

CITY OF WORCESTER
MASSACHUSETTS



Worcester Technical High School

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2006

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

James A. DelSignore
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Table of Contents

Page

INTRODUCTORY SECTION

Letter of Transmittal	1 - 4
List of Elected and Appointed Officials	5
Organization Chart – Worcester City Government	6
Certificate of Achievement	7

FINANCIAL SECTION

Independent Auditors' Report	8 - 9
Management's Discussion and Analysis – Required Supplementary Information	10 - 21

Exhibit

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets	1	22
Statement of Activities	2	23 - 24

Fund Financial Statements:

Balance Sheet – Governmental Funds	3	25
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to The Statement of Net Assets	4	26
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	28
Statement of Net Assets – Proprietary Funds	7	29
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	8	30
Statement of Cash Flows – Proprietary Funds	9	31
Statement of Fiduciary Net Assets	10	32
Statement of Changes in Fiduciary Net Assets	11	33

Notes to the Basic Financial Statements	34 - 78
---	---------

Required Supplementary Information:

General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budgetary Basis	79 - 81
Notes to Required Supplementary Information	82 - 83

Supplementary Statements and Schedules:

Narrative – Nonmajor Governmental Funds	84 - 85
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CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Table of Contents

	Statement/ Schedule	Page
Combining Balance Sheet – Nonmajor Governmental Funds	A-1	86 - 91
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	A-2	92 - 97
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Budgetary Basis:		
Airport Enterprise Fund	B-1	98
Golf Course Enterprise Fund (nonmajor)	B-2	99
Sewer Enterprise Fund	B-3	100
Water Enterprise Fund	B-4	101
Capital Assets Used in the Operation of Governmental Activities:		
Comparative Schedule by Type and Source	C-1	102
Schedule by Function and Activity	C-2	103 - 104
Schedule of Changes by Function and Activity	C-3	105
Agency Funds – Schedule of Changes in Assets and Liabilities	D-1	106

STATISTICAL SECTION

	Graph/Table	
Narrative and Table of Contents		107
Net Assets by Component – Accrual Basis of Accounting – Last Six Fiscal Years	1	108
Changes in Net Assets – Accrual Basis of Accounting – Last Six Fiscal Years	2	109
Governmental Activities Tax Revenues by Source – Accrual Basis of Accounting – Last Six Fiscal Years	3	111
Fund Balances of Governmental Funds – Modified Accrual Basis of Accounting – Last Six Fiscal Years	4	112
Changes in Fund Balances of Governmental Fund – Modified Accrual Basis of Accounting – Last Six Fiscal Years	5	113
Governmental Funds Tax Revenues by Source – Modified Accrual Basis of Accounting – Last Six Fiscal Years	6	115
General Fund Expenditures – GAAP Basis	1	116
General Fund Expenditures – GAAP Basis – Last Ten Fiscal Years	7	117
General Fund Revenues – GAAP Basis	2	118
General Fund Revenues – GAAP Basis – Last Ten Fiscal Years	8	119
Assessed Valuation – Last Ten Fiscal Years	3	120
Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	9	121
Principal Taxpayers – Current Year and Nine Years Ago	10	122
Property Tax Levies and Collections – Last Two Fiscal Years	11	123
Ratio of Outstanding Debt by Type – Last Ten Fiscal Years	12	124

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Table of Contents

	Statement/ Schedule	Page
Ratio of Governmental Funds General Bonded Debt Outstanding – Last Ten Fiscal Years	13	125
Legal Debt Margin – Last Ten Fiscal Years	14	126
Demographic and Economic Statistics	15	127
Full Time Employees – Last Nine Fiscal Years	16	128
Principal Employers – Current Year and Nine Years Ago	17	129
Operating Indicators by Function – Last Ten Fiscal/Calendar Years	18	130
Capital Asset Statistics by Function – Last Ten Fiscal Years	19	131

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

October 31, 2006

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

The Comprehensive Annual Financial Report (CAFR) of the City of Worcester, Massachusetts (the City) for the fiscal year ended June 30, 2006 is presented for your review. The report was prepared by the Auditing Department in accordance with accounting principles generally accepted in the United States of America. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been made.

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

Sullivan, Rogers & Company, LLC, a firm of licensed certified public accountants, has audited the City's basic financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Sullivan, Rogers & Company, LLC has issued an unqualified opinion on the City of Worcester's basic financial statements for the fiscal year ended June 30, 2006. The independent auditors' report is presented as the first component of the financial section of this report.

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

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City'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 175,898, according to a 2005 Federal estimate. 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 78 through 83 as part of required supplementary information.

Local economy

For the past several years Worcester has seen its employment base shift from manufacturing to services. In conjunction with that there have been several development projects related to health care and entertainment in the downtown area. The City has a diverse tax base with no concentration in any particular area. According to a 2004 survey by the Worcester Research Bureau the City's employment base consists of 74% in various service industries, 17% in trades and 9% in manufacturing.

Worcester has nine colleges and universities, most of which have been continually expanding. For example The University of Massachusetts Medical School has recently finished a \$100 million plus renovation and expansion project. The City is also focused on developing polluted former industrial sites called brownfields. A 38-acre area brownfield site on the edge of downtown is being cleared and has had a 130-room hotel constructed on part of that site. This hotel plans to expand by 30 rooms in the near future. Additionally, construction has continued on a \$35 million technology center on this site. The project is being done in conjunction with Worcester Polytechnic Institute. The City has also been working to encourage downtown housing and has had an ongoing neighborhood improvements program that concentrates on improvements to infrastructure, recreational facilities, public safety, housing and outreach.

Factors Affecting Financial Condition

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

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

The City's 20-acre downtown mall and office complex has been purchased by a developer who plans to demolish the retail part of the complex and replace it with mixed uses including office, retail, entertainment and housing. The developer's total investment in the project is estimated to be about \$470 million over a period of 6 to 8 years. The City is to contribute about \$61 million, the state \$25 million and federal government \$3.5 million mainly for the cost of demolition, infrastructure and an underground garage. The City will use District Improvement Financing legislation, which allows for the capitalization of interest and

a 30-year loan term to finance its share of the costs. Demolition could start in the winter or spring of 2007. The City's Union Station recently underwent a \$38 million renovation and construction on a 500-space \$13 million adjacent garage is to commence in the spring of 2007 with completion scheduled by mid-2008. A \$5.1 million bus port adjacent to the station has been completed and occupied. Also, the City's downtown common is being renovated as part of a \$6.8 million project to improve City Hall and its environs.

Construction was completed on the \$90 million technical high school, which opened in August 2006. Additionally, construction continued on a 430,000 square-foot, \$180 million downtown regional justice center scheduled to be completed in the summer of 2007. Also, construction has been completed on a \$25 million 200-room convention hotel adjacent to the City's convention center and arena complex. The hotel is also adjacent to the new courthouse and is to be connected to a 950-space municipal garage and to the convention complex with an enclosed pedestrian skybridge.

Worcester's total assessed property value has increased steadily since fiscal 1996. This has been because of increases in property values and a continued but now slowing single-family housing boom. There are also several apartment and condominium complexes being constructed for various income levels. In fiscal 2006 Worcester's property values rose to another all-time high of \$11.6 billion. This was an increase of 12.0% from the previous year's value, which had increased by 17.7% from the year before.

Awards and Acknowledgements

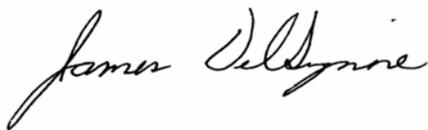
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Worcester, Massachusetts for its CAFR for the year ended June 30, 2005. The Certificate of Achievement is a prestigious national 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 thirteen consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

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

Respectfully submitted,



James A. DelSignore, CPA
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

List of Elected and Appointed Officials

June 30, 2006

Council – Manager Form of Government

CITY COUNCIL

Timothy P. Murray, Mayor

Councilors-at-Large

Konstantina B.Lukes
Michael C. Perotto
Joseph M. Petty
Gary Rosen
Kathleen M. Toomey

District Councilors

Paul P. Clancy, Jr.
Barbara G. Haller
Philip P. Palmieri
Federick C. Rushton
Joffery A. Smith

CITY MANAGER

Michael V. O'Brien

AUDITING DEPARTMENT

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

Michael T. Hennessy
Kim Laino
Ruth Sarafinas

Chief Accountant
Systems Accountant
Administrative Assistant

BUDGET DIRECTOR

John P. Prankevicius

CITY ASSESSOR

Robert J. Allard

PURCHASING AGENT

John C. Orell

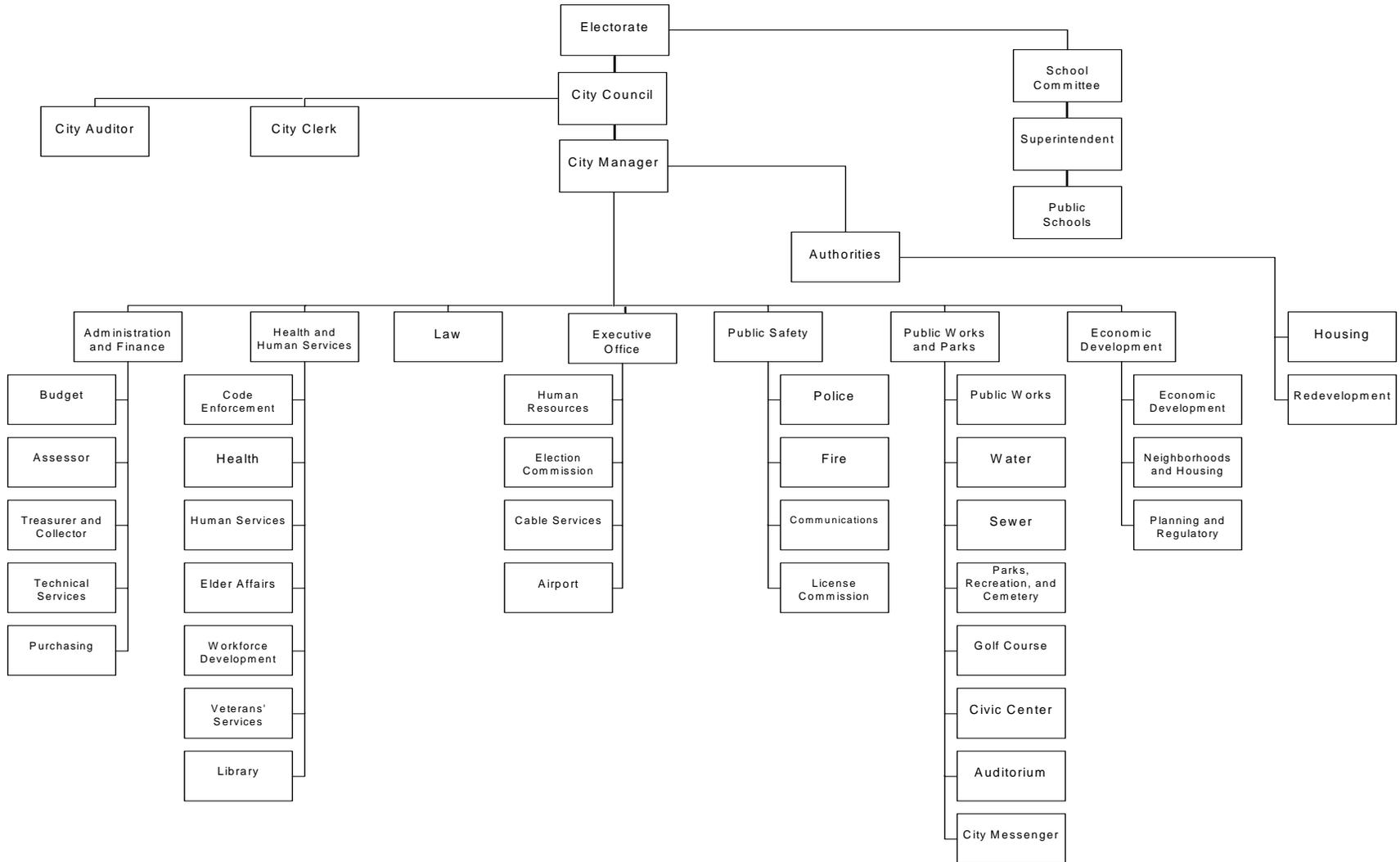
TREASURER & COLLECTOR

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, 2005

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.



Carla E. Perry

President

Jeffrey R. Emmer

Executive Director

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FINANCIAL SECTION



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

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Burlington, Massachusetts 01803

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Independent Auditors' Report

The Honorable Mayor and City Council
City of Worcester, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Worcester, Massachusetts (the City), as of and for the year ended June 30, 2006 (except for the Worcester Contributory Retirement System, which is as of and for the year ended December 31, 2005), 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.

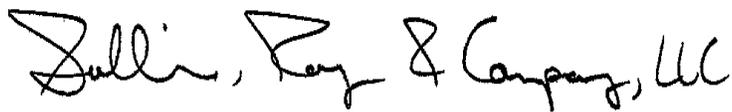
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2006 (except for the Worcester Contributory Retirement System, which is as of December 31, 2005) 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 our report dated October 31, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the general fund schedule of revenues, expenditures and changes in fund balance – budget and actual - budgetary basis (located on pages 10 through 21 and pages 79 through 83, respectively), are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

October 31, 2006

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

(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, 2006 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 2006 by \$164,254.
- The City's total net assets decreased by \$13,624 during the year.
- "Free Cash", certified by the State's Department of Revenue as of July 1, 2006 was \$2,102. This amount is unrestricted in the general fund and available for appropriation in fiscal 2007.
- At the end of fiscal 2006, unreserved fund balance for the general fund was \$9,290 or 1.9% of total general fund revenues.
- The City's total debt decreased by \$37,509 or 5.9% during fiscal 2006.

Overview of the Financial Statements

This discussion and analysis is 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 2006. 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, 2006

(In thousands of dollars)

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

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

Fund Financial Statements

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

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

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

The City maintains 31 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and the stabilization fund, both of which are considered major funds. Data from the 29 other governmental funds are combined into a single aggregated presentation titled "other governmental funds". Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements.

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

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

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

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

(In thousands of dollars)

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

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

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

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

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

The notes to the basic financial statements can be found on pages 34 through 78.

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

Other required supplementary information can be found on pages 79 through 83.

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 \$164,254 at the close of the most recent fiscal year.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

(In thousands of dollars)

	Governmental Governmental Activities		Business-type Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 242,027	268,644	26,947	21,817	268,974	290,461
Capital assets	420,670	412,002	227,007	222,495	647,677	634,497
Total assets	662,697	680,646	253,954	244,312	916,651	924,958
Long-term liabilities	528,777	561,748	106,151	114,180	634,928	675,928
Other liabilities	94,808	66,443	22,661	4,709	117,469	71,152
Total liabilities	623,585	628,191	128,812	118,889	752,397	747,080
Net assets:						
Invested in capital assets, net of related debt	227,174	234,732	104,871	109,124	332,045	343,856
Restricted	29,255	39,064	—	2,749	29,255	41,813
Unrestricted	(217,317)	(221,341)	20,271	13,550	(197,046)	(207,791)
Total net assets	\$ 39,112	52,455	125,142	125,423	164,254	177,878

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

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 (\$197,046). However, this balance includes outstanding pension obligation bonds of \$191,199 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 \$33,663 at year's end. Absent the fore mentioned bond debt, which is partially offset by a \$1,446 receivable from the Commonwealth to reimburse the City for debt related to the hospital, there is \$27,816 of unrestricted net assets that may be used to meet the City's ongoing obligations to its citizens and creditors.

At the end of fiscal 2006, 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 2005.

The City's governmental activities restricted net assets decreased by \$9,809 as restricted special revenue funds decreased by \$8,715, \$8,704 of which was in school grant accounts and the general fund's pension reserve of \$1,617 was all transferred to the pension system and to partially offset government-wide pension expenses. These decreases were partially offset by a \$523 increase in permanent funds.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

(In thousands of dollars)

The City's total net assets decreased by \$13,624, or by about 7.7%. This decrease is for the most part attributable to governmental activities and is primarily because expenses exceeded revenues during the year.

Governmental activities – Governmental activities decreased the City's net assets by \$13,343, thereby accounting for 97.9% of the total decrease in net assets of the City. The key elements of this decrease are as follows:

	Governmental activities		Changes in net assets Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 27,076	26,560	47,203	45,851	74,279	72,411
Operating grants and contributions	292,442	300,270	1,006	1,241	293,448	301,511
Capital grants and contributions	5,217	5,160	3,114	3,081	8,331	8,241
General revenues:						
Property taxes	171,490	161,648	—	—	171,490	161,648
Motor vehicle excise taxes	12,096	13,503	—	—	12,096	13,503
Intergovernmental	44,146	43,026	—	—	44,146	43,026
Other	9,493	9,074	—	—	9,493	9,074
Total revenues	<u>561,960</u>	<u>559,241</u>	<u>51,323</u>	<u>50,173</u>	<u>613,283</u>	<u>609,414</u>
Expenses:						
General government	18,020	16,080	—	—	18,020	16,080
Public safety	112,183	103,529	—	—	112,183	103,529
Health and human services	20,750	21,452	—	—	20,750	21,452
Education	352,433	328,800	—	—	352,433	328,800
Libraries	7,245	6,844	—	—	7,245	6,844
Public works	26,885	30,907	—	—	26,885	30,907
Culture and recreation	8,413	7,608	—	—	8,413	7,608
Community development	3,565	4,189	—	—	3,565	4,189
Redevelopment	—	5,770	—	—	—	5,770
Interest on long-term debt	25,336	25,734	—	—	25,336	25,734
Water	—	—	22,141	21,535	22,141	21,535
Sewer	—	—	24,352	22,719	24,352	22,719
Airport	—	—	4,527	4,158	4,527	4,158
Golf course	—	—	1,164	1,026	1,164	1,026
Total expenses	<u>574,830</u>	<u>550,913</u>	<u>52,184</u>	<u>49,438</u>	<u>627,014</u>	<u>600,351</u>
Change in net assets before transfers and contributions	(12,870)	8,328	(861)	735	(13,731)	9,063
Transfers	(580)	88	580	(88)	—	—
Contributions	107	145	—	—	107	145
Change in net assets	<u>(13,343)</u>	<u>8,561</u>	<u>(281)</u>	<u>647</u>	<u>(13,624)</u>	<u>9,208</u>
Net assets – beginning	<u>52,455</u>	<u>43,894</u>	<u>125,423</u>	<u>124,776</u>	<u>177,878</u>	<u>168,670</u>
Net assets – ending	<u>\$ 39,112</u>	<u>52,455</u>	<u>125,142</u>	<u>125,423</u>	<u>164,254</u>	<u>177,878</u>

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

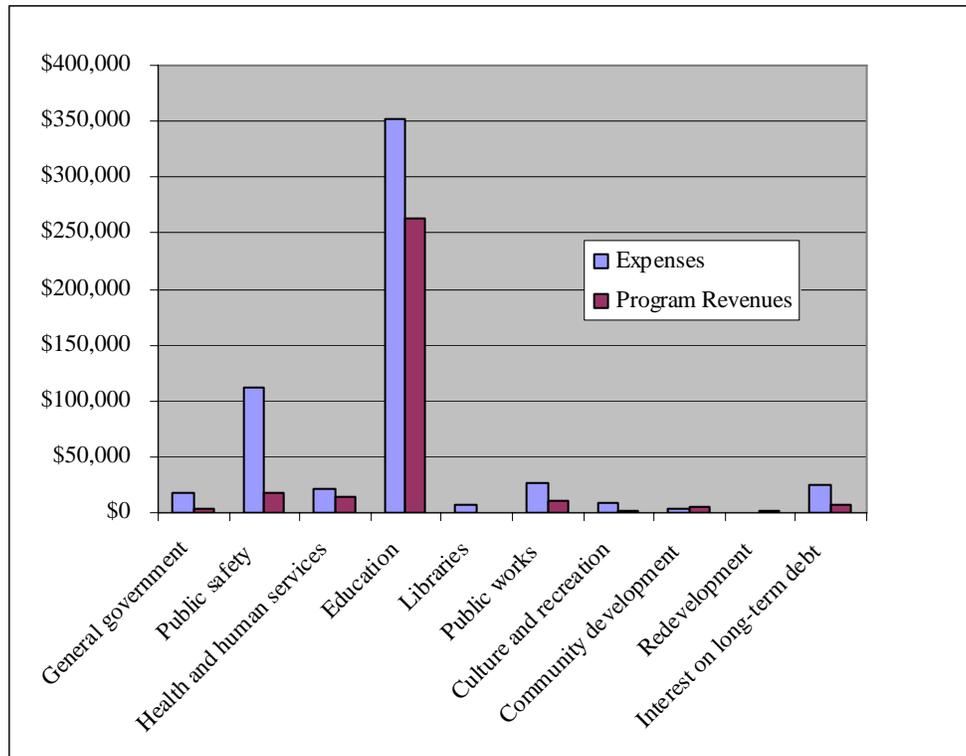
June 30, 2006

(In thousands of dollars)

Total revenues were \$561,960, which was a \$2,719 or a 0.5% increase from the previous fiscal year. Property tax revenue increased by \$9,842 or 6.1%, primarily because of an increase in taxes levied. Operating grants and contributions decreased by \$7,827 or 2.6% due primarily to decreases in grants and aid of \$3,206 to schools, \$2,864 for health and human services and \$2,197 for public safety.

Total expenses were \$574,830, which was a \$23,917 or a 4.3% increase from the previous fiscal year. Educational expenses increased by \$23,634 because of increased salary and fringe benefit costs, which was a replay of the previous year. Schools also drew down balances in grant accounts by approximately \$9 million creating a situation where grant revenues went down expenses went up. Public safety expenses increased by \$8,654, primarily because of increases in salary and fringe benefit costs. Four years of retroactive salary increases that were part of collective bargaining agreements were all paid in fiscal 2006 caused the bulk of the salary increase. Redevelopment costs decreased by \$5,770 because funding provided for the Gardner, Hammond and Kilby area housing and recreational construction program was not repeated in fiscal 2006. Public works expenses decreased by \$4,022, because of a large decrease in accrued landfill costs as well as a reduction in snow and ice removal costs.

