

*City of Methuen, Massachusetts  
Comprehensive Annual Financial Report*



*For the Fiscal Year Ended June 30, 2006*

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Methuen  
Massachusetts

For its Comprehensive Annual

Financial Report

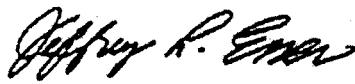
for the Fiscal Year Ended

June 30, 2005

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



President



Executive Director



The Government Finance Officers Association  
of the United States and Canada

*presents this*

## AWARD OF FINANCIAL REPORTING ACHIEVEMENT

*to*

### Office of the City Auditor

City of Methuen, Massachusetts



*The award of Financial Reporting Achievement is presented by the Government Finance Officers Association to the individual(s) designated as instrumental in their government unit achieving a Certificate of Achievement for Excellence in Financial Reporting. A Certificate of Achievement is presented to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.*

Executive Director

A handwritten signature in black ink that reads 'Jeffrey R. Eman'.

Date August 17, 2006

**CITY OF METHUEN, MASSACHUSETTS**

**Comprehensive Annual Financial Report**

**For the Year Ended June 30, 2006**



**Prepared by:  
The Office of the City Auditor**

**Thomas J. Kelly  
City Auditor**

**Louise A. Moss  
Deputy Director  
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**City of Methuen, Massachusetts  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2006**

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# *City of Methuen, Massachusetts*

## *Introductory Section*



*Turret of the Searles Estate*



# City of Methuen, Massachusetts

## City Auditor's Office

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Thomas J. Kelly  
City Auditor

Letter of Transmittal  
January 25, 2007

To: The Citizens of Methuen, Mayor and City Council of Methuen Massachusetts

At the close of each fiscal year, state law requires the City of Methuen to publish a complete set of financial statements in conformity with accounting principals generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Financial Report of the City of Methuen, Massachusetts, for the fiscal year ending June 30, 2006 for your review.

This report consists of management's representations concerning the finances of the City of Methuen. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Methuen has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Methuen's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Methuen's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. The City of Methuen's financial statements have been audited by Melanson Heath & Company, PC, a firm of licensed certified Public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Methuen for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Methuen financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP.

The independent audit of the financial statements of the City of Methuen was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Methuen separately issued Single Audit Report. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement that analysis and should be read in conjunction with it. The City of Methuen’s MD&A can be found immediately following the report of the independent auditors.

### **Profile of the City of Methuen**

The City is located in Essex County, 11 miles east of Lowell and 27 miles northwest of Boston and is a border community to New Hampshire. Established as a Town in 1725, Methuen became the City known as the Town of Methuen in 1978. Methuen has an estimated population of 43,789 (2000 Federal Census) and occupies a land area of 23.5 miles.

The Town of Methuen was originally organized as a Town in 1725 when Lt. Stephen Barker petitioned to divide the Town of Haverhill. Governor Dummer signed the act establishing the Town of Methuen, naming the Town in honor of Sir Paul Methuen, a friend of the Governor’s and member of the King’s Privy Council. The first Town Meeting was held March 9, 1726.

Methuen operated under the Town Meeting form of government until 1917 when the state Legislature allowed the Town to organize as a City. In 1921 the Supreme Judicial Court found that the City Charter had not been appropriately adopted under the constitution of the Commonwealth. Methuen reverted to its status as a Town and established a Charter setting a Selectman/Representative Town Meeting government. That Charter remained in effect until 1973 when Methuen’s first Home Rule Charter became effective establishing a 21 member Town Council and Town Manager.

Methuen’s second Home Rule Charter in 1978 maintained the Town Manager/Town Council form of government, but reduced the number of councilors to nine and increased the powers of the Council. Another Charter change approved by Methuen voters in 1993 replaced the appointed Town Manager with an elected Mayor.

The School Department Administration was directed by a seven-member School Committee, which was elected at-large by the voters. The School Committee is empowered to appoint all School Department personnel. Effective January 1994,

the mayor became the chairperson of the school committee and the seven-member School Committee became a six-member elected school committee.

Methuen played a significant role in this country's industrial revolution, which began in the Merrimack Valley. In the mid-to late-19th century, mills along the Spicket River and Spiggott Falls produced hats, shoes and textiles. Construction of the Methuen Cotton Mills at Spiggott River falls in the 1820's spurred the centralization of Methuen's economic, residential and cultural activities within the area around Osgood, Broadway, Hampshire and Pleasant Streets.

Legacies of industrial wealth are seen today not only in the mill buildings, but also in the estate and civic architecture of Methuen's millionaires, the Searles, Tenney and Nevins families. Thanks to these families, the Town can boast of some of its finest landmarks including the Nevins Memorial Library, the Searles building, Tenney Gatehouse, Nevins Home, Spiggott Falls, and the Civil War Monument between Pleasant and Charles Streets. The granite walls and turrets extending through central Methuen are prominent community features and monuments to the millionaire benefactors as well as to the immigrant laborers who built them 100 years ago.

Methuen combines farm settings with suburban sub-divisions and urban neighborhoods. Methuen's industrial parks are home to companies that include Colombo, McKesson, MicroTouch and Nabisco among others.

The nine-member City Council is the legislative body elected in non-partisan elections every two years with two representing the three districts, three elected at large and a Mayor. The City Council is responsible, among other things, for passing ordinances, adopting the natural budget, adopting bond authorizations, appointing committees and boards and hiring Department Heads and Middle Management.

The Mayor carries out the Administrative functions of the City of Methuen. The Mayor is responsible for carrying out policies and ordinances of the City Council for overseeing the day-to-day operations of the government, and for appointing municipal employees.

A Seven-member School Committee, of which the voters elect six members at-large, directs the Methuen School Department Administration. By virtue of the position, the Mayor is the chairperson of the School Committee, which makes up the seven members. The School Committee is empowered to appoint all School Department personnel

The City of Methuen provides a full range of services, including police and fire protection, the construction and maintenance of streets and other infrastructure, sanitation services such as solid waste disposal and recycling, water distribution, wastewater collection and treatment, recreational and cultural events and education from kindergarten through grade 12 with a regional vocational technical high school.

In a city form of government, within 120 days (extended to 170 days by special legislation) after the annual organization of the city government (which is ordinarily in early January), the mayor is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The City or Town council may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the mayor, the council may not make any appropriation for a purpose not included in the proposed budget, except by a two-thirds vote in case of a failure of the mayor to recommend an appropriation for such a purpose within 7 days after a request from the council. The council may not increase any item without the recommendation of the mayor (except as provided by legislation, subject to local acceptance, under which the school budget or regional school district assessment can be increased upon recommendation of the school committee or regional district school committee and by two-thirds vote of the council, provided that such increase does not cause the total annual budget to exceed property tax limitations). If the council fails to act on any item of the proposed budget within 45 days, that item takes effect.

If the mayor does not make a timely budget submission, provision is made for preparation of a budget by the City Council. Provision is also made for supplementary appropriations upon recommendation of the mayor. Water and sewer department expenditures are included in the budget adopted by the council. Under certain legislation any city or town may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department. As a result of an initiative law adopted in November 1980, school committees are no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the total amount appropriated by the City Council, but the school committee retains full power to allocate the funds appropriated.

Department heads are generally required to submit their budget requests to the mayor between November 1 and December 1. This does not apply to the school department, which must submit its request in time for the mayor to include them in the submission to the council.

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. Once a budget is adopted, the Department Heads are responsible to manage their operating budget as outlined in their submission. Appropriations within their budgets cannot exceed the adopted amount. In the event this may happen, the Mayor needs to amend the operating budget, increasing the appropriation with the approval of the City Council.

### **Factors Affecting Financial Condition**

The City of Methuen has established itself as an attractive location for business and industry with close to 1,000 companies operating under a Methuen address.

Strategic location, a competitive commercial tax rate, a coordinated development approach, a skilled and trained workforce, and a high quality of life for work and leisure combine to create a thriving environment for economic development. In the last five years Methuen has received almost \$ 200 million in private commercial investment and benefited from the creation or retention of almost 3,000 jobs.

The Methuen economy is healthy and stable. A diversified group of existing service and manufacturing businesses has been complemented by new technological and retail businesses. Several major initiatives have contributed to Methuen's highest level of commercial and industrial activity in its history.

Recognizing the need to balance growth while making economic development a priority, Methuen reorganized the Department of Economic & Community Development. Central to its mission was the creation of a system to streamline permitting, market community resources, and improve communication between City Hall and Methuen businesses. A leader in the Merrimack Valley, Methuen has created a customer service department within the office of Community Development that oversees the entire permitting and approval process for companies seeking to locate, relocate, or expand within the City's borders.

Equally important, the City has been pro-active in the planning process in order to provide a vision and direction for City officials to pursue development while maintaining the high quality of life Methuen's residents and businesses have grown to enjoy. In Spring of 2004, the City of Methuen completed the process of developing a downtown plan. Utilizing a \$ 45,000 grant from the Massachusetts Department of Housing & Community Development (DHCD), Methuen held a series of committee meetings to advance the findings of the Downtown Methuen Development Plan. The areas discussed included the downtown's strengths, weaknesses, economy, market, businesses, regulatory controls and land-use. The plan identified a vision and the steps necessary to maximize its potential in the local and regional marketplace and strengthen the downtown's vitality. Several of the plan's recommendations have since been implemented.

Methuen's Land Use Plan was completed in 1997 and has been a vital tool for the past several years. It identified development opportunities and land-use strategies through a consensus-based planning process. The plan produced specific action items to provide for mutually reinforcing land use strategies and set the blueprint for the expansion of Methuen's economic base. The City of Methuen has been extremely successful at expanding the current commercial and industrial base, identifying parcels for open space and recreation, improving infrastructure, supporting ongoing economic development projects, and finding innovative ways to strengthen its fiscal standing at the local level.

