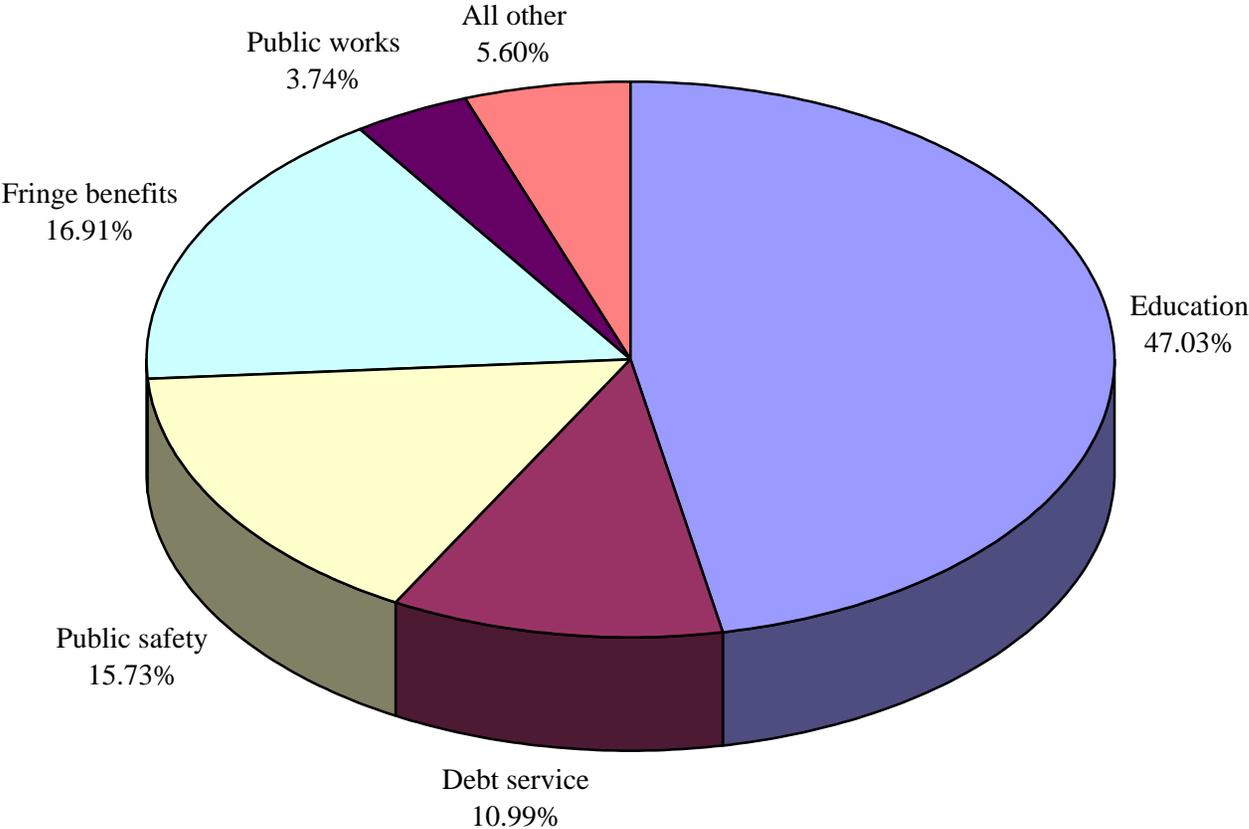


Table 1

CITY OF WORCESTER, MASSACHUSETTS

General Fund Expenditures – GAAP Basis

Last Ten Fiscal Years

(Amounts expressed in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General government	\$ 10,391	10,326	14,726	12,990	12,760	11,015	10,504	11,362	10,690	9,185
Public safety	63,359	64,045	62,954	58,025	56,609	58,069	47,440	47,250	44,800	41,721
Health and human services	2,841	3,658	5,595	5,426	5,267	4,886	4,573	4,177	3,302	3,610
Education	189,472	181,006	179,401	172,357	165,579	156,265	149,893	139,948	128,682	115,457
Libraries	3,771	4,093	4,183	3,717	3,661	3,755	4,030	4,155	4,045	3,880
Public works	15,086	17,598	14,848	17,165	13,183	13,639	12,887	13,272	15,910	11,504
Culture and recreation	3,068	3,880	4,238	4,111	3,694	3,397	3,514	3,339	2,794	1,906
Fringe benefits (1)	68,145	53,965	43,286	39,003	38,993	49,734	47,220	43,536	43,977	44,544
Intergovernmental	2,457	2,424	2,276	2,132	3,041	1,971	2,043	1,969	2,043	2,024
Debt service (1)	44,299	44,971	44,501	44,488	41,474	22,273	21,223	18,801	16,158	13,727
Totals	\$ <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>	<u>247,558</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, 2004

