

CITY OF AGAWAM, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2003

CITY OF AGAWAM, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2003

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis	3
Basic Financial Statements	9
Statement of Net Assets	10
Statement of Activities	11
Governmental funds – balance sheet.....	13
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets	14
Governmental funds – statement of revenues, expenditures and changes in fund balances.....	15
Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities.....	16
Proprietary funds – statement of net assets	17
Proprietary funds – statement of revenues, expenses and changes in fund net assets	18
Proprietary funds – statement of cash flows.....	19
Fiduciary funds – statement of fiduciary net assets.....	20
Fiduciary funds – statement of changes in fiduciary net assets	21
Notes to basic financial statements	22
Required Supplementary Information.....	48
Notes to Required Supplementary Information.....	49
Schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual	50



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Agawam, Massachusetts, as of and for the fiscal year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Agawam, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Agawam, Massachusetts, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 14, the City has implemented several Governmental Accounting Standards Board Statements, which changed the beginning fund equity position of several funds and established net assets for governmental activities and business-type activities.

In accordance with Government Auditing Standards, we have also issued our report dated November 19, 2003, on our consideration of the City of Agawam, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in cursive script that reads "Bowers + Sullivan".

November 19, 2003

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Agawam, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2003. This is the first year our financial statements have been prepared under the Governmental Accounting Standards Board Statement Number 34 – Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This new reporting model represents a major change when compared to prior financial statements. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Agawam's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

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

The following page contains key financial highlights of the entity-wide financial statements for FY2003.

	Governmental Activities	Business-type Activities
Assets:		
Current assets.....	\$ 26,147,351	\$ 7,573,654
Noncurrent assets (excluding capital).....	12,342,485	890,357
Capital assets.....	73,346,095	23,182,124
Total assets.....	111,835,931	31,646,135
Liabilities:		
Current liabilities (excluding debt).....	5,181,498	143,195
Noncurrent liabilities (excluding debt).....	2,077,543	278,853
Current debt.....	1,592,837	465,345
Noncurrent debt.....	23,188,765	4,117,299
Total liabilities.....	32,040,643	5,004,692
Net Assets:		
Capital assets net of related debt.....	61,473,091	19,524,586
Restricted.....	1,825,611	-
Unrestricted.....	16,496,586	7,116,857
Total net assets.....	79,795,288	26,641,443
Program revenues:		
Charges for services.....	4,592,853	4,799,818
Operating grants and contributions.....	19,412,027	195,351
Capital grants and contributions.....	871,283	-
General Revenues:		
Real estate and personal property taxes.....	34,826,882	-
Motor vehicle and other excise taxes.....	3,129,201	-
Nonrestricted grants.....	3,634,774	-
Unrestricted investment income.....	471,966	-
Other revenues.....	134,858	-
Total revenues.....	67,073,844	4,995,169
Expenses:		
General Government.....	2,369,006	-
Public Safety.....	8,226,055	-
Education.....	33,613,840	-
Public Works.....	6,098,670	-
Human Services.....	1,053,530	-
Leisure Services.....	1,251,628	-
Pension benefits.....	4,970,903	-
Property and liability insurance.....	521,991	-
Claims and judgments.....	3,002,028	-
Employee benefits.....	3,778,461	-
Capital Outlay.....	555,671	-
Interest.....	1,099,135	-
State and county charges.....	469,312	-
Water.....	-	2,258,048
Sewer.....	-	2,313,231
Golf.....	-	486,962
Total expenses.....	67,010,230	5,058,241
Transfers.....	288,813	(288,813)
Change in net assets.....	\$ 352,427	\$ (351,885)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$106,436,731 at the close of FY2003.

Governmental net assets of \$61,473,091 (77%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net assets \$1,825,611 (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$16,496,586 (21%) may be used to meet the government's ongoing obligations to citizens and creditors.

Business-type golf, water and sewer activities had total net assets of \$26,641,443. Net assets of \$19,524,586 (73%) represent the investment in capital assets while \$7,116,587 (27%) is unrestricted.

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

The Governmental Expenses totaled \$67,010,230 of which \$24,876,163 (37%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General Revenues totaled \$42,197,681, primarily coming from property taxes, motor vehicle excise, non-restricted state aid and other miscellaneous charges.

The governmental activities net assets increased by \$352,427 during the current fiscal year of which most of the change is attributable to the change in deferred revenue and long-term liabilities between fiscal years.

There was a decrease of (\$351,885) in net assets reported in connection with the golf, water and sewer business-type activities. The recurring operations resulted in no significant change in net assets.

Since this is the first year of reporting under GASB #34 no meaningful historical trends have been established to draw further conclusions.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$18,764,451, of which \$9,951,424 is for the general fund and \$8,813,027 for Nonmajor governmental funds. Cumulatively there was a decrease of (\$559,591) in fund balances from the prior year. The General Fund had a modest decrease of (\$756,070) that met the City's objective to maintain adequate reserves. Most of the decrease was due to the City using prior years fund balance to balance the budget.

General Fund Budgetary Highlights

The City budgets conservatively and therefore maintained their positive balances while using free cash and overlay reserves to balance the budget. No significant budget to actual variances occurred in FY03.

Capital Asset and Debt Administration

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

Outstanding long-term debt of the general government, as of June 30, 2003, totaled \$24,767,983, of which \$17,184,500 is related to school projects that is supported by the Commonwealth of Massachusetts. The State is obligated to provide school construction assistance for approved school projects. The assistance is paid annually to support the debt service payments over time. At June 30, 2003 the City is scheduled to receive \$16,477,520 of future principal and interest reimbursements.

The sewer and golf enterprise funds have \$3,685,499 and \$850,500, respectively of outstanding long-term debt at year-end that is fully supported by rates and does not rely on a general fund subsidy.