Currently, the City of Methuen maintains multiple commercial and industrial sites scattered throughout the community in retail centers, industrial parks, downtown, and as stand-alone facilities. In retail, Methuen has five shopping centers. Most notable is *The Loop*, an \$ 80 million dollar entertainment and retail complex that were recognized nationally for its success as a "lifestyle" plaza. Formerly the Methuen Mall, it had been the retail sales and employment center of the

Merrimack Valley, employing approximately 2,000 people until its close a decade ago. A municipal and regional economic development priority for many years, in June of 1999 development began and less than two years later, The Loop project now represents a tripling of property tax revenues from that site to approximately \$ 1 million a year. The facility includes a Loews 20-screen Cineplex, a 135,000 square foot Home Depot, Super Stop & Shop, noted retailers Marshall's, The Gap, Old Navy, and numerous restaurants, including Bugaboo Creek, TGI Friday's, Not Your Average Joe's, Chuck E. Cheese, Romano's Macaroni Grill and Wendy's. The project has created more than 500 new permanent jobs and 300-400 new part-time positions, and has exceeded its retail expectations since its opening. The adjacent Methuen Shopping Center consists of 160,000 square feet and houses the chain stores of Market Basket and Wal-Mart. Since the redevelopment of this area there has been a lot of activity and interest along Pleasant Valley Street as this area continues to grow, including an Applebee's restaurant and a large Public Storage facility adjacent to The Loop. In late Summer 2006, Target is expected to acquire a portion of Mann's Orchard, directly across from The Loop. On the site currently occupied by Mann's retail operation, Target is planning to construct a 137,000 store, slated to open in October 2007. Mann's will relocate its successful retail store down Pleasant Valley Street, across from the Methuen Plaza entrance.

The Village Mall has 95,496 square feet and houses some smaller retailers along with Shoppers Square, a multi-ethnic grocery store, several small restaurants, and Joann Fabrics. Methuen Plaza, consisting of 159,916 square feet, is the home of Market Basket, Mar-Lin retail store, and AJ Wright's, a subsidiary of TJ Maxx. Several restaurants are located adjacent to the plaza, including a new KFC/Taco Bell.

The turnaround of the Methuen Mall is a success story that follows the pattern of the rebirth of Malden Mills, manufacturer of high performance knit fleece fabrics (most notably Polartec). Methuen made national headlines in late 1995 when fire destroyed the plant at one of the City's and the region's major employers. In the span of a little over a year, working together, Methuen and Malden Mills converted a disaster into an achievement of community rebirth. Immediately after the fire, mill owner Aaron Feuerstein committed to rebuild, continuing to pay his workers while plans were developed for the new Malden Mills. The City worked with the company to fast track permitting and secure state economic development incentives. Inspectional Services were expanded with local inspectors stationed on site. Necessary zoning changes, land transfers and infrastructure upgrades were executed and in 1997, the community achieved its goal. The company and the City celebrated the opening of a 500,000 square foot state-of-the-art apparel manufacturing facility with the capacity to produce up to 1,000,000 yards per week of Polartec fleece fabric. On November 29, 2001, Malden Mills Inc. filed Chapter 11 Bankruptcy Reorganization. The City had been monitoring Malden Mills and the impact on the City's finances ever since a catastrophic fire to Malden Mills' facilities in the winter of 1995. Prior to the fire, Malden Mills was one of the City's largest users of sewer and water. As the events of Malden Mills unfolded, the City planned for the loss of revenues.

Accordingly, recent budgets/rates have been established without heavy reliance on Malden Mills Industries, Inc.

In another turn of events, Malden Mills filed for bankruptcy in 2001 and as part of the bankruptcy settlement the City was recovering a significant portion of Malden Mills pre-bankruptcy obligations. Malden Mills approved a payment plan to pay off priority and unsecured creditors. The City of Methuen hired the law firm of Rosenberg and Weinberg to assist in the process of recovering what is owed to the City. Negotiations with the firm of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. representing Malden Mills have resulted in a settlement agreement with the City of Methuen in the amount of \$ 2,385,000, payable in quarterly installments for the next five years. The City received an initial payment per the settlement agreement of \$ 486,040 in May 2005. In June 2005, the first quarterly payment of \$ 100,000 was received as well. Malden Mills has continued to make the agreed upon quarterly payments as scheduled. As of December of 2006 the City had been paid a total of \$ 1,186,039.

In January of 2007 Malden Mills filed to reorganize under Chapter 11 and then be sold. During the reorganization process Malden Mills filed its schedules, which listed the City of Methuen's earlier settlement as a disputed claim. Attorney Herbert Weinberg argued the City of Methuen's case in court and the City of Methuen was ruled to be a secured creditor. At the sale of Malden Mills the City of Methuen was paid \$ 1,561,020, which represented the remaining balance of the original \$ 2,385,000 agreement, plus all current tax balances due. Malden Mills was eventually sold and continues to operate. A \$ 44 million bid from Philadelphia private equity firm Chrysalis Capital Partners emerged in purchasing Malden Mills Industries, according to a spokesman for the bankrupt Lawrence textile maker. Chrysalis stated that they intend to operate, not liquidate, the company."

Methuen also has four active Industrial Parks and numerous industrial sites scattered throughout the community: Aegean Industrial Park with 47 acres, Griffin Brook Park with 94 acres, Methuen Industrial Park with 130 acres, and McGrath Road Industrial Park. Griffin Brook Park is home to high tech businesses like Micro-Touch Inc., the world's leading manufacturer of touch screen technology and a subsidiary of 3M. The company completed a \$ 3 million dollar expansion in 2001, adding 169,680 square feet. Also located in Griffin Brook Park are ULVAC, that completed a \$ 3 million dollar 40,000 square foot renovation to its manufacturing facility within the last three years, Larson Juhl, Dakota Systems, and MKS Instruments.

Methuen Industrial Park is primarily a warehouse and distribution facility, housing noted companies Shaw's, Nabisco, Anixter Corporation, Yoplait-Colombo, as well as several others. Yoplait-Colombo has expanded its presence to over 140,000 square feet and produces 35 million cases of yogurt products annually.

Branch Street is maintained by Brooks Properties, who oversees in excess of 275,000 square feet of office space adjacent to I-93 at the Route 110 rotary.

Genesys Software, Object Associates, and the Massachusetts Eye and Ear Infirmary currently occupy this site among others. The facility has recently added ancillary businesses such as pharmaceutical sales and distribution. In the fall of 2006, two new tenants will occupy a total of 30,000 square feet – Metragen, a pharmaceutical company headquartered in Florida and Raid, a computer software storage firm relocating from nearby Lawrence, MA.

In keeping with Methuen's long range planning, economic development efforts have focused primarily on marketing existing commercial and industrial parcels to attract new investment and create job opportunities for Merrimack Valley residents. Recent success stories include:

Holy Family Hospital has completed construction on its addition. The 60,000 sf addition to its existing facility and 60,000 sf medical office building will provide the space necessary to accommodate additional patients and create additional health care positions.

Dunkin Donuts opened its new 30,000 sf baking facility at a former vacant gas station site in the heart of the Methuen Arlington Neighborhood. The project included \$ 2.2 million of private investment and created 35 much needed jobs for the surrounding neighborhood. Plans are already underway to expand the facility in 2006.

Ranger Plaza, the re-development of the former Fox Nissan site, has turned an abandoned, blighted site into a critical gateway project for the City. Located on Pelham Street adjacent to Route 93, the project has completed phase I attracting The Outback Restaurant, McDonald's, and Dunkin' Donuts. Phase II, projected for completion in Spring 2007 will include a 30,000 square foot facility for four to five retail businesses.

The Tambone building, a 250,000 square foot office/warehouse facility completed construction in the fall of 2001. The \$ 12 million project developed the remaining 17 acres in Aegean Industrial Park and now contains Cytec Inc., Mygrant Glass, and several other tenants that will fully occupy the building.

In the downtown, the former St. Monica's Church has been demolished to make way for a new 15,000 square foot CVS pharmacy. Plans for the \$ 2 million project were approved, and the store is scheduled to open in the fall of 2006.

Now known as Espaillat Mills, the former Leone Furniture store in downtown Methuen has been completely renovated from a neglected warehouse to a vibrant mill complex with several mixed uses, including several retail shops and professional offices. Berkeley Shoe Corporation, an international distributor of fine shoes and apparel, moved their headquarters to this site.

On Ayers Village Road along the Salem, New Hampshire border a redevelopment project is nearing completion at the former White Buffalo site. The \$ 2 million project started with demolishing the existing blighted structure and is

constructing a 23,000 square foot retail and commercial center that includes a restaurant, bank, and a deluxe Mobil station and car wash.

Construction is underway for a 7,200-yard professional golf course with seventy-five new residential dwellings, a 5,000 sf clubhouse in East Methuen. The project should be recognized as one of the state of the art facilities once it opens in 2007 at a cost of nearly \$ 10 million dollars. The estimated value of the new residential dwellings should exceed \$ 400 million dollars.

The Merrimack Valley Golf Course has been approved to expand the existing golf course. The Donald Ross golf course is the most recognized golf course in the Merrimack Valley, dating back to its opening in 1920. The expansion of the course will lengthen three golf holes and will add seventy-five new residential dwellings along the border of the course. The project will be marketed towards empty nesters. The rehabilitation to the golf course will be an estimated \$ 5 million dollars and the new residential dwellings should be valued at approximately \$ 365 million dollars.

The Cafua Management Company has presented plans to the City for the construction of a new 30,000 sf baking facility to serve approximately 65 restaurants, and house the new headquarters. The location of the proposed bakery will also include a restaurant, bank and three retail stores. The bakery alone will bring an estimated 80 jobs to the City of Methuen.

There are plans for Scott Industries to expand their commercial building on Merrimack Street. The proposal will add an additional 10,000 sf to an existing building and additional parking.

Plans are underway to demolish an existing Burger King on Haverhill Street and construct a new restaurant and CVS Pharmacy. The new site plan will also open the rear portion of the property for the development of a 30,000 sf retail center.

Heavenly Donuts, which is a regional donut shop has submitted plans to redevelop an abandon gasoline station. The plans depict a 2,500 sf restaurant and drive-thru on Pelham Street at a cost of nearly \$ 1 million dollars.

Irving Gasoline has identified Methuen as a desired location for their new state of the art facility. The company has been working with the City to establish their finest facility to date. The project is estimated to cost \$ 2 million dollars when complete.

The City recently permitted a professional office building for Pleasant Valley Street. The building will house a variety of real estate, insurance and financial offices.