Graph 2

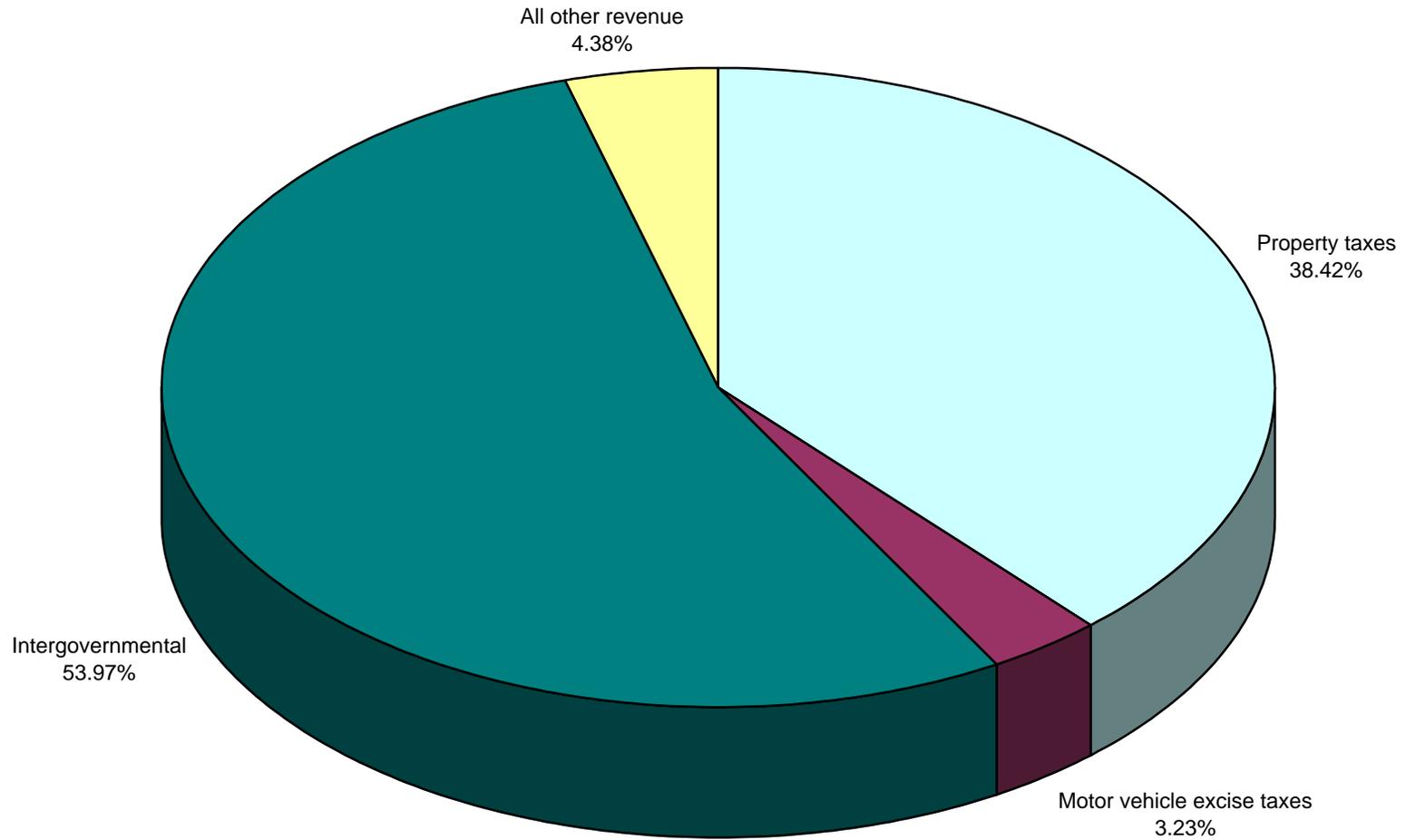


Table 2

CITY OF WORCESTER, MASSACHUSETTS

General Fund Revenues – GAAP Basis

Last Ten Fiscal Years

(Amounts expressed in thousands)

	<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>	<u>1995</u>
Property taxes	\$ 156,942	148,322	140,712	133,885	130,798	126,888	121,189	116,559	112,279	111,602
Motor vehicle excise taxes	13,205	14,085	13,091	12,460	11,134	9,961	10,521	8,875	8,388	9,727
Other taxes and in-lieu payments	2,123	2,215	2,411	2,338	1,867	2,300	1,661	1,672	1,203	2,163
Interest and penalties on taxes	2,670	2,702	1,977	1,938	2,114	1,845	1,848	1,425	1,839	2,465
Licenses and permits	5,486	5,266	4,468	4,577	4,401	4,329	4,048	3,859	3,855	3,188
Intergovernmental	220,482	210,289	205,068	202,269	189,378	173,108	160,326	146,439	131,165	119,507
Charges for services	3,864	3,613	2,477	2,355	2,373	2,273	2,276	2,310	2,247	2,242
Fines and forfeitures	2,554	2,636	2,122	2,024	2,195	2,378	2,401	2,628	2,378	2,408
Investment earnings	476	664	1,321	2,921	2,263	3,056	2,515	1,672	2,720	1,522
Miscellaneous	733	895	1,257	2,218	1,159	945	799	1,344	2,849	2,406
Totals	\$ <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>	<u>257,230</u>