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

Requests for Information

This financial report is designed to provide a general overview of the City of Agawam's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Auditor, 36 Main Street, Agawam, Massachusetts 01001.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2003

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 22,360,003	\$ 5,391,937	\$ 27,751,940
Investments.....	578,571	-	578,571
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	665,448	-	665,448
Tax liens.....	920,779	-	920,779
Motor vehicle excise taxes.....	293,656	-	293,656
User fees.....	-	2,146,968	2,146,968
Departmental and other.....	85,207	-	85,207
Special assessments.....	4,431	-	4,431
Intergovernmental.....	1,239,256	34,749	1,274,005
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	12,342,485	890,357	13,232,842
Capital assets, net of accumulated depreciation.....	73,346,095	23,182,124	96,528,219
TOTAL ASSETS.....	111,835,931	31,646,135	143,482,066
LIABILITIES			
CURRENT:			
Warrants payable.....	1,500,610	-	1,500,610
Accrued payroll.....	1,662,290	-	1,662,290
Accrued interest.....	312,890	65,889	378,779
Payroll withholdings.....	276,072	-	276,072
Abandoned property.....	83,786	-	83,786
Other liabilities.....	127,458	-	127,458
Capital lease obligations.....	13,619	20,542	34,161
Compensated absences.....	1,189,392	77,306	1,266,698
Workers' compensation.....	29,000	-	29,000
Bonds and notes payable.....	1,579,218	444,803	2,024,021
NONCURRENT:			
Capital lease obligations.....	-	26,103	26,103
Compensated absences.....	2,077,543	278,853	2,356,396
Bonds and notes payable.....	23,188,765	4,091,196	27,279,961
TOTAL LIABILITIES.....	32,040,643	5,004,692	37,045,335
NET ASSETS			
Invested in capital assets, net of related debt.....	61,473,091	19,524,586	80,997,677
Restricted for:			
Permanent funds:			
Expendable.....	255,215	-	255,215
Nonexpendable.....	357,178	-	357,178
Other purposes.....	1,213,218	-	1,213,218
Unrestricted.....	16,496,586	7,116,857	23,613,443
TOTAL NET ASSETS.....	\$ 79,795,288	\$ 26,641,443	\$ 106,436,731

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 2,369,006	\$ 722,387	\$ 564,293	\$ 401,323	\$ (681,003)
Public safety.....	8,226,055	1,609,663	462,665	-	(6,153,727)
Education.....	33,613,840	1,483,944	14,232,815	-	(17,897,081)
Public works.....	6,098,670	424,472	-	469,960	(5,204,238)
Human services.....	1,053,530	149,819	83,248	-	(820,463)
Culture and recreation.....	1,251,628	202,568	276,096	-	(772,964)
Pension benefits.....	4,970,903	-	3,202,212	-	(1,768,691)
Property and liability insurance.....	521,991	-	-	-	(521,991)
Employee benefits.....	3,778,461	-	-	-	(3,778,461)
Claims and judgments.....	3,002,028	-	-	-	(3,002,028)
Capital outlay.....	555,671	-	-	-	(555,671)
Interest.....	1,099,135	-	590,698	-	(508,437)
State and county charges.....	469,312	-	-	-	(469,312)
Total Governmental Activities.....	67,010,230	4,592,853	19,412,027	871,283	(42,134,067)
<i>Business-Type Activities:</i>					
Water.....	2,258,048	2,008,522	4,026	-	(245,500)
Sewer.....	2,313,231	1,965,795	186,827	-	(160,609)
Golf.....	486,962	825,501	4,498	-	343,037
Total Business-Type Activities.....	5,058,241	4,799,818	195,351	-	(63,072)
Total Primary Government.....	\$ 72,068,471	\$ 9,392,671	\$ 19,607,378	\$ 871,283	\$ (42,197,139)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (42,134,067)	\$ (63,072)	\$ (42,197,139)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	34,826,882	-	34,826,882
Motor vehicle and other excise taxes.....	3,129,201	-	3,129,201
Grants and contributions not restricted to specific programs.....	3,634,774	-	3,634,774
Unrestricted investment income.....	471,966	-	471,966
Gain on sale of capital assets.....	87,100	-	87,100
Miscellaneous.....	47,758	-	47,758
<i>Transfers, net</i>	288,813	(288,813)	-
Total general revenues and transfers.....	42,486,494	(288,813)	42,197,681
Change in net assets.....	352,427	(351,885)	542
<i>Net Assets:</i>			
Beginning of year.....	79,442,861	26,993,328	106,436,189
End of year.....	\$ <u>79,795,288</u>	\$ <u>26,641,443</u>	\$ <u>106,436,731</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2003

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments.....	\$ 13,483,960	\$ 8,234,459	\$ 21,718,419
Investments.....	-	578,571	578,571
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	665,448	-	665,448
Tax liens.....	920,779	-	920,779
Motor vehicle excise taxes.....	293,656	-	293,656
Departmental and other.....	32,032	53,175	85,207
Special assessments.....	4,431	-	4,431
Intergovernmental.....	12,908,598	673,143	13,581,741
TOTAL ASSETS.....	\$ 28,308,904	\$ 9,539,348	\$ 37,848,252
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 1,500,607	\$ 3	\$ 1,500,610
Accrued payroll.....	1,662,290	-	1,662,290
Payroll withholdings.....	276,072	-	276,072
Abandoned property.....	83,786	-	83,786
Other liabilities.....	127,458	-	127,458
Deferred revenues.....	14,707,267	726,318	15,433,585
TOTAL LIABILITIES.....	18,357,480	726,321	19,083,801
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	1,559,175	44,995	1,604,170
Perpetual permanent funds.....	-	357,178	357,178
Unreserved:			
Undesignated, reported in:			
General fund.....	8,392,249	-	8,392,249
Special revenue funds.....	-	7,290,124	7,290,124
Capital projects funds.....	-	865,515	865,515
Permanent funds.....	-	255,215	255,215
TOTAL FUND BALANCES.....	9,951,424	8,813,027	18,764,451
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 28,308,904	\$ 9,539,348	\$ 37,848,252

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2003

Total governmental fund balances.....		\$ 18,764,451
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		73,346,095
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		15,433,585
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		612,584
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(312,890)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(24,767,983)	
Capital lease obligations.....	(13,619)	
Compensated absences.....	(3,266,935)	
Net effect of reporting long-term liabilities.....		<u>(28,048,537)</u>
Net assets of governmental activities.....		<u>\$ 79,795,288</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2003