With the rebuilding of various older facilities now complete and the established industrial parks nearing build-out, economic development efforts have shifted towards maintaining the existing facilities at full occupancy. More specifically, the

Economic Development Office is now focusing on the development of nearly 400 acres of commercially zoned property. The property is located at/near Interstate 93, with direct access to the highway. The City is working on establishing a flexible zoning ordinance that will address the needs of the economy and commercial growth patterns. Local development officials have been meeting with property owners of more than 194 acres of industrially zoned land available adjacent to Griffin Brook Industrial Park, and the property owners have expressed a strong willingness to work with the City to capitalize on the enormous economic potential of its proximity to the I-93 corridor. Located just 2 miles from Andover's prestigious River Road area, the land has the ability to attract hundreds of millions of dollars in new investment and create thousands of jobs.

Two other large tracts of industrial-zoned land are receiving considerable attention from local commercial developers and focus from the City of Methuen. Both Lindbergh Avenue and Old Ferry Road in Methuen have historically been home to contractors' yards and related businesses. The growth in the regional economy, coupled with the prestige associated with I-93 and I-495 visibility has afforded the City the opportunity to attract higher and better uses to these sites. Combined, they represent more than 200 acres of industrial land with the potential to house in excess of 1.5 million square feet of industrial space.

Downtown development is concurrently keeping pace. A cornerstone project was the conversion of a vacant mill into a 97-unit luxury apartment complex in the heart of downtown Methuen. Mills Falls, a \$ 10 million dollar project, began renting in 2001. Consistent with the Downtown Revitalization Program, Phase I of the Spiggot Falls Riverwalk Park was completed and Phase II will bring a pedestrian bridge, to facilitate accessibility and enhance the downtown.

Construction started in the spring of 2006, with completion expected before July 2007. The City recently completed the first phase of the streetscape lighting project, valued at \$ 1 million. The City has also established a building and façade program for downtown businesses to assist with the redevelopment of building façades through a 30-year deferred loan program. A \$ 35,000 sign program continues to help the overall appearance of the Historic Downtown District.

Methuen Assisted Living, LLC has proposed a 91-unit assisted living facility for Gleason Street, a former Brownfield's site. The proposed building represents a \$ 19 million investment in downtown and will create approximately 30 full-time jobs. The same proponent will be developing a 21,000 sf. commercial building at the corner of Gleason Street and Broadway. The building will have approximately ten (10) tenants and will support both the downtown and the assisted living facility. Over \$ 500,000 in predevelopment and remediation works is now complete, with construction slated for the Spring of 2007.

Seica Tech Solutions, based in Torino, Italy has located its North American Headquarters in downtown Methuen on Osgood Street. Seica produces test equipment for circuit boards and services several Fortune 500 companies. The completely renovated building now houses four businesses and is fully occupied.

Other major improvements on Osgood Street such as the Mill Falls Apartments, the Wolverine Building the home of Harvey Sign, along with the Broadway refurbishing continue to enhance Methuen's downtown area.

## **Financial Position**

The City of Methuen is extremely proud of maintaining a solid financial position in all economies, as indicated by its continued "A1" bond rating. The City of Methuen expects moderate growth in its \$ 4.9 billion tax base given continued residential and commercial development. The City's assessed values have grown a strong average of 13.9% annually from 2001 to 2006, bringing the total assessed value to \$ 4.9 billion. The largest driver of these gains is The Loop, an \$ 80 million retail and entertainment complex that is anchored by a 20-screen Loew's movie theater, a Home Depot and Super Stop & Shop. The City of Methuen expects the tax base growth to remain sound, due to a number of developments including construction of two golf courses with 75 new residential units, both expected to be completed in 2008, as well as the availability of 194 acres of industrially zoned land adjacent to the Griffin Brook Industrial Park. Mann's Apple Orchards has been subdivided and a Target super store is being built on the site along with a renovated orchard farm with new buildings.

The City's debt position remains favorable due to the City's limited short-term debt plans, rapid amortization of debt (83.5% in 10 years) and ongoing tax base growth. The City's debt burden, after adjustments for substantial state school building aid of 90%, is a modest 0.7%. Except for the renewal of BANs upon maturity, there are no immediate plans for additional borrowing.

## **Investment of City Funds**

All funds of the City, except for trust funds and funds of the Methuen Contributory Retirement System, are invested in accordance with Section 55 of Chapter 44 of the Massachusetts General Laws (MGL). This section permits investment of available revenue funds and bond and note proceeds in term deposits and Certificates of Deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government and an agency thereon with a maturity of one year or less, in repurchase agreements secured by federal or federal agency securities, with a maturity of 90 days or less, in participation units in the Massachusetts Municipal Depository Trust (MMDT), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer the MMDT's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with Section 54 of Chapter 44 of the MGL, which permits a broader range of investments than Section 55, including any bonds or notes that are legal, investments for savings banks in the Commonwealth. The restrictions imposed by Sections 54 and 55 do not apply to City and City retirement systems.

### **Acknowledgements**

The preparation of this report would not have been possible without the efficient and dedicated services of the Accounting Department staff. We would like to express our appreciation to all the members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and the Methuen City Council for their unfailing support and for maintaining the highest standards of professionalism in the management of the City of Methuen