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

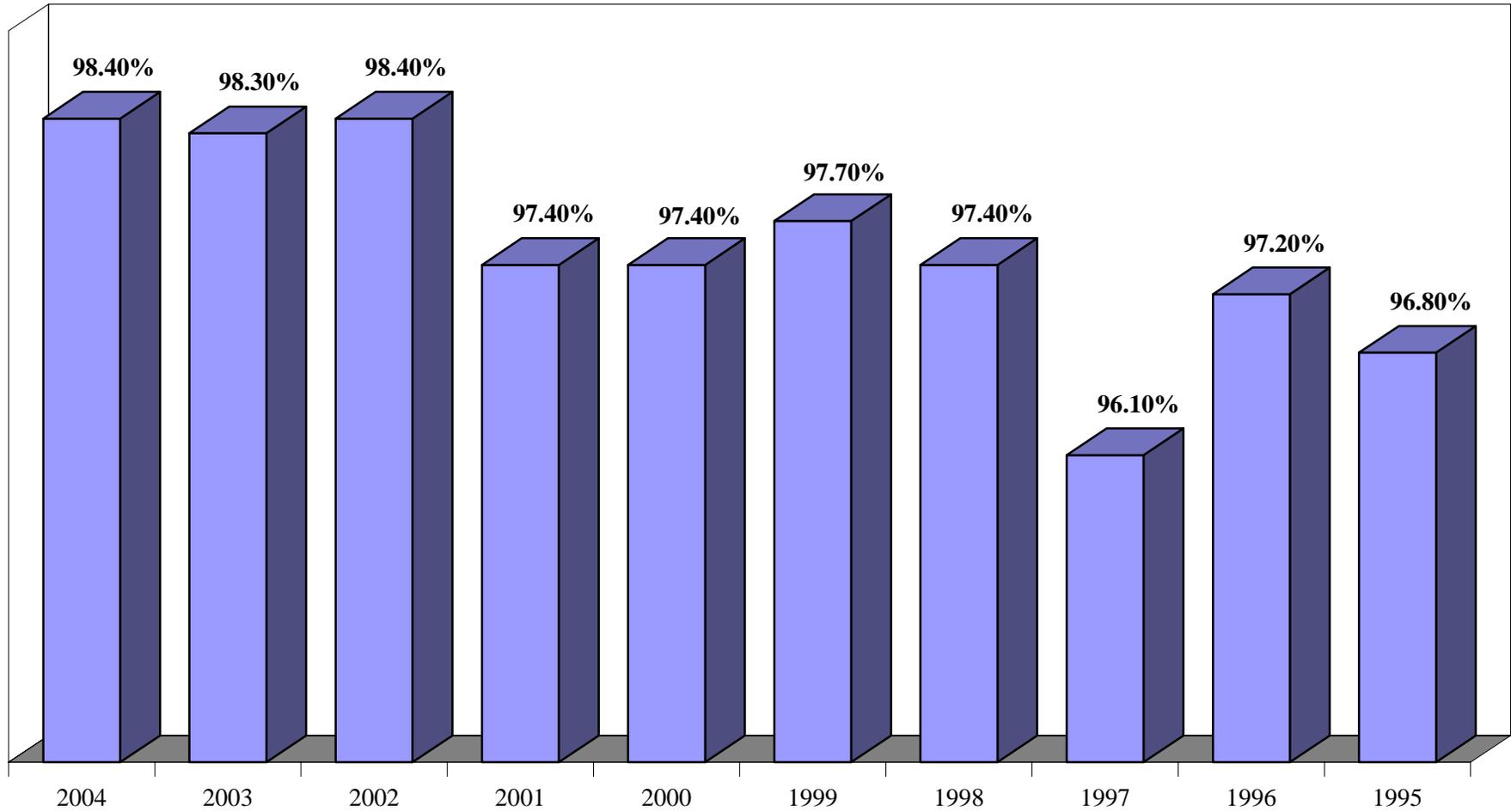


Table 3

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
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
1995	112,044	108,460	104,944	96.8	2,624	107,568	99.2	3,767	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)