FY 2006 Expenses and Program Revenues– Governmental Activities



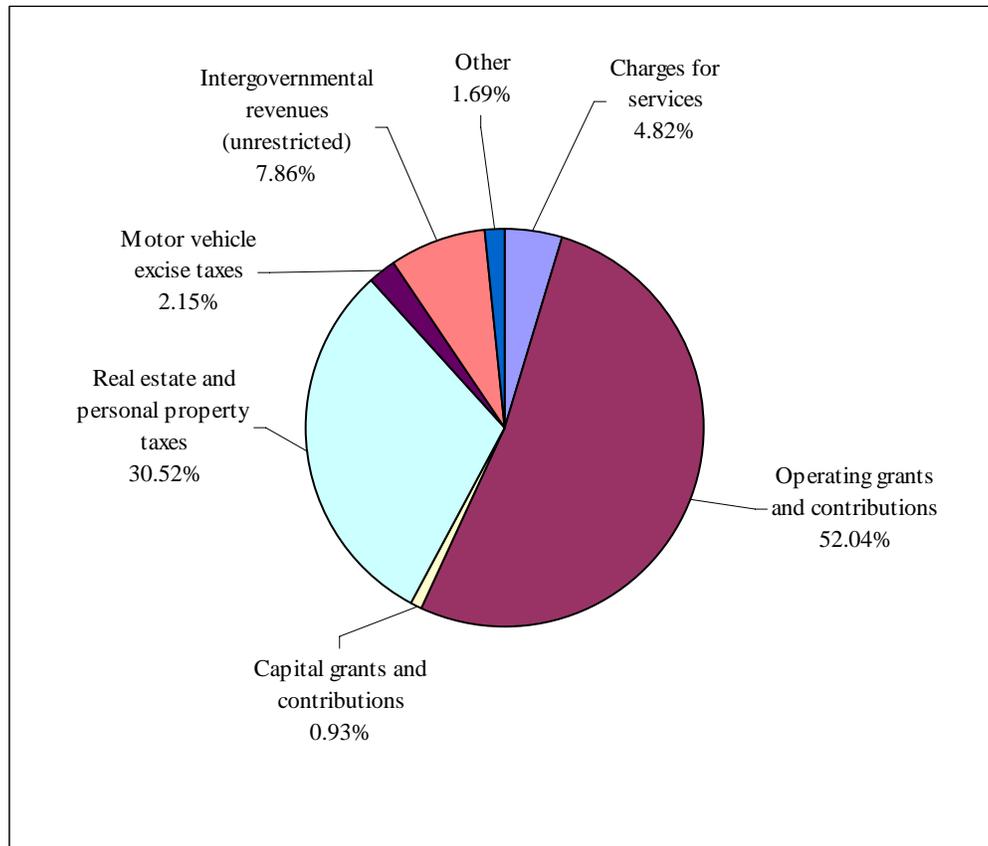
CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

(In thousands of dollars)

FY 2006 Revenues by Source – Governmental Activities



Business-type activities – Business-type activities decreased the City's net assets by \$281. Factors contributing to these results are as follows:

- The water fund once again was a positive contributor towards net assets. Operating income of \$4,008 was partially offset by interest expense of \$3,413. However, the water fund still managed to contribute an \$884 positive change in net assets. This follows the previous year's \$2,899 increase in net assets.
- The sewer fund had an operating loss of \$462 compared with a loss of \$1,588 in the previous year. Net assets decreased by \$1,037, which follows the previous year's \$1,447 decrease.
- The airport fund had a decrease in net assets of \$259, which follows a decrease of \$962 in net assets the previous year. The net operating loss of \$3,319 was partially offset by subsidies from the City and MassPort.
- The golf course fund (nonmajor) had an increase of net assets of \$131, which followed an increase of \$79 in net assets the previous year.

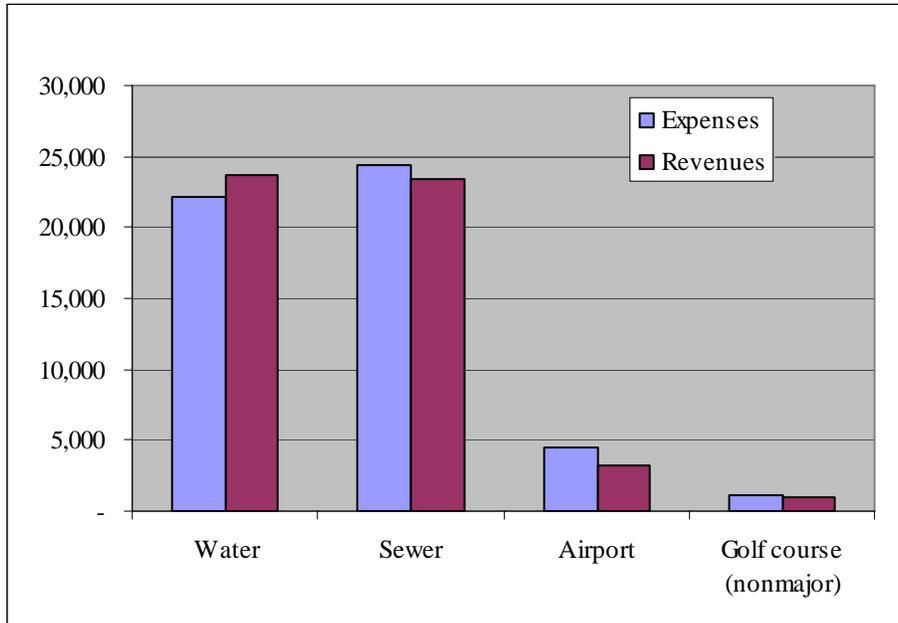
CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

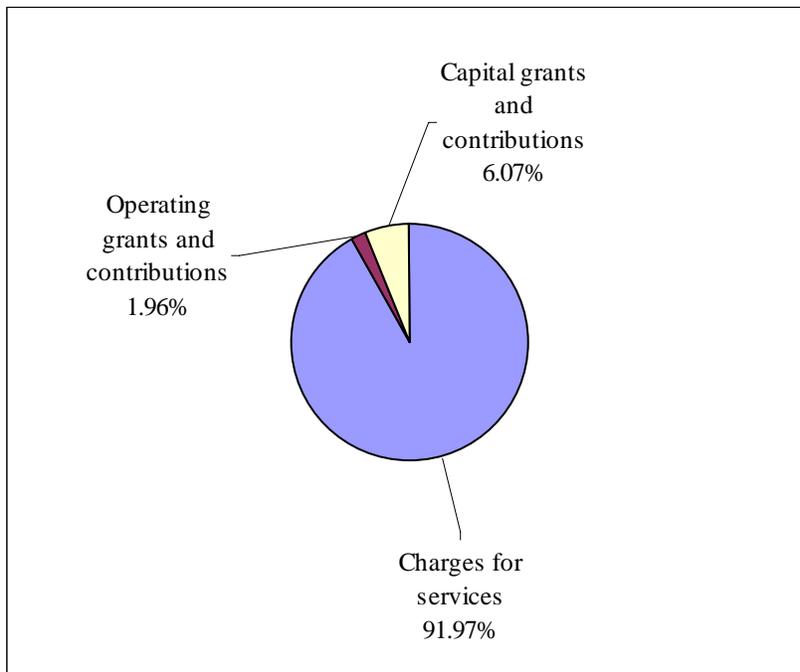
June 30, 2006

(In thousands of dollars)

FY 2006 Expenses and Program Revenues – Business-type Activities



FY 2006 Revenues by Source – Business-type Activities



CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

(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 2006, the City's governmental funds reported combined ending fund balances of \$44,562 a decrease of \$46,929 from fiscal 2005. Exclusive of the capital projects funds deficit, 61.7% of this ending fund balance, or \$27,500 is available for spending at the City's discretion (unreserved fund balance). The capital projects funds deficit of \$12,039 will be funded in future fiscal years through bond proceeds, state and federal grants and other available funds. The remaining \$29,101 of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) for nonexpendable permanent funds \$12,169; and 2) for other specific purposes \$16,932.

The general fund is the chief operating fund of the City. At the end of fiscal 2006 unreserved fund balance of the general fund was \$9,290 or 1.9% of total general fund revenues. During fiscal 2006 the City's general fund balance decreased by \$7,185. Total expenditures exceeded revenues by \$4,723, while transfers out exceeded transfers in by \$2,656. The general fund also received a premium on loans of \$193.

The stabilization fund had a fund balance of \$8,225 at the end of fiscal 2006, a \$1,962 decrease from the previous year. During the year, \$6,344 was transferred in from the general fund and \$8,420 was expended for debt service. Investment earnings were \$114.

Other governmental funds had a fund balance of \$27,046 at the end of fiscal 2006, a \$37,782 decrease from the previous year. The capital projects funds fund balance was reduced by \$28,962 primarily because \$29,180 of temporary loans were not permanently financed as of the reporting date and therefore not included in fund balance. In the previous year all temporary debt outstanding at the end of the year was permanently financed by the reporting date and included in fund balance. The special revenue fund decreased by \$9,343 primarily, because school grants were drawn down by approximately \$9 million during the year. Permanent funds increased by \$523 because revenues exceeded expenditures during the year.

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

Net assets of the enterprise funds at the end of fiscal 2006 totaled \$20,265. This was a \$281 decrease from the previous year. Two of the four enterprise funds contributed to this decrease with decreases of (\$1,037), in the sewer fund, and (\$259) in the airport fund. The water fund increased \$884 and the golf fund (nonmajor) increased \$131. Unrestricted net assets consisted of \$7,959 in the water fund, \$12,638 in the sewer fund, (\$364) in the airport fund and \$38 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, 2006

(In thousands of dollars)

General Fund Budgetary Highlights

The City's final general fund revenue budget was \$1,501 higher than the original amount. The four categories that changed were property taxes, intergovernmental, penalties and interest on taxes and investment earnings. The property taxes estimate increased by \$1,113 because new construction growth was higher than originally estimated allowing for \$1,367 in increased commitments. This was partially offset by an increase of \$254 in the abatement estimate. The investment earnings estimate was increased as interest rates increased. The other two categories showed modest changes.

The final general fund expenditure budget was \$7,219 higher than the original. The largest increase was in public safety which increased by \$4,706 from the original to cover the cost of retroactive salary increases and a shortage of about \$1.1 million in the police overtime budget. The health insurance account increased by \$2,817 because planned savings from new employee contracts did not happen as early as originally thought. The retirement budget increased by \$1,424 as it was supplemented by a transfer from funds in a reserve account restricted to assist to pay for retirement costs. These budget increases were possible because of intra-fund transfers particularly from the \$5,269 contingency account and transfers from other funds. The details of these inter-fund transfers are on page 73 of the notes to the basic financial statements.

Revenues were \$2,903 more than budgeted. Revenue accounts showing the largest positive variances were property taxes, investment earnings, and intergovernmental, while motor vehicle excise had the largest negative variance. Property taxes have shown positive variances for several years because of aggressive collections and the fact that actual abatements have been significantly below the original estimate. Investment earnings increased as interest rates rebounded from historical lows. Intergovernmental revenue showed a positive variance because funds for charter schools exceeded the original estimate. Motor vehicle excise revenue was below the estimate for the third consecutive year because new car sales have slumped in recent years. The City also received a \$193 premium on loans that was not estimated in the budget. On the expenditure side the snow ice budget was exceeded by \$1,799 with expenditures of \$3,099, which were \$2,280 less than in the previous year. The budget for charter school and school choice charges was exceeded by \$921 and the state and regional charge budget was exceeded by \$122. There were no other budget variances. Budgetary fund balance decreased by \$6,430.

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, 2006 amounted to \$647,677. 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 \$13,179 or 2.1% (a 1.4% increase for governmental activities and a 0.7% increase for business-type activities).

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

- Streets and sidewalks were improved with costs amounting to \$6,462.
- Construction was completed with \$12,453 being spent on the new \$90,000 vocational technical high school.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

(In thousands of dollars)

- Resources were allocated during the year to business-type building, infrastructure and other capital asset additions costing \$13,541. Additionally, business-type entities received \$1,204 in capital donations from owners of subdivisions.

	Capital assets (net of depreciation)					
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 13,931	13,931	2,732	1,732	16,663	15,663
Buildings	311,920	235,122	42,461	44,030	354,381	279,152
Improvements, other than buildings	11,358	11,126	—	—	11,358	11,126
Equipment and other	4,085	4,702	197	264	4,282	4,966
Rolling equipment	5,567	6,552	2,554	2,552	8,121	9,104
Infrastructure	66,678	62,822	175,508	172,917	242,186	235,739
Construction in progress	7,131	77,747	3,555	1,001	10,686	78,748
Total	\$ 420,670	412,002	227,007	222,496	647,677	634,498

Additional information on the City's capital assets can be found in note 8 on pages 59 through 63 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 \$599,745, a decrease of \$37,509 or 5.9% 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	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 489,146	518,420	103,808	111,910	592,954	630,330
Notes payable	5,800	5,800	991	1,124	6,791	6,924
Total	\$ 494,946	524,220	104,799	113,034	599,745	637,254

The City issued no long-term debt during the year and maintained credit ratings of A3 from Moody's Investors Service, A- with Standard and Poors and A with Fitch Ratings.

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

Additional information on the City's long-term debt can be found in note 10 beginning on page 64 of this report.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2006

(In thousands of dollars)

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. According to the U.S. Department of Labor, the City's unemployment rate was 6.3% at June 30, 2006, compared with a 5.8% rate that existed a year earlier. This compares with June 30, 2006 unemployment rates of 5.1% in Massachusetts and 4.8% nationally.

Worcester's downtown office space of 4.65 million square feet was 89.4% occupied, according to a recent study done by the Worcester Research Bureau. This was an increase from the 88.7% that was occupied in the previous year. Residential vacancy rates continue to decrease. During fiscal 2006, single-family housing starts continued to be brisk but slowed from their multi-year surge. Property values have increased to their highest-ever level increasing for the tenth consecutive year and growing to \$11,595,528 in fiscal 2006 compared with \$10,360,089 in fiscal 2005.

The City finished fiscal 2006 with "Free Cash" of \$2,102 as certified by the Commonwealth's Department of Revenue. This amount is available to fund the fiscal 2007 budget.

Requests for Information

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

Basic Financial Statements

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Assets

June 30, 2006

	Primary government			Component units	
	Governmental activities	Business-type activities	Total	Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
Assets:					
Cash and cash equivalents	\$ 114,542,712	14,462,976	129,005,688	858,090	6,233,782
Investments	11,277,297	—	11,277,297	—	4,949,893
Receivables (net):					
Property taxes	3,614,673	—	3,614,673	—	—
Tax liens	3,448,973	—	3,448,973	—	—
Motor vehicle excise taxes	3,097,198	—	3,097,198	—	—
Charges for services	—	11,876,082	11,876,082	—	337,231
Special assessments	888,286	284,216	1,172,502	—	—
Departmental	1,053,576	—	1,053,576	—	—
Intergovernmental	102,339,312	376,534	102,715,846	97,456	11,940,260
Internal balances	52,936	(52,936)	—	—	—
Other	1,711,092	—	1,711,092	—	591,428
Other assets	—	—	—	110,639	—
Capital assets, not being depreciated	21,062,224	6,287,631	27,349,855	9,189,999	62,427,712
Capital assets, net of accumulated depreciation	399,608,107	220,719,517	620,327,624	42,070,303	29,726,911
Total assets	662,696,386	253,954,020	916,650,406	52,326,487	116,207,217
Liabilities:					
Accounts payable	42,859,006	2,581,418	45,440,424	514,290	5,405,784
Accrued liabilities	13,982,882	2,062,682	16,045,564	241,176	1,668,381
Retainage payable	1,607,894	427,396	2,035,290	—	—
Other liabilities	7,178,149	—	7,178,149	—	263,425
Temporary notes payable	29,180,000	17,590,000	46,770,000	—	8,000,000
Noncurrent liabilities:					
Due within one year	43,703,091	9,547,216	53,250,307	894,461	2,827,016
Due in more than one year	485,073,657	96,603,748	581,677,405	8,828,641	80,422,268
Total liabilities	623,584,679	128,812,460	752,397,139	10,478,568	98,586,874
Net assets:					
Invested in capital assets, net of related debt	227,173,631	104,870,826	332,044,457	45,858,007	13,596,655
Restricted for:					
Nonexpendable permanent funds	12,169,124	—	12,169,124	—	—
Expendable permanent funds	153,307	—	153,307	—	—
Other specific purposes	16,932,214	—	16,932,214	600,494	—
Unrestricted	(217,316,569)	20,270,734	(197,045,835)	(4,610,582)	4,023,688
Total net assets	\$ 39,111,707	125,141,560	164,253,267	41,847,919	17,620,343

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year ended June 30, 2006

Functions/programs	Expenses	Program revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Primary government:				
Governmental activities:				
General government	\$ 18,020,089	1,533,523	1,803,868	
Public safety	112,182,813	12,940,464	4,489,587	—
Health and human services	20,750,321	832,844	12,961,720	—
Education	352,433,288	2,519,455	259,722,588	—
Libraries	7,244,695	60,194	819,687	—
Public works	26,884,687	7,435,622	438,712	3,125,985
Culture and recreation	8,413,539	1,645,628	596,562	210,114
Community development	3,565,556	108,326	4,886,037	—
Redevelopment	—	—	—	1,880,562
Interest on debt	25,336,170	—	6,723,760	—
Total governmental activities	<u>574,831,158</u>	<u>27,076,056</u>	<u>292,442,521</u>	<u>5,216,661</u>
Business-type activities:				
Water	22,140,582	22,735,094	—	1,003,970
Sewer	24,352,204	22,449,312	—	928,543
Airport	4,527,554	978,112	1,005,619	1,181,314
Golf course (nonmajor)	1,163,545	1,040,969	—	—
Total business-type activities	<u>52,183,885</u>	<u>47,203,487</u>	<u>1,005,619</u>	<u>3,113,827</u>
Total primary government	<u>\$ 627,015,043</u>	<u>74,279,543</u>	<u>293,448,140</u>	<u>8,330,488</u>
Component units:				
Worcester Redevelopment Authority	\$ 3,800,476	1,391,327	570,520	—
Upper Blackstone Water Pollution Abatement District	<u>13,245,716</u>	<u>12,361,241</u>	<u>284,674</u>	<u>984,373</u>
Total component units	<u>\$ 17,046,192</u>	<u>13,752,568</u>	<u>855,194</u>	<u>984,373</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year ended June 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Total	Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
Changes in net assets:					
Net (expense) revenue (from previous page)	\$ (250,095,920)	(860,952)	(250,956,872)	(1,838,629)	384,572
General revenues:					
Property taxes	171,490,185	—	171,490,185	—	—
Motor vehicle excise taxes	12,095,815	—	12,095,815	—	—
Other taxes and in-lieu payments	2,104,062	—	2,104,062	—	—
Penalties and interest on taxes	2,564,244	—	2,564,244	—	—
Intergovernmental revenues (unrestricted)	44,146,324	—	44,146,324	—	—
Investment earnings	3,100,435	—	3,100,435	—	—
Miscellaneous	1,724,479	—	1,724,479	—	—
Transfers (net)	(579,647)	579,647	-	—	—
Total general revenues and transfers (net)	236,645,897	579,647	237,225,544	—	—
Contributions to permanent funds	106,628	—	106,628	—	—
Change in net assets	(13,343,395)	(281,305)	(13,624,700)	(1,838,629)	384,572
Net assets - beginning	52,455,102	125,422,865	177,877,967	43,686,548	17,235,771
Net assets - ending	\$ 39,111,707	125,141,560	164,253,267	41,847,919	17,620,343

(Concluded)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Balance Sheet

Governmental Funds

June 30, 2006

Assets	General	Stabilization	Other governmental funds	Total governmental funds
Cash and cash equivalents	\$ 48,469,616	8,225,318	53,164,342	109,859,276
Investments	—	—	11,277,287	11,277,287
Receivables (net of allowance for uncollectibles of \$5,586,909)	12,102,706	—	—	12,102,706
Due from airport fund	52,936	—	—	52,936
Due from other governments	102,085,875	—	253,437	102,339,312
Total assets	\$ 162,711,133	8,225,318	64,695,066	235,631,517
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 38,626,057	—	3,401,748	42,027,805
Retainage payable	—	—	1,607,894	1,607,894
Temporary loans	—	—	29,180,000	29,180,000
Deferred revenue	111,075,471	—	—	111,075,471
Other liabilities	3,719,159	—	3,458,990	7,178,149
Total liabilities	153,420,687	—	37,648,632	191,069,319
Fund balances:				
Reserved for:				
Nonexpendable permanent funds	—	—	12,169,124	12,169,124
Other specific purposes	—	—	16,932,214	16,932,214
Unreserved, reported in:				
General fund	9,290,446	—	—	9,290,446
Special revenue funds	—	8,225,318	9,831,174	18,056,492
Capital projects funds	—	—	(12,039,385)	(12,039,385)
Expendable permanent funds	—	—	153,307	153,307
Total fund balances	9,290,446	8,225,318	27,046,434	44,562,198
Total liabilities and fund balances	\$ 162,711,133	8,225,318	64,695,066	235,631,517

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Assets
 For the Fiscal Year Ended June 30, 2006

Total governmental fund balances (Exhibit 3)	\$ 44,562,198
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore are not reported in the governmental funds.	420,670,331
Other assets are not available to pay for current period expenditures and, therefore are deferred in the governmental funds.	111,075,471
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.	2,658,310
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.	(11,077,855)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:	
Bonds and notes payable, net of unamortized premiums	(498,472,284)
Judgments and claims	(13,451,547)
Compensated absences	(11,864,342)
Landfill closure costs	(3,261,800)
Public School early retirement costs	(1,726,775)
Net assets of governmental activities (Exhibit 1)	\$ 39,111,707

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

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

For the Fiscal Year ended June 30, 2006

	<u>General fund</u>	<u>Stabilization</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Property taxes	\$ 171,484,489	—	—	171,484,489
Motor vehicle excise taxes	12,188,709	—	—	12,188,709
Other taxes and in-lieu payments	2,252,295	—	—	2,252,295
Penalties and interest on taxes	2,564,244	—	—	2,564,244
Licenses and permits	5,570,577	—	—	5,570,577
Intergovernmental	274,093,293	—	74,082,055	348,175,348
Charges for services	3,760,080	—	14,152,874	17,912,954
Fines and forfeitures	3,233,689	—	—	3,233,689
Investment earnings	2,139,684	113,943	846,808	3,100,435
Donations	—	—	2,640,299	2,640,299
Contributions to permanent funds	—	—	106,628	106,628
Miscellaneous	852,074	—	872,405	1,724,479
Total revenues	<u>478,139,134</u>	<u>113,943</u>	<u>92,701,069</u>	<u>570,954,146</u>
Expenditures:				
General government	12,573,857	—	1,740,238	14,314,095
Public safety	71,359,673	—	10,759,475	82,119,148
Health and human services	3,628,952	—	13,415,859	17,044,811
Education	199,411,692	—	78,577,531	277,989,223
Libraries	4,195,439	—	891,441	5,086,880
Public works	17,537,259	—	12,091,698	29,628,957
Culture and recreation	3,484,302	—	2,751,313	6,235,615
Fringe benefits	123,716,031	—	—	123,716,031
Community development	—	—	3,565,556	3,565,556
State and regional charges	2,840,807	—	—	2,840,807
Debt service:				
Principal	24,452,553	4,070,899	1,906,644	30,430,096
Interest	19,661,125	4,349,121	1,023,573	25,033,819
Total expenditures	<u>482,861,690</u>	<u>8,420,020</u>	<u>126,723,328</u>	<u>618,005,038</u>
Excess (deficiency) of revenues over expenditures	<u>(4,722,556)</u>	<u>(8,306,077)</u>	<u>(34,022,259)</u>	<u>(47,050,892)</u>
Other financing sources (uses):				
Transfers in	5,086,832	6,344,263	2,617,438	14,048,533
Transfers out	(7,742,357)	—	(6,885,823)	(14,628,180)
Premium on issuance of bonds and notes	193,383	—	508,530	701,913
Issuance of refunding bonds	—	—	55,959,762	55,959,762
Payment to refunded bond escrow agent	—	—	(55,959,762)	(55,959,762)
Total other financing sources (uses)	<u>(2,462,142)</u>	<u>6,344,263</u>	<u>(3,759,855)</u>	<u>122,266</u>
Net change in fund balances	<u>(7,184,698)</u>	<u>(1,961,814)</u>	<u>(37,782,114)</u>	<u>(46,928,626)</u>
Fund balances – beginning	16,475,144	10,187,132	64,828,548	91,490,824
Fund balances – ending	<u>\$ 9,290,446</u>	<u>8,225,318</u>	<u>27,046,434</u>	<u>44,562,198</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
 For the Fiscal Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit 5) \$ (46,928,626)