Respectfully submitted,

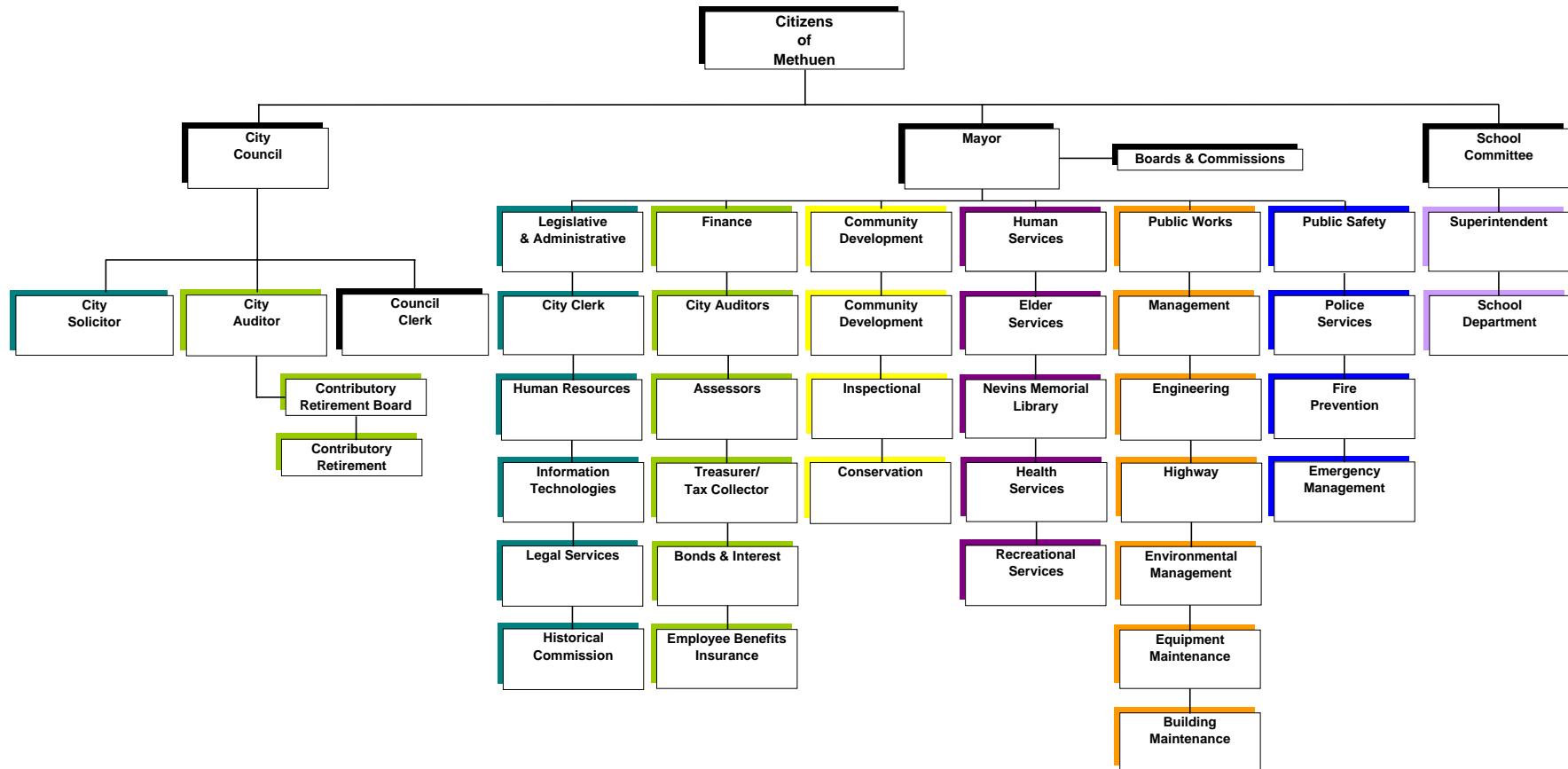


Thomas J. Kelly  
City Auditor



Louise A. Moss  
Deputy Director of  
Budget and Finance

**CITY OF METHUEN, MASSACHUSETTS  
ORGANIZATIONAL CHART**



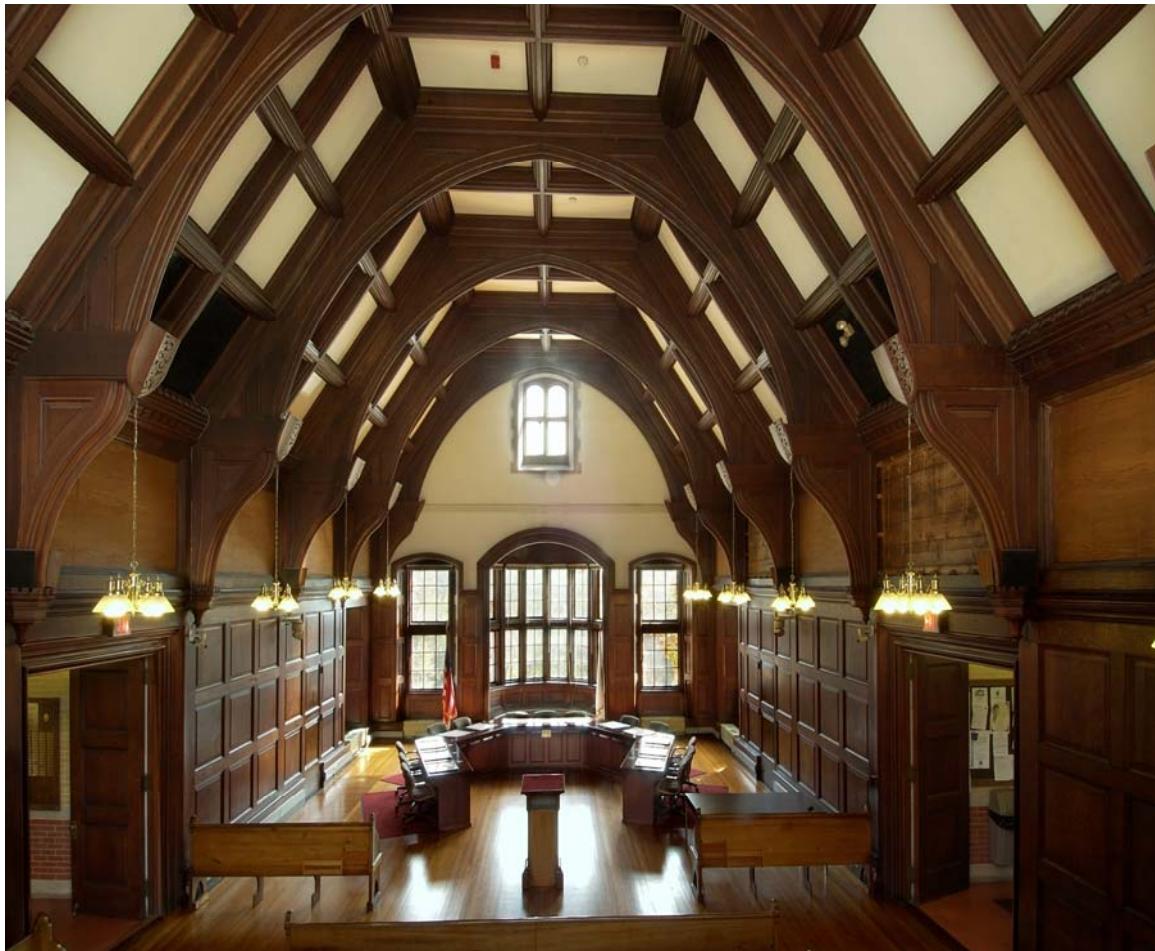
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**Principal City Officials**  
**as of June 30, 2006**

<b>Title</b>	<b>Name</b>	<b>Selection/Term</b>	<b>Term Expires</b>
Mayor	William M. Manzi, III	Elected	December 31, 2007
City Council:			
Chairman - Councilor at Large	Stephen N. Zanni	Elected	December 31, 2007
Vice Chairman - Councilor at Large	Kathleen Corey Rahme	Elected	December 31, 2007
Councilor at Large	Kenneth R. Willette Jr.	Elected	December 31, 2007
Central District Councilor	John A. Cronin, Jr.	Elected	December 31, 2007
Central District Councilor	Phillip J. Lahey, Jr.	Elected	December 31, 2007
East District Councilor	Larry F. Giordano	Elected	December 31, 2007
East District Councilor	Joseph A. Leone, III	Elected	December 31, 2007
West District Councilor	Robert A. Andrews	Elected	December 31, 2007
West District Councilor	Deborah R. Quinn	Elected	December 31, 2007
City Auditor	Thomas J. Kelly	Appointed by City Council	December 31, 2006
City Solicitor	Peter McQuillan	Appointed by City Council	December 31, 2006
Chief of Staff	Matthew A. Kraunelis	Appointed by Mayor	***
City Clerk	Christine R. Touma-Conway	Appointed by Mayor	***
Director of Community Development	Karen Sawyer-Faust	Appointed by Mayor	***
Director of Information Technology	Kinglsey Lough	Appointed by Mayor	***
Director of Public Works	Raymond E. DiFiore	Appointed by Mayor	***
Executive Director - Council on Aging	Corrine LaCharite	Appointed by Mayor	***
Fire Chief	Clifford J. Gallant	Appointed by Mayor	***
Human Resource Manager	David Bain	Appointed by Mayor	***
Municipal Appraiser	John Cena	Appointed by Mayor	***
Police Chief	Joseph Solomon	Appointed by Mayor	***
Treasurer/Tax Collector	Ann Guastaferro	Appointed by Mayor	***

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*City of Methuen, Massachusetts*  
*Financial Section*



*Great Hall Searles Building*

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council  
City of Methuen, 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 Methuen, Massachusetts, as of and for the year ended June 30, 2006 (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2005), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Methuen's management. Our responsibility is to express an opinion 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 Methuen, as of June 30, 2006 (except the Methuen Contributory Retirement System, which is as of December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the required supplementary information, appearing on page 69, are not required parts of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*Melanson, Heath + Company P.C.*

Andover, Massachusetts  
December 12, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Methuen, we offer readers this narrative overview and analysis of the financial activities of the City of Methuen for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a 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, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water and sewer activities.

**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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, a single enterprise fund is used to account for the combined water and sewer operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, an internal service fund is used to account for self-insured employee health programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail.

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

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which is required to be disclosed by the *Governmental Accounting Standards Board*.

## **B. FINANCIAL HIGHLIGHTS**

All amounts in Section B are in thousands.

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 51,309 (i.e., net assets), a change of \$ 1,826 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 5,025, a change of \$ (2,749) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,923, a change of \$ (739) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 69,191 a change of \$ (180) in comparison to the prior year.
- Total notes payable at the close of the current fiscal year was \$ 6,214 a change of \$ 2,500 in comparison to the prior year.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. All amounts in Section C are in thousands.

The largest portion of net assets \$ 35,993 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 2,104 represents resources that are subject to external restrictions on how they may be used. The remaining balance of

unrestricted net assets \$ 13,211 may be used to meet the government's ongoing obligations to citizens and creditors.

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

**City of Methuen's Net Assets**

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 21,683	\$ 23,217	\$ 7,604	\$ 5,259	\$ 29,287	\$ 28,476
Capital assets	92,146	92,586	19,853	15,301	111,999	107,887
Total assets	<u>113,829</u>	<u>115,803</u>	<u>27,457</u>	<u>20,560</u>	<u>141,286</u>	<u>136,363</u>
Long-term liabilities	67,900	73,412	7,711	2,444	75,611	75,856
Other liabilities	11,050	10,095	3,315	929	14,365	11,024
Total liabilities	<u>78,950</u>	<u>83,507</u>	<u>11,026</u>	<u>3,373</u>	<u>89,976</u>	<u>86,880</u>
Net assets:						
Invested in capital assets,						
net of related debt	25,408	22,904	( <sup>1</sup> )	10,585	13,375	35,993
Restricted	2,104	2,175	-	-	2,104	2,175
Unrestricted	7,366	7,217	5,846	3,812	13,212	11,029
Total net assets	<u>\$ 34,878</u>	<u>\$ 32,296</u>	<u>\$ 16,431</u>	<u>\$ 17,187</u>	<u>\$ 51,309</u>	<u>\$ 49,483</u>

(<sup>1</sup>) As restated

The following is a summary of condensed government-wide activities for the current and prior fiscal years.

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	\$ 8,442	\$ 7,931	\$ 6,964	\$ 7,675	\$ 15,406	\$ 15,606
Operating grants and contributions	43,952	42,653	20	8	43,972	42,661
Capital grants and contributions	3,971	737	-	9	3,971	746
General revenues						
Property Taxes	49,662	47,403	-	-	49,662	47,403
Excises	4,546	5,025	-	-	4,546	5,025
Penalties, interest and other taxes	268	456	-	-	268	456
Grants and contributions not restricted to specific programs	11,659	10,908	-	-	11,659	10,908
Investment income	351	239	199	139	550	378
Gain on sale of assets	1,168	1,108	-	-	1,168	1,108
Other	527	118	-	-	527	118
Total revenues	<u>124,546</u>	<u>116,578</u>	<u>7,183</u>	<u>7,831</u>	<u>131,729</u>	<u>124,409</u>

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Expenses:						
General government	11,397	9,247	-	-	11,397	9,247
Public safety	18,168	16,763	-	-	18,168	16,763
Education	77,036	72,033	-	-	77,036	72,033
Public works	8,514	9,284	-	-	8,514	9,284
Sanitation	2,741	2,610	-	-	2,741	2,610
Health and human services	1,078	1,135	-	-	1,078	1,135
Culture and recreation	1,173	1,140	-	-	1,173	1,140
Interest and costs	3,293	3,250	-	-	3,293	3,250
Enterprise services	-	-	6,503	6,357	6,503	6,357
Total expenses	<u>123,400</u>	<u>115,462</u>	<u>6,503</u>	<u>6,357</u>	<u>129,903</u>	<u>121,819</u>
Change in net assets before transfers and loss	1,146	1,116	680	1,474	1,826	2,590
Transfer in (out)	<u>1,436</u>	<u>1,213</u>	<u>(1,436)</u>	<u>(1,213)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>2,582</u>	<u>2,329</u>	<u>(756)</u>	<u>261</u>	<u>1,826</u>	<u>2,590</u>
Beginning net assets	<u>32,296</u>	<u>29,967</u> <sup>(1)</sup>	<u>17,187</u>	<u>16,926</u>	<u>49,483</u>	<u>46,893</u>
Ending net assets	<u>\$ 34,878</u>	<u>\$ 32,296</u>	<u>\$ 16,431</u>	<u>\$ 17,187</u>	<u>\$ 51,309</u>	<u>\$ 49,483</u>

<sup>(1)</sup> as restated

**Governmental activities.** The City's positive result of \$ 2,582 in governmental activities is due in large to several factors. A conservative approach to budgeting and careful monitoring of expenses and revenue activity throughout the fiscal year allows us to react, when possible, to changing fiscal conditions. Strong revenue collections well in excess of estimated amounts in certain categories played a key role in the positive outcome in FY 2006. The City sold 22 lots of land at a profit of \$ 1,168. Favorable change in interest rates contributed to increase in investment income. Redistribution of income from the Commonwealth of Massachusetts was also higher in 2006, particularly the lottery revenue distributed to the City increased by \$ 730. Public Works expenses were lower in 2006 due to cutting costs.