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 33,409,283	\$ -	\$ 33,409,283
Motor vehicle and other excise taxes.....	2,998,305	-	2,998,305
Intergovernmental.....	20,099,070	3,073,191	23,172,261
Departmental and other.....	1,484,841	3,570,067	5,054,908
Contributions.....	-	193,005	193,005
Investment income.....	371,868	88,857	460,725
TOTAL REVENUES.....	58,363,367	6,925,120	65,288,487
EXPENDITURES:			
General government.....	2,298,390	62,042	2,360,432
Public safety.....	6,467,470	1,495,714	7,963,184
Education.....	29,506,006	3,353,421	32,859,427
Public works.....	4,638,622	691	4,639,313
Human services.....	881,686	180,004	1,061,690
Culture and recreation.....	991,721	240,872	1,232,593
Pension benefits.....	4,970,903	-	4,970,903
Property and liability insurance.....	521,991	-	521,991
Employee benefits.....	3,771,460	-	3,771,460
Claims and judgments.....	3,002,028	-	3,002,028
State and county charges.....	469,312	-	469,312
Capital outlay.....	608,424	1,691,997	2,300,421
Debt service:			
Principal.....	1,579,218	-	1,579,218
Interest.....	1,120,929	-	1,120,929
TOTAL EXPENDITURES.....	60,828,160	7,024,741	67,852,901
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(2,464,793)	(99,621)	(2,564,414)
OTHER FINANCING SOURCES (USES):			
Proceeds from bonds and notes.....	880,000	750,000	1,630,000
Premium from issuance of bonds.....	5,618	-	5,618
Bond issuance costs.....	(6,708)	-	(6,708)
Sale of capital assets.....	87,100	-	87,100
Operating transfers in.....	1,336,594	21,662	1,358,256
Operating transfers out.....	(593,881)	(475,562)	(1,069,443)
TOTAL OTHER FINANCING SOURCES (USES).....	1,708,723	296,100	2,004,823
NET CHANGE IN FUND BALANCES.....	(756,070)	196,479	(559,591)
FUND BALANCES AT BEGINNING OF YEAR.....	10,707,494	8,616,548	19,324,042
FUND BALANCES AT END OF YEAR.....	\$ 9,951,424	\$ 8,813,027	\$ 18,764,451

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds.....	\$	(559,591)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....		2,146,073
Depreciation expense.....		<u>(2,572,313)</u>
Net effect of reporting capital assets.....		(426,240)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		1,280,075
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from bonds and notes.....		(1,630,000)
Capital lease principal payments.....		14,542
Debt service principal payments.....		<u>1,579,218</u>
Net effect of reporting long-term debt.....		(36,240)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....		61,681
Net change in accrued interest on long-term debt.....		<u>28,502</u>
Net effect of recording long-term liabilities.....		90,183
<p>Internal service funds are used by management to account for workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>4,240</u>
Change in net assets of governmental activities.....	\$	<u><u>352,427</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2003

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
ASSETS					
CURRENT:					
Cash and short-term investments.....	\$ 3,685,496	\$ 1,264,603	\$ 441,838	\$ 5,391,937	\$ 641,584
Receivables, net of allowance for uncollectibles:					
User fees.....	973,546	1,173,422	-	2,146,968	-
Intergovernmental.....	-	34,749	-	34,749	-
Total current assets.....	<u>4,659,042</u>	<u>2,472,774</u>	<u>441,838</u>	<u>7,573,654</u>	<u>641,584</u>
NONCURRENT:					
Receivables, net of allowance for uncollectibles:					
Intergovernmental.....	-	890,357	-	890,357	-
Capital assets, net of accumulated depreciation.....	<u>8,696,117</u>	<u>12,916,772</u>	<u>1,569,235</u>	<u>23,182,124</u>	<u>-</u>
Total noncurrent assets.....	<u>8,696,117</u>	<u>13,807,129</u>	<u>1,569,235</u>	<u>24,072,481</u>	<u>-</u>
TOTAL ASSETS.....	<u><u>13,355,159</u></u>	<u><u>16,279,903</u></u>	<u><u>2,011,073</u></u>	<u><u>31,646,135</u></u>	<u><u>641,584</u></u>
LIABILITIES					
CURRENT:					
Accrued interest.....	-	53,423	12,466	65,889	-
Capital lease obligations.....	-	-	20,542	20,542	-
Compensated absences.....	29,582	11,496	36,228	77,306	-
Workers' compensation.....	-	-	-	-	29,000
Bonds and notes payable.....	-	336,303	108,500	444,803	-
Total current liabilities.....	<u>29,582</u>	<u>401,222</u>	<u>177,736</u>	<u>608,540</u>	<u>29,000</u>
NONCURRENT:					
Capital lease obligations.....	-	-	26,103	26,103	-
Compensated absences.....	259,160	19,693	-	278,853	-
Bonds and notes payable.....	-	3,349,196	742,000	4,091,196	-
Total noncurrent liabilities.....	<u>259,160</u>	<u>3,368,889</u>	<u>768,103</u>	<u>4,396,152</u>	<u>-</u>
TOTAL LIABILITIES.....	<u><u>288,742</u></u>	<u><u>3,770,111</u></u>	<u><u>945,839</u></u>	<u><u>5,004,692</u></u>	<u><u>29,000</u></u>
NET ASSETS					
Invested in capital assets, net of related debt.....	8,696,117	10,156,379	672,090	19,524,586	-
Unrestricted.....	<u>4,370,300</u>	<u>2,353,413</u>	<u>393,144</u>	<u>7,116,857</u>	<u>612,584</u>
TOTAL NET ASSETS.....	<u><u>\$ 13,066,417</u></u>	<u><u>\$ 12,509,792</u></u>	<u><u>\$ 1,065,234</u></u>	<u><u>\$ 26,641,443</u></u>	<u><u>\$ 612,584</u></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2003