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:

Capital outlays	27,794,378
Capital donations	879,756
Depreciation	(20,005,743)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the net change in deferred revenue. (9,766,492)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period:

Bond maturities	30,430,096
Amortization of bond premiums	(227,485)
Amortization of deferred losses on refundings	(1,156,849)

In the statement of activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable 380,070

An internal service fund is used by management to charge the cost of self-insured health insurance to individual funds. The activity of the internal service fund is reported with governmental funds. 1,331,804

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These amounts represent the net change:

Judgments and claims	1,475,474
Compensating absences	(2,222,188)
Landfill closure costs	4,282,200
Public School early retirement costs	390,210
	390,210

Change in net assets of governmental activities (Exhibit 2) \$ (13,343,395)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Assets

Proprietary Funds

June 30, 2006

	Business-type activities					Governmental
					Totals	activities
	Water	Major Sewer	Airport	Nonmajor Golf Course		Internal Service Fund
Assets:						
Current assets:						
Cash and cash equivalents	\$ 5,577,583	8,598,999	—	286,394	14,462,976	4,683,446
Receivables (net)	5,507,109	6,592,897	436,826	—	12,536,832	1,711,092
Total current assets	<u>11,084,692</u>	<u>15,191,896</u>	<u>436,826</u>	<u>286,394</u>	<u>26,999,808</u>	<u>6,394,538</u>
Noncurrent assets:						
Capital assets:						
Land	2,509,000	116,500	106,400	—	2,731,900	—
Buildings	39,764,493	3,268,967	17,191,454	109,040	60,333,954	—
Infrastructure	116,571,223	129,250,928	23,671,196	633,063	270,126,410	—
Construction in progress	114,428	3,018,105	423,198	—	3,555,731	—
Equipment and other	147,442	99,126	432,610	6,340	685,518	—
Rolling equipment	1,926,560	3,204,919	770,377	—	5,901,856	—
Less accumulated depreciation	(47,157,045)	(52,694,472)	(16,078,514)	(398,190)	(116,328,221)	—
Capital assets, net	<u>113,876,101</u>	<u>86,264,073</u>	<u>26,516,721</u>	<u>350,253</u>	<u>227,007,148</u>	<u>—</u>
Total assets	<u>124,960,793</u>	<u>101,455,969</u>	<u>26,953,547</u>	<u>636,647</u>	<u>254,006,956</u>	<u>6,394,538</u>
Liabilities:						
Current liabilities:						
Accounts payable	521,855	1,429,643	549,612	80,308	2,581,418	831,201
Due to general fund	—	—	52,936	—	52,936	—
Accrued liabilities	1,311,268	679,930	60,793	10,691	2,062,682	2,905,027
Retainage payable	97,804	244,654	84,938	—	427,396	—
Judgments and claims	97,049	21,558	—	—	118,607	—
Compensated absences	339,474	151,923	45,291	2,703	539,391	—
Other	—	3,345	—	—	3,345	—
Temporary loans	6,025,000	11,345,000	65,000	155,000	17,590,000	—
Bonds and notes payable	5,926,516	2,411,196	434,738	113,423	8,885,873	—
Total current liabilities	<u>14,318,966</u>	<u>16,287,249</u>	<u>1,293,308</u>	<u>362,125</u>	<u>32,261,648</u>	<u>3,736,228</u>
Noncurrent liabilities:						
Judgments and claims	490,481	4,390	—	—	494,871	—
Compensated absences	105,298	28,135	6,877	—	140,310	—
Other	—	55,867	—	—	55,867	—
Bonds and notes payable	63,108,656	28,612,237	3,730,453	461,354	95,912,700	—
Total noncurrent liabilities	<u>63,704,435</u>	<u>28,700,629</u>	<u>3,737,330</u>	<u>461,354</u>	<u>96,603,748</u>	<u>—</u>
Total liabilities	<u>78,023,401</u>	<u>44,987,878</u>	<u>5,030,638</u>	<u>823,479</u>	<u>128,865,396</u>	<u>3,736,228</u>
Net assets:						
Invested in capital assets, net of related debt	38,978,673	43,829,758	22,287,002	(224,607)	104,870,826	—
Unrestricted	7,958,719	12,638,333	(364,093)	37,775	20,270,734	2,658,310
Total net assets	<u>\$ 46,937,392</u>	<u>56,468,091</u>	<u>21,922,909</u>	<u>(186,832)</u>	<u>125,141,560</u>	<u>2,658,310</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2006

	Business-type activities					Governmental activities
	Water	Major Sewer	Airport	Nonmajor Golf Course	Totals	Internal Service Fund
Operating revenues:						
Charges for services	\$ 21,226,805	21,735,585	—	—	42,962,390	—
Employer contributions	—	—	—	—	—	49,435,260
Employee contributions	—	—	—	—	—	8,679,814
Fees	529,071	—	714,265	1,010,437	2,253,773	—
Miscellaneous	979,218	713,727	263,847	30,532	1,987,324	—
Total operating revenues	22,735,094	22,449,312	978,112	1,040,969	47,203,487	58,115,074
Operating expenses:						
Salaries and benefits	8,502,272	4,528,118	1,165,548	336,093	14,532,031	—
Benefit payments	—	—	—	—	—	56,924,095
Ordinary maintenance	3,902,204	11,651,040	1,427,161	694,639	17,675,044	—
Indirect costs	1,807,753	2,753,655	—	70,215	4,631,623	—
Depreciation	4,515,245	3,978,807	1,704,413	34,907	10,233,372	—
Total operating expenses	18,727,474	22,911,620	4,297,122	1,135,854	47,072,070	56,924,095
Operating income (loss)	4,007,620	(462,308)	(3,319,010)	(94,885)	131,417	1,190,979
Nonoperating revenues (expenses):						
Intergovernmental	495,000	234,000	2,186,933	—	2,915,933	—
Investment income	—	—	—	—	—	140,825
Interest expense	(3,413,108)	(1,440,584)	(230,432)	(27,691)	(5,111,815)	—
Total nonoperating revenues (expenses)	(2,918,108)	(1,206,584)	1,956,501	(27,691)	(2,195,882)	140,825
Income (loss) before capital donations and transfers	1,089,512	(1,668,892)	(1,362,509)	(122,576)	(2,064,465)	1,331,804
Capital donations	508,970	694,543	—	—	1,203,513	—
Transfers in	19,437	429,263	1,202,826	275,199	1,926,725	—
Transfers out	(733,875)	(491,790)	(99,529)	(21,884)	(1,347,078)	—
Change in net assets	884,044	(1,036,876)	(259,212)	130,739	(281,305)	1,331,804
Total net assets – beginning	46,053,348	57,504,967	22,182,121	(317,571)	125,422,865	1,326,506
Total net assets – ending	\$ 46,937,392	56,468,091	21,922,909	(186,832)	125,141,560	2,658,310

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2006

	Business-type activities					Governmental activities
	Water	Major Sewer	Airport	Nonmajor Golf Course	Totals	Internal Service Fund
Cash flows from operating activities:						
Receipts from customers	\$ 22,396,036	21,715,905	987,717	1,040,969	46,140,627	58,115,074
Payments for interfund service provided					—	(58,254,658)
Payments to suppliers	(6,033,184)	(13,907,417)	(1,103,080)	(772,110)	(21,815,791)	—
Payments to employees	(8,572,542)	(4,567,643)	(1,168,863)	(338,072)	(14,647,120)	—
Net cash provided (used) by operating activities	7,790,310	3,240,845	(1,284,226)	(69,213)	9,677,716	(139,584)
Cash flows from noncapital financing activities:						
Payment to general fund	—	—	(110,974)	—	(110,974)	—
Transfers in	19,437	429,263	1,202,826	275,199	1,926,725	—
Transfers (out)	(733,875)	(491,790)	(99,529)	(21,884)	(1,347,078)	—
Intergovernmental subsidies	495,000	234,000	2,395,145	—	3,124,145	—
Net cash provided (used) by noncapital financing activities	(219,438)	171,473	3,387,468	253,315	3,592,818	—
Cash flows from capital and related financing activities:						
Issuance of capital debt	6,025,000	11,322,580	65,000	155,000	17,567,580	—
Acquisition and construction of capital assets	(4,594,721)	(7,325,864)	(1,533,345)	—	(13,453,930)	—
Principal paid on capital debt	(5,711,704)	(2,086,662)	(396,767)	(114,271)	(8,309,404)	—
Interest paid on capital debt	(3,273,583)	(1,345,012)	(238,130)	(30,683)	(4,887,408)	—
Net cash (used) by capital and related financing activities	(7,555,008)	565,042	(2,103,242)	10,046	(9,083,162)	—
Cash flows from investing activities:						
Investment income	—	—	—	—	—	140,825
Net increase in cash and cash equivalents	15,864	3,977,360	—	194,148	4,187,372	1,241
Cash and cash equivalents at beginning of year	5,561,719	4,621,639	—	92,246	10,275,604	4,682,205
Cash and cash equivalents at end of year	\$ 5,577,583	8,598,999	—	286,394	14,462,976	4,683,446
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 4,007,620	(462,308)	(3,319,010)	(94,885)	131,417	1,190,979
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation expense	4,515,245	3,978,807	1,704,413	34,907	10,233,372	—
(Increase) decrease in accounts receivable	(339,058)	(733,407)	9,605	—	(1,062,860)	(1,711,092)
Increase (decrease) in accounts payable	(336,748)	462,199	315,751	(11,938)	429,264	831,201
(Decrease) in accrued liabilities	—	—	—	—	—	(450,672)
(Decrease) in judgments and claims payable	(56,825)	(5,466)	—	—	(62,291)	—
Increase in compensated absences payable	76	1,020	5,015	2,703	8,814	—
Total adjustments	3,782,690	3,703,153	2,034,784	25,672	9,546,299	(1,330,563)
Net cash provided (used) by operating activities	\$ 7,790,310	3,240,845	(1,284,226)	(69,213)	9,677,716	(139,584)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Fiduciary Net Assets

June 30, 2006

	Pension Trust Fund (As of December 31, 2005)	Agency Fund
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 8,758,160	400,397
Receivables:		
Intergovernmental	350,242	—
Interest and dividends	3,775,893	—
Settlement for securities sold	2,087,806	—
Other receivables	648,349	—
Total receivables	<u>6,862,290</u>	<u>—</u>
Investments, at fair value:		
Equities	254,508,485	—
Fixed income	98,261,521	—
Pooled equities	115,022,851	—
Pooled fixed income	44,569,198	—
Real estate	80,211,050	—
Alternative investments	42,115,917	—
Total investments	<u>634,689,022</u>	<u>—</u>
Securities lending collateral	8,554,774	—
Total assets	<u>658,864,246</u>	<u>400,397</u>
Liabilities:		
Accounts payable and accrued expenses	673,096	11,957
Due to student groups	—	388,440
Intergovernmental	2,209,249	—
Payable for securities purchased	3,410,623	—
Securities lending collateral	8,554,774	—
Total liabilities	<u>14,847,742</u>	<u>400,397</u>
Net assets:		
Held in trust for pension benefits	\$ <u>644,016,504</u>	<u>—</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(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	52
Note 5 Massachusetts Teachers' Retirement System, A Noncontributing Employer Plan	55
Note 6 Other Postemployment Benefits	56
Note 7 Accounts Receivable	57
Note 8 Capital Assets	59
Note 9 Operating Leases	63
Note 10 Long-Term Obligations	64
Note 11 Temporary Borrowings	71
Note 12 Interfund Receivables, Payables and Transfers	72
Note 13 Environmental Remediation – The District	74
Note 14 Risk Management	74
Note 15 Fund Deficits	77
Note 16 Contingency	77
Note 17 Implementation of GASB Pronouncements	78
Note 18 Future Implementation of GASB Pronouncements	78

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(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 fiscal year ended June 30, 2006, except for the City of Worcester Contributory Retirement System (WRS), which is presented as of and for the fiscal year ended December 31, 2005.

Blended Component Unit

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

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

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Discretely Presented Component Units

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

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

Joint Venture

Municipal joint ventures pool resources to share the costs, risks, and rewards of providing services to their participants, the general public or others. The City is a participant in a joint venture to operate the Worcester Regional Transit Authority (WRTA), a component unit of the Commonwealth. Created in 1974 as a body corporate and politic and political subdivision of the Commonwealth, WRTA provides rapid transit and other mass transportation services to the City and 36 other municipalities within its jurisdiction. Each participating municipality is represented by one member on WRTA's governing board. The City's representative is appointed by the City Manager. While the level of service provided to each member affects the weight of each member's vote, the City's vote does not constitute a voting majority. The City is indirectly liable for debt and other expenses incurred by WRTA. The City's assessment from WRTA for fiscal 2006 amounted to \$2,094, which represented approximately 74% of the total of such assessments on all participating cities and towns.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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

Related Organization

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

(b) Government-Wide and Fund Financial Statements

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

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

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

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

The government-wide financial statements and the proprietary, fiduciary, and component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Except for the agency fund (a fiduciary fund), revenues are recorded when earned and expenses are recognized when incurred. Agency funds do not present the results of operations or have a measurement focus. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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

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

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

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

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

The City reports the following major governmental funds:

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

The City also reports the following major enterprise funds:

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

Cash Equivalents

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Basis of Investment Valuation

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

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

Basis of Investment Transactions

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

Property Taxes

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

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

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

Inventory

The cost of supplies and other inventoriable items is recorded as an expenditure at the time of purchase (purchase method). No significant inventory balances were on hand at June 30, 2006, and therefore are not reported.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, curbs, gutters, streets, sidewalks, and drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$50 (\$5 in previous years) and an estimated useful life in excess of two years. These assets are valued at cost or estimated historical cost if actual cost is not available. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Net interest costs related to construction projects, for business-type activities, are capitalized during the construction period if material. Such costs were not considered material during fiscal 2006. Donated capital assets are valued at their estimated fair value at the time received. Capital assets held by the discretely presented component units are accounted for in the applicable component unit. Depreciation is provided by the City and the WRA on a straight-line basis over the estimated useful lives of the assets, which are 5 to 10 years for vehicles and equipment, 40 years for facilities and 50 years for infrastructure. The District provides depreciation on a straight-line basis over the estimated useful lives of the assets, which are 3 to 20 years for equipment and 20 to 40 years for facilities.

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

Compensated Absences

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

Net Assets Restrictions/Fund Balance Reservations

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

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

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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

Securities Lending Transactions

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

Landfill Closure and Postclosure Care Costs

State and Federal regulations require the City to place final covers on its municipal solid waste landfill (MSWLF) sites when such sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. The City determines its liability related to closure and postclosure care for all MSWLFs based on landfill capacity used to date. At June 30, 2006, 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 2006 were \$540.

Judgments and Claims

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

Long-Term Liabilities

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Investment Income

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

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

Use of Estimates

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

(2) Property Taxes

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

(3) Deposits, Investments, and Securities Lending

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

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. The City's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$100 of deposits held at each financial institution and to collateralize certain bank accounts. As of June 30, 2006, \$14,044 of the City's bank balance of \$121,840 was collateralized with securities held by pledging financial institutions, and \$103,947 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2006, are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 2,314	403	1,283	529	99
U.S. Agencies.....	142	-	39	96	7
Corporate bonds.....	847	93	473	243	38
Mutual bond funds.....	23	23	-	-	-
Money market mutual funds.....	1,389	1,389	-	-	-
Total debt securities.....	4,715	1,908	1,795	868	144
<u>Other Investments:</u>					
External investment pools.....	107				
Equity securities.....	6,979				
Equity mutual funds.....	458				
Total other investments.....	7,544				
Total investments.....	\$ 12,259				

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the City. As of June 30, 2006, none of the City's investments were exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. Except for certain trust funds, the City does not have a policy for credit risk of debt securities since MGL limits the City's investments to U.S. backed securities or AAA rated money market mutual funds. Policies regarding credit risk for certain trust fund investments are identified in the individual trust agreements. As of June 30, 2006, the credit quality ratings of the City's investment in debt securities are as follows:

Quality Ratings*	Money Market Mutual Funds	Mutual Bond Funds	External Investment Pools	Total
A-.....	\$ -	23	-	23
Unrated.....	1,389	-	107	1,496
Total.....	\$ 1,389	23	107	1,519

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

(b) Deposits and Investments of the WRS

Deposits and investments made by the WRS are governed by the MGL c.32. The WRS has the ability to invest in equity securities, corporate bonds, annuities and other specified investments in accordance with state laws and regulations.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the WRS's deposits may not be recovered. The WRS's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$100 of deposits held at each financial institution. As of December 31, 2005, \$568 of the WRS's bank balance of \$736 was uninsured and uncollateralized.

Investments Summary

The WRS's investments at December 31, 2005 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 36,222	-	10,436	15,051	10,735
U.S. Agencies.....	19,585	-	4,015	1,822	13,748
Corporate bonds.....	37,867	637	7,911	13,288	16,031
Money market mutual funds.....	17,121	17,121	-	-	-
Debt security mutual funds.....	49,157	49,157	-	-	-
Total debt securities.....	<u>159,952</u>	<u>66,915</u>	<u>22,362</u>	<u>30,161</u>	<u>40,514</u>
<u>Other Investments:</u>					
Equity securities.....	139,771				
Equity mutual funds.....	229,760				
Real estate investments.....	80,211				
Alternative investments.....	<u>42,116</u>				
Total other investments	<u>491,858</u>				
Total investments.....	<u>\$ 651,810</u>				

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the WRS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The WRS's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the WRS. As of December 31, 2005, none of the WRS's investments were exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The WRS's policies for credit risk of debt securities sets minimum average quality requirements for investment strategies employed, among other limitations. In monitoring credit risk, the WRS relies on credit ratings assigned by Moody's and Standard & Poor's. As of December 31, 2005, the credit quality ratings the WRS's investments in debt securities are as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Quality Ratings *	Investment Type			
	Coporate Bonds	Money Market Mutual Funds	Debt Security Mutual Funds	Fair Value
AAA.....	\$ 2,698	-	2,491	5,189
AA+.....	241	-	-	241
AA.....	356	-	-	356
AA-.....	191	-	-	191
A+.....	722	-	-	722
A.....	2,209	-	-	2,209
A-.....	1,017	-	-	1,017
BBB+.....	677	-	-	677
BBB.....	3,364	-	-	3,364
BBB-.....	3,239	-	-	3,239
BB+.....	2,053	-	-	2,053
BB.....	3,383	-	-	3,383
BB-.....	3,438	-	-	3,438
B+.....	2,517	-	-	2,517
B.....	3,145	-	-	3,145
B-.....	2,374	-	-	2,374
CCC+.....	470	-	-	470
CCC.....	797	-	-	797
CCC-.....	204	-	-	204
D.....	323	-	-	323
Unrated.....	4,448	17,121	46,666	68,235
Total.....	\$ 37,866	17,121	49,157	104,144

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

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The WRS’s policy is to limit investments in non-U.S. dollar-denominated securities to not exceed 10% of the total market value of investments at all times. As of December 31, 2005, the WRS’s exposure to foreign currency risk is as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Deposit/Investment Type	U.S. Dollar Balances	Currency
U.S. Agencies.....	\$ 1,391	Mexican peso
U.S. Agencies.....	642	Singapore dollar
Coporate bonds.....	585	Singapore dollar
Coporate bonds.....	494	British pound sterling
Coporate bonds.....	479	Thailand baht
Coporate bonds.....	370	Brazilian real
U.S. Agencies.....	322	Argentine peso
Coporate bonds.....	157	New Zealand dollar
Coporate bonds.....	86	Canadian dollar
Coporate bonds.....	43	Indonesian rupiah
U.S. Agencies.....	37	Columbian peso
Total.....	\$ <u>4,606</u>	

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the WRS’s investment in a single issuer. The WRS’s policy for concentration of credit risk instructs investment managers not to invest more than 5% of their portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. U.S. Treasury, U.S. government agency, mutual fund and pooled fund investments exempted from this restriction. As of December 31, 2005, the WRS was not exposed to concentration of credit risk.

(c) Deposits and Investments of the District

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$100 of deposits held at each financial institution and collateralize the remaining amounts. At June 30, 2006, the District’s deposits were fully insured and collateralized.

Investments Summary

The District’s investments at June 30, 2006, are presented below. All investments are presented by investment type, with debt securities presented by maturity.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
U.S. Treasuries.....	\$ 1,061	201	505	355	-
U.S. Agencies.....	2,448	-	2,445	-	3
Money market mutual funds.....	92	92	-	-	-
Total debt securities.....	3,601	293	2,950	355	3
<u>Other Investments:</u>					
External investment pools.....	5,920				
Equity securities.....	1,349				
Total other investments.....	7,269				
Total investments.....	\$ 10,870				

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's policy for custodial credit risk of investments requires that all investments are either insured and/or registered in the name of the District. As of June 30, 2006, none of the District's investments were exposed to custodial credit risk.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The District's policies for credit risk of debt securities restricts investment to debt obligations maintaining a AAA rating by Standard & Poors or Moody's rating services or are full faith obligations of the U.S. Treasury. As of June 30, 2006, the credit quality ratings of the District's debt securities were AAA rated or backed by full faith of the U.S. Treasury.

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The District's policy is to limit investments in non-U.S. dollar-denominated securities to not exceed 5% of the total market value of investments at all times. As of June 30, 2006, the District's was not exposed to foreign currency risk.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's policy for concentration of credit risk instructs investment managers not to invest more than 5% of their portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. Obligations of the U.S. Treasury, U.S. government agencies and money market funds are exempted from this restriction. As of June 30, 2006, the District had no investments with a single issuer that represented 5 percent or more of the District's total investments.

(d) Deposits and Investments of the WRA

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the WRA's deposits may not be recovered. The WRA does not have a policy for custodial credit risk of deposits. As of June 30, 2006, \$750 of the WRA's bank balance of \$943 was collateralized with securities held by pledging financial institutions. The remaining balance of \$193 is uninsured and uncollateralized.

(e) Securities Lending

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

The custodian lends, at the direction of the lending agent, WRS's securities and cash received (including both U.S. and foreign currency), U.S. Government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. The lending agent does not have the ability to pledge or sell

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

collateral securities delivered unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 105% of the market value of foreign securities on loan and 102% of the market value if domestic securities on loan (Required Collateral Level). If at any time the market value of the collateral for any loan decreases to 100% or less of the market value of the loaned securities borrowers are required to provide additional collateral sufficient to increase the market value of the collateral to at least the Required Collateral Level.