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$ (756). This change resulted primarily from:

- Use of net assets (fund balance) for ongoing operations.
- Malden Mills write-off due to settlement agreement, see footnote 24.

## **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All amounts in Section D are in thousands.

**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.

A change in governmental fund balances of \$ (2,749) resulted primarily from the Roads and Drainage major fund expenditures with no current year revenue source, and using \$ (1,917) of fund balance for certain General Fund expenditures.

The General Fund is the chief operating fund. At the end of the current fiscal year, undesignated fund balance of the General Fund was \$ 1,923, while total fund balance was \$ 4,130. While the total fund balance changed by only \$ (338), undesignated fund balance was changed by \$ (739). Undesignated fund balance represents 2% of total expenditures, while total fund balance represents 4% of total expenditures.

Significant changes in general fund includes increases in contributions to health insurance and pension funds of 10% and 56% respectively, as well as increase in debt principal of 19%.

The Road and Drainage major fund was granted a \$ 10,000 authorization in April 2001 under Massachusetts General Laws, Chapter 44 Sec 7(1), 7(5), and 7(6) in order to undertake an extensive rehabilitation of the City's major streets. As of June 30, 2006, the project is approximately 95% completed. In September 2004, as part of the City's \$ 19,000 bond issue (which included refunding of certain bonds of the City), \$ 6,000 in road and drainage bond anticipation notes were converted to \$ 5,630 in general obligation bonds, with \$ 370 being paid down from other available funds. An additional \$ 4,000 in bond anticipation notes was outstanding as of the end of the fiscal year. It is anticipated that upon maturity, they will be rolled over into a bond.

**Proprietary funds.** Proprietary funds include the water and sewer enterprise fund found in business-type activities reported in the government-wide financial statements, and the health insurance internal service fund, with the governmental activities on the entity-wide financial statements. Factors concerning the finances of the enterprise fund have already been addressed in the entity-wide discussion of business-type activities.

The expenses of the health insurance fund, which include an accrual for estimated incurred, but not yet reported costs, increased by 12% over the prior year, as expected, resulting in operating loss of 3% of expenses.

#### **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Fiscal Year 2006 challenged the City of Methuen's operating budget and managed to avoid several major operating deficits. The snow and ice budget was exhausted almost immediately with an early arrival of snow. The Snow and Ice accounts disclosed a deficit balance of \$ 735,122 by the end of the winter months. The City made national news in May when heavy rains caused major flooding throughout the low-lying areas of the community. The integrity of the Spiggott Falls Dam was tested and for a time it appeared the Spiggott Falls Dam holding back the rain-swollen Spicket River might burst, releasing a torrent of floodwater into homes and businesses in downtown Methuen. Fortunately, the engineers who designed the 1870 dam made it strong enough to withstand the increasing force of the water. The dam survived the ordeal and was generating electricity again just days later. In the meantime, the Governor of Massachusetts declared a "State of Emergency" as a result of heavy rains and flooding. The cost to clean up the flood-ravaged community had to be absorbed by the operating budget. A spending freeze was immediately placed in effect on all non-essential purchases. The City Council was asked to accept Chapter 44 § 31 for liabilities in excess of appropriations in order to hold harmless the City's financial welfare. The initial cost for the flood clean up totaled \$ 526,815 and the damages to homeowners and City property exceeded \$ 1 million dollars. The \$ 526,815 was reimbursed by the State of Massachusetts and erased the deficit. Additional funds have been awarded to the City to restore City owned land and parks.

While the budget withstood the disaster, an analysis of estimated receipts disclosed that local revenues and personal property exceeded budget estimates by \$ 1,720,274. Three major contributors to this revenue windfall was the reimbursement from Medicare, Motor Vehicle Excise Tax and Real & Personal Property Taxes. Medicare revenues exceeded the estimate by \$ 656,639, Motor Vehicle Excess exceeded its estimate by \$ 512,206 and Real and Personal Property through an aggressive collection campaign yielded \$ 216,133 over estimates. By the close of fiscal year, the Department of Revenue certified the City of Methuen with a "Free Cash" position of \$ 2,458,531.

#### **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** All amounts in section F are in thousands. Total capital assets for governmental and business-type activities at year-end amounted to \$ 111,999 (net of accumulated depreciation), a change of \$ 4,111 from the prior year. This

investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and infrastructure.

The following table provides a summary of the City's capital assets at June 30:

**City of Methuen's Capital Assets**  
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land improvements	\$ 2,043	\$ 1,981	\$ 22	\$ 25	\$ 2,065	2,006
Construction	69,433	71,244	4,337	4,506	73,770	75,750
Infrastructure	7,956	6,458	9,244	9,571	17,200	16,029
Machinery and equipment	2,035	1,949	410	506	2,445	2,455
Licensed vehicles	1,420	1,726	207	50	1,627	1,776
Land, easements, and right of way	9,210	9,180	252	252	9,462	9,432
Construction in progress	49	49	5,381	391	5,430	440
Total net assets	\$ <u>92,146</u>	\$ <u>92,587</u>	\$ <u>19,853</u>	\$ <u>15,301</u>	\$ <u>111,999</u>	\$ <u>107,888</u>

Note: 2005 capital assets have been restated from prior year.

Capital asset acquisitions during the current fiscal year consist of the following:

Governmental:

Road resurfacing	\$ 2,061
Land acquisition	523
Computer hardware and software	275
Police cruisers	103
Rte 28 Broadway lighting	247
Track renovation at the High School	227

Business-Type:

Water treatment plant improvements	\$ 1,057
Distribution system improvements	3,934

Additional information on capital assets can be found in footnote 11 to the financial statements.

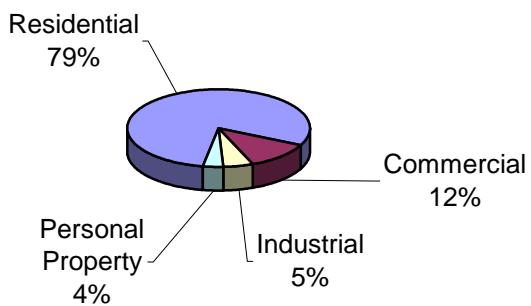
**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 69,191 all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in footnote 18 to the financial statements.

## **G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

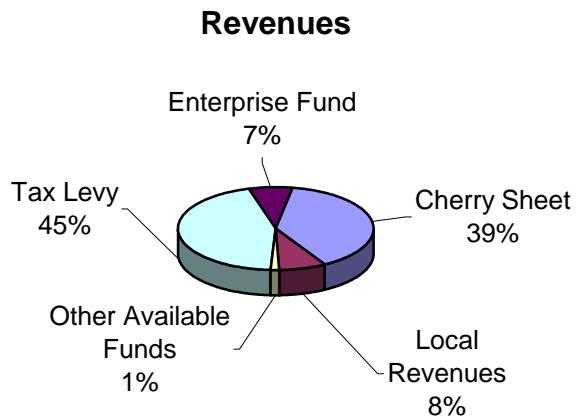
The City of Methuen continued its pattern of new growth realizing \$ 99,238,728 or 2% of additional new growth. While new growth is a useful tool in reducing the tax rate, it's masquerading the fact that home values continue to climb, which is becoming burdensome to the homeowner. Over the past four years the property tax values have exploded. State aid cuts, declining commercial values as opposed to increased residential values have all contributed to a surge in property taxes on residents in recent years. Property taxes now account for a greater share of local revenues than at any point since fiscal 1982. In fiscal year 2007 the tax levy for the City of Methuen represented 45% of revenues to support the operating budget. The administration of the City of Methuen has recognized this and has begun the process of implementing a land use study. The land use study serves several purposes. Protecting open space is vital; however attracting new commercial and industrial businesses will be a priority. The purpose is to increase the commercial and industrial value of the City and assist in taking some of the burden of increased taxes away from the residential side of the community. The City of Methuen's value of \$ 4.9 billion is heavily weighted in the residential value, while commercial and industrial represent 17%. In order to have an equitable shift of the tax burden the city will need to attract new businesses.

### **Tax Classifications**



Unlike most communities in Massachusetts, the City of Methuen continues to enjoy the comfort of excess levy capacity, however with rising health care costs, required pension contributions, mandated Net School Spending and declining Cherry Sheet Revenues the excess levy capacity could vanish. The fiscal year 2008 operating budget will be faced with all of these issues. Preliminary Cherry Sheet numbers have been released by the Governor and although the City of Methuen stands to receive \$ 41.2 million, an increase of \$ 3.025 million, \$ 2.8 million of the increase goes directly to the School Department as Chapter 70 funding, and an additional \$ 110,000 increase in

local aid assessment fees leaves the General Government with an overall increase in new revenues of \$ 120,684. The State Aid spending requirement for the Methuen Schools is \$ 64,516,246, an increase of \$ 3,972,630 from last year. Even if we apply the additional Chapter 70 funding of \$ 2.8 million to the increased assessment a balance of \$ 1,172 million will have to be funded from some other revenue sources, a daunting task considering the two major revenue sources that support the Municipal Operating Budget are the Tax Levy (45%) and the Cherry Sheet (39%).



However a major emphasis on building up the City's reserves is underway. The City was certified with a "Free Cash" position for fiscal year 2007 in the amount of \$ 2,458,531, which was an increase of \$ 703,202 over fiscal year 2006. As mentioned previously, Malden Mills has settled with the City of Methuen in the amount of \$ 1,561,020, and a major revenue source is being tapped by way of Medicare reimbursement through the State Division of Medical Assistance.

Overall, the City of Methuen is maintaining a stable financial operation; however new and innovative thinking will be critical to find alternative methods to fund the services provided to the citizens by way of their tax dollars.

### General Fund Budget

	<u>FY 2006</u>	<u>FY 2007</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
City	\$ 51,018,889 (1)	\$ 52,999,921 (1)	\$ 1,981,032	3.88 %
School	53,781,444	56,551,807	2,770,363	5.15
County	942,900	1,195,374	252,474	26.78
Enterprise Fund	<u>6,845,812 (2)</u>	<u>7,370,465 (2)</u>	<u>524,653</u>	<u>7.66</u>
Total Budget	<u>\$ 112,589,045</u>	<u>\$ 118,117,567</u>	<u>\$ 5,528,522</u>	<u>4.91 %</u>

(1) Includes reserve for abatements and exemptions and cherry sheet offsets.