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
OPERATING REVENUES:					
Charges for services	\$ 2,008,522	\$ 1,965,795	\$ 825,501	\$ 4,799,818	\$ -
TOTAL OPERATING REVENUES	<u>2,008,522</u>	<u>1,965,795</u>	<u>825,501</u>	<u>4,799,818</u>	<u>-</u>
OPERATING EXPENSES:					
Cost of services and administration	1,941,100	1,487,601	390,758	3,819,459	-
Depreciation.....	316,948	522,903	69,920	909,771	-
Employee benefits	-	-	-	-	7,001
TOTAL OPERATING EXPENSES	<u>2,258,048</u>	<u>2,010,504</u>	<u>460,678</u>	<u>4,729,230</u>	<u>7,001</u>
OPERATING INCOME (LOSS).....	<u>(249,526)</u>	<u>(44,709)</u>	<u>364,823</u>	<u>70,588</u>	<u>(7,001)</u>
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	4,026	-	4,498	8,524	11,241
Interest expense.....	-	(302,727)	(26,284)	(329,011)	-
Intergovernmental.....	-	186,827	-	186,827	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>4,026</u>	<u>(115,900)</u>	<u>(21,786)</u>	<u>(133,660)</u>	<u>11,241</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	<u>(245,500)</u>	<u>(160,609)</u>	<u>343,037</u>	<u>(63,072)</u>	<u>4,240</u>
OPERATING TRANSFERS:					
Transfers in.....	-	491,719	-	491,719	-
Transfers out.....	<u>(264,647)</u>	<u>(293,692)</u>	<u>(222,193)</u>	<u>(780,532)</u>	<u>-</u>
TOTAL OPERATING TRANSFERS.....	<u>(264,647)</u>	<u>198,027</u>	<u>(222,193)</u>	<u>(288,813)</u>	<u>-</u>
CHANGE IN NET ASSETS.....	(510,147)	37,418	120,844	(351,885)	4,240
NET ASSETS AT BEGINNING OF YEAR.....	<u>13,576,564</u>	<u>12,472,374</u>	<u>944,390</u>	<u>26,993,328</u>	<u>608,344</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 13,066,417</u>	<u>\$ 12,509,792</u>	<u>\$ 1,065,234</u>	<u>\$ 26,641,443</u>	<u>\$ 612,584</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FISCAL YEAR ENDED JUNE 30, 2003

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Golf Course	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users.....	\$ 2,572,202	\$ 2,342,471	\$ 825,501	\$ 5,740,174	\$ -
Payments to vendors.....	(1,310,667)	(1,104,237)	(280,510)	(2,695,414)	-
Payments to employees.....	(513,282)	(244,635)	(145,138)	(903,055)	-
NET CASH FROM OPERATING ACTIVITIES.....	748,253	993,599	399,853	2,141,705	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in.....	-	491,719	-	491,719	-
Transfers out.....	(264,647)	(293,692)	(222,193)	(780,532)	-
Intergovernmental subsidy.....	-	186,827	-	186,827	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(264,647)	384,854	(222,193)	(101,986)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets.....	(16,971)	(160,000)	(25,000)	(201,971)	-
Principal payments on bonds and notes.....	-	(333,026)	(108,500)	(441,526)	-
Principal payments on capital lease obligations.....	-	-	(26,737)	(26,737)	-
Interest expense.....	-	(124,469)	(33,950)	(158,419)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(16,971)	(617,495)	(194,187)	(828,653)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income.....	4,026	-	4,498	8,524	11,241
NET CASH FROM INVESTING ACTIVITIES.....	4,026	-	4,498	8,524	11,241
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	470,661	760,958	(12,029)	1,219,590	11,241
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	3,214,835	503,645	453,867	4,172,347	630,343
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 3,685,496	\$ 1,264,603	\$ 441,838	\$ 5,391,937	\$ 641,584
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ (249,526)	\$ (44,709)	\$ 364,823	\$ 70,588	\$ (7,001)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	316,948	522,903	69,920	909,771	-
Changes in assets and liabilities:					
User fees.....	563,680	376,676	-	940,356	-
Warrants payable.....	88,408	137,061	(36,866)	188,603	-
Accrued compensated absences.....	28,743	1,668	1,976	32,387	-
Workers' compensation.....	-	-	-	-	7,001
Total adjustments.....	997,779	1,038,308	35,030	2,071,117	7,001
NET CASH FROM OPERATING ACTIVITIES.....	\$ 748,253	\$ 993,599	\$ 399,853	\$ 2,141,705	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2003

	Private Purpose Trust Funds	Agency Funds
ASSETS		
CURRENT:		
Cash and short-term investments.....	\$ 303,150	\$ 260,523
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	-	1,197
TOTAL ASSETS.....	<u>303,150</u>	<u>261,720</u>
LIABILITIES		
Accrued liabilities.....	-	149,078
Liabilities due depositors.....	-	112,642
TOTAL LIABILITIES.....	<u>-</u>	<u>261,720</u>
NET ASSETS		
Held in trust.....	<u>\$ 303,150</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2003

	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>	
Contributions:	
Private donations.....	\$ <u>-</u>
Net investment income (loss):	
Interest.....	<u>5,182</u>
TOTAL ADDITIONS.....	<u>5,182</u>
<u>DEDUCTIONS:</u>	
Administration.....	<u>310</u>
TOTAL DEDUCTIONS.....	<u>310</u>
CHANGE IN NET ASSETS.....	4,872
NET ASSETS AT BEGINNING OF YEAR.....	<u>298,278</u>
NET ASSETS AT END OF YEAR.....	<u>\$ <u>303,150</u></u>

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Permanent Funds).

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

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

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

The following major proprietary fund is reported:

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

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

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on November 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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

Motor Vehicle Excise

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

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

Water and Sewer

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

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

Departmental and Other

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

Intergovernmental

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

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

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

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

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

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

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

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

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

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

Governmental Fund Financial Statements

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

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

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

K. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

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

Net assets have been "restricted for" the following:

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

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

"Other purposes" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

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

Fund balances have been “reserved for” the following:

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

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

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer’s 50-70% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2003, this expense/expenditure totaled approximately \$956,000. There were approximately 318 participants eligible to receive benefits at June 30, 2003.

P. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

Q. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-term Investments". The deposits and investments of the trust funds are held separately from those of other funds.