WRS does not impose any restrictions on the amount of securities lent on its behalf by the lending agent. There were no failures by any borrowers to return loaned securities or pay distributions thereon, nor were there any losses from default of the borrowers or the lending agent for the year ended December 31, 2005. 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, 2005, 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, 2005 and 2004 was \$8,555 and \$8,517 and \$18,860 and \$18,814, respectively. Borrower rebates and fees paid to the broker were \$472 for the year ended December 31, 2005.

(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, 2006, the City's payroll for employees covered by WRS was approximately \$135,000; the City's total payroll was approximately \$296,000.

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, 2006

(In thousands of dollars)

Membership in WRS was as follows at December 31, 2005:

Active employees	3,430
Pensioners and beneficiaries	2,919
Inactive employees with vested rights	1,007
Total members	<u>7,356</u>
Number of participating employers	<u>2</u>

(b) Significant Plan Provisions and Requirements

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

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

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

(c) Funding Policy

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

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

The current and two preceding years’ apportionment of the annual required contributions between the employers required the City to contribute approximately 91%, 90%, and 91% respectively of the total.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

(d) Annual Pension Cost

For the year ended June 30, 2006 the required contribution was \$20,175 and the actual contribution was \$21,526. For the years ended June 30, 2005, and 2004 the City's required and actual contributions to WRS were \$18,110 and \$17,161, respectively. At June 30, 2006, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2005, actuarial valuation using the entry age normal cost method. The actuarial assumptions and other relative information is as follows:

Amortization method	Payments increase 1.5% per year on the 2002 ERI liability, 4.5% per year on the remaining unfunded liability and level payments on the 2003 ERI liability and the Section 90 ACD liability
Remaining amortization period	The remaining effective amortization period is 17 years and the period was closed
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.25% (inflation of 4.0%)
Projected salary increases	5.00%
Cost-of-living adjustments	3.00% for the first \$12 of retirement income

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

Schedule of funding progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Annual Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/2006	\$ 644,017	806,957	162,941	79.81%	\$ 145,831	111.73%
1/1/2005	606,100	771,948	165,849	78.52%	147,127	112.72%
1/1/2004	577,123	743,570	166,447	77.62%	138,797	119.92%
1/1/2003	554,190	715,856	161,666	77.42%	142,803	113.21%
1/1/2002	620,814	671,877	51,063	92.40%	148,765	34.32%
1/1/2001	630,715	628,681	(2,034)	100.32%	136,001	(1.50)%

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Schedule of contributions from employers		
Year Ended December 31,	Annual required contributions	Percentage contributed
2005	\$ 22,229	106%
2004	20,150	100%
2003	18,928	100%
2002	12,957	100%
2001	9,480	100%
2000	8,280	100%

(d) Legally Required Reserve Accounts

The balances in WRS's legally required reserves as of December 31, 2005 are as follows:

Description	Amount	Purpose
Annuity Savings Fund	\$ 130,293	Active members' contribution balance
Annuity Reserve Fund	48,730	Retired members' contribution account
Military Service Fund	17	Members' contribution account while on military leave
Pension Reserve Fund	363,394	Amounts appropriated to fund future retirement benefits
Pension Fund	101,583	Remaining net assets
Total	\$ 644,017	

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 2006 was approximately \$132,000. 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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 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. The amount of these on-behalf payments from the Commonwealth totaled \$39,179 for the fiscal year ended June 30, 2006 and, accordingly, are reported in the general fund as intergovernmental revenues and fringe benefits.

(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, 2006 was \$1,727. 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:	
2007	\$ 406
2008	423
2009	440
2010	458
	<u>\$ 1,727</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 4,500 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 OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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 2006, expenditures for other postemployment benefits, net of participant contributions, were \$22,133.

(7) Accounts Receivable

At June 30, 2006, receivables for the individual major governmental funds and nonmajor governmental, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
	<u> </u>	<u> </u>	<u> </u>
<u>Receivables:</u>			
Property taxes	\$ 4,979	(1,364)	3,615
Tax liens	3,945	(496)	3,449
Motor vehicle excise taxes	5,710	(2,613)	3,097
Special assessments	888	-	888
Departmental and other	10,391	(1,114)	9,277
Intergovernmental	<u>102,689</u>	<u>-</u>	<u>102,689</u>
 Total	 <u>\$ 128,602</u>	 <u>(5,587)</u>	 <u>123,015</u>

At June, 30, 2006, receivables for the enterprise funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
	<u> </u>	<u> </u>	<u> </u>
<u>Receivables:</u>			
Charges for services	\$ 10,114	-	10,114
Utility liens	1,531	-	1,531
Special assessments	515	-	515
Intergovernmental	<u>377</u>	<u>-</u>	<u>377</u>
 Total	 <u>\$ 12,537</u>	 <u>-</u>	 <u>12,537</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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

	<u>General Fund</u>
<u>Receivable type:</u>	
Property taxes	\$ 2,557
Tax liens	3,449
Motor vehicle excise taxes	2,247
Special assessments	888
Departmental	1,054
Intergovernmental (school construction)	98,810
Intergovernmental (other state and federal)	<u>2,071</u>
Total	<u>\$ 111,075</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the MSBA, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2006, \$14,204 of such assistance was received. Approximately \$173,545 will be received in future fiscal years. Of this amount, approximately \$74,735 represents reimbursement of long-term interest costs, and approximately \$98,810 represents reimbursement of approved construction costs. Accordingly, a \$98,810 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

(8) Capital Assets

Capital asset activity for the year ended June 30, 2006 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	\$ 13,931	—	—	13,931
Construction in progress	<u>77,747</u>	<u>4,362</u>	<u>74,978</u>	<u>7,131</u>
Total capital assets, not being depreciated	<u>91,678</u>	<u>4,362</u>	<u>74,978</u>	<u>21,062</u>
Capital assets, being depreciated:				
Buildings	346,556	88,530	259	434,827
Improvements other than buildings	12,669	784	—	13,453
Rolling equipment	21,658	401	260	21,799
Equipment and other	12,468	458	82	12,844
Infrastructure	<u>115,716</u>	<u>9,342</u>	<u>—</u>	<u>125,058</u>
	<u>509,067</u>	<u>99,515</u>	<u>601</u>	<u>607,981</u>
Less accumulated depreciation for:				
Buildings	111,434	11,554	81	122,907
Improvements other than buildings	1,543	553	—	2,096
Rolling equipment	15,106	1,354	229	16,231
Equipment and other	7,766	1,059	66	8,759
Infrastructure	<u>52,894</u>	<u>5,486</u>	<u>—</u>	<u>58,380</u>
	<u>188,743</u>	<u>20,006</u>	<u>376</u>	<u>208,373</u>
Total capital assets, being depreciated, net	<u>320,324</u>	<u>79,509</u>	<u>225</u>	<u>399,608</u>
Governmental capital assets, net	\$ <u><u>412,002</u></u>	<u><u>83,871</u></u>	<u><u>75,203</u></u>	<u><u>420,670</u></u>

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

Governmental activities:	
General government	\$ 92
Public safety	1,511
Public works	6,239
Education	7,854
Library	745
Health and human services	264
Culture and recreation	<u>3,301</u>
Total depreciation expense – governmental activities	\$ <u><u>20,006</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities:				
Water:				
Capital assets, not being depreciated:				
Land	\$ 1,509	1,000	—	2,509
Construction in progress	501	98	485	114
Total capital assets, not being depreciated	<u>2,010</u>	<u>1,098</u>	<u>485</u>	<u>2,623</u>
Capital assets, being depreciated:				
Buildings	39,787	—	23	39,764
Rolling equipment	1,838	324	235	1,927
Infrastructure	112,585	4,057	71	116,571
Equipment and other	324	—	177	147
Total capital assets, being depreciated	<u>154,534</u>	<u>4,381</u>	<u>506</u>	<u>158,409</u>
Less accumulated depreciation for:				
Buildings	10,920	1,021	23	11,918
Rolling equipment	1,008	244	235	1,017
Infrastructure	30,929	3,234	71	34,092
Equipment and other	290	16	177	129
Total accumulated depreciation	<u>43,147</u>	<u>4,515</u>	<u>506</u>	<u>47,156</u>
Total capital assets, being depreciated, net	<u>111,387</u>	<u>(134)</u>	<u>—</u>	<u>111,253</u>
Water capital assets, net	<u>113,397</u>	<u>964</u>	<u>485</u>	<u>113,876</u>
Sewer:				
Capital assets, not being depreciated:				
Land	117	—	—	117
Construction in progress	362	2,899	244	3,017
Total capital assets, not being depreciated	<u>479</u>	<u>2,899</u>	<u>244</u>	<u>3,134</u>
Capital assets, being depreciated:				
Buildings	3,269	—	—	3,269
Rolling equipment	3,152	265	212	3,205
Infrastructure	123,969	5,281	—	129,250
Equipment and other	120	—	20	100
Total capital assets, being depreciated	<u>130,510</u>	<u>5,546</u>	<u>232</u>	<u>135,824</u>
Less accumulated depreciation for:				
Buildings	783	110	—	893
Rolling equipment	1,620	346	212	1,754
Infrastructure	46,456	3,514	—	49,970
Equipment and other	88	9	20	77
Total accumulated depreciation	<u>48,947</u>	<u>3,979</u>	<u>232</u>	<u>52,694</u>
Total capital assets, being depreciated, net	<u>81,563</u>	<u>1,567</u>	<u>—</u>	<u>83,130</u>
Sewer capital assets, net	<u>82,042</u>	<u>4,466</u>	<u>244</u>	<u>86,264</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

	Beginning balance	Increases	Decreases	Ending balance
Airport:				
Capital assets, not being depreciated:				
Land	\$ 106	—	—	106
Construction in progress	138	359	73	424
Total capital assets, not being depreciated	244	359	73	530
Capital assets, being depreciated:				
Buildings	17,191	—	—	17,191
Rolling equipment	945	76	251	770
Infrastructure	22,638	1,188	155	23,671
Equipment and other	445	—	12	433
Total capital assets, being depreciated	41,219	1,264	418	42,065
Less accumulated depreciation for:				
Buildings	4,536	434	—	4,970
Rolling equipment	755	73	251	577
Infrastructure	9,254	1,155	155	10,254
Equipment and other	247	42	12	277
Total accumulated depreciation	14,792	1,704	418	16,078
Total capital assets, being depreciated, net	26,427	(440)	—	25,987
Airport capital assets, net	26,671	(81)	73	26,517
Golf course (nonmajor):				
Capital assets, being depreciated:				
Buildings	109	—	—	109
Infrastructure	633	—	—	633
Equipment and other	6	—	—	6
Total capital assets, being depreciated	748	—	—	748
Less accumulated depreciation for:				
Buildings	88	3	—	91
Infrastructure	269	32	—	301
Equipment and other	6	—	—	6
Total accumulated depreciation	363	35	—	398
Golf course capital assets, net	385	(35)	—	350
Business-type activities capital assets, net	\$ 222,495	5,314	802	227,007

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

	Beginning balance	Increases	Decreases	Ending balance
Discretely presented component units – The District:				
Capital assets, not being depreciated:				
Land	\$ 702	—	—	702
Construction in progress	39,103	22,623	—	61,726
Total capital assets, not being depreciated	39,805	22,623	—	62,428
Capital assets, being depreciated:				
Treatment facilities	54,477	48	—	54,525
Equipment and other	6,902	88	—	6,990
Total capital assets, being depreciated	61,379	136	—	61,515
Less accumulated depreciation for:				
Treatment facilities	23,356	2,467	—	25,823
Equipment and other	5,718	247	—	5,965
Total accumulated depreciation	29,074	2,714	—	31,788
Total capital assets, being depreciated, net	32,305	(2,578)	—	29,727
The District’s capital assets, net	\$ 72,110	20,045	—	92,155
Discretely presented component units – WRA:				
Capital assets, not being depreciated:				
Land	\$ 2,870	—	—	2,870
Construction in progress	4,952	1,398	30	6,320
Total capital assets, not being depreciated	7,822	1,398	30	9,190
Capital assets, being depreciated:				
Buildings	49,136	30	—	49,166
Equipment and other	176	—	—	176
Total capital assets, being depreciated	49,312	30	—	49,342
Less accumulated depreciation for:				
Buildings	5,934	1,261	—	7,195
Equipment and other	72	5	—	77
Total accumulated depreciation	6,006	1,266	—	7,272
Total capital assets, being depreciated, net	43,306	(1,236)	—	42,070
WRA capital assets, net	\$ 51,128	162	30	51,260

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Construction Commitments

The City has active construction projects as of June 30, 2006. The projects include interior and exterior building renovations, dam rehabilitation, new school construction, street, land, infrastructure and building improvements. At year-end, the City's commitments with contractors are as follows.

Project	Spent through June 30, 2006	Remaining commitment
New school construction	\$ 78,897	2,008
Dam rehabilitation	1,960	81
Land improvements	1,112	830
Street improvements	683	390
School renovations	428	140
Building improvements	199	71
Infrastructure improvements	71	19
Building renovations	39	16
Total	\$ <u>83,389</u>	<u>3,555</u>

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

(9) Operating Leases

The City occasionally leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases were \$177 for the year ended June 30, 2006. The future minimum lease payments for these leases are as follows:

	Amount
Year ending June 30:	
2007	\$ 178
2008	114
	\$ <u>292</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

(10) Long-Term Obligations

(a) Primary Government

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

	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>	<u>Due within one year</u>
General obligation bonds:						
Inside debt limit	(2.00%-8.00%) \$	99,491	13,292	23,273	89,510	10,498
Outside debt limit	(2.00%-8.50%)	418,929	42,668	61,961	399,636	22,368
Notes payable – Section 108	(2.31%-6.01%)	5,800	—	—	5,800	—
Accrued early retirement costs, net		2,117	—	390	1,727	406
Judgments and claims		14,927	345	1,820	13,452	1,490
Compensated absences		9,642	8,727	6,505	11,864	8,467
Landfill closure and postclosure care costs		7,544	—	4,282	3,262	—
Deferred amounts on bond premium		3,298	702	474	3,526	474
		<u>\$ 561,748</u>	<u>65,734</u>	<u>98,705</u>	<u>528,777</u>	<u>43,703</u>

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

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

	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>	<u>Due within one year</u>
General obligation bonds:						
Inside debt limit	(2.00%-7.00%) \$	9,951	999	2,208	8,742	1,401
Outside debt limit	(2.00%-7.00%)	101,959	13,241	20,134	95,066	7,443
MWPAT note payable	(2.00%-5.50%)	1,124	—	133	991	42
Judgments and claims		676	270	333	613	119
Compensated absences		671	544	535	680	539
Deferred amounts on bond premium			66	7	59	3
		<u>\$ 114,381</u>	<u>15,120</u>	<u>23,350</u>	<u>106,151</u>	<u>9,547</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

(b) Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2006 matures as follows:

	Governmental activities		Business-type activities			
	Governmental Funds		Water		Sewer	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending June 30:						
2007	\$ 32,866	24,193	5,916	3,204	2,380	1,336
2008	29,720	22,741	5,500	2,942	2,312	1,234
2009	28,181	21,458	5,007	2,641	1,986	1,103
2010	28,025	20,143	5,179	2,401	1,794	1,022
2011	27,662	18,865	5,342	2,158	1,645	952
2012-2016	122,660	90,178	28,225	6,753	8,533	3,636
2017-2021	109,973	48,296	10,550	1,719	7,388	1,682
2022-2026	79,659	22,776	3,316	268	3,995	324
2027-2028	30,400	2,879	—	—	—	—
	<u>\$ 489,146</u>	<u>271,529</u>	<u>69,035</u>	<u>22,086</u>	<u>30,033</u>	<u>11,289</u>
			Business-type activities		Business-type activities totals	
			Airport	Golf (nonmajor)	Principal	Interest
			Principal	Interest	Principal	Interest
Year ending June 30:						
2007	\$ 435	227	113	24	8,844	4,791
2008	393	202	70	20	8,275	4,398
2009	378	180	64	17	7,435	3,941
2010	398	159	63	14	7,434	3,596
2011	413	136	63	11	7,463	3,257
2012-2016	2,144	328	152	25	39,054	10,742
2017-2021	4	1	50	7	17,992	3,409
2022-2026	—	—	—	—	7,311	592
	<u>\$ 4,165</u>	<u>1,233</u>	<u>575</u>	<u>118</u>	<u>103,808</u>	<u>34,726</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(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, 2006 is as follows:

Inside debt limit:		
School construction	\$	41,980
Building rehabilitation		21,976
Worcester Center Boulevard Garage		9,475
Street construction		8,868
Union Station garage		8,190
Departmental equipment		7,638
Dam improvements		2,500
South Worcester industrial park		2,000
Blacksone Valley Visitors' Center		2,000
Parks improvements		1,670
Worcester Common rehabilitation		1,430
Franklin Square fire station construction		1,050
Building demolition		419
Watershed land		300
Land acquisition		125
Bridge construction		105
Library design		60
Sewer infiltration and inflow		50
Surface drain construction		50
Urban Systems Gateway		2
		<hr/>
Total inside debt limit		109,888
		<hr/>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Outside debt limit:		
CitySquare	\$	89,085
Vocational School construction		16,000
Sewer construction		12,922
Water mains		4,294
Water filtration		2,735
Reservoir rehabilitation		2,695
Water land acquisition		1,480
Airport improvements		1,215
Greenhill Park improvements		1,050
Water meters		1,000
Sewer drainage		595
Surface drain construction		500
Water equipment		423
Landfill closure		400
Water reservoir tank		170
Dam improvements		130
Water pump station rehabilitation		100
Greenhill Golf Course improvements		55
		<hr/>
Total outside debt limit		134,849
		<hr/>
Total inside and outside debt limit	\$	<u>244,737</u>

At June 30, 2006, in addition to debt authorized but unissued, the City may issue \$276,591 of additional general obligation debt under the normal debt limit. The City had \$495,692 of outstanding debt exempt from the debt limit.

(d) Advance Refundings

On July 14, 2005, the City issued \$70,200 of general obligation bonds to advance-refund outstanding debt obligations. Series A was issued in the amount of \$43,230 with an average interest rate of 4.87% to advance-refund \$42,865 of various other bonds with an average interest rate of 5.24%. Series B was issued in the amount of \$26,970 with an average interest rate of 4.88% to advance-refund \$26,015 of various other bonds with an average interest rate of 5.74%. The transaction met the requirements of an “in-substance defeasance” as defined by accounting principals generally accepted in the United States of America, and as a result, the liability for the refunded bonds have been removed from the financial statements. The transaction resulted in a reduction of approximately \$4,036 in debt service payments over the remaining life of the bonds, and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3,135.

The principal amount of debt refunded through prior year in-substance defeasance transactions and still outstanding at June 30, 2006 was \$143,790.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

(e) Discretely Presented Component Units – The District

Long-term obligations consisted of the following at June 30, 2006:

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 5.53% with a final payment due February 1, 2017.	\$ 8,809
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.	8,915
1999 General Obligation Bonds issued to the Massachusetts Water Pollution Abatement Trust. The Bonds are payable in varying principal amounts at an average coupon rate of 5.25% with a final payment due February 1, 2020.	810
2001 General Obligation Bonds issued to the Massachusetts Water Pollution Abatement Trust. The Bonds are payable in varying principal amounts at an average coupon rate of 5.10% with a final payment due February 1, 2021.	404
2003 General Obligation Bonds payable in varying annual installments at an average coupon rate of 4.14% with a final payment due March 15, 2023.	9,900
2004 General Obligation Bonds issued to the Massachusetts Water Pollution Abatement Trust. The Bonds are payable in varying principal amounts at an average coupon rate of 4.84% with a final payment due August 1, 2034.	51,566
Unamortized bond premium	2,507
Less: unamortized deferred financing costs	(561)
Accrued sick leave	338
Total long-term obligations	<u>82,688</u>
Less portion due within one year	<u>(2,827)</u>
Amount due in more than one year	<u>\$ 79,861</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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

	<u>Gross payments</u>			<u>Anticipated subsidy</u>	<u>Net payments</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
Year ending June 30:					
2007	\$ 2,680	3,859	6,539	1,542	4,997
2008	2,774	3,740	6,514	1,508	5,006
2009	2,876	3,608	6,484	1,472	5,012
2010	2,978	3,484	6,462	1,436	5,026
2011-2015	16,467	15,331	31,798	6,591	25,207
2016-2020	17,064	10,973	28,037	4,681	23,356
2021-2025	11,500	7,375	18,875	3,286	15,589
2026-2030	10,960	4,658	15,618	2,619	12,999
2031-2035	13,105	1,681	14,786	1,783	13,003
	<u>\$ 80,404</u>	<u>54,709</u>	<u>135,113</u>	<u>24,918</u>	<u>110,195</u>

(f) Discretely Presented Component Units – WRA

Long-term obligations consisted of the following at June 30, 2006:

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, 2006).	\$ 1,966
Note payable, City of Worcester, unsecured, with interest calculated at the rate paid by the City on the sale of its general obligation bonds (5.007% as of June 30, 2006).	695
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, 2006).	79
Other amounts payable to primary government	<u>1,581</u>
Subtotal – due to primary government	<u>4,321</u>
Bond and notes payable, secured by garage revenues and grant proceeds, due in installments of principal from June 2005 through June 2019. Interest is due semi-annually at rates varying from 4.40% to 6.00% during the life of the obligation.	5,455
Less: unamortized bond discount, net	<u>(53)</u>
Subtotal – bonds and notes payable, net	<u>5,402</u>
Total long-term obligations	9,723
Less portion due within one year	<u>(894)</u>
Amount due in more than one year	<u>\$ 8,829</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

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

	Gross repayments		
	Principal	Interest	Total
Year ending June 30:			
2007	\$ 305	281	586
2008	320	266	586
2009	340	250	590
2010	355	233	588
2011	370	215	585
2012-2016	2,170	763	2,933
2017-2019	1,595	163	1,758
Bonds and notes payable, gross	<u>5,455</u>	\$ <u>2,171</u>	<u>7,626</u>
Less unamortized discount	<u>(53)</u>		
Bonds and notes payable, net	<u>\$ 5,402</u>		

(11) Temporary Borrowings

(a) Primary Government

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

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Temporary loans are general obligations of the City and carry maturity dates limited by statute. Interest expenditures on temporary borrowings for the year ended June 30, 2006 in the general fund, nonmajor governmental funds, and enterprise funds were \$1,018, \$99, \$229, respectively. At June 30, 2006, the following 4.00% to 4.50% BANs (maturing through November 1, 2006) were outstanding:

	Outstanding as of June 30, 2005	Additions	Reductions	Outstanding as of June 30, 2006
Bond anticipation notes payable:				
School	\$ 33,850	9,625	33,850	9,625
General	20,800	19,555	20,800	19,555
Water	6,275	6,025	6,275	6,025
Sewer	5,275	11,345	5,275	11,345
Airport	205	65	205	65
Golf course	—	155	—	155
Total	\$ <u>66,405</u>	<u>46,770</u>	<u>66,405</u>	<u>46,770</u>

(b) Discretely Presented Component Units – The District

The District issues short-term notes as preliminary financing for major capital additions. Notes payable activity for the year ended June 30, 2006 was as follows:

	Outstanding as of June 30, 2005	Additions	Reductions	Outstanding as of June 30, 2006
Short-term notes	\$ <u>3,000</u>	<u>8,000</u>	<u>3,000</u>	<u>8,000</u>