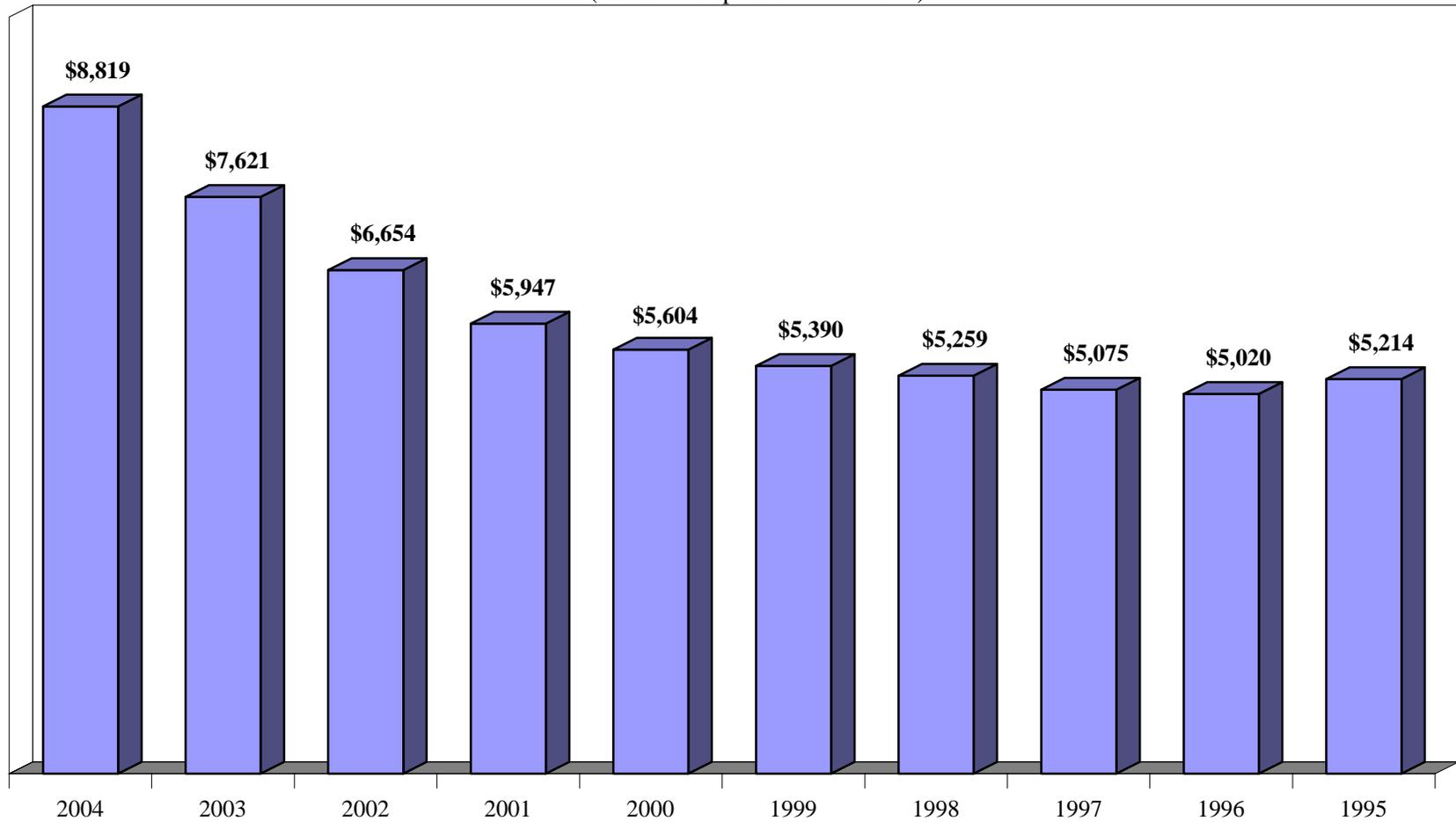


Table 4

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				
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
1995	4,957,964	255,715	5,213,679	169,759	30,712	5,788,427	90.1

Table 5**CITY OF WORCESTER, MASSACHUSETTS**

Property Tax Rates

Last Ten Fiscal Years

(Per \$1,000 of Assessed Value)

<u>Fiscal year</u>		<u>Residential</u>	<u>Open Space</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Personal</u>	<u>Combined</u>
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
1995		16.32	16.32	34.50	34.50	34.50	21.48

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)
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
1995	169,759	5,213,679	159,235	46,182	113,053	2.17	666

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
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
1995	8,660	4,768	13,428	247,558	5.42

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
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
1995	59,955	16,274	76,229	1,478,645	3,735,034	5,213,679	1,676,061

Table 9**CITY OF WORCESTER, MASSACHUSETTS**

Computation of Legal Debt Margin

June 30, 2004

(Amounts expressed in thousands)

Equalized valuation – real estate and personal property (January 1, 2002)	\$	<u>7,248,688</u>
Debt limit – 5% of equalized valuation		362,434
Total bonded debt (including authorized and unissued of \$146,097)	746,641	
Less bonded debt not included in computation of legal debt margin as defined by Massachusetts statutes	(500,226)	
Less bonded debt authorized but not yet issued which is outside the debt limit	<u>(66,039)</u>	<u>180,376</u>
Legal debt margin	\$	<u>182,058</u>