(2) Excludes indirect costs.

### Tax Levy

	<u>FY 2006</u>	<u>FY 2007</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
General Government	\$ 25,625,332	\$ 26,573,000	\$ 947,668	3.70 %
Fixed Costs	25,840,709	27,006,045	1,165,336	4.51
School	53,781,444	56,551,807	2,770,363	5.15
Overlay	495,748	548,750	53,002	10.69
Court Judgment	-	67,500	67,500	***
Total Levy	<u>\$ 105,743,233</u>	<u>\$ 110,747,102</u>	<u>\$ 5,003,869</u>	<u>4.73 %</u>

### Tax Rate

	<u>FY 2006</u>	<u>FY 2007</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Residential	\$ 9.28	\$ 9.65	\$ 0.37	3.99 %
Commercial	\$ 16.87	\$ 17.56	\$ 0.69	4.09 %

### Valuation by Classification

<u>Classification</u>	<u>FY 2006 Values</u>	<u>FY 2007 Values</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Residential	\$ 4,267,426,852	\$ 4,351,545,812	\$ 84,118,960	1.97 %
Commercial	353,520,884	353,761,242	240,358	0.07
Industrial	153,055,220	158,401,520	5,346,300	3.49
Personal Property	<u>100,709,550</u>	<u>110,242,660</u>	<u>9,533,110</u>	<u>9.47</u>
	<u>\$ 4,874,712,506</u>	<u>\$ 4,973,951,234</u>	<u>\$ 99,238,728</u>	<u>2.04 %</u>

### Utility Fund Budget

	<u>FY 2006</u>	<u>FY 2007</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Water & Sewer Enterprise Fund	\$ 8,281,527	\$ 8,562,611	\$ 281,084	3.39 %

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Methuen'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:

City Auditor  
City of Methuen  
41 Pleasant Street  
Methuen, MA 01844

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 14,881,874	\$ 1,889,977	\$ 16,771,851
Receivables, net of allowance for uncollectibles:			
Property taxes	1,840,072	-	1,840,072
Excises	819,002	-	819,002
User fees	-	2,779,897	2,779,897
Assessments	404,138	-	404,138
Departmental and other	1,234,985	-	1,234,985
Intergovernmental	1,084,692	2,934,583	4,019,275
Loans	<u>1,078,293</u>	-	<u>1,078,293</u>
Total current assets	21,343,056	7,604,457	28,947,513
Noncurrent:			
Property taxes	188,235	-	188,235
Deferred debt expense	151,284	-	151,284
Capital assets:			
Nondepreciable capital assets	9,259,070	5,632,624	14,891,694
Other capital assets, net of accumulated depreciation	<u>82,887,226</u>	<u>14,220,177</u>	<u>97,107,403</u>
Total noncurrent assets	92,485,815	19,852,801	112,338,616
<b>TOTAL ASSETS</b>	<b>113,828,871</b>	<b>27,457,258</b>	<b>141,286,129</b>
<b>LIABILITIES</b>			
Current:			
Accounts payable	2,719,930	1,164,315	3,884,245
Accrued liabilities	1,666,096	187,642	1,853,738
Notes payable	4,250,000	1,963,500	6,213,500
Other current liabilities	2,413,918	-	2,413,918
Current portion of long-term liabilities:			
Bonds payable	5,370,000	559,749	5,929,749
Other liabilities	<u>1,213,472</u>	<u>75,787</u>	<u>1,289,259</u>
Total current liabilities	17,633,416	3,950,993	21,584,409
Noncurrent:			
Bonds payable, net of current portion	56,495,000	6,765,862	63,260,862
Other liabilities, net of current portion	<u>4,822,019</u>	<u>309,827</u>	<u>5,131,846</u>
Total noncurrent liabilities	61,317,019	7,075,689	68,392,708
<b>TOTAL LIABILITIES</b>	<b><u>78,950,435</u></b>	<b><u>11,026,682</u></b>	<b><u>89,977,117</u></b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	25,408,159	10,584,995	35,993,154
Restricted externally or constitutionally for:			
Loan and grant programs	1,516,512	-	1,516,512
Permanent fund:			
Nonexpendable	581,112	-	581,112
Expendable	6,843	-	6,843
Unrestricted	<u>7,365,810</u>	<u>5,845,581</u>	<u>13,211,391</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>34,878,436</u></b>	<b>\$ <u>16,430,576</u></b>	<b>\$ <u>51,309,012</u></b>

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities:</b>				
General government	\$ 11,397,268	\$ 511,995	\$ 9,411	\$ -
Public safety	18,168,340	3,672,834	929,140	-
Education	77,035,744	2,548,933	42,889,505	-
Public works	8,513,948	375,756	12,227	3,970,581
Sanitation	2,741,065	-	-	-
Health and human services	1,078,086	212,863	106,196	-
Culture and recreation	1,172,775	1,119,683	5,671	-
Interest	3,292,680	-	-	-
Total Governmental Activities	123,399,906	8,442,064	43,952,150	3,970,581
<b>Business-Type Activities:</b>				
Enterprise services	6,502,704	6,964,208	19,489	-
Total	\$ 129,902,610	\$ 15,406,272	\$ 43,971,639	\$ 3,970,581

**General Revenues and Transfers:**

Property taxes  
 Excise taxes  
 Penalties, interest, and other taxes  
 Grants and contributions not restricted  
 to specific programs  
 Investment income  
 Other  
 Gain on sale of capital assets  
 Transfers, net

Total general revenues and transfers

Change in Net Assets

**Net Assets:**

Beginning of year, as restated

End of year

See notes to financial statements.

**Net (Expenses) Revenues and Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (10,875,862)	\$ -	\$ (10,875,862)
(13,566,366)	-	(13,566,366)
(31,597,306)	-	(31,597,306)
(4,155,384)	-	(4,155,384)
(2,741,065)	-	(2,741,065)
(759,027)	-	(759,027)
(47,421)	-	(47,421)
<u>(3,292,680)</u>	<u>-</u>	<u>(3,292,680)</u>
 (67,035,111)	 -	 (67,035,111)
 -	 <u>480,993</u>	 <u>480,993</u>
 (67,035,111)	 480,993	 (66,554,118)
 49,662,358	 -	 49,662,358
4,545,616	-	4,545,616
268,192	-	268,192
 11,658,676	 -	 11,658,676
351,478	198,516	549,994
526,979	-	526,979
1,168,077	-	1,168,077
<u>1,435,715</u>	<u>(1,435,715)</u>	<u>-</u>
 <u>69,617,091</u>	 <u>(1,237,199)</u>	 <u>68,379,892</u>
 2,581,980	 (756,206)	 1,825,774
 <u>32,296,456</u>	 <u>17,186,782</u>	 <u>49,483,238</u>
 <u>\$ 34,878,436</u>	 <u>\$ 16,430,576</u>	 <u>\$ 51,309,012</u>

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2006

<b>ASSETS</b>	<u>General</u>	<u>Roads and Drainage</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 7,677,328	\$ 532,484	\$ 5,077,980	\$ 13,287,792
Receivables:				
Property taxes	2,262,834	-	-	2,262,834
Excises	942,831	-	-	942,831
Assessments	404,138	-	-	404,138
Departmental and other	1,267,679	-	191,772	1,459,451
Intergovernmental	113,377	-	971,316	1,084,693
Loans	-	-	1,078,293	1,078,293
<b>TOTAL ASSETS</b>	<b>\$ 12,668,187</b>	<b>\$ 532,484</b>	<b>\$ 7,319,361</b>	<b>\$ 20,520,032</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants and accounts payable	\$ 1,870,099	\$ 303,323	\$ 546,258	\$ 2,719,680
Accrued liabilities	837,497	-	87,916	925,413
Deferred revenues	4,623,000	-	1,769,369	6,392,369
Notes payable	-	4,000,000	250,000	4,250,000
Other liabilities	1,207,661	-	-	1,207,661
<b>TOTAL LIABILITIES</b>	<b>8,538,257</b>	<b>4,303,323</b>	<b>2,653,543</b>	<b>15,495,123</b>
Fund Balances:				
Reserved for:				
Encumbrances	1,514,903	220	-	1,515,123
Expenditures	492,277	-	-	492,277
Perpetual permanent fund	-	-	581,112	581,112
Unreserved - designated	200,000	-	-	200,000
Unreserved - undesignated, reported in:				
General fund	1,922,750	-	-	1,922,750
Special revenue funds	-	-	4,013,828	4,013,828
Capital project funds	-	(3,771,059)	64,035	(3,707,024)
Permanent fund	-	-	6,843	6,843
<b>TOTAL FUND BALANCES</b>	<b>4,129,930</b>	<b>(3,770,839)</b>	<b>4,665,818</b>	<b>5,024,909</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 12,668,187</b>	<b>\$ 532,484</b>	<b>\$ 7,319,361</b>	<b>\$ 20,520,032</b>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2006