(12) Interfund Receivables, Payables and Transfers

Receivables and payables between funds at June 30, 2006 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Airport Fund	\$ <u>53</u> (1)

(1) Represents temporary transfer to cover cash deficit.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Transfers and their purposes during the year ended June 30, 2006 were as follows:

	Governmental funds			Enterprise funds			
	General Fund	Stabilization Fund	Other Governmental Funds	Water Fund	Major Sewer Fund	Airport Fund	Nonmajor Golf Fund
Damage settlements – reimbursement for damage to city property	\$ 136	–	(147)	–	11	–	–
Damage settlements – to fund operating costs	121	–	(121)	–	–	–	–
Premium on loans – to fund bond refunding, issuance and debt service costs	525	–	(525)	–	–	–	–
Federal reimbursement – to fund indirect services related to federal grants	551	–	(551)	–	–	–	–
Real estate sales - to fund land acquisition	520	–	(520)	–	–	–	–
Real estate sales - to fund construction projects	300	–	(300)	–	–	–	–
Cemetery lot sales – reimbursement of parks operational costs	31	–	(31)	–	–	–	–
Parking – to cover parking operations	268	–	(268)	–	–	–	–
Sewer connection fees to fund public works engineering operations	118	–	(118)	–	–	–	–
Sewer connection fees to fund sewer operations	–	–	(375)	–	375	–	–
Construction permits – to fund public works engineering operations	54	–	(54)	–	–	–	–
Tax stabilization reserve - to fund tax rate reduction	1,000	–	(1,000)	–	–	–	–
FEMA reimbursement to fund costs of October rain event	54	–	(101)	5	42	–	–
Airport - to fund land acquisition projects	–	–	30	–	–	(30)	–
Conservation fee - to fund general fund operations	16	–	(16)	–	–	–	–
Passenger facility charges – to fund airport operations	–	–	(37)	–	–	37	–
Cemetery trust - to fund parks and cemetery operations	80	–	(80)	–	–	–	–
General fund – to fund debt payments	(6,344)	6,344	–	–	–	–	–
General fund – to fund airport operating costs	(1,155)	–	–	–	–	1,155	–
General fund - to fund police detail costs	(76)	–	76	–	–	–	–
General fund - to fund golf course operating costs	(167)	–	–	–	–	–	167
Enterprises – to fund debt payments	1,312	–	–	(728)	(492)	(70)	(22)
Capital – to fund capital project acquisitions	–	–	(130)	9	2	11	108
Total	\$ (2,656)	6,344	(4,268)	(714)	(62)	1,103	253

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

(13) Environmental Remediation – The District

Plant Improvements

In settlement of its appeal of its National Pollutant Discharge Elimination System (NPDES) permit, the District entered into a consent agreement with the U.S. Environmental Protection Agency to implement a plant improvement plan that will achieve more stringent discharge standards within the coming 15 years. The plan was developed through District facilities planning, completed to identify the most cost-effective approach to modernizing the District's 30-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. \$55,500)
Phase II	Advanced treatment facilities required for projected 2010 flows. (approx. \$84,500)
Phase III	Solids management facilities. (approx. \$18,000)
Phase IV	Facilities required for future flows (beyond 2010). (approx. \$11,000)

The above referenced costs are planning level estimates escalated to the mid-point of construction of each phase, with the total cost estimated to be \$169,000 in escalated dollars. In accordance with the District's agreement with EPA, Phase I is to be completed in 2006, and Phase II by August 2009. Phases III and IV are not required within the EPA agreement. The solids management improvement slated for Phase III can be completed as needed, or as finances permit. Phase IV facilities would only be completed if sufficient regional growth occurs to warrant their construction.

The District intends to finance the above costs through long-term borrowing. As of June 30, 2006, the District has spent and capitalized approximately \$60,966, including capitalized interest of \$2,090.

(14) Risk Management

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

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

The City provides a variety of health insurance benefits to employees including Blue Cross/Blue Shield Blue Choice, Medex, Master Medical and Managed Blue as well as Fallon Direct, Select and Senior plans. The partially self-insured Blue Choice, Medex and Master Medical plans 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 health claims based on actual amounts paid three months subsequent to year-end (provided by a third-party administrator) and an estimate of future claims based on historical trends.

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

Changes in the self-insurance liability for health claims for the years ended June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Health claims, beginning of year	\$ 3,356	2,822
Incurred claims	55,610	49,272
Payments of claims attributable to events of the current and prior fiscal years:		
Health	<u>(56,061)</u>	<u>(48,738)</u>
Health claims, end of year	\$ <u>2,905</u>	<u>3,356</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

Changes in judgments and claims liability for the years ended June 30, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Judgments and claims, beginning of year	\$ 15,603	16,268
Additions to estimated claims liability	616	1,919
Payments of claims attributable to events of the current and prior fiscal years:		
Court judgments and legal settlements	(400)	(915)
Workers' compensation	<u>(1,754)</u>	<u>(1,669)</u>
Judgments and claims, end of year	\$ <u>14,065</u>	<u>15,603</u>

Judgments and claims consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
Workers' compensation	\$ 13,465	14,903
Court judgments and legal settlements	<u>600</u>	<u>700</u>
	\$ <u>14,065</u>	<u>15,603</u>

The fiscal 2006 liability for judgments and claims consist of governmental and business-type activities in the amount of \$13,452 and \$613, 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, 2006

(In thousands of dollars)

(15) Fund Deficits

The following funds had deficits at June 30, 2006:

Capital Projects Funds:		
School construction	\$	6,390
Capital equipment		2,630
Rehabilitation of public buildings		2,536
Street and sidewalk		1,403
Other		732
CitySquare		402
Special Revenue Funds:		
DCU Center		1,571

These deficits will be funded in future fiscal years via bond issues and charges for services.

(16) Contingency

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

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2006

(In thousands of dollars)

(17) Implementation of GASB Pronouncements

- Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
- Statement #44, *Economic Condition Reporting: The Statistical Section*
- Statement #46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*
- Statement #47, *Accounting for Termination Benefits*

The implementation of pronouncement #44 modified the information presented in the Statistical Section, which is located on pages 107 – 131.

The implementation of pronouncements #42, #46 and #47 had no impact on the basic financial statements.

(18) Future Implementation of GASB Pronouncements

The GASB has issued the following statements:

- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2007. This pronouncement will not impact the City's basic financial statements.
- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2008. The City is currently evaluating the effect this pronouncement will have on the basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

Year ended June 30, 2006

General Fund

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

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Property taxes	\$ 168,319,551	169,432,224	172,030,119	2,597,895
Motor vehicle excise taxes	13,500,000	13,500,000	12,397,989	(1,102,011)
Penalties and interest on taxes	2,625,000	2,715,000	2,564,244	(150,756)
Other taxes and in-lieu payments	2,185,000	2,185,000	2,252,295	67,295
Licenses and permits	5,905,800	5,905,800	5,570,577	(335,223)
Intergovernmental	234,215,533	234,114,143	234,914,053	799,910
Charges for services	3,869,900	3,869,900	3,760,080	(109,820)
Fines and forfeitures	2,925,000	2,925,000	3,233,689	308,689
Investment earnings	800,000	1,200,000	2,139,684	939,684
Miscellaneous	964,300	964,300	852,074	(112,226)
Total revenues	435,310,084	436,811,367	439,714,804	2,903,437
Expenditures:				
General government:				
Council	247,046	243,938	243,938	—
Mayor	91,544	96,974	96,974	—
Manager	1,593,226	1,667,328	1,667,328	—
Auditor	477,249	609,399	609,399	—
Administration & Finance	491,954	552,999	552,999	—
Treasurer and Collector	1,663,237	2,355,669	2,355,669	—
Assessor	608,768	641,940	641,940	—
License Commission	12,598	12,308	12,308	—
Law	1,225,227	1,500,758	1,500,758	—
Clerk	559,059	577,518	577,518	—
Messenger	426,358	444,201	444,201	—
Election Commission	398,189	296,668	296,668	—
Purchasing	193,829	309,698	309,698	—
Information Services	2,121,024	2,379,953	2,379,953	—
Human Resources	803,228	884,506	884,506	—
Total general government	10,912,536	12,573,857	12,573,857	—
Public safety:				
Police	34,731,946	36,133,284	36,133,284	—
Fire	28,284,073	31,542,394	31,542,394	—
Code Inspection	1,403,275	1,455,275	1,455,275	—
Communications	2,234,575	2,228,720	2,228,720	—
Total public safety	66,653,869	71,359,673	71,359,673	—

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

Year ended June 30, 2006

General Fund

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

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Health and human services:				
Health	\$ 2,035,393	2,962,486	2,962,486	—
Elder Affairs	766,777	666,466	666,466	—
Veteran's Services	654,414	—	—	—
Total health and human services	3,456,584	3,628,952	3,628,952	—
Education:				
Public Schools	181,345,398	182,808,086	182,808,086	—
Charter and school choice charges	15,517,694	15,682,793	16,603,606	(920,813)
Total education	196,863,092	198,490,879	199,411,692	(920,813)
Libraries:				
Public library	3,876,073	4,062,489	4,062,489	—
Regional library	132,950	132,950	132,950	—
Total libraries	4,009,023	4,195,439	4,195,439	—
Public works:				
General operations	9,760,466	10,508,160	10,508,160	—
Snow and ice removal	1,300,000	1,300,000	3,099,020	(1,799,020)
Street lighting	2,492,700	2,490,287	2,490,287	—
Union Station	1,860,000	1,439,792	1,439,792	—
Total public works	15,413,166	15,738,239	17,537,259	(1,799,020)
Culture and recreation:				
Parks and Cemetery	2,897,106	3,379,018	3,379,018	—
Auditorium	106,300	105,284	105,284	—
Total culture and recreation	3,003,406	3,484,302	3,484,302	—
State and regional charges	2,763,231	2,718,831	2,840,807	(121,976)
Debt service:				
Principal	24,601,889	24,452,553	24,452,553	—
Interest	20,524,135	19,661,125	19,661,125	—
Total debt service	45,126,024	44,113,678	44,113,678	—
Fringe benefits:				
Retirement	18,306,474	19,730,839	19,730,839	—
Workers' and unemployment comp.	2,039,184	2,182,157	2,182,157	—
Health and life insurance	59,806,330	62,623,795	62,623,795	—
Total fringe benefits	80,151,988	84,536,791	84,536,791	—

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

Year ended June 30, 2006

General Fund

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

	Budget		Actual	Variance with final budget positive (negative)
	Original	Final		
Contingency	\$ 5,268,826	—	—	—
Total expenditures	433,621,745	440,840,641	443,682,450	(2,841,809)
Excess (deficiency) of revenues over expenditures	1,688,339	(4,029,274)	(3,967,646)	61,628
Other financing sources (uses):				
Transfers in	2,711,050	5,086,832	5,086,832	—
Transfers out	(7,499,389)	(7,742,357)	(7,742,357)	—
Premium on loans	—	—	193,383	193,383
Total other financing (uses)	(4,788,339)	(2,655,525)	(2,462,142)	193,383
Net changes in fund balances	(3,100,000)	(6,684,799)	(6,429,788)	255,011
Budgetary fund balance – beginning	14,497,263	14,497,263	14,497,263	—
Budgetary fund balance – ending	\$ 11,397,263	7,812,464	8,067,475	255,011

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

See accompanying independent auditors' report.

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

General Fund

Notes to Schedule of Revenues, Expenditures, and Changes in

Fund Balance – Budget and Actual – Budgetary Basis

June 30, 2006

(In thousands of dollars)

Budgetary Basis of Accounting

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

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

- Salaries and wages
- Ordinary maintenance
- Capital outlays

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

In fiscal 2006, the original general fund expenditure budget was increased by \$7,219.

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

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

General Fund

Notes to Schedule of Revenues, Expenditures, and Changes in

Fund Balance – Budget and Actual – Budgetary Basis

June 30, 2006

(In thousands of dollars)

The following reconciliation summarizes the differences between budgetary and GAAP-basis accounting principles for the year ended June 30, 2006:

	<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	\$ 439,715	443,683	(2,462)	(6,430)
MTRS on-behalf payments	39,179	39,179	—	—
Adjustment of revenues to a modified basis	<u>(755)</u>	<u>—</u>	<u>—</u>	<u>(755)</u>
As reported on a GAAP basis	<u>\$ 478,139</u>	<u>482,862</u>	<u>(2,462)</u>	<u>(7,185)</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).
- MTRS on-behalf payments are recorded on a GAAP basis only.

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2006, expenditures exceeded appropriations for snow and ice and intergovernmental (education) expenditures and other state and regional charges. These over-expenditures will be funded by available funds during fiscal year 2007.

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CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2006

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

Special Revenue

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

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

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

Police Auxiliary – accounts for police off-duty details.

Off-Street Parking – accounts for the operation of the City’s parking garages, on-street meters and 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.

Workforce Central – accounts for revenue received from the U.S. Department of Labor to assist individuals to become productive members of the labor force.

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

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

Capital Projects

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

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

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

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

Capital Equipment – accounts for the acquisition of equipment.

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

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2006

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

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

CitySquare – accounts for the City’s share of the financial resources used for the construction of the CitySquare project.

Other – accounts for various small construction projects.

Permanent Funds

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

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

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

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

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

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

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

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

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

Other – accounts for various trusts.

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

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

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

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Special Revenue Funds				
	DCU Center	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Assets:					
Cash and cash equivalents	\$ 1,888,108	912,864	24,298	395,609	806,530
Investments	—	—	—	—	—
Due from other governments	—	—	—	—	—
Total assets	<u>\$ 1,888,108</u>	<u>912,864</u>	<u>24,298</u>	<u>395,609</u>	<u>806,530</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ —	128,031	—	54,418	2,422
Temporary loans	—	—	—	—	—
Retainage payable	—	—	—	—	—
Other liabilities	3,458,990	—	—	—	—
Total liabilities	<u>3,458,990</u>	<u>128,031</u>	<u>—</u>	<u>54,418</u>	<u>2,422</u>
Fund balances:					
Reserved for:					
Nonexpendable permanent funds	—	—	—	—	—
Other specific purposes	—	—	—	—	—
Unreserved, reported in:					
Special revenue funds	(1,570,882)	784,833	24,298	341,191	804,108
Capital projects funds	—	—	—	—	—
Expendable permanent funds	—	—	—	—	—
Total fund balances	<u>(1,570,882)</u>	<u>784,833</u>	<u>24,298</u>	<u>341,191</u>	<u>804,108</u>
Total liabilities and fund balances	<u>\$ 1,888,108</u>	<u>912,864</u>	<u>24,298</u>	<u>395,609</u>	<u>806,530</u>

Special Revenue Funds

<u>School Revolving</u>	<u>Receipts Reserved</u>	<u>Community Development</u>	<u>Workforce Central</u>	<u>School Grants</u>	<u>City Grants</u>	<u>Subtotal</u>
1,105,395	8,376,296	294,325	1,108,420	9,969,369	6,512,226	31,393,440
—	—	—	—	—	—	—
—	—	—	—	—	253,437	253,437
<u>1,105,395</u>	<u>8,376,296</u>	<u>294,325</u>	<u>1,108,420</u>	<u>9,969,369</u>	<u>6,765,663</u>	<u>31,646,877</u>
34,065	—	201,485	234,295	439,282	330,501	1,424,499
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	3,458,990
<u>34,065</u>	<u>—</u>	<u>201,485</u>	<u>234,295</u>	<u>439,282</u>	<u>330,501</u>	<u>4,883,489</u>
—	—	—	—	—	—	—
—	—	92,840	874,125	9,530,087	6,435,162	16,932,214
1,071,330	8,376,296	—	—	—	—	9,831,174
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<u>1,071,330</u>	<u>8,376,296</u>	<u>92,840</u>	<u>874,125</u>	<u>9,530,087</u>	<u>6,435,162</u>	<u>26,763,388</u>
<u>1,105,395</u>	<u>8,376,296</u>	<u>294,325</u>	<u>1,108,420</u>	<u>9,969,369</u>	<u>6,765,663</u>	<u>31,646,877</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Capital Projects Funds				
	DCU Center Construction	Street and Sidewalk	Rehabilitation of Public Buildings	Capital Equipment	School Construction
Assets:					
Cash and cash equivalents	\$ 1,972,173	4,183,914	2,540,543	1,850,563	5,280,307
Investments	—	—	—	—	—
Due from other governments	—	—	—	—	—
Total assets	\$ 1,972,173	4,183,914	2,540,543	1,850,563	5,280,307
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 40,700	473,404	202,357	300,937	697,359
Temporary loans	250,000	4,970,000	4,855,000	4,180,000	9,625,000
Retainage payable	348	143,031	18,806	—	1,348,436
Other liabilities	—	—	—	—	—
Total liabilities	291,048	5,586,435	5,076,163	4,480,937	11,670,795
Fund balances:					
Reserved for:					
Nonexpendable permanent funds	—	—	—	—	—
Other specific purposes	—	—	—	—	—
Unreserved, reported in:					
Special revenue funds	—	—	—	—	—
Capital projects funds	1,681,125	(1,402,521)	(2,535,620)	(2,630,374)	(6,390,488)
Expendable permanent funds	—	—	—	—	—
Total fund balances	1,681,125	(1,402,521)	(2,535,620)	(2,630,374)	(6,390,488)
Total liabilities and fund balances	\$ 1,972,173	4,183,914	2,540,543	1,850,563	5,280,307

Capital Projects Funds

Parks Improvements	Union Station Garage	CitySquare	Other	Subtotal
2,064,072	368,980	100,000	2,354,574	20,715,126
—	—	—	—	—
—	—	—	—	—
<u>2,064,072</u>	<u>368,980</u>	<u>100,000</u>	<u>2,354,574</u>	<u>20,715,126</u>
80,693	—	1,920	169,247	1,966,617
1,950,000	—	500,000	2,850,000	29,180,000
29,500	—	—	67,773	1,607,894
—	—	—	—	—
<u>2,060,193</u>	<u>—</u>	<u>501,920</u>	<u>3,087,020</u>	<u>32,754,511</u>
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
3,879	368,980	(401,920)	(732,446)	(12,039,385)
—	—	—	—	—
<u>3,879</u>	<u>368,980</u>	<u>(401,920)</u>	<u>(732,446)</u>	<u>(12,039,385)</u>
<u>2,064,072</u>	<u>368,980</u>	<u>100,000</u>	<u>2,354,574</u>	<u>20,715,126</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Permanent Funds				
	Hope Cemetery	Health Department	Libraries	Schools	Parks
Assets:					
Cash and cash equivalents	\$ 111,875	157,545	693,810	48,446	14,576
Investments	2,261,610	1,772,922	5,774,093	641,650	294,386
Due from other governments	—	—	—	—	—
Total assets	<u>\$ 2,373,485</u>	<u>1,930,467</u>	<u>6,467,903</u>	<u>690,096</u>	<u>308,962</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ —	—	9,287	—	—
Temporary loans	—	—	—	—	—
Retainage payable	—	—	—	—	—
Other liabilities	—	—	—	—	—
Total liabilities	<u>—</u>	<u>—</u>	<u>9,287</u>	<u>—</u>	<u>—</u>
Fund balances:					
Reserved for:					
Nonexpendable					
permanent funds	2,364,262	1,840,467	6,439,760	666,058	305,750
Other specific purposes	—	—	—	—	—
Unreserved, reported in:					
Special revenue funds	—	—	—	—	—
Capital projects funds	—	—	—	—	—
Expendable permanent funds	9,223	90,000	18,856	24,038	3,212
Total fund balances	<u>2,373,485</u>	<u>1,930,467</u>	<u>6,458,616</u>	<u>690,096</u>	<u>308,962</u>
Total liabilities and fund balances	<u>\$ 2,373,485</u>	<u>1,930,467</u>	<u>6,467,903</u>	<u>690,096</u>	<u>308,962</u>

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Other	Subtotal	
234	14,057	14,906	327	1,055,776	53,164,342
6,163	317,667	200,175	8,621	11,277,287	11,277,287
—	—	—	—	—	253,437
<u>6,397</u>	<u>331,724</u>	<u>215,081</u>	<u>8,948</u>	<u>12,333,063</u>	<u>64,695,066</u>
—	1,345	—	—	10,632	3,401,748
—	—	—	—	—	29,180,000
—	—	—	—	—	1,607,894
—	—	—	—	—	3,458,990
—	<u>1,345</u>	—	—	<u>10,632</u>	<u>37,648,632</u>
6,397	329,714	207,768	8,948	12,169,124	12,169,124
—	—	—	—	—	16,932,214
—	—	—	—	—	9,831,174
—	665	7,313	—	153,307	(12,039,385)
<u>6,397</u>	<u>330,379</u>	<u>215,081</u>	<u>8,948</u>	<u>12,322,431</u>	<u>27,046,434</u>
<u>6,397</u>	<u>331,724</u>	<u>215,081</u>	<u>8,948</u>	<u>12,333,063</u>	<u>64,695,066</u>

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

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

For the fiscal year ended June 30, 2006

	Special Revenue Funds				
	DCU Center	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Revenues:					
Intergovernmental	\$ —	7,730,554	—	—	—
Investment earnings	—	—	—	—	—
Charges for services	1,108,355	1,046,974	6,165,356	—	234,853
Donations	—	—	—	—	—
Contributions to permanent funds	—	—	—	—	—
Miscellaneous	—	—	—	—	—
Total revenues	1,108,355	8,777,528	6,165,356	—	234,853
Expenditures:					
Current:					
General government	—	—	—	—	131,810
Public safety	—	—	6,236,717	—	—
Health and human services	—	—	—	—	—
Education	—	9,067,065	—	—	—
Libraries	—	—	—	—	—
Public works	—	—	—	945,809	55,915
Culture and recreation	426,652	—	—	—	—
Community development	—	—	—	—	—
Debt service:	—	—	—	—	—
Principal	272,118	—	—	409,152	160,000
Interest	267,351	—	—	174,493	96,832
Total expenditures	966,121	9,067,065	6,236,717	1,529,454	444,557
Excess (deficiency) of revenues over expenditures	142,234	(289,537)	(71,361)	(1,529,454)	(209,704)
Other financing sources (uses):					
Transfers in	—	—	75,694	1,498,616	—
Transfers (out)	—	—	—	—	—
Premium on issuance of bonds and notes	—	—	—	—	—
Issuance of refunding bonds	—	—	—	—	—
Payments to refunded bond escrow agent	—	—	—	—	—
Total other financing sources (uses)	—	—	75,694	1,498,616	—
Net change in fund balances	142,234	(289,537)	4,333	(30,838)	(209,704)
Fund balances – beginning	(1,713,116)	1,074,370	19,965	372,029	1,013,812
Fund balances – ending	\$ <u>(1,570,882)</u>	<u>784,833</u>	<u>24,298</u>	<u>341,191</u>	<u>804,108</u>