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

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

Short-term investments and investments are classified as to collateral risk into the following three categories:

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

At fiscal year-end, the carrying amount of deposits totaled \$23,433,956 and the bank balance totaled \$24,393,545. Of the bank balance, \$1,015,878 was covered by Federal Depository Insurance, \$8,472,253 was covered by the Depositors Insurance Fund, and \$14,905,414 was uninsured and uncollateralized.

The following details the carrying amount of cash and short-term investments and investments as reported in the basic financial statements at June 30, 2003:

	Cash and Short-term Investments	Investments	Total
Cash balances at June 30, 2003:			
Checking, savings and NOW accounts.....	\$ 6,965,400	\$ -	\$ 6,965,400
Certificates of deposit.....	9,258,572	-	9,258,572
Money market deposits.....	7,209,984	-	7,209,984
	<u>23,433,956</u>	<u>-</u>	<u>23,433,956</u>
<u>Investments not subject to categorization:</u>			
MMDT.....	4,049,372	-	4,049,372
Mutual funds.....	830,581	-	830,581
Money market mutual funds.....	1,704	-	1,704
<u>Investments subject to categorization (Category 3):</u>			
Equity securities.....	-	578,571	578,571
	<u>4,881,657</u>	<u>578,571</u>	<u>5,460,228</u>
Total cash and short-term investments and investments as reported on the balance sheet.....			
	<u>\$ 28,315,613</u>	<u>\$ 578,571</u>	<u>\$ 28,894,184</u>

NOTE 3 – RECEIVABLES

At June 30, 2003, receivables for the individual major governmental funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 665,448	\$ -	\$ 665,448
Tax liens.....	920,779	-	920,779
Motor vehicle and other excise taxes.....	547,006	(253,350)	293,656
Departmental and other.....	86,404	-	86,404
Special assessments.....	4,431	-	4,431
Intergovernmental.....	13,581,741	-	13,581,741
Total.....	<u>\$ 15,805,809</u>	<u>\$ (253,350)</u>	<u>\$ 15,552,459</u>

At June 30, 2003, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	<u>\$ 2,146,968</u>	<u>\$ -</u>	<u>\$ 2,146,968</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 547,771	\$ -	\$ 547,771
Tax liens.....	920,779	-	920,779
Motor vehicle and other excise.....	293,656	-	293,656
Departmental and other.....	36,463	84,843	121,306
Intergovernmental.....	12,908,598	641,475	13,550,073
Total.....	<u>\$ 14,707,267</u>	<u>\$ 726,318</u>	<u>\$ 15,433,585</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,361,648	\$ 173,173	\$ -	\$ 3,534,821
Total capital assets not being depreciated.....	<u>3,361,648</u>	<u>173,173</u>	<u>-</u>	<u>3,534,821</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	940,285	-	-	940,285
Buildings.....	36,640,817	920,067	-	37,560,884
Equipment.....	1,659,241	56,070	-	1,715,311
Vehicles.....	3,013,134	996,763	-	4,009,897
Infrastructure.....	<u>56,097,139</u>	<u>-</u>	<u>-</u>	<u>56,097,139</u>
Total capital assets being depreciated.....	<u>98,350,616</u>	<u>1,972,900</u>	<u>-</u>	<u>100,323,516</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(536,646)	(28,384)	-	(565,030)
Buildings.....	(13,839,618)	(800,045)	-	(14,639,663)
Equipment.....	(1,168,014)	(106,730)	-	(1,274,744)
Vehicles.....	(1,642,423)	(352,804)	-	(1,995,227)
Infrastructure.....	<u>(10,753,228)</u>	<u>(1,284,350)</u>	<u>-</u>	<u>(12,037,578)</u>
Total accumulated depreciation.....	<u>(27,939,929)</u>	<u>(2,572,313)</u>	<u>-</u>	<u>(30,512,242)</u>
Total capital assets being depreciated, net.....	<u>70,410,687</u>	<u>(599,413)</u>	<u>-</u>	<u>69,811,274</u>
Total governmental activities capital assets, net.....	<u>\$ 73,772,335</u>	<u>\$ (426,240)</u>	<u>\$ -</u>	<u>\$ 73,346,095</u>

Business-Type Activities

Fixed assets for the water enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,212	\$ -	\$ -	\$ 5,212
Total capital assets not being depreciated.....	<u>5,212</u>	<u>-</u>	<u>-</u>	<u>5,212</u>
<u>Capital assets being depreciated:</u>				
Equipment.....	54,384	-	-	54,384
Vehicles.....	198,170	16,971	-	215,141
Infrastructure.....	<u>15,018,362</u>	<u>-</u>	<u>-</u>	<u>15,018,362</u>
Total capital assets being depreciated.....	<u>15,270,916</u>	<u>16,971</u>	<u>-</u>	<u>15,287,887</u>
<u>Less accumulated depreciation for:</u>				
Equipment.....	(46,226)	(5,438)	-	(51,664)
Vehicles.....	(120,372)	(20,427)	-	(140,799)
Infrastructure.....	<u>(6,113,437)</u>	<u>(291,082)</u>	<u>-</u>	<u>(6,404,519)</u>
Total accumulated depreciation.....	<u>(6,280,035)</u>	<u>(316,947)</u>	<u>-</u>	<u>(6,596,982)</u>
Total capital assets being depreciated, net.....	<u>\$ 8,996,093</u>	<u>\$ (299,976)</u>	<u>\$ -</u>	<u>\$ 8,696,117</u>

Fixed assets for the sewer enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 405,704	\$ 160,000	\$ -	\$ 565,704
Total capital assets not being depreciated.....	<u>405,704</u>	<u>160,000</u>	<u>-</u>	<u>565,704</u>
<u>Capital assets being depreciated:</u>				
Equipment.....	24,600	-	-	24,600
Vehicles.....	347,073	-	-	347,073
Infrastructure.....	<u>25,005,774</u>	<u>-</u>	<u>-</u>	<u>25,005,774</u>
Total capital assets being depreciated.....	<u>25,377,447</u>	<u>-</u>	<u>-</u>	<u>25,377,447</u>
<u>Less accumulated depreciation for:</u>				
Equipment.....	(20,910)	(2,460)	-	(23,370)
Vehicles.....	(116,667)	(30,605)	-	(147,272)
Infrastructure.....	<u>(12,365,900)</u>	<u>(489,838)</u>	<u>-</u>	<u>(12,855,738)</u>
Total accumulated depreciation.....	<u>(12,503,477)</u>	<u>(522,903)</u>	<u>-</u>	<u>(13,026,380)</u>
Total capital assets being depreciated, net.....	<u>\$ 13,279,674</u>	<u>\$ (362,903)</u>	<u>\$ -</u>	<u>\$ 12,916,771</u>