<b>Total governmental fund balances</b>	\$ 5,024,909
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	92,146,296
• Deferred debt expense for refunding is net of amortization on the statement of net assets, whereas all debt expense is reported when paid in the governmental funds.	151,284
• Revenues are reported on the accrual basis of accounting and are not deferred until collection.	5,809,545
• Internal service funds are used by management to account for 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.	387,577
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	( 740,684)
• Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable	(61,865,000)
Capital lease payable	( 1,166,332)
Landfill liability	( 1,800,000)
Compensated absences liability	( <u>3,069,159</u> )
<b>Net assets of governmental activities</b>	<b><u>\$ 34,878,436</u></b>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Roads and Drainage</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Property taxes	\$ 49,821,988	\$ -	\$ -	\$ 49,821,988
Excise taxes	5,112,206	-	-	5,112,206
Departmental	1,972,328	-	-	1,972,328
Licenses and permits	1,341,367	-	-	1,341,367
Intergovernmental	47,716,649	-	10,366,812	58,083,461
Charges for services	166,225	-	4,675,509	4,841,734
Interest earnings	381,428	-	124,000	505,428
Fines and forfeitures	339,721	-	-	339,721
Contributions	-	-	20,509	20,509
Other revenue	347,665	-	187,959	535,624
Total Revenues	<u>107,199,577</u>	<u>-</u>	<u>15,374,789</u>	<u>122,574,366</u>
<b>Expenditures:</b>				
Current:				
General government	18,413,201	-	139,489	18,552,690
Public safety	14,769,865	-	1,772,237	16,542,102
Education	59,829,005	-	9,863,772	69,692,777
Public works	6,342,088	780,670	2,284,830	9,407,588
Sanitation	2,741,065	-	-	2,741,065
Health and human services	772,235	-	253,600	1,025,835
Culture and recreation	801,824	-	672,821	1,474,645
Debt service:				
Principal	5,520,000	-	-	5,520,000
Interest	3,212,471	-	-	3,212,471
Total Expenditures	<u>112,401,754</u>	<u>780,670</u>	<u>14,986,749</u>	<u>128,169,173</u>
Excess (deficiency) of revenues over expenditures	(5,202,177)	(780,670)	388,040	(5,594,807)
<b>Other Financing Sources (Uses):</b>				
Capital leases	232,252	-	-	232,252
Sale of capital assets	1,177,737	-	-	1,177,737
Transfers in	3,453,975	-	-	3,453,975
Transfers out	-	-	(2,018,260)	(2,018,260)
Total Other Financing Sources (Uses)	<u>4,863,964</u>	<u>-</u>	<u>(2,018,260)</u>	<u>2,845,704</u>
Net change in fund balances	(338,213)	(780,670)	(1,630,220)	(2,749,103)
Fund Balances, at Beginning of Year	<u>4,468,143</u>	<u>(2,990,169)</u>	<u>6,296,038</u>	<u>7,774,012</u>
Fund Balances, at End of Year	<u>\$ 4,129,930</u>	<u>\$ (3,770,839)</u>	<u>\$ 4,665,818</u>	<u>\$ 5,024,909</u>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS  
 RECONCILIATION OF THE STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2006

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	\$ (2,749,103)
• 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:	
Capital asset acquisitions	3,640,614
Depreciation	(3,549,204)
Net effect of disposal of assets	( 532,160)
• 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.	733,007
• 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:	
Repayments of debt	5,520,000
Deferred debt amortization	( 16,809)
Capital lease financing	( 232,252)
Payments of capital leases	324,522
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	( 80,209)
• 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.	
Compensated absences	( 176,097)
Landfill	75,000
• Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities.	( 375,329)
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 2,581,980</u></b>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES  
AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
<b>Revenues and Other Sources:</b>				
Property Tax	\$ 49,350,882	\$ 49,350,882	\$ 49,350,882	\$ -
Local Revenue	8,695,950	8,695,950	10,200,094	1,504,144
Cherry Sheet and Misc	41,570,891	41,570,891	41,654,798	83,907
Non-Recurring	1,113,173	1,115,323	1,493,060	377,737
Transfers in	3,263,246	3,268,246	3,276,286	8,040
Other Financing Sources	<u>1,160,971</u>	<u>1,890,096</u>	<u>1,917,081</u>	<u>26,985</u>
Total Revenues and Other Sources	105,155,113	105,891,388	107,892,201	2,000,813
<b>Expenditures and Other Uses:</b>				
Current:				
General government	17,974,267	18,159,780	18,159,780	-
Intergovernmental	942,900	984,727	984,727	-
Public safety	14,363,357	14,175,980	14,702,795	(526,815)
Education	53,781,444	53,752,982	53,752,982	-
Public works	5,239,774	6,026,891	6,026,891	-
Sanitation	2,717,183	2,742,565	2,742,565	-
Library	1,171,081	1,171,993	1,171,993	-
Health and Human Services	697,616	692,768	692,768	-
Debt service	<u>8,267,491</u>	<u>8,183,702</u>	<u>8,183,702</u>	<u>-</u>
Total Expenditures and Other Uses	<u>105,155,113</u>	<u>105,891,388</u>	<u>106,418,203</u>	<u>(526,815)</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,473,998</u>	\$ <u>1,473,998</u>

See notes to financial statements.

## CITY OF METHUEN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
<b><u>ASSETS</u></b>		
Current:		
Cash and short-term investments	\$ 1,889,977	\$ 1,594,084
User fees receivable	2,779,897	-
Intergovernmental receivable	<u>2,934,583</u>	<u>-</u>
Total current assets	7,604,457	1,594,084
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	5,632,624	-
Other capital assets, net of accumulated depreciation	<u>14,220,177</u>	<u>-</u>
Total noncurrent assets	<u>19,852,801</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>27,457,258</b>	<b>1,594,084</b>
<b><u>LIABILITIES</u></b>		
Current:		
Accounts payable	1,164,315	250
Accrued liabilities	187,642	-
Notes payable	1,963,500	-
Other current liabilities	-	1,206,257
Current portion of long-term liabilities:		
Bonds payable	559,749	-
Other liabilities	<u>75,787</u>	<u>-</u>
Total current liabilities	3,950,993	1,206,507
Noncurrent:		
Bonds payable, net of current portion	6,765,862	-
Other liabilities, net of current portion	<u>309,827</u>	<u>-</u>
Total noncurrent liabilities	<u>7,075,689</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b>11,026,682</b>	<b>1,206,507</b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	10,584,995	-
Unrestricted	<u>5,845,581</u>	<u>387,577</u>
<b>TOTAL NET ASSETS</b>	<b>\$ 16,430,576</b>	<b>\$ 387,577</b>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
<b>Operating Revenues:</b>		
Charges for services	\$ 6,794,748	\$ -
Contributions	- -	12,332,758
Permits and fees	<u>169,460</u>	<u>-</u>
Total Operating Revenues	6,964,208	12,332,758
<b>Operating Expenses:</b>		
Personal services	1,961,162	- -
Materials	1,379,294	- -
Depreciation	607,307	- -
Sanitary district assessment	2,219,466	- -
Employee benefits	- -	12,785,410
Other expenses	<u>131,146</u>	<u>-</u>
Total Operating Expenses	<u>6,298,375</u>	<u>12,785,410</u>
Operating Income (Loss)	665,833	(452,652)
<b>Nonoperating Revenues (Expenses):</b>		
Intergovernmental revenue	19,489	- -
Investment income	198,516	77,323
Interest expense	<u>(204,329)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>13,676</u>	<u>77,323</u>
Income (Loss) Before Transfers	679,509	(375,329)
Transfers out	<u>(1,435,715)</u>	<u>-</u>
Change in Net Assets	(756,206)	(375,329)
Net Assets at Beginning of Year	<u>17,186,782</u>	<u>762,906</u>
Net Assets at End of Year	<u>\$ 16,430,576</u>	<u>\$ 387,577</u>

See notes to financial statements.

## CITY OF METHUEN, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers and users	\$ 7,385,260	\$ -
Employer contributions	- -	7,397,885
Employee contributions	- -	4,931,809
Payments of employee salaries, benefits, and related expenses	(1,952,258)	(13,399,544)
Payments to vendors	(533,794)	- -
Payments to other governments	<u>(2,219,466)</u>	<u>- -</u>
Net Cash Provided By (Used For) Operating Activities	2,679,742	(1,069,850)
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>		
Transfers to other funds	<u>(1,435,715)</u>	<u>- -</u>
Net Cash (Used For) Noncapital Financing Activities	(1,435,715)	- -
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Acquisition and construction of capital assets	(5,159,477)	- -
Proceeds from bonds and notes	4,101,917	- -
Principal payments on bonds, notes, and capital leases	(522,568)	- -
Interest expense	(50,127)	- -
Intergovernmental subsidy	<u>19,489</u>	<u>- -</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,610,766)	- -
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>198,516</u>	<u>77,323</u>
Net Cash Provided By Investing Activities	<u>198,516</u>	<u>77,323</u>
Net Change in Cash and Short-Term Investments	(168,223)	(992,527)
Cash and Short-Term Investments, Beginning of Year	<u>2,058,200</u>	<u>2,586,611</u>
Cash and Short-Term Investments, End of Year	<u>\$ 1,889,977</u>	<u>\$ 1,594,084</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u></b>		
Operating income	\$ 665,833	\$ (452,652)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	607,307	- -
Changes in assets and liabilities:		
User fees	421,052	- -
Accounts payable	976,646	250
Accrued liabilities	5,404	- -
Other liabilities	<u>3,500</u>	<u>(617,448)</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 2,679,742</u>	<u>\$ (1,069,850)</u>

## CITY OF METHUEN, MASSACHUSETTS

## FIDUCIARY FUNDS

## STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

	Pension Trust Fund (As of <u>December 31, 2005</u> )	Private Purpose Trust Fund	Agency Fund
<b>ASSETS</b>			
Pooled cash and short-term investments	\$ 354,096	\$ -	\$ -
Non-pooled cash and short-term investments	636,918	464,725	201,096
Investments, at fair value:			
Corporate equities	26,943,170	-	-
Pooled domestic equity funds	8,511,717	-	-
Pooled international equity funds	10,020,984	-	-
Pooled domestic fixed income funds	20,787,264	-	-
Pooled real estate funds	5,905,508	-	-
Receivables	<u>194,481</u>	<u>-</u>	<u>-</u>
Total Assets	73,354,138	464,725	201,096
<b>LIABILITIES AND NET ASSETS</b>			
Accounts payable	67,207	-	-
Other liabilities	<u>-</u>	<u>-</u>	<u>201,096</u>
Total Liabilities	<u>67,207</u>	<u>-</u>	<u>201,096</u>
<b>NET ASSETS</b>			
Total net assets held in trust for pension benefits and other purposes	<u>\$ 73,286,931</u>	<u>\$ 464,725</u>	<u>\$ -</u>

CITY OF METHUEN, MASSACHUSETTS  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2006

	Pension Trust Fund (For the Year Ended <u>December 31, 2005</u> )	Private Purpose Trust Fund
<b>Additions:</b>		
Contributions:		
Employers	\$ 4,980,449	\$ -
Other systems and Commonwealth of Massachusetts	599,970	-
Plan members	2,570,501	-
Other	<u>56,497</u>	<u>8,696</u>
Total contributions	<u>8,207,417</u>	<u>8,696</u>
Investment Income:		
Increase in fair value of investments	3,294,973	9,459
Less: management fees	<u>(402,436)</u>	<u>-</u>
Net investment income	<u>2,892,537</u>	<u>9,459</u>
Total additions	11,099,954	18,155
<b>Deductions:</b>		
Benefit payments to plan members and beneficiaries	7,606,876	-
Refunds to plan members	214,203	-
Transfers to other systems	136,152	-
Administrative expenses	225,644	-
Other	<u>-</u>	<u>100</u>
Total deductions	<u>8,182,875</u>	<u>100</u>
Net increase	2,917,079	18,055
<b>Net assets:</b>		
Beginning of year	<u>70,369,852</u>	<u>446,670</u>
End of year	<u>\$ 73,286,931</u>	<u>\$ 464,725</u>

See notes to financial statements.