Special Revenue Funds

School Revolving	Receipts Reserved	Community Development	Workforce Central	School Grants	City Grants	Subtotal
—	176,612	4,886,037	5,920,312	42,574,599	10,337,598	71,625,712
—	—	—	—	—	7,984	7,984
1,083,981	4,452,038	61,317	—	—	—	14,152,874
—	—	—	—	176,097	2,464,202	2,640,299
—	562,766	—	—	—	—	—
—	—	—	—	—	309,639	872,405
<u>1,083,981</u>	<u>5,191,416</u>	<u>4,947,354</u>	<u>5,920,312</u>	<u>42,750,696</u>	<u>13,119,423</u>	<u>89,299,274</u>
—	—	—	—	—	845,378	977,188
—	—	—	—	—	3,185,631	9,422,348
—	—	—	6,366,482	—	6,849,694	13,216,176
1,302,047	—	—	—	51,661,089	—	62,030,201
—	—	—	—	—	637,482	637,482
—	—	—	—	—	446,885	1,448,609
—	—	—	—	—	438,284	864,936
—	—	3,565,556	—	—	—	3,565,556
—	—	—	—	—	—	—
—	—	572,000	—	—	493,374	1,906,644
—	—	175,258	—	—	309,639	1,023,573
<u>1,302,047</u>	<u>—</u>	<u>4,312,814</u>	<u>6,366,482</u>	<u>51,661,089</u>	<u>13,206,367</u>	<u>95,092,713</u>
<u>(218,066)</u>	<u>5,191,416</u>	<u>634,540</u>	<u>(446,170)</u>	<u>(8,910,393)</u>	<u>(86,944)</u>	<u>(5,793,439)</u>
—	—	—	—	205,687	480,133	2,260,130
—	(5,726,217)	(592,287)	—	—	—	(6,318,504)
—	508,530	—	—	—	—	508,530
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<u>—</u>	<u>(5,217,687)</u>	<u>(592,287)</u>	<u>—</u>	<u>205,687</u>	<u>480,133</u>	<u>(3,549,844)</u>
(218,066)	(26,271)	42,253	(446,170)	(8,704,706)	393,189	(9,343,283)
<u>1,289,396</u>	<u>8,402,567</u>	<u>50,587</u>	<u>1,320,295</u>	<u>18,234,793</u>	<u>6,041,973</u>	<u>36,106,671</u>
<u>1,071,330</u>	<u>8,376,296</u>	<u>92,840</u>	<u>874,125</u>	<u>9,530,087</u>	<u>6,435,162</u>	<u>26,763,388</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

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

For the fiscal year ended June 30, 2006

	Capital Projects Funds				
	DCU Construction	Street and Sidewalk	Rehabilitation of Public Buildings	Capital Equipment	School Construction
Revenues:					
Intergovernmental	\$ —	2,246,229	—	—	—
Investment earnings	—	—	—	—	—
Charges for services	—	—	—	—	—
Donations	—	—	—	—	—
Contributions to permanent funds	—	—	—	—	—
Miscellaneous	—	—	—	—	—
Total revenues	—	2,246,229	—	—	—
Expenditures:					
Current:					
General government	—	—	307,894	455,156	—
Public safety	—	—	281,525	1,049,325	—
Health and human services	—	—	25,117	24,566	—
Education	—	—	3,103,878	542,059	12,867,313
Libraries	—	—	60,596	57,853	—
Public works	—	6,462,253	960,073	579,860	—
Culture and recreation	519,209	—	—	355,630	—
Community development	—	—	—	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Total expenditures	519,209	6,462,253	4,739,083	3,064,449	12,867,313
Excess (deficiency) of revenues over expenditures	(519,209)	(4,216,024)	(4,739,083)	(3,064,449)	(12,867,313)
Other financing sources (uses):					
Transfers in	—	—	—	20,449	—
Transfers (out)	(100,000)	(32,500)	(231,414)	—	—
Premium on issuance of bonds and notes	—	—	—	—	—
Issuance of refunding bonds	923,086	286,054	12,432,789	—	41,234,099
Payments to refunded bond escrow agent	(923,086)	(286,054)	(12,432,789)	—	(41,234,099)
Total other financing sources (uses)	(100,000)	(32,500)	(231,414)	20,449	—
Net change in fund balances	(619,209)	(4,248,524)	(4,970,497)	(3,044,000)	(12,867,313)
Fund balances – beginning	2,300,334	2,846,003	2,434,877	413,626	6,476,825
Fund balances – ending	\$ <u>1,681,125</u>	<u>(1,402,521)</u>	<u>(2,535,620)</u>	<u>(2,630,374)</u>	<u>(6,390,488)</u>

Capital Projects Funds

Parks Improvements	Union Station Garage	CitySquare	Other	Subtotal
210,114	—	—	—	2,456,343
—	—	—	468	468
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
<u>210,114</u>	<u>—</u>	<u>—</u>	<u>468</u>	<u>2,456,811</u>
—	—	—	—	763,050
—	—	—	6,277	1,337,127
—	—	—	—	49,683
—	—	—	—	16,513,250
—	—	—	—	118,449
—	171,339	401,920	2,046,067	10,621,512
1,011,138	—	—	—	1,885,977
—	—	—	—	—
—	—	—	—	—
<u>1,011,138</u>	<u>171,339</u>	<u>401,920</u>	<u>2,052,344</u>	<u>31,289,048</u>
<u>(801,024)</u>	<u>(171,339)</u>	<u>(401,920)</u>	<u>(2,051,876)</u>	<u>(28,832,237)</u>
56,000	—	—	280,859	357,308
(123,375)	—	—	—	(487,289)
—	—	—	—	—
129,987	—	—	953,747	55,959,762
<u>(129,987)</u>	<u>—</u>	<u>—</u>	<u>(953,747)</u>	<u>(55,959,762)</u>
<u>(67,375)</u>	<u>—</u>	<u>—</u>	<u>280,859</u>	<u>(129,981)</u>
(868,399)	(171,339)	(401,920)	(1,771,017)	(28,962,218)
<u>872,278</u>	<u>540,319</u>	<u>—</u>	<u>1,038,571</u>	<u>16,922,833</u>
<u>3,879</u>	<u>368,980</u>	<u>(401,920)</u>	<u>(732,446)</u>	<u>(12,039,385)</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

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

For the fiscal year ended June 30, 2006

	Permanent Funds				
	Hope Cemetery	Health Department	Libraries	Schools	Parks
Revenues:					
Intergovernmental	\$ —	—	—	—	—
Investment earnings	109,743	76,572	577,107	30,154	14,697
Charges for services	—	—	—	—	—
Donations	—	—	—	—	—
Contributions to permanent funds	27,685	—	3,609	2,840	—
Miscellaneous	—	—	—	—	—
Total revenues	137,428	76,572	580,716	32,994	14,697
Expenditures:					
Current:					
General government	—	—	—	—	—
Public safety	—	—	—	—	—
Health and human services	—	150,000	—	—	—
Education	—	—	—	34,080	—
Libraries	—	—	135,510	—	—
Public works	—	—	—	—	—
Culture and recreation	—	—	—	—	—
Community development	—	—	—	—	—
Debt service:					
Principal	—	—	—	—	—
Interest	—	—	—	—	—
Total expenditures	—	150,000	135,510	34,080	—
Excess (deficiency) of revenues over expenditures	137,428	(73,428)	445,206	(1,086)	14,697
Other financing sources (uses):					
Transfers in	—	—	—	—	—
Transfers (out)	(80,030)	—	—	—	—
Premium on issuance of bonds and notes	—	—	—	—	—
Issuance of refunding bonds	—	—	—	—	—
Payments to refunded bond escrow agent	—	—	—	—	—
Total other financing sources (uses)	(80,030)	—	—	—	—
Net change in fund balances	57,398	(73,428)	445,206	(1,086)	14,697
Fund balances – beginning	2,316,087	2,003,895	6,013,410	691,182	294,265
Fund balances – ending	\$ 2,373,485	1,930,467	6,458,616	690,096	308,962

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Other	Subtotal	
—	—	—	—	—	74,082,055
308	19,357	9,987	431	838,356	846,808
—	—	—	—	—	14,152,874
—	72,494	—	—	106,628	2,640,299
—	—	—	—	—	106,628
—	—	—	—	—	872,405
308	91,851	9,987	431	944,984	92,701,069
—	—	—	—	—	1,740,238
—	—	—	—	—	10,759,475
—	—	—	—	150,000	13,415,859
—	—	—	—	34,080	78,577,531
—	—	—	—	135,510	891,441
—	21,577	—	—	21,577	12,091,698
—	—	400	—	400	2,751,313
—	—	—	—	—	3,565,556
—	—	—	—	—	1,906,644
—	—	—	—	—	1,023,573
—	21,577	400	—	341,567	126,723,328
308	70,274	9,587	431	603,417	(34,022,259)
—	—	—	—	—	2,617,438
—	—	—	—	(80,030)	(6,885,823)
—	—	—	—	—	508,530
—	—	—	—	—	55,959,762
—	—	—	—	—	(55,959,762)
—	—	—	—	(80,030)	(3,759,855)
308	70,274	9,587	431	523,387	(37,782,114)
6,089	260,105	205,494	8,517	11,799,044	64,828,548
6,397	330,379	215,081	8,948	12,322,431	27,046,434

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Airport Enterprise Fund

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

For the fiscal year ended June 30, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Fees	\$ 643,000	643,000	723,870	80,870
Intergovernmental	1,619,313	1,619,313	1,005,619	(613,694)
Miscellaneous	232,500	232,500	263,847	31,347
Total revenues	<u>2,494,813</u>	<u>2,494,813</u>	<u>1,993,336</u>	<u>(501,477)</u>
Expenditures:				
Salaries and benefits	1,600,858	1,450,858	1,160,533	290,325
Ordinary maintenance	1,330,518	1,395,913	1,274,204	121,709
Capital	—	54,605	3,669	50,936
Debt service	649,034	649,034	634,897	14,137
Total expenditures	<u>3,580,410</u>	<u>3,550,410</u>	<u>3,073,303</u>	<u>477,107</u>
(Deficiency) of revenues over expenditures	<u>(1,085,597)</u>	<u>(1,055,597)</u>	<u>(1,079,967)</u>	<u>(24,370)</u>
Other financing sources (uses):				
Transfers in	1,155,126	1,191,826	1,191,826	—
Transfers (out)	(69,529)	(99,529)	(99,529)	—
Total other financing sources	<u>1,085,597</u>	<u>1,092,297</u>	<u>1,092,297</u>	<u>—</u>
Net changes in fund balances	—	36,700	12,330	(24,370)
Budgetary fund balance – beginning	<u>30</u>	<u>30</u>	<u>30</u>	<u>—</u>
Budgetary fund balance – ending	<u>\$ 30</u>	<u>36,730</u>	<u>12,360</u>	<u>(24,370)</u>

CITY OF WORCESTER, MASSACHUSETTS

Golf Course Enterprise Fund

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

For the fiscal year ended June 30, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget favorable (negative)
Revenues:				
Fees	\$ 1,228,804	1,228,804	1,010,437	(218,367)
Miscellaneous	9,000	9,000	30,532	21,532
Total revenues	<u>1,237,804</u>	<u>1,237,804</u>	<u>1,040,969</u>	<u>(196,835)</u>
Expenditures:				
Salaries and benefits	285,584	337,205	333,390	3,815
Ordinary maintenance	665,206	822,970	637,350	185,620
Debt service	148,181	148,181	144,954	3,227
Indirect costs	116,949	74,388	70,215	4,173
Total expenditures	<u>1,215,920</u>	<u>1,382,744</u>	<u>1,185,909</u>	<u>196,835</u>
Excess (deficiency) of revenues over expenditures	<u>21,884</u>	<u>(144,940)</u>	<u>(144,940)</u>	<u>—</u>
Other financing sources (uses):				
Transfers in	—	166,824	166,824	—
Transfers (out)	(21,884)	(21,884)	(21,884)	—
Total other financing sources (uses)	<u>(21,884)</u>	<u>144,940</u>	<u>144,940</u>	<u>—</u>
Net changes in fund balances	—	—	—	—
Budgetary fund balance – beginning	—	—	—	—
Budgetary fund balance – ending	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

CITY OF WORCESTER, MASSACHUSETTS

Sewer Enterprise Fund

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

For the fiscal year ended June 30, 2006

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Charges for services	\$ 22,505,402	22,505,402	21,002,178	(1,503,224)
Miscellaneous	374,000	374,000	713,727	339,727
Total revenues	<u>22,879,402</u>	<u>22,879,402</u>	<u>21,715,905</u>	<u>(1,163,497)</u>
Expenditures:				
Salaries and benefits	4,954,800	4,954,800	4,527,098	427,702
Ordinary maintenance	10,967,587	11,395,216	10,904,995	490,221
Capital	24,500	24,500	11,903	12,597
Debt service	3,583,856	3,583,856	3,454,093	129,763
Indirect costs	2,856,869	2,856,869	2,753,655	103,214
Total expenditures	<u>22,387,612</u>	<u>22,815,241</u>	<u>21,651,744</u>	<u>1,163,497</u>
Excess of revenues over expenditures	<u>491,790</u>	<u>64,161</u>	<u>64,161</u>	<u>—</u>
Other financing sources (uses):				
Transfers in	—	427,629	427,629	—
Transfers (out)	(491,790)	(491,790)	(491,790)	—
Total other financing sources (uses)	<u>(491,790)</u>	<u>(64,161)</u>	<u>(64,161)</u>	<u>—</u>
Net changes in fund balances	—	—	—	—
Budgetary fund balance – beginning	—	—	—	—
Budgetary fund balance – ending	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>

CITY OF WORCESTER, MASSACHUSETTS

Water Enterprise Fund

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

For the fiscal year ended June 30, 2006

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Charges for services	\$ 22,353,620	22,353,620	20,887,747	(1,465,873)
Miscellaneous	1,464,600	1,464,600	1,508,289	43,689
Total revenues	<u>23,818,220</u>	<u>23,818,220</u>	<u>22,396,036</u>	<u>(1,422,184)</u>
Expenditures:				
Salaries and benefits	9,304,501	9,317,972	8,502,196	815,776
Ordinary maintenance	2,652,888	2,668,344	2,662,659	5,685
Capital	25,000	25,000	13,759	11,241
Debt service	9,222,520	9,222,520	8,985,287	237,233
Indirect costs	1,885,464	1,885,464	1,807,753	77,711
Total expenditures	<u>23,090,373</u>	<u>23,119,300</u>	<u>21,971,654</u>	<u>1,147,646</u>
Excess of revenues over expenditures	<u>727,847</u>	<u>698,920</u>	<u>424,382</u>	<u>(274,538)</u>
Other financing sources (uses):				
Transfers in	—	4,437	4,437	—
Transfers (out)	(727,847)	(727,847)	(727,847)	—
Total other financing sources (uses)	<u>(727,847)</u>	<u>(723,410)</u>	<u>(723,410)</u>	<u>—</u>
Net changes in fund balances	—	(24,490)	(299,028)	(274,538)
Budgetary fund balance – beginning	<u>862,557</u>	<u>862,557</u>	<u>862,557</u>	<u>—</u>
Budgetary fund balance – ending	<u>\$ 862,557</u>	<u>838,067</u>	<u>563,529</u>	<u>(274,538)</u>

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CITY OF WORCESTER, MASSACHUSETTS

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

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Governmental activities capital assets, by type:		
Land	\$ 13,931,412	13,931,412
Buildings	311,919,539	235,121,771
Improvements other than buildings	11,358,118	11,126,909
Rolling equipment	5,567,403	6,551,467
Equipment and other	4,085,341	4,701,947
Infrastructure	66,677,706	62,821,685
Construction in progress	<u>7,130,812</u>	<u>77,746,749</u>
Total governmental activities capital assets	\$ <u>420,670,331</u>	<u>412,001,940</u>
Investments in governmental activities capital assets by source:		
General fund	\$ 1,109,342	1,284,876
Special revenue fund	29,067,530	28,863,033
Capital projects fund	389,208,699	380,439,935
Donations	<u>1,284,760</u>	<u>1,414,096</u>
Total governmental activities capital assets	\$ <u>420,670,331</u>	<u>412,001,940</u>

CITY OF WORCESTER, MASSACHUSETTS

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

June 30, 2006

Function and activity	Land	Buildings	Improvements other than buildings
General government:			
Manager	\$ 3,525,231	—	—
Assessor	—	—	—
Auditor	—	—	—
Information Services	—	—	—
Election Commission	—	—	—
Law	—	—	—
Human Resources	—	—	—
Purchasing	—	—	—
Treasurer	—	—	—
Total general government	<u>3,525,231</u>	<u>—</u>	<u>—</u>
Public safety:			
Police	514,500	3,169,106	—
Fire	1,074,600	7,447,352	—
Code Inspection	209,905	607,033	—
Communications	—	—	—
Total public safety	<u>1,799,005</u>	<u>11,223,491</u>	<u>—</u>
Health and human services:			
Workforce Central	—	—	—
Health	—	—	—
Elder Affairs	—	2,863,638	50,386
Total health and human services	<u>—</u>	<u>2,863,638</u>	<u>50,386</u>
Public works	<u>1,889,339</u>	<u>4,693,275</u>	<u>385,658</u>
Education	<u>3,453,537</u>	<u>219,580,386</u>	<u>322,835</u>
Library	<u>305,000</u>	<u>18,583,925</u>	<u>—</u>
Culture and recreation:			
Auditorium	150,000	1,835,207	—
DCU Center	263,000	46,580,553	—
Hope Cemetery	290,000	1,001,904	—
Parks	2,256,300	5,557,160	10,599,239
Total culture and recreation	<u>2,959,300</u>	<u>54,974,824</u>	<u>10,599,239</u>
Total governmental activities capital assets	<u>\$ 13,931,412</u>	<u>311,919,539</u>	<u>11,358,118</u>

Rolling equipment	Equipment and other	Infrastructure	Construction in progress	Total
—	—	—	401,920	3,927,151
—	1,000	—	—	1,000
—	—	—	—	0
—	88,961	—	—	88,961
—	538	—	—	538
—	30,434	—	—	30,434
—	—	—	—	0
—	5,256	—	—	5,256
—	5,220	—	—	5,220
—	131,409	—	401,920	4,058,560
408,427	354,245	—	—	4,446,278
2,619,572	406,586	—	46,774	11,594,884
7,358	16,636	—	—	840,932
—	346,141	—	—	346,141
3,035,357	1,123,608	—	46,774	17,228,235
—	18,476	—	—	18,476
11,708	64,059	—	—	75,767
—	20,518	—	3,618	2,938,160
11,708	103,053	—	3,618	3,032,403
1,989,083	83,604	66,615,731	1,662,823	77,319,513
49,533	1,090,316	—	3,561,518	228,058,125
—	1,092,275	—	—	19,981,200
—	—	—	—	1,985,207
—	87,205	—	114,700	47,045,458
47,683	18,796	—	—	1,358,383
434,039	355,075	61,975	1,339,459	20,603,247
481,722	461,076	61,975	1,454,159	70,992,295
5,567,403	4,085,341	66,677,706	7,130,812	420,670,331

CITY OF WORCESTER, MASSACHUSETTS

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

Year ended June 30, 2006

<u>Function and activity</u>	<u>Governmental activities capital assets July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental activities capital assets June 30, 2006</u>
General government:				
Manager	\$ 3,731,704	401,920	206,473	3,927,151
Assessor	1,666	—	666	1,000
Auditor	598	—	598	—
Information Services	162,363	—	73,402	88,961
Election Commission	1,613	—	1,075	538
Law	39,122	—	8,688	30,434
Human Resources	650	—	650	—
Purchasing	8,760	—	3,504	5,256
Treasurer	8,372	—	3,152	5,220
Total general government	<u>3,954,848</u>	<u>401,920</u>	<u>298,208</u>	<u>4,058,560</u>
Public safety:				
Police	5,033,605	99,519	686,846	4,446,278
Fire	11,974,751	332,973	712,840	11,594,884
Code Inspection	780,911	126,300	66,279	840,932
Communications	444,603	—	98,462	346,141
Total public safety	<u>18,233,870</u>	<u>558,792</u>	<u>1,564,427</u>	<u>17,228,235</u>
Health and human services:				
Workforce Central	24,670	—	6,194	18,476
Health	112,775	—	37,008	75,767
Elder Affairs	3,159,694	3,618	225,152	2,938,160
Total health and human services	<u>3,297,139</u>	<u>3,618</u>	<u>268,354</u>	<u>3,032,403</u>
Public works	<u>72,892,008</u>	<u>10,889,902</u>	<u>6,462,397</u>	<u>77,319,513</u>
Education	<u>220,749,511</u>	<u>18,484,327</u>	<u>11,175,713</u>	<u>228,058,125</u>
Libraries	<u>20,726,055</u>	<u>—</u>	<u>744,855</u>	<u>19,981,200</u>
Culture and recreation:				
Auditorium	2,127,789	—	142,582	1,985,207
DCU Center	48,784,850	410,814	2,150,206	47,045,458
Hope Cemetery	1,416,005	—	57,622	1,358,383
Parks	19,819,865	2,066,099	1,282,717	20,603,247
Total culture and recreation	<u>72,148,509</u>	<u>2,476,913</u>	<u>3,633,127</u>	<u>70,992,295</u>
Total governmental activities capital assets	<u>\$ 412,001,940</u>	<u>32,815,472</u>	<u>24,147,081</u>	<u>420,670,331</u>

CITY OF WORCESTER, MASSACHUSETTS

Agency Fund

Statement of Changes in Assets and Liabilities

Year ended June 30, 2006

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
ASSETS				
Cash and cash equivalents	\$ 402,457	595,497	(597,557)	400,397
LIABILITIES				
Accounts payable and accrued expenses	\$ 23,549	—	(11,592)	11,957
Due to student groups	378,908	595,497	(585,965)	388,440
Total liabilities	\$ 402,457	595,497	(597,557)	400,397

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STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Worcester’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

Table of Contents

	Page
Financial Trends	108
These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	
Revenue Capacity	120
These schedules contain information to help the reader assess the City’s most significant local revenue source, the property tax.	
Debt Capacity	124
These schedules contain information to help the reader assess the affordability of the City’s current level of outstanding debt and the City’s ability to issue additional debt in the future.	
Demographic and Economic Information	127
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place.	
Operating Information	130
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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CITY OF WORCESTER, MASSACHUSETTS

Net Assets by Component

Last Six Fiscal Years*

(accrual basis of accounting)

(amounts expressed in thousands)

Table 1

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities:						
Invested in capital assets, net of related debt	\$186,030	208,610	243,106	256,677	234,732	227,174
Restricted	25,386	19,749	11,862	13,305	39,064	29,255
Unrestricted	<u>(188,838)</u>	<u>(196,541)</u>	<u>(216,752)</u>	<u>(226,088)</u>	<u>(221,341)</u>	<u>(217,317)</u>
Total governmental activities net assets	<u><u>22,578</u></u>	<u><u>31,818</u></u>	<u><u>38,216</u></u>	<u><u>43,894</u></u>	<u><u>52,455</u></u>	<u><u>39,112</u></u>
Business-type activities:						
Invested in capital assets, net of related debt	114,441	113,110	110,722	117,755	109,124	104,871
Restricted	378	420	413	253	2,749	-
Unrestricted	<u>10,824</u>	<u>11,387</u>	<u>12,739</u>	<u>6,768</u>	<u>13,550</u>	<u>20,271</u>
Total business-type net assets	<u><u>125,643</u></u>	<u><u>124,917</u></u>	<u><u>123,874</u></u>	<u><u>124,776</u></u>	<u><u>125,423</u></u>	<u><u>125,142</u></u>
Primary government:						
Invested in capital assets, net of related debt	300,471	321,720	353,828	374,432	343,856	332,045
Restricted	25,764	20,169	12,275	13,558	41,813	29,255
Unrestricted	<u>(178,014)</u>	<u>(185,154)</u>	<u>(204,013)</u>	<u>(219,320)</u>	<u>(207,791)</u>	<u>(197,046)</u>
Total primary government net assets	<u><u>148,221</u></u>	<u><u>156,735</u></u>	<u><u>162,090</u></u>	<u><u>168,670</u></u>	<u><u>177,878</u></u>	<u><u>164,254</u></u>

* Data is being accumulated from fiscal year 2001 and forward.