Fixed assets for the golf enterprise fund are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Golf Course Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 789,557	\$ -	\$ -	\$ 789,557
Total capital assets not being depreciated.....	<u>789,557</u>	<u>-</u>	<u>-</u>	<u>789,557</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	767,088	-	-	767,088
Buildings.....	114,755	-	-	114,755
Equipment.....	332,690	25,000	-	357,690
Vehicles.....	79,149	-	-	79,149
Total capital assets being depreciated.....	<u>1,293,682</u>	<u>25,000</u>	<u>-</u>	<u>1,318,682</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(237,236)	(32,645)	-	(269,881)
Buildings.....	(28,412)	(3,343)	-	(31,755)
Equipment.....	(141,406)	(28,869)	-	(170,275)
Vehicles.....	(62,030)	(5,064)	-	(67,094)
Total accumulated depreciation.....	<u>(469,084)</u>	<u>(69,921)</u>	<u>-</u>	<u>(539,005)</u>
Total capital assets being depreciated, net.....	<u>\$ 1,614,155</u>	<u>\$ (44,921)</u>	<u>\$ -</u>	<u>\$ 1,569,234</u>

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

Governmental Activities:	
General government.....	\$ 17,782
Public safety.....	300,384
Education.....	690,296
Public works.....	1,468,397
Human services.....	6,400
Culture and recreation.....	<u>89,054</u>
Total depreciation expense - governmental activities.....	<u>\$ 2,572,313</u>
Business-Type Activities:	
Water.....	\$ 316,948
Sewer.....	522,903
Golf course.....	<u>69,920</u>
Total depreciation expense - business-type activities.....	<u>\$ 909,771</u>

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2003, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	
General Fund.....	\$ 80,500	\$ 21,662	\$ 491,719	\$ 593,881
Nonmajor Governmental Funds.....	1,033,901	-	-	1,033,901
Golf Enterprise Fund.....	222,193	-	-	222,193
Total.....	<u>\$ 1,336,594</u>	<u>\$ 21,662</u>	<u>\$ 491,719</u>	<u>\$ 1,849,975</u>

NOTE 6 – CAPITAL LEASES

The City has entered into several lease/purchase agreements, including tax-exempt lease purchases (TELP) agreements, to finance the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The City has entered into capital lease obligations for approximately \$183,000 for ambulances and approximately \$117,000 for golf carts.

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2003, are as follows:

Fiscal Years Ending June 30	Governmental Activities	Business-Type Activities
2004.....	\$ 14,493	\$ 24,424
2005.....	-	26,103
Total minimum lease payments.....	14,493	50,527
Less: amounts representing interest.....	(874)	(3,882)
Present value of minimum lease payments.....	<u>\$ 13,619</u>	<u>\$ 46,645</u>

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2003, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2002	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2003
BAN	DPW facility.....	2.00	11/13/03	\$ -	\$ 880,000	\$ -	\$ 880,000
BAN	Fire truck.....	2.00	11/13/03	-	750,000	-	750,000
	Total.....			\$ -	\$ 1,630,000	\$ -	\$ 1,630,000

The \$1,630,000 BANS were subsequently retired on October 22, 2003 through the issuance of \$1,630,000 in General Obligation Bonds. Accordingly, the \$1,630,000 of BANS outstanding at June 30, 2003, has been classified as long-term bonds payable in these basic financial statements.

NOTE 8 – LONG-TERM DEBT

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

Details related to the outstanding indebtedness at June 30, 2003, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2002	Issued	Redeemed	Outstanding at June 30, 2003
School Project.....	7.50	\$ 8,520,000	\$ -	\$ 540,000	\$ 7,980,000
School Project.....	4.49	8,410,000	-	530,000	7,880,000
Junior High Heat and Oil.....	4.98	691,000	-	76,500	614,500
Tuckahoe Land Acquisition.....	4.93	720,000	-	60,000	660,000
Fire Headquarters.....	4.93	1,330,000	-	105,000	1,225,000
High School Library.....	4.15	750,000	-	40,000	710,000
Town Library.....	4.15	4,250,000	-	225,000	4,025,000
Land Acquisition.....	2.00 - 4.40	-	880,000	-	880,000
Fire Equipment.....	2.00 - 4.40	-	750,000	-	750,000
Title V sewer*.....	0.00	46,201	-	2,718	43,483
Total governmental bonds and notes payable.....		\$ <u>24,717,201</u>	\$ <u>1,630,000</u>	\$ <u>1,579,218</u>	\$ <u>24,767,983</u>

*Massachusetts Water Pollution Abatement Trust (MWPAT) Note.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004..... \$	1,579,218	\$ 1,044,600	\$ 2,623,818
2005.....	1,709,218	994,852	2,704,070
2006.....	1,704,218	923,619	2,627,837
2007.....	1,704,718	853,904	2,558,622
2008.....	1,704,718	782,638	2,487,356
2009.....	1,704,718	709,783	2,414,501
2010.....	1,699,718	635,862	2,335,580
2011.....	1,699,718	560,797	2,260,515
2012.....	1,622,718	486,314	2,109,032
2013.....	1,622,718	412,981	2,035,699
2014.....	1,622,718	338,673	1,961,391
2015.....	1,482,717	266,571	1,749,288
2016.....	1,382,717	199,462	1,582,179
2017.....	1,372,717	134,151	1,506,868
2018.....	1,327,717	69,482	1,397,199
2019.....	317,717	30,584	348,301
2020.....	255,000	17,659	272,659
2021.....	255,000	5,897	260,897
Totals..... \$	<u>24,767,983</u>	<u>\$ 8,467,829</u>	<u>\$ 33,235,812</u>