Table 10

CITY OF WORCESTER, MASSACHUSETTS
 Principal Taxpayers - Current Year and Nine Years Ago
 June 30, 2004
 (Amounts expressed in thousands)

Taxpayer	Type of business	2004			1995		
		Assessed valuation	Fiscal 2004 tax bill	Percentage of tax levy	Assessed valuation	Fiscal 1995 tax bill	Percentage of tax levy
Massachusetts Electric Co.	Electric utility	\$ 128,767	3,811	2.43%	104,162	3,594	3.21%
St. Vincent Hospital LLC	Health care facilities	59,042	1,748	1.12	—	—	—
Verizon	Telephone utility	57,164	1,692	1.08	53,893	1,859	1.66
Allmerica Financial	Insurance/financial	51,705	1,530	0.98	46,783	1,600	1.43
Greendale Mall	Shopping mall	46,380	1,373	0.88	30,375	1,048	0.94
Worcester TC LLC (B.A.S.F.)	Biotechnology research	42,611	1,261	0.81	38,646	1,333	1.19
Commonwealth Gas Co.	Gas utility	41,154	1,218	0.78	33,858	1,168	1.04
Worcester Common Outlets	Office/Shopping mall	38,429	1,137	0.73	38,939	1,343	1.20
ARE- (BioTech 1, 4, & 5)	Biotechnology park	36,138	1,070	0.68	—	—	—
Liberty Properties Corp.	Industrial park	30,627	907	0.58	—	—	—
Saint-Gobain Abrasives, Inc.	Abrasives manufacturer	—	—	—	27,671	951	0.85
Nobility Hill Realty	Bank/office	—	—	—	18,188	627	0.56
Lakeside Realty (Fallon)	Health care facilities	—	—	—	17,633	608	1.00
Totals		\$ <u>532,017</u>	<u>15,747</u>	<u>10.07%</u>	<u>410,148</u>	<u>14,131</u>	<u>13.08%</u>

Table 11

CITY OF WORCESTER, MASSACHUSETTS

Miscellaneous Statistics

June 30, 2004

Date of incorporation (as a city)		1848
Form of government		Council – Manager
Area		38.44 square miles
Population:		
	1900	118,421
	1910	145,986
	1920	179,754
	1930	196,837
	1940	193,402
	1950	203,486
	1960	186,587
	1970	176,572
	1980	161,799
	1990	169,759
	2000	172,648
Miles of streets		414
Miles of sidewalks		473
Number of streetlights		12,972
Water:		
Miles of main pipes		592
Fire hydrants		5,940
Reservoirs		10
Reservoir gallons of capacity (in thousands)		7,379,938
Sewers:		
Miles of sanitary sewers		389
Miles of combined sewers		66
Miles of surface sewers		361
Total		<u>816</u>
Fire protection:		
Number of stations		11
Number of firefighters		429
Police protection:		
Number of stations		1
Number of police officers		468
Education:		
Schools		49
Students		25,141
Teachers		2,203
Employees:		
Nonschool		1,835
School		3,821
Total		<u>5,656</u>

Table 11

CITY OF WORCESTER, MASSACHUSETTS

Miscellaneous Statistics

June 30, 2004

Recreation and culture:	
Number of parks and playgrounds	54 with 1,734 acres
Number of libraries	3
Civic center	
Seating capacities:	
Center stage	14,639
End stage	14,751
Basketball	13,500
Hockey	12,239
Ice show	11,888
Arena football, open floor	12,350
Municipal parking garages:	
Capacity – cars	
Pearl Elm	800
Federal Plaza	511
Municipal cemeteries	1
Construction permits:	
Permits issued	2,754
Permit value (in thousands)	\$ 178,941