CITY OF WORCESTER, MASSACHUSETTS

Changes in Net Assets

Last Six Fiscal Years*

(accrual basis of accounting)

(amounts expressed in thousands)

Table 2

	2001	2002	2003	2004	2005	2006
Expenses						
Governmental activities:						
General government	\$ 18,549	20,486	13,925	14,252	16,080	18,020
Public safety	76,465	84,227	92,283	97,385	103,529	112,183
Health and human services	21,304	20,866	19,054	17,328	21,452	20,750
Education (1)	242,218	277,206	302,846	314,035	328,800	352,433
Libraries	5,159	6,104	6,740	6,651	6,844	7,245
Public works	25,849	21,971	26,412	34,136	30,907	26,885
Culture and recreation	6,848	7,036	7,597	9,294	7,607	8,413
Community development	5,117	4,518	4,002	4,429	4,189	3,565
Redevelopment	6,543	2,719	4,238	30	5,770	-
Interest on debt	24,792	24,624	24,913	24,626	25,734	25,336
Total governmental activities expenses	<u>432,844</u>	<u>469,757</u>	<u>502,010</u>	<u>522,166</u>	<u>550,912</u>	<u>574,830</u>
Business-type activities:						
Water	19,466	20,352	20,753	20,804	21,535	22,141
Sewer	14,767	16,731	16,310	17,238	22,719	24,352
Airport	3,857	4,906	4,389	3,958	4,158	4,527
Golf course (non major)	984	1,215	1,082	1,030	1,026	1,164
Total business-type expenses	<u>39,074</u>	<u>43,204</u>	<u>42,534</u>	<u>43,030</u>	<u>49,438</u>	<u>52,184</u>
Total primary government expenses	<u>\$ 471,918</u>	<u>512,961</u>	<u>544,544</u>	<u>565,196</u>	<u>600,350</u>	<u>627,014</u>
Program Revenues						
Governmental activities:						
Charges for services	\$ 22,203	21,052	24,946	25,203	26,560	27,076
Operating grants and contributions (1)	218,159	248,409	273,738	282,028	300,270	292,442
Capital grants and contributions	2,781	2,315	2,338	4,539	5,160	5,217
Total governmental activities program revenues	<u>243,143</u>	<u>271,776</u>	<u>301,022</u>	<u>311,770</u>	<u>331,990</u>	<u>324,735</u>
Business-type activities:						
Charges for services:						
Water	19,249	21,686	22,534	23,154	24,132	22,735
Sewer	13,408	14,190	14,548	15,627	19,775	22,449
Airport	1,412	1,651	1,002	687	915	978
Golf course	1,022	1,114	1,050	1,068	1,029	1,041
Operating grants and contributions	1,449	733	1,329	1,202	1,241	1,006
Capital grants and contributions	8,785	2,247	1,470	3,362	3,081	3,114
Total business-type activities program revenues	<u>45,325</u>	<u>41,621</u>	<u>41,933</u>	<u>45,100</u>	<u>50,173</u>	<u>51,323</u>
Total primary government program revenues	<u>\$ 288,468</u>	<u>313,397</u>	<u>342,955</u>	<u>356,870</u>	<u>382,163</u>	<u>376,058</u>

(continued)

CITY OF WORCESTER, MASSACHUSETTS

Changes in Net Assets

Last Six Fiscal Years*

(accrual basis of accounting)

(amounts expressed in thousands)

Table 2

	2001	2002	2003	2004	2005	2006
Net (expense)/revenue						
Governmental activities	\$ (189,701)	(197,981)	(200,988)	(210,396)	(218,922)	(250,095)
Business-type activities	6,251	(1,583)	(601)	2,070	735	(861)
Total primary government net (expense)/ revenue	<u>\$ (183,450)</u>	<u>(199,564)</u>	<u>(201,589)</u>	<u>(208,326)</u>	<u>(218,187)</u>	<u>(250,956)</u>
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Property taxes	\$ 134,677	139,027	144,316	156,461	161,648	171,490
Motor vehicle excise taxes	12,733	12,941	13,438	12,581	13,503	12,096
Intergovernmental	51,353	47,425	42,016	39,406	43,026	44,146
Other	10,661	8,685	7,174	6,458	9,073	9,493
Transfers	(654)	(857)	442	1,168	88	(580)
Donations	-	-	-	-	145	107
Total governmental activities	<u>208,770</u>	<u>207,221</u>	<u>207,386</u>	<u>216,074</u>	<u>227,483</u>	<u>236,752</u>
Business-type activities						
Transfers	654	857	(442)	(1,168)	(88)	580
Total primary government	<u>\$ 209,424</u>	<u>208,078</u>	<u>206,944</u>	<u>214,906</u>	<u>227,395</u>	<u>237,332</u>
Changes in Net Assets						
Governmental activities	\$ 19,069	9,240	6,398	5,678	8,561	(13,343)
Business-type activities	6,905	(726)	(1,043)	902	647	(281)
Total primary government	<u>\$ 25,974</u>	<u>8,514</u>	<u>5,355</u>	<u>6,580</u>	<u>9,208</u>	<u>(13,624)</u>

* Data is being accumulated from fiscal year 2001 and forward.

(1) In fiscal year 2002 on-behalf payments for pension benefits from the Massachusetts Teachers' Retirement System became available and were accounted for.

(concluded)

CITY OF WORCESTER, MASSACHUSETTS
 Governmental Activities Tax revenues by Source
 Last Six Fiscal Years*
 (accrual basis of accounting)
 (amounts expressed in thousands)

Table 3

Fiscal Year	Property Tax	Motor Vehicle Excise Tax	Hotel/Motel Tax	Total
2001	\$ 134,677	12,733	766	148,176
2002	139,027	12,941	782	152,750
2003	144,316	13,438	713	158,467
2004	156,461	12,581	684	169,726
2005	161,648	13,503	753	175,904
2006	171,490	12,096	709	184,295

* Data is being accumulated from fiscal year 2001 and forward.

CITY OF WORCESTER, MASSACHUSETTS

Fund Balances of Governmental Funds

Last Six Fiscal Years*

Table 4

(modified accrual basis of accounting)
(amounts expressed in thousands)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund:						
Reserved (1)	\$ 922	1,618	1,618	1,618	1,618	-
Unreserved (1)	13,861	8,890	9,437	10,385	14,857	9,290
Total general fund	<u>\$ 14,783</u>	<u>10,508</u>	<u>11,055</u>	<u>12,003</u>	<u>16,475</u>	<u>9,290</u>
All other governmental funds						
Reserved	\$ 20,505	24,515	28,180	32,861	37,387	29,102
Unreserved, reported in:						
Stabilization fund	1,792	3,492	8,161	9,753	10,187	8,225
Special revenue funds	13,371	10,256	10,365	10,350	10,459	9,831
Capital projects funds (2)	(11,024)	(17,383)	(13,988)	20,372	16,923	(12,039)
Permanent funds	604	742	127	88	60	153
Total all other governmental funds	<u>\$ 25,248</u>	<u>21,622</u>	<u>32,845</u>	<u>73,424</u>	<u>75,016</u>	<u>35,272</u>

* Data is being accumulated from fiscal year 2001 and forward.

- (1) The decrease in reserved fund balance and the increase in unreserved fund balance in the general fund in fiscal 2006 is explained in the Management's Discussion and Analysis.
- (2) Unreserved fund balance in capital projects funds increased when temporary debt outstanding at year end was repaid with permanent debt before the audit reporting date in fiscal 2004 and 2005.

CITY OF WORCESTER, MASSACHUSETTS
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

Table 5

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
REVENUES										
Property taxes	\$ 116,559	121,189	126,888	131,351	133,885	140,712	148,322	156,945	163,706	171,484
Motor vehicle excise taxes	8,875	10,521	9,961	11,324	12,460	13,091	14,085	13,205	13,101	12,189
Other taxes and in-lieu payments	1,672	1,661	2,300	1,867	2,338	2,411	2,215	2,123	1,971	2,252
Penalties and interest on taxes	1,425	1,848	1,845	2,115	1,938	1,977	2,702	2,669	2,867	2,564
Licenses and permits	3,859	4,048	4,329	4,444	4,826	4,468	5,266	5,486	5,692	5,571
Intergovernmental (2)	194,198	233,139	226,655	250,918	270,124	299,585	312,369	325,375	353,407	348,175
Charges for services	12,801	12,199	14,369	15,197	14,718	14,595	17,644	16,758	17,645	17,913
Fines and forfeitures	2,628	2,401	2,378	2,195	2,024	2,122	2,636	2,554	2,925	3,234
Investment earnings	2,520	3,921	4,098	2,464	2,779	755	1,085	1,811	2,056	3,100
Donations	1,446	2,468	1,079	1,792	2,317	4,731	2,683	3,022	2,908	2,640
Contributions to permanent funds	51	101	60	46	442	62	65	48	145	107
Miscellaneous	1,634	1,155	1,835	2,225	2,541	1,713	1,215	1,224	3,063	1,725
Total revenues	<u>347,668</u>	<u>394,651</u>	<u>395,797</u>	<u>425,938</u>	<u>450,392</u>	<u>486,222</u>	<u>510,287</u>	<u>531,220</u>	<u>569,486</u>	<u>570,954</u>
EXPENDITURES										
General government	12,990	12,431	12,669	14,018	15,733	17,652	12,006	12,023	13,861	14,314
Public safety	55,878	54,881	66,457	67,346	65,427	74,806	75,079	72,876	79,286	82,119
Health and human services	16,433	16,955	16,963	19,599	18,646	17,967	17,001	14,055	18,545	17,045
Education	179,605	201,656	224,907	231,680	222,361	241,600	239,150	268,675	285,794	277,989
Libraries	5,062	4,643	4,864	9,822	16,210	10,392	6,745	4,651	4,686	5,087
Public works	21,833	23,192	19,537	19,933	22,845	21,069	24,026	24,833	29,652	29,629
Culture and recreation	23,387	7,763	8,589	4,916	8,212	9,083	6,046	6,663	9,609	6,236
Fringe benefits (1) (2)	43,536	47,220	269,772	38,993	38,940	67,922	82,331	100,755	115,236	123,716
Community development	4,411	4,553	4,772	4,872	5,101	4,518	4,001	4,429	4,189	3,565
Redevelopment	228	43	2,279	2,266	6,543	2,719	4,238	30	5,769	-
State & regional charges	4,976	2,043	1,971	3,041	2,132	2,276	2,424	2,457	2,697	2,841
Debt services:										
Principal	13,396	14,398	16,231	17,755	23,147	25,997	26,715	27,216	28,124	30,430
Interest (1)	9,264	10,334	11,188	26,450	25,512	24,223	25,464	24,515	24,674	25,034
Total expenditures	<u>390,999</u>	<u>400,112</u>	<u>660,199</u>	<u>460,691</u>	<u>470,809</u>	<u>520,224</u>	<u>525,226</u>	<u>563,178</u>	<u>622,122</u>	<u>618,005</u>
Excess of revenues over (under) expenditures	(43,331)	(5,461)	(264,402)	(34,753)	(20,417)	(34,002)	(14,939)	(31,958)	(52,636)	(47,051)

(continued)

CITY OF WORCESTER, MASSACHUSETTS
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

Table 5

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
OTHER FINANCING SOURCES (USES)										
Transfers in	\$ 5,275	7,595	6,109	6,136	9,819	12,576	17,947	14,248	17,608	14,048
Transfers out	(6,986)	(9,897)	(8,650)	(8,625)	(10,473)	(13,433)	(17,505)	(13,722)	(17,520)	(14,628)
Premium on issuance of bonds and notes	49	135	196	725	827	1,262	633	487	3,697	702
Issuance of refunding bonds	—	15,035	—	—	—	11,135	9,345	—	18,241	55,960
Issuance of bonds and notes	28,827	38,019	248,953	50,130	48,414	25,695	25,665	72,440	54,915	—
Payments to refunded bond escrow agent	—	(15,035)	—	—	—	(11,135)	(9,345)	—	(18,241)	(55,960)
Total other financing sources (uses)	<u>27,165</u>	<u>35,852</u>	<u>246,608</u>	<u>48,366</u>	<u>48,587</u>	<u>26,100</u>	<u>26,740</u>	<u>73,453</u>	<u>58,700</u>	<u>122</u>
Net change in fund balances	<u>\$ (16,166)</u>	<u>30,391</u>	<u>(17,794)</u>	<u>13,613</u>	<u>28,170</u>	<u>(7,902)</u>	<u>11,801</u>	<u>41,495</u>	<u>6,064</u>	<u>(46,929)</u>
Debt service as a percentage of noncapital expenditures	6.5%	6.8%	4.5%	10.6%	10.9%	10.9%	11.1%	10.6%	10.1%	10.1%

(1) In fiscal year 1999 the City issued \$220,979 of Pension Obligation Bonds. Debt service reflects this increased cost starting in fiscal year 2000 and fringe benefit costs reflect the transfer of bond proceeds to the pension trust fund in fiscal year 1999.

(2) In fiscal year 2002 on-behalf payments for pension benefits from the Massachusetts Teachers' Retirement System became available and were accounted for.

(concluded)

CITY OF WORCESTER, MASSACHUSETTS
 Governmental Activities Tax revenues by Source
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

Table 6

Fiscal Year	Property Tax	Motor Vehicle Excise Tax	Hotel/Motel Tax	Total
1997	\$ 116,559	8,875	588	126,022
1998	121,189	10,521	558	132,268
1999	126,888	9,961	614	137,463
2000	130,798	11,134	684	142,616
2001	133,885	12,460	766	147,111
2002	140,712	13,091	782	154,585
2003	148,322	14,085	713	163,120
2004	156,942	13,205	684	170,831
2005	163,706	13,101	753	177,560
2006	171,484	12,189	709	184,382

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CITY OF WORCESTER, MASSACHUSETTS
General Fund Expenditures – GAAP Basis
Year ended June 30, 2006

Graph
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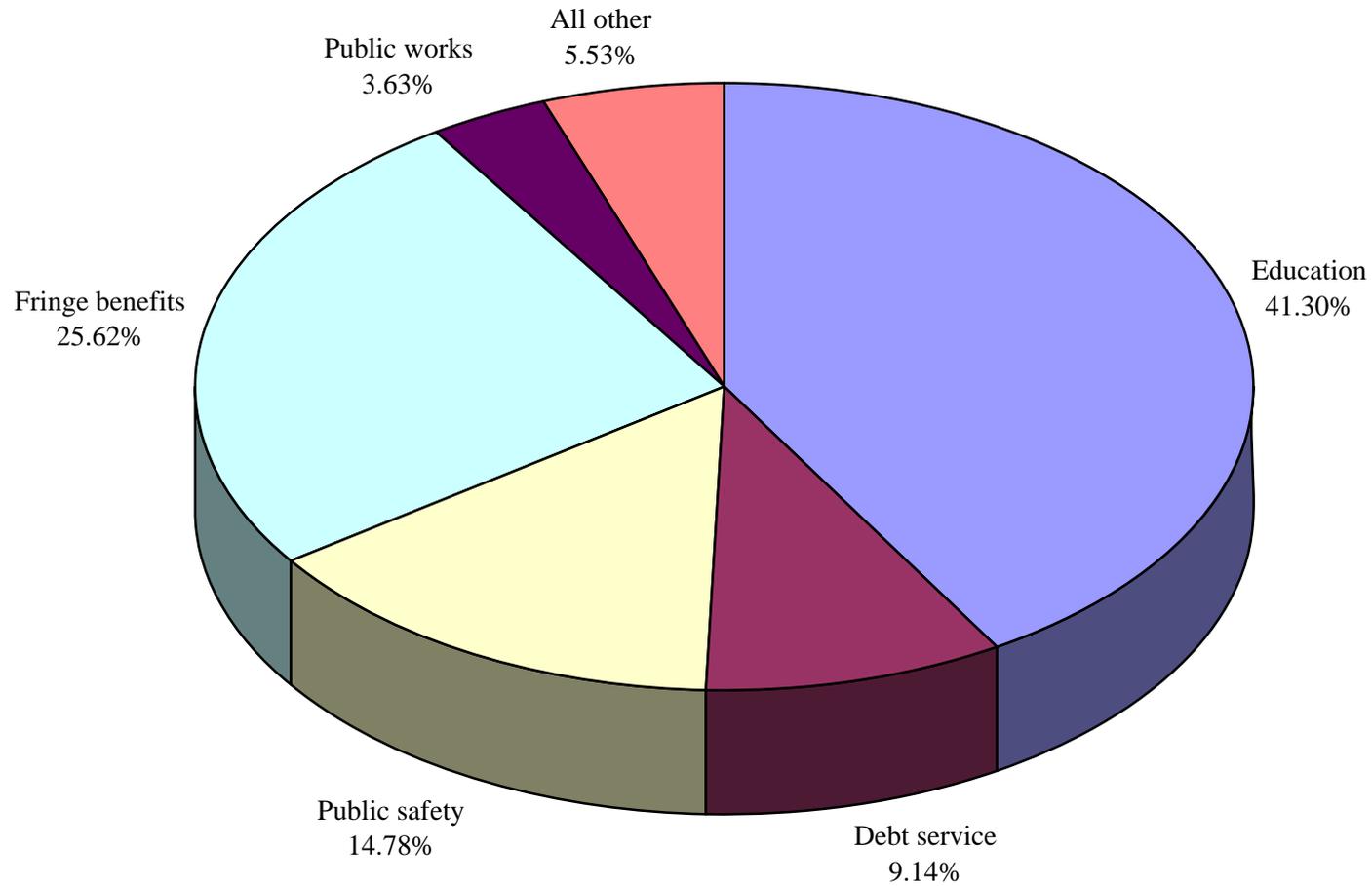


Table 7

CITY OF WORCESTER, MASSACHUSETTS

General Fund Expenditures – GAAP Basis

Last Ten Fiscal Years

(Amounts expressed in thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General government	\$ 11,362	10,504	11,015	12,760	12,990	14,726	10,326	10,391	11,216	12,574
Public safety	47,250	47,440	58,069	56,609	58,025	62,954	64,045	63,359	64,776	71,360
Health and human services	4,177	4,573	4,886	5,267	5,426	5,595	3,658	2,841	2,805	3,629
Education	139,948	149,893	156,265	165,579	172,357	179,401	181,006	189,472	190,912	199,411
Libraries	4,155	4,030	3,755	3,661	3,717	4,183	4,093	3,771	3,816	4,195
Public works	13,272	12,887	13,639	13,183	17,165	14,848	17,598	15,086	19,000	17,537
Culture and recreation	3,339	3,514	3,397	3,694	4,111	4,238	3,880	3,068	3,305	3,484
Fringe benefits (1) (2)	43,536	47,220	49,734	38,993	39,003	67,922	82,331	100,754	115,236	123,716
State and regional charges	1,969	2,043	1,971	3,041	2,132	2,276	2,424	2,457	2,697	2,841
Debt service (1)	18,801	21,223	22,273	41,474	44,488	44,501	44,971	44,299	44,478	44,114
Totals	\$ <u>287,809</u>	<u>303,327</u>	<u>325,004</u>	<u>344,261</u>	<u>359,414</u>	<u>400,644</u>	<u>414,332</u>	<u>435,498</u>	<u>458,241</u>	<u>482,861</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.

(2) In fiscal year 2002 on-behalf payments for pension benefits from the Massachusetts Teachers' Retirement System became available and were accounted for.

CITY OF WORCESTER, MASSACHUSETTS
General Fund Revenues – GAAP Basis
Year ended June 30, 2006

Graph 2

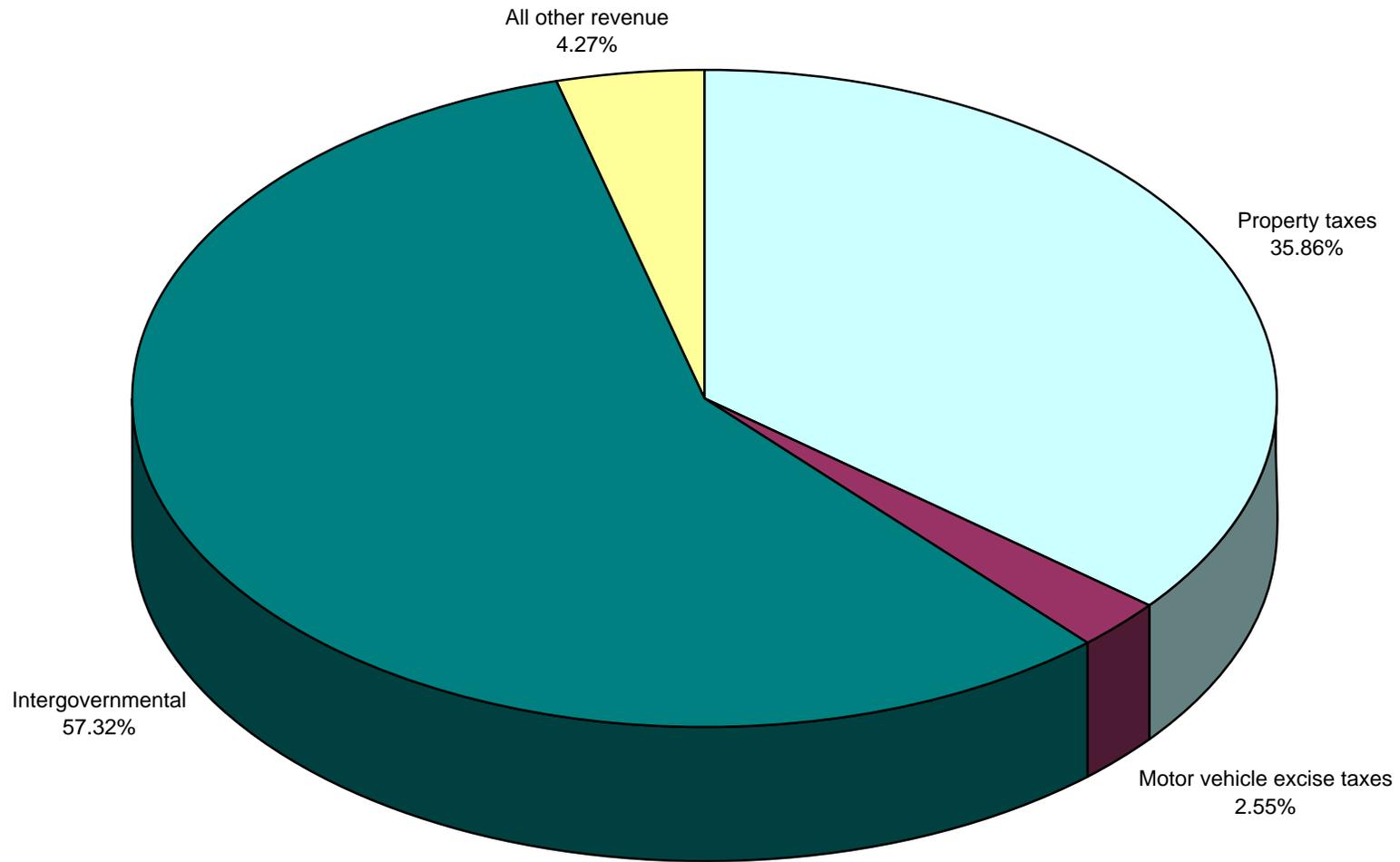


Table 8**CITY OF WORCESTER, MASSACHUSETTS**

General Fund Revenues – GAAP Basis

Last Ten Fiscal Years

(Amounts expressed in thousands)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Property taxes	\$ 116,559	121,189	126,888	130,798	133,885	140,712	148,322	156,942	163,706	171,484
Motor vehicle excise taxes	8,875	10,521	9,961	11,134	12,460	13,091	14,085	13,205	13,101	12,189
Other taxes and in-lieu payments	1,672	1,661	2,300	1,867	2,338	2,411	2,215	2,123	1,971	2,252
Penalties and interest on taxes	1,425	1,848	1,845	2,114	1,938	1,977	2,702	2,670	2,867	2,564
Licenses and permits	3,859	4,048	4,329	4,401	4,577	4,468	5,266	5,486	5,692	5,571
Intergovernmental (1)	146,439	160,326	173,108	189,378	202,269	229,704	238,655	253,091	263,343	274,093
Charges for services	2,310	2,276	2,273	2,373	2,355	2,477	3,613	3,864	4,052	3,760
Fines and forfeitures	2,628	2,401	2,378	2,195	2,024	2,122	2,636	2,554	2,925	3,234
Investment earnings	1,672	2,515	3,056	2,263	2,921	1,321	664	476	1,170	2,140
Miscellaneous	1,344	799	945	1,159	2,218	1,257	895	733	1,079	852
Totals	\$ <u>286,783</u>	<u>307,584</u>	<u>327,083</u>	<u>347,682</u>	<u>366,985</u>	<u>399,540</u>	<u>419,053</u>	<u>441,144</u>	<u>459,906</u>	<u>478,139</u>

(1) In fiscal year 2002 on-behalf payments for pension benefits from the Massachusetts Teachers' Retirement System became available and were accounted for.