Bonds and Notes Payable Schedule – Sewer and Golf Enterprise Funds

Project	Interest Rate (%)	Outstanding at June 30, 2002	Issued	Redeemed	Outstanding at June 30, 2003
Sewer Enterprise Fund					
Feeding Hills Sewer IV.....	6.75	\$ 300,000	\$ -	\$ 150,000	\$ 150,000
Campbell/Florida drive sewer.....	4.15	490,000	-	30,000	460,000
Main Street Sewer.....	4.15	750,000	-	35,000	715,000
Westfield River Pump Station*.....	0.00	702,551	-	38,415	664,136
CSO Project*.....	0.00	<u>1,775,974</u>	<u>-</u>	<u>79,611</u>	<u>1,696,363</u>
Total sewer enterprise fund bonds and notes payable.....		<u>4,018,525</u>	<u>-</u>	<u>333,026</u>	<u>3,685,499</u>
Golf Enterprise Fund					
Agawam Country Club.....	4.98	749,000	-	83,500	665,500
Golf Course Irrigation.....	4.93	<u>210,000</u>	<u>-</u>	<u>25,000</u>	<u>185,000</u>
Total golf enterprise fund bonds and notes payable.....		<u>959,000</u>	<u>-</u>	<u>108,500</u>	<u>850,500</u>
Total enterprise fund bonds and notes payable.....		<u>\$ 4,977,525</u>	<u>\$ -</u>	<u>\$ 441,526</u>	<u>\$ 4,535,999</u>

* Massachusetts Water Pollution Abatement Trust (MWPAT) Note.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004.....	\$ 336,303	\$ 177,242	\$ 513,545
2005.....	189,855	163,141	352,996
2006.....	193,689	154,538	348,227
2007.....	198,073	145,828	343,901
2008.....	203,347	136,092	339,439
2009.....	208,656	126,262	334,918
2010.....	213,913	116,397	330,310
2011.....	218,157	105,988	324,145
2012.....	225,799	95,025	320,824
2013.....	233,635	83,401	317,036
2014.....	237,396	71,394	308,790
2015.....	245,647	59,014	304,661
2016.....	171,217	46,337	217,554
2017.....	180,495	37,400	217,895
2018.....	180,495	27,875	208,370
2019.....	184,772	18,186	202,958
2020.....	194,050	8,259	202,309
2021.....	70,000	1,619	71,619
Totals.....	\$ <u>3,685,499</u>	\$ <u>1,573,998</u>	\$ <u>5,259,497</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004.....	\$ 108,500	\$ 44,680	\$ 153,180
2005.....	108,500	39,748	148,248
2006.....	108,500	34,795	143,295
2007.....	108,000	29,732	137,732
2008.....	108,000	24,511	132,511
2009.....	103,000	19,091	122,091
2010.....	103,000	13,643	116,643
2011.....	103,000	8,239	111,239
2012.....	-	2,762	2,762
Totals.....	\$ <u>850,500</u>	\$ <u>217,201</u>	\$ <u>1,067,701</u>

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$925,106 and interest costs for \$1,656,058. Thus, net MWPAT loan repayments, including interest, are scheduled to be \$2,581,164. The future principal subsidies are recorded as an intergovernmental receivable at year end. Since the City is legally obligated for the total amount of the debt, such amounts have been reported in the accompanying basic financial statements. The fiscal year 2003 principal and interest subsidies totaled \$33,499 and \$179,914, respectively.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the School Building Assistance Bureau, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2003, approximately \$1,113,000 of such assistance was received. The City will be receiving \$16,477,520 in future fiscal years. Of this amount, \$3,799,530 represents reimbursement of long-term interest costs, and \$12,677,990 represents reimbursement of approved construction costs. Accordingly, a \$12,677,990 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2003, the City had the following authorized and unissued debt:

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

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2003, the following changes occurred in long-term liabilities:

	Balance June 30, 2002	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Net Increase (Decrease)	Balance June 30, 2003
Governmental Activities:					
Long-Term Bonds and Notes.....	\$ 24,717,201	\$ 1,630,000	\$ (1,579,218)	\$ -	\$ 24,767,983
Court Judgments.....	3,002,028	-	-	(3,002,028)	-
Compensated Absences.....	3,328,616	-	-	(61,681)	3,266,935
Capital Leases.....	28,161	-	-	(14,542)	13,619
Total governmental activity long-term liabilities.....	<u>\$ 31,076,006</u>	<u>\$ 1,630,000</u>	<u>\$ (1,579,218)</u>	<u>\$ (3,078,251)</u>	<u>\$ 28,048,537</u>
Business-Type Activities:					
Long-Term Bonds and Notes.....	\$ 4,977,525	\$ -	\$ (441,526)	\$ -	\$ 4,535,999
Compensated Absences.....	384,634	-	-	(25,475)	359,159
Capital Leases.....	73,382	-	-	(26,737)	46,645
Total business-type activity long-term liabilities.....	<u>\$ 5,435,541</u>	<u>\$ -</u>	<u>\$ (441,526)</u>	<u>\$ (52,212)</u>	<u>\$ 4,941,803</u>

NOTE 9 – RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City participates in a premium-based health care plan for its active employees.

The City is self-insured for its workers’ compensation and unemployment compensation activities. Workers’ compensation activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Unemployment compensation activities are accounted for in the general fund and are funded on a pay-as-you go basis from annual appropriations. Unemployment compensation expenditures totaled approximately \$27,000 for the fiscal year

Workers’ Compensation

Workers’ compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The City’s contributions to the fund are based upon a percentage of the City’s current payroll expenditures and claims paid out of the fund. The estimated future workers’ compensation liability is based on history and injury type.

At June 30, 2003, the amount of the liability for workers’ compensation claims totaled \$29,000. Changes in the reported liability since July 1, 2001, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2002.....	\$ 126,440	\$ 31,097	\$ (135,537)	22,000
Fiscal Year 2003.....	22,000	7,000	-	29,000

The City’s liability for unemployment compensation is not material at June 30, 2003, and therefore is not reported.

NOTE 10 – PENSION PLAN

Plan Description - The City contributes to the Hampden County Contributory Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan administered by the Hampden County Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$3,200,000 for the fiscal year ended June 30, 2003, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Hampden County Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines

established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 50 Court Street, Springfield, Massachusetts, 01103.

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32 of the MGL governs the contributions of plan members and the City. The City contributions to the System for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,811,194, \$1,701,346, and \$1,630,222, respectively, which equaled its required contribution for each fiscal year.

Noncontributory Retirement Allowance – The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2003 totaled approximately \$20,000.

NOTE 11 – CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2003, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2003, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2003.

NOTE 12 – COURT JUDGEMENT

During fiscal year 1999, a court judgment, related to an eminent domain taking, was rendered against the City that requires the City to pay \$2,500,000 plus interest to the plaintiff. The final payment of \$3,002,028 was paid in FY2003.

NOTE 13 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2003, the following GASB pronouncements were implemented:

- Statement #34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- Statement #37, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments; Omnibus*
- Statement #38, *Certain Financial Statement Note Disclosures*

- Statement #41, Budgetary Comparison Schedules – Perspective Differences, an amendment of GASB Statement #34.

The pronouncements identified above are all related to the new financial reporting requirements as defined in Statement #34. Fiscal year 2003 is the required implementation date. The most significant changes required by the new financial reporting standards are as follows:

- Management’s discussion and analysis.
- Basic financial statements, which include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting.
 - Fund financial statements, consisting of a series of statements that focus on major governmental and enterprise funds.
 - Schedules to reconcile the fund financial statements to the government-wide financial statements.
 - Notes to the basic financial statements.

As a result of implementing these pronouncements, the following restatements have been made to beginning fund balances and net assets:

Fund Financial Statements

The following beginning fund balances have been restated to reflect the change in focus of reporting from generic fund types to major funds:

Description	6/30/2002 Previously Reported Balances	Reclass to Major and Nonmajor Funds	Reclass to Private Purpose Trust Funds	Adjustments and to Establish Enterprise Funds	6/30/2002 Restated Balances
General Fund.....	\$ 11,006,774	\$ -	\$ -	\$ 1,426,129	\$ 12,432,903
Special Revenue Fund.....	7,166,585	20,219,477	-	(27,386,062)	-
Capital Projects Fund.....	2,696,107	(4,324,036)	-	1,627,929	-
Expendable Trust Fund.....	4,255,075	(4,000,668)	(254,407)	-	-
Nonexpendable Trust Fund.....	401,643	(357,772)	(43,871)	-	-
Nonmajor Governmental Funds....	-	(15,905,689)	-	24,522,237	8,616,548
Water Enterprise Fund.....	-	3,505,925	-	10,070,639	13,576,564
Sewer Enterprise Fund.....	-	854,288	-	11,618,086	12,472,374
Golf Course Enterprise Fund.....	409,778	8,475	-	526,137	944,390
Private Purpose Trust Fund.....	-	-	298,278	-	298,278
Total.....	<u>\$ 25,935,962</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,405,095</u>	<u>\$ 48,341,057</u>

Future Implementation of GASB Pronouncements

The GASB issued Statement #39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement #14, which is required to be implemented during fiscal year 2004. Management has yet to determine if this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3, which is required to be implemented during fiscal year 2005. There will be no change in the financial statements as this GASB will only require changes to the note disclosure.

Required Supplementary Information

Note A. Budgetary Information

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The City Auditor has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

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

FISCAL YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 32,220,184	\$ 32,220,184	\$ 32,054,843	\$ -	\$ (165,341)
Motor vehicle and other excise taxes.....	2,318,500	2,318,500	2,998,305	-	679,805
Intergovernmental.....	17,203,672	17,203,672	16,899,070	-	(304,602)
Departmental and other.....	987,800	987,800	1,484,841	-	497,041
Investment income.....	465,000	465,000	371,868	-	(93,132)
TOTAL REVENUES.....	53,195,156	53,195,156	53,808,927	-	613,771
EXPENDITURES:					
Current:					
General government.....	2,525,622	2,681,303	2,298,390	160,739	222,174
Public safety.....	6,334,303	6,743,337	6,467,470	20,948	254,919
Education.....	31,580,772	31,580,772	29,506,006	2,015,832	58,934
Public works.....	4,433,498	4,949,381	4,638,622	212,956	97,803
Human services.....	935,602	943,752	881,686	-	62,066
Culture and recreation.....	1,062,435	1,064,925	991,721	19,852	53,352
Pension benefits.....	1,804,840	1,804,840	1,770,903	-	33,937
Property and liability insurance.....	820,498	933,000	521,991	-	411,009
Employee benefits.....	3,740,833	3,845,500	3,771,460	-	74,040
Claims and judgments.....	3,002,028	3,002,028	3,002,028	-	-
Reserve fund.....	550,000	450,844	-	-	450,844
State and county charges.....	295,446	295,446	469,312	-	(173,866)
Capital outlay.....	291,500	1,053,276	608,424	-	444,852
Debt service:					
Principal.....	1,579,218	1,579,218	1,579,218	-	-
Interest.....	1,143,705	1,143,705	1,120,929	-	22,776
TOTAL EXPENDITURES.....	60,100,300	62,071,327	57,628,160	2,430,327	2,012,840
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(6,905,144)	(8,876,171)	(3,819,233)	(2,430,327)	2,626,611
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes.....	880,000	880,000	880,000	-	-
Premium from issuance of bonds.....	-	-	5,618	-	5,618
Bond issuance costs.....	(8,450)	(8,450)	(6,708)	-	1,742
Sale of capital assets.....	-	-	87,100	-	87,100
Operating transfers in.....	1,336,594	1,336,594	1,336,594	-	-
Operating transfers out.....	(593,881)	(593,881)	(593,881)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,614,263	1,614,263	1,708,723	-	94,460
NET CHANGE IN FUND BALANCE.....	(5,290,881)	(7,261,908)	(2,110,510)	(2,430,327)	2,721,071
BUDGETARY FUND BALANCE, Beginning of year.....	10,007,494	10,007,494	10,007,494	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 4,716,613	\$ 2,745,586	\$ 7,896,984	\$ (2,430,327)	\$ 2,721,071

See notes to basic financial statements.