CITY OF WORCESTER, MASSACHUSETTS

Graph 3

Assessed Valuation
Last Ten Fiscal Years
(Amounts expressed in millions)

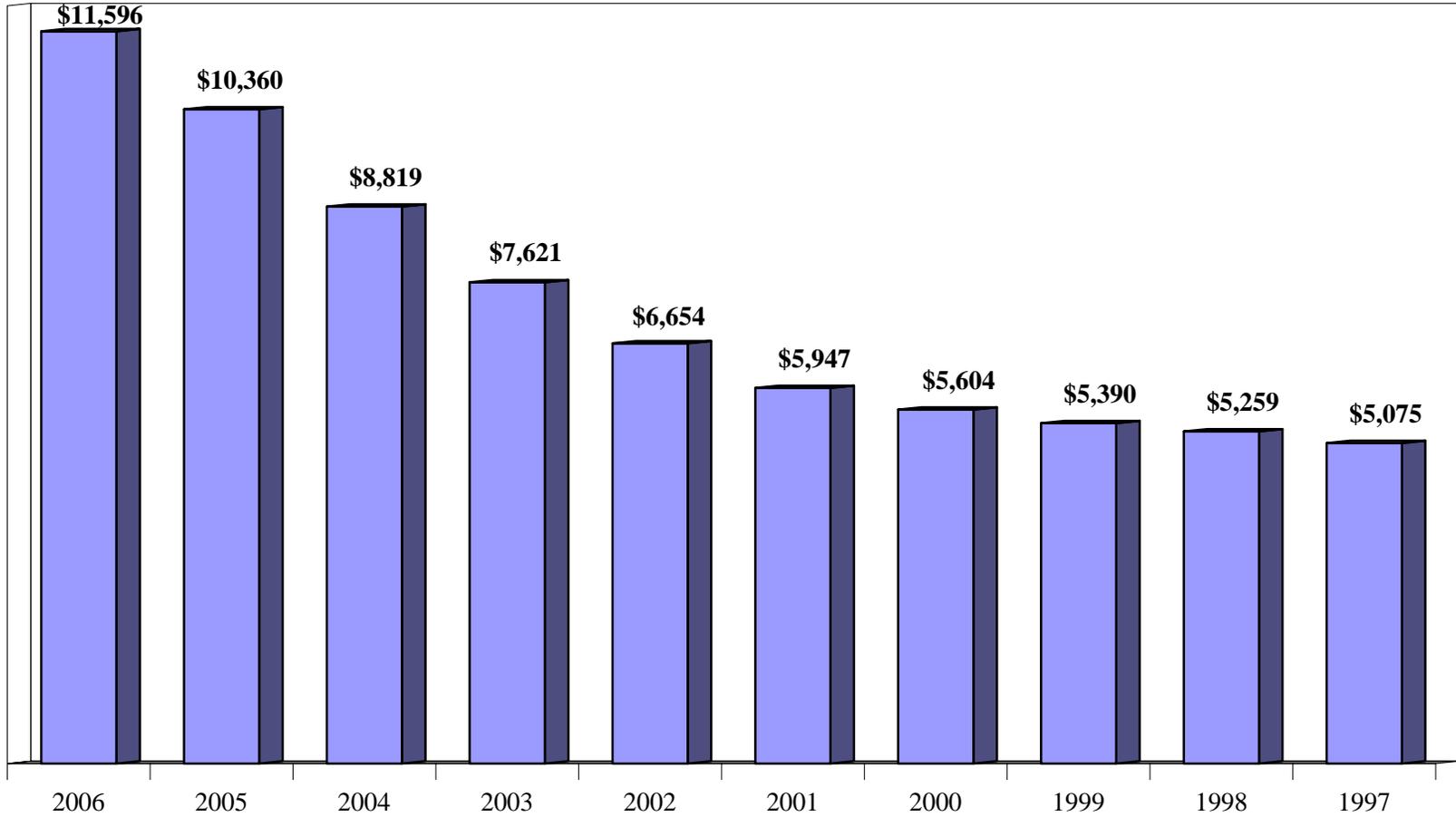


Table 9

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

Fiscal Year	Assessed value			Total taxable Assessed Value	Total Direct tax Rate	State Equalized Value	Ratio of Assessed to Equalized Value	Tax Exempt Real Property	Total Assessed Value	Ratio of Exempt property To total Assessed value
	Residential Property	Commercial and Industrial Property	Personal Property							
1997	\$ 3,594,289	1,203,752	276,494	5,074,535	23.63	5,409,542	93.81%	\$ 1,699,565	6,774,100	25.09%
1998	3,738,099	1,238,040	282,798	5,258,937	23.72	5,409,542	97.22	1,653,646	6,912,583	23.92
1999	3,822,618	1,283,978	282,950	5,389,546	24.05	5,536,578	97.34	1,661,179	7,050,725	23.56
2000	4,021,970	1,300,352	281,778	5,604,100	23.52	5,536,578	101.22	1,694,931	7,299,031	23.22
2001	4,335,259	1,308,185	303,520	5,946,964	22.74	6,010,162	98.95	1,689,279	7,636,243	22.12
2002	4,984,353	1,355,745	314,115	6,654,213	21.27	6,010,162	110.72	1,830,384	8,484,597	21.57
2003	5,912,081	1,382,048	326,949	7,621,078	19.59	7,248,688	105.14	2,110,469	9,731,547	21.69
2004	7,036,273	1,446,202	336,277	8,818,752	17.75	7,248,688	121.66	2,449,698	11,268,450	21.74
2005	8,498,913	1,549,889	311,287	10,360,089	15.77	9,694,618	106.86	2,445,616	12,805,705	19.10
2006	9,445,223	1,827,404	322,901	11,595,528	14.88	9,694,618	119.61	2,494,021	14,089,549	17.70

Table 10

CITY OF WORCESTER, MASSACHUSETTS
Principal Taxpayers - Current Year and Nine Years Ago
June 30, 2006
(Amounts expressed in thousands)

Taxpayer	Type of business	2006				1997			
		Assessed valuation	Rank	Fiscal 2006 tax bill	Percentage of tax levy	Assessed valuation	Rank	Fiscal 1997 tax bill	Percentage of tax levy
Massachusetts Electric Co.	Electric utility	\$ 126,452	1	\$ 3,186	1.85%	\$ 121,100	1	\$ 4,322	3.60%
Hanover Insurance Group (Allmerica)	Insurance	51,836	2	1,306	0.76	46,667	4	1,657	1.38
Alexandria Real Estate Equities	Biotechnology park	51,676	3	1,302	0.75	—	—	—	—
NStar	Gas utility	49,169	4	1,239	0.72	36,492	6	1,302	1.09
Greendale Mall (Mayflower Greendale LLP)	Shopping mall	45,271	5	1,141	0.66	31,216	7	1,114	0.93
Worcester TC LLC (Abbott Research)	Biotechnology research	43,827	6	1,104	0.64	37,385	5	1,334	1.11
Verizon	Telephone utility	40,665	7	1,025	0.59	55,645	2	1,986	1.66
Worcester Lincoln LLC (Lincoln Plaza)	Shopping mall	39,009	8	983	0.57	—	—	—	—
St. Vincent Hospital LLC	Health care facilities	34,869	9	879	0.51	—	—	—	—
Worcester Renaissance LLC	Office/Shopping mall	30,641	10	772	0.45	53,819	3	1,921	1.60
Saint-Gobain Abrasives, Inc.	Abrasives manufacturer	—	—	—	—	26,272	8	938	0.78
Worcester Business Development Corp.	Biotechnology park developer	—	—	—	—	25,765	9	920	0.77
Nobility Hill Realty	Bank/office	—	—	—	—	19,373	10	691	0.58
Totals		<u>\$ 513,415</u>		<u>\$ 12,937</u>	<u>7.50%</u>	<u>\$ 453,734</u>		<u>\$ 16,185</u>	<u>13.50%</u>

Table 11**CITY OF WORCESTER, MASSACHUSETTS**

Property Tax Levies and collections

Last Two Fiscal Years*

(Amounts expressed in thousands)

Fiscal Year	Total tax levy for fiscal year	Collected within the Fiscal year of the levy		Collections in Subsequent Years	Total collections to date	
		Amount	Percentage of levy		Amount	Percentage of levy
2005	\$ 162,051	158,415	97.76%	3,181	161,596	99.72%
2006	170,626	166,275	97.45	—	166,275	97.45

* Data is being accumulated from fiscal year 2005 and forward.

Table 12

CITY OF WORCESTER, MASSACHUSETTS

Ratio of Outstanding Debt by Type

Last Ten Fiscal Years

(Amounts expressed in thousands, except per capita)

Fiscal Year	Governmental activities		Business-type activities		Total Primary Government	Percentage of Personal Income	1	Per Capita
	General Obligation Bonds	Section 108 Note	General Obligation Bonds	Sewer Note				
1997	\$ 142,245	—	80,941	—	223,186	7.37%	\$	1,315
1998	164,988	—	95,395	—	260,383	7.03		1,534
1999	399,462	—	95,917	—	495,379	14.72		2,918
2000	427,968	—	99,488	—	527,456	15.00		3,107
2001	450,765	—	103,858	—	554,623	15.21		3,212
2002	452,683	—	101,336	—	554,019	14.55		3,209
2003	451,740	—	101,169	—	552,909	14.51		3,203
2004	491,164	5,800	109,380	1,168	607,512	15.46		3,519
2005	518,420	5,800	111,910	1,123	637,253	16.03		3,691
2006	489,146	5,800	103,808	991	599,745	15.03		3,474

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

1 Source: Massachusetts Department of Workforce Development

Table 13

CITY OF WORCESTER, MASSACHUSETTS

Ratio of Governmental Funds General Bonded Debt Outstanding

Last Ten Fiscal Years

(Amounts expressed in thousands, except per capita)

<u>Fiscal year</u>		<u>General Obligation Bonds</u>	<u>Percentage of Total Wages (1)</u>		<u>Total Per capita (2)</u>
1997	\$	142,245	4.69%	\$	838
1998		164,988	4.18		972
1999		399,462	11.87		2,353
2000		427,968	12.17		2,521
2001		450,765	12.36		2,655
2002		452,683	11.89		2,667
2003		451,740	11.85		2,661
2004		491,164	12.50		2,893
2005		518,420	13.04		3,054
2006		489,146	12.26		2,881

Note: Details regarding the City's outstanding debt can be found in the notes to financial statements.

(1) Source: Massachusetts Department of Workforce Development

(2) Population data based on 1990 and 2000 Census

Table 14

CITY OF WORCESTER, MASSACHUSETTS

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

	1997	1998	1999	2000	2001 (2)	2002	2003	2004	2005	2006
Debt Limit (1)	\$ 135,239	135,239	138,414	138,414	283,599	150,254	181,217	362,434	484,731	484,731
Total net debt applicable to limit	102,105	131,860	125,481	128,856	250,307	125,014	170,375	180,376	199,169	208,140
Legal debt limit	\$ 33,134	3,379	12,933	9,558	33,292	25,240	10,842	182,058	285,562	276,591
Total net debt applicable to the limit as a percentage of debt limit	75.50%	97.50%	90.66%	93.09%	88.26%	83.20%	94.02%	49.77%	41.09%	42.94%

Legal Debt Margin Calculation for Fiscal Year 2006

Equalized valuation - real estate and personal property (January 1, 2004)	\$	9,694,618
Debt limit - 5% of equalized valuation		484,731
Total bonded debt (including authorized and unissued of \$244,737)		838,681
Less bonded debt not included in computation of legal debt margin as defined by Massachusetts statutes		(495,692)
Less bonded debt authorized but not yet issued which is outside the debt limit		(134,849)
Legal debt margin	\$	<u>276,591</u>

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

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

CITY OF WORCESTER, MASSACHUSETTS
Demographic and Economic Statistics
Last Ten Fiscal Years

Table 15

Fiscal Year	Population (1)	Personal Income (amounts expressed in thousands) (3)	Per Capita Personal Income (3)	Median Age (3)	Public School Enrollment (4) (5)	Unemployment Rate (6) (7)
1997 (2)	169,759				22,989	4.6%
1998 (2)	169,759				23,121	4.2
1999 (2)	169,759				24,357	3.7
2000	172,648	3,213,670	18,614	33.4	24,629	3.8
2001	173,025				24,931	3.1
2002	174,078				25,037	4.5
2003	175,071				24,885	6.2
2004	175,495				24,363	6.7
2005	175,770	3,909,828	22,244	33.4	24,227	6.1
2006	175,898				23,404	5.7

1 Source: U.S. Department of Commerce. Years 2001 to 2006 are estimates at July 1 of the fiscal year based on the April 1, 2000 Census of 172,648.

2 1990 Census

3 Source: U.S. Department of Commerce, Census for fiscal year 2000. Fiscal year 2005 is based on an estimate from the U.S. Department of Commerce.

4 Source: Worcester School Department

5 As of October 1 of each fiscal year

6 Source: Massachusetts Department of Workforce Development

7 Calendar year average

Table 16

CITY OF WORCESTER, MASSACHUSETTS

Full Time Employees
Last Nine Fiscal Years*

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General government	334	248	238	236	241	201	189	188	197
Public safety									
Police									
Officers	470	464	450	472	459	424	468	456	468
Civilians	68	57	60	33	56	39	45	47	53
Fire									
Officers	458	458	447	456	445	398	429	421	410
Civilians	24	17	35	22	11	12	16	10	10
Other public safety	61	56	56	58	56	105	95	98	86
Health and human services	191	188	205	206	206	89	89	92	102
Education	3,966	3,762	4,046	4,060	4,111	3,905	3,821	3,698	3,658
Libraries	105	101	94	94	97	87	80	82	84
Public works	233	221	221	224	217	196	182	183	189
Culture and recreation	141	64	63	85	65	56	52	51	49
Water	122	126	127	126	120	117	114	112	111
Sewer	55	61	57	55	56	52	58	54	54
Airport	24	22	22	21	23	21	16	16	18
Golf course	13	4	3	3	3	3	2	3	3
Totals	<u>6,265</u>	<u>5,849</u>	<u>6,124</u>	<u>6,151</u>	<u>6,166</u>	<u>5,705</u>	<u>5,656</u>	<u>5,511</u>	<u>5,492</u>

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

* Data is being accumulated from fiscal year 1998 and forward

Table 17

CITY OF WORCESTER, MASSACHUSETTS

Principal employers

Current year and nine years ago

Employer	Type of business	2006			1997		
		Employees	Rank	Percentage of total City Employment	Employees	Rank	Percentage of total City Employment
UMass Memorial Health Care	(1) Health care	10,000	1	12.84%	6,334	1	8.31%
City of Worcester	Government and education	5,492	2	7.05	5,500	2	7.22
UMass Medical School	Education	3,000	3	3.85			
Hanover Insurance Group	Insurance	2,100	4	2.70			
Saint Vincent Hospital	Health care	2,098	5	2.69	2,547	4	3.34
Saint Gobain (formerly Norton Co.)	Abrasives manufacturer	1,850	6	2.38			
College of the Holy Cross	Education	1,099	7	1.41	860	5	1.13
Worcester State College	Education	1,084	8	1.39			
Fallon Clinic	Health care	800	9	1.03			
Clark University	Education	783	10	1.01			
The Medical Center of Central Mass	(1) Health care				3,659	3	4.80
Polar Corporation	Bottling company				700	6	0.92
WPI	Education				685	7	0.90
Quinsigamond Community College	Education				683	8	0.90
AMI Corporation	Leasing company				650	9	0.85
Fairlawn Rehabilitation Hospital	Health care				600	10	0.79

Source: Worcester Regional Chamber of Commerce

1 The Medical Center of Central Mass merged with UMass Memorial Health Care

Table 18

CITY OF WORCESTER, MASSACHUSETTS

Operating Indicators by Function
Last Ten Fiscal/Calendar Years

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Police (1), (2)										
Total arrests	8,966	10,266	9,619	9,047	8,108	7,759	8,033	6,482	7,014	7,853
Different individuals arrested	6,586	7,329	6,938	6,578	6,081	5,938	6,041	5,154	5,366	5,916
Arrests for selected charges										
Drug-related	2,148	2,197	2,077	2,118	2,122	2,403	2,792	1,611	1,638	2,829
Aggravated assault	667	743	737	806	629	579	667	633	540	679
Disorderly conduct, disturbing peace	1,729	2,130	2,082	1,834	1,563	1,654	1,679	1,357	1,351	1,071
Prostitution and related	310	163	246	138	152	204	230	195	234	232
Sexual assault, including rape	34	42	51	31	34	43	59	23	22	33
Armed robbery	43	48	37	55	48	54	52	73	73	57
Murder /manslaughter, attempted murder	28	27	26	40	26	33	46	24	46	7
Fire (1)										
Total Incidents	24,231	25,871	27,717	27,427	32,681	33,054	29,350	22,839	21,778	23,996
Selected incidents										
EMS	10,422	12,216	13,023	12,356	13,516	13,377	14,624	16,038	15,383	14,002
Structure fires	970	874	896	799	799	797	716	454	417	592
Arson fires	n/a	n/a	n/a	68	25	30	43	42	31	19
Vehicle fires	307	289	308	240	320	284	269	206	184	121
Good intent	1,972	1,799	1,742	1,983	2,092	2,201	3,658	1,019	1,149	1,160
False alarm	1,631	1,423	1,539	1,701	1,708	1,632	1,591	1,542	1,705	2,702
Highways and streets										
Streets and resurfacing (1), (3)	20	9	15	9	8	8	9	16	14	14
Potholes repaired	n/a	n/a	n/a	n/a	11,481	9,105	13,268	15,596	7,895	13,403
Sanitation										
Refuse collected (tons/day)	93.74	96.34	99.73	104.68	109.39	112.70	106.62	107.05	104.15	102.78
Recyclable collected (tons/day)	40.53	38.13	38.50	41.23	43.04	36.70	36.99	38.71	37.70	37.20
Water										
New connections	215	203	277	321	312	377	389	463	454	373
Water main breaks	42	181	280	349	288	199	61	65	76	50
Average daily consumption (thousands of gallons)	22,043	21,688	23,430	22,844	22,589	23,578	24,091	23,932	23,595	22,681
Wastewater										
Average daily sewage treatment (thousands of gallons)	30,637	35,219	37,683	34,172	30,541	33,195	31,944	27,743	31,364	30,156

Source: Various government departments

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

Table 19

CITY OF WORCESTER, MASSACHUSETTS

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	12	12	12	12	12	12	12	11	11	11
Education:										
Schools	52	51	52	51	52	52	52	49	49	49
Libraries	3	3	3	3	3	3	3	3	3	3
Public works										
Streets:										
Streets (miles)	402	406	408	406	423	411	411	414	414	416
Sidewalks (miles)	612	612	613	596	606	606	606	473	473	478
Streetlights	12,540	12,545	12,640	12,693	12,716	12,752	12,772	12,972	12,994	13,238
Water:										
Main pipes (miles)	587	588	592	654	655	659	614	592	592	592
Fire hydrants	6,069	6,077	6,088	5,277	5,095	5,490	5,481	5,940	5,940	5,951
Reservoirs	10	10	10	10	10	10	10	10	10	10
Reservoir gallons of capacity (in thousands)	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938	7,379,938
Sewers:										
Sanitary sewers (miles)	376	376	377	380	381	381	387	389	390	392
Combined sewers (miles)	61	61	61	61	61	65	65	66	65	65
Surface sewers Miles	347	347	349	351	353	353	358	361	362	364
Municipal parking garages:										
Capacity - cars										
Pearl Elm	800	800	800	800	800	800	800	800	800	800
Federal Plaza	511	511	511	511	511	511	511	511	511	511
Culture and recreation										
Parks	51	51	51	52	52	52	53	54	54	56
Parks and playground acreage	1,207	1,207	1,207	1,280	1,280	1,285	1,722	1,734	1,736	1,744
Civic Center										
Seating capacities										
Center stage	15,011	15,011	15,011	15,011	15,011	14,639	14,639	14,639	14,639	14,639
End stage	14,500	14,500	14,500	14,500	14,500	14,751	14,751	14,751	14,751	14,751
Basketball	13,800	13,800	13,800	13,800	13,800	13,500	13,500	13,500	13,500	13,500
Hockey	12,405	12,405	12,405	12,405	12,405	12,239	12,239	12,239	12,239	12,239
Ice show	13,033	13,033	13,033	13,033	13,033	11,888	11,888	11,888	11,888	11,888
Municipal cemeteries	1	1	1	1	1	1	1	1	1	1

Source: Various government departments