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## CITY OF METHUEN, MASSACHUSETTS

### Notes to Financial Statements

#### **1. Summary of Significant Accounting Policies**

The accounting policies of the City of Methuen (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### **A. Reporting Entity**

The government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable.

**Component Units** - Component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Methuen Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 41 Pleasant Street, Methuen, MA 01844.

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

###### **Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific func-

tion or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter 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.

### 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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

#### Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expendi-

tures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *roads and drainage fund* accounts for financial resources and expenditures related to improvement of roads and drainage.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The *enterprise fund* accounts for the operating activities of the City's water and sewer utilities and capital improvement services.

The self-insured employee health program is reported as an *internal service fund* in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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

The *agency fund* is used to account for student activity funds.

*D. Cash and Short-Term Investments*

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

*E. Investments*

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

*F. Property Tax Limitations*

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2006 tax levy reflected an excess capacity of approximately \$ 4,299,375.

*G. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial

individual cost of more than \$ 5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Construction	25 - 50
Infrastructure	10 - 30
Equipment	5 - 20
Machinery and licensed vehicles	8

#### *H. Compensated Absences*

The government's policy is to permit employees to accumulate earned but unused vacation and sick pay benefits. Full-time, permanent employees are granted vacation benefits in varying amounts depending on contracts with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, after one year of service, employees are entitled to a percentage of their sick leave ranging between 30% and 50% depending on their contract with the City, and all of their accrued vacation upon termination. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### *I. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

#### *J. Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are

legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**K. Use of Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

**2. Stewardship, Compliance and Accountability**

**A. Budgetary Information**

At a City Council meeting in May, the Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1st. The budget, as enacted by the City Council, also establishes that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund to a departmental appropriation. "Extraordinary" includes expenses, which are not in the usual line, or are great, or exceptional. "Unforeseen" includes expenses, which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the major line items as voted by the City Council. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws, and must be raised in the next year's tax rate.

Annually, prior to year-end, the City Council authorizes the Mayor and City Accountant to amend the budget by making various inter and intradepartmental transfers and using available sources to avoid individual departmental over-expenditures.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances, which will be honored during the subsequent year.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Enterprise Funds.

Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

***B. Budgetary Basis***

The General Fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

***C. Budget/GAAP Reconciliation***

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 107,199,577	\$ 112,401,754
Other financing sources/uses (GAAP basis)	4,863,964	-
Subtotal (GAAP Basis)	112,063,541	112,401,754
Adjust tax revenue to accrual basis	(303,783)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,741,713)
Add end of year appropriation carryforwards to expenditures	-	1,514,903
To reverse the effect of non- budgeted State contributions for teachers retirement	(5,346,800)	(5,346,800)
Recognize use of Reserved Fund balance	957,889	-
Reverse gross up of capital leases	(232,252)	(232,252)
Reverse netting of transfers	(177,689)	(177,689)
Recognize use of overlay surplus	327,582	-
Recognize use of free cash	603,713	-
Budgetary basis	\$ <u>107,892,201</u>	\$ <u>106,418,203</u>

**D. Over Expenditures**

Emergency management expenditures exceeded budgets by \$ 526,815 due to floods of May 2006.

**E. Deficit Fund Equity**

The following funds or projects within the funds had deficits as of June 30, 2006:

Major Governmental Fund:	
Roads and Drainage	\$ 3,770,839
Nonmajor Governmental Funds:	
MA Historic Commission	\$ 1,400
Police Outside Detail	\$ 133,524
Alcohol, traffic, child passenger enforcement	\$ 3,637
JAG live scan fingerprint	\$ 11,259
SHS local preparedness	\$ 6,606
Weed and Seed	\$ 51,564
Recreation	\$ 221,343
Safe and supportive learning	\$ 5,858
Safe and drug-free schools	\$ 2,221
Essex National Heritage Commission	\$ 7,500
FY04 Mini Entitlement	\$ 65,885

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

**3. Cash and Short-Term Investments**

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a bank failure, the City's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposit's "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The City does not have a deposit policy for custodial credit risk. Per the System's policy, uninvested cash balances should be kept to a minimum through the prompt investment of available funds in short-term or more permanent security holdings. Managers may invest in commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the account's principal value. Investment managers may utilize internally

managed money market funds for this purpose, provided that they earn a competitive yield, and upon obtaining advance authorization from the Board. All such assets must represent maturities of one year or less at time of purchase.

No investment manager's cash position may exceed 10% for more than 5 consecutive days (allowing for settlement) without the consent of the Board. It is the responsibility of the managers to contact the Board to obtain authorization to maintain a cash position greater than 10%.

As of June 30, 2006 and December 31, 2005, \$ 7,751,418 and \$ 205,672 of the City's and System's bank balance of \$ 18,461,145 and \$ 991,014 respectively, was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's and System's name.

#### **4. Investments**

##### **A. Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The City does not have a credit risk policy. Per the System's credit risk policy, commercial paper assets must be rated A-1 or P-1 by Standard & Poor's and Moody's, respectively.

At December 31, 2005, the System's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Duration</u>	<u>Average Rating</u>
Corporate equity funds	\$ 49,092,700		
Bond mutual funds	17,170,435	4.49	AA
Real estate funds	<u>5,905,508</u>		
Total	<u>\$ 72,168,643</u>		

##### **B. Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and the System do not have policies for custodial credit risk.

*C. Concentration of Credit Risk*

The City places no limit on the amount that the City may invest in any one issuer. Per the System's policy, the Managers may not invest more than 5% of the account's market value in the obligations of a single issuer, with the exception of the U.S. Government and its agencies. Within the limitations mentioned above and the targets established in the "Manager Specific Guidelines", available at the System's Office, the Managers have complete discretion to allocate and select short-term cash and equivalent securities.

The following System's investments exceed 5% of total investments:

Wells Fargo	\$ 17,170,435
Russell 2000 Index SL	8,511,717
Brandes International Equity	10,020,984
PREEF AMREIT II	3,785,301
Bradford & Marzec fixed income	3,616,829

*D. Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Per the System's policy, the managers may not purchase short-term financial instruments considered to contain speculative characteristics (uncertainty of principal and/or interest).

*E. Foreign Currency Risk*

The City does not have a foreign currency risk policy. Per the System's policy, Domestic Equity Managers may include the securities of Foreign companies traded on U.S. exchanges up to 10% of their portfolios as described above. International investment Managers may invest in Foreign securities traded on foreign exchanges in accordance with their specific policy guidelines.

**5. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis 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 they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2006 consist of the following (in thousands):

Real Estate		
2006		\$ 1,004
Personal Property		
2006	19	
2005	9	
2004	10	
2003	11	
2002	25	
Prior	<u>243</u>	
		317
Tax Liens		<u>941</u>
Total		\$ <u>2,262</u>

## **6. Allowance for Doubtful Accounts**

The governmental receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

Property taxes	\$ 237
Excises	124
Ambulance	210
Police outside detail	14

## **7. User Fees Receivable**

User fees receivable in the enterprise fund includes amounts due from customers for water and sewer usage. Water and sewer delinquent receivables are liened in a similar manner as property taxes, described in Note 5.

## **8. Departmental and Other Receivables**

The City's departmental and other receivables at June 30, 2006 consist of the following:

	<u>Fire Ambulance</u>	<u>Police Outside Detail</u>	<u>Veterans Benefits</u>	<u>Other</u>	<u>Total</u>
Gross	\$ 1,051,928	\$ 140,796	\$ 215,751	\$ 50,976	\$ 1,459,451
Less: Allowance for doubtful accounts	( 210,386)	( 14,080)	—	—	( 224,466)
Total	\$ <u>841,542</u>	\$ <u>126,716</u>	\$ <u>215,751</u>	\$ <u>50,976</u>	\$ <u>1,234,985</u>

## **9. Intergovernmental Receivables**

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2006 and the amount to be drawn down from Massachusetts Water Pollution Abatement Trust for the improvement of the water distribution system, which is included in the City's long-term debt, see footnote 18.

## **10. Loans Receivable**

Loans receivable represent collectible balances from developers for loans under Community Development Block Grant and Housing and Urban Development programs.

## **11. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 5,468	\$ 227	\$ -	\$ 5,695
Construction	106,743	229	-	106,972
Infrastructure	20,222	2,107	-	22,329
Machinery and equipment	10,109	452	( 132)	10,429
Licenses and vehicles	<u>9,683</u>	<u>103</u>	<u>(1,147)</u>	<u>8,639</u>
Total capital assets, being depreciated	152,225	3,118	(1,279)	154,064

(continued)

(continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Less accumulated depreciation for:				
Land improvements	( 3,487)	( 165)	-	( 3,652)
Construction	( 35,499)	(2,040)	-	( 37,539)
Infrastructure	( 13,764)	( 609)	-	( 14,373)
Machinery and equipment	( 8,160)	( 337)	103	( 8,394)
Licenses and vehicles	( 7,957)	( 398)	1,136	( 7,219)
Total accumulated depreciation	( 68,867)	(3,549)	1,239	( 71,177)
Total capital assets, being depreciated, net	83,358	( 431)	( 40)	82,887
Capital assets, not being depreciated:				
Land, easements and right of way	9,180	522	( 492)	9,210
Construction in progress	49	-	-	49
Total capital assets, not being depreciated	9,229	522	( 492)	9,259
Governmental activities capital assets, net	\$ 92,587	\$ 91	\$ ( 532)	\$ 92,146
 <b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Land improvements	\$ 218	\$ -	\$ -	\$ 218
Construction	8,492	-	-	8,492
Infrastructure	24,126	30	-	24,156
Machinery and equipment	1,885	139	-	2,024
Licenses and vehicles	258	-	-	258
Total capital assets, being depreciated	34,979	169	-	35,148
Less accumulated depreciation for:				
Land improvements	( 193)	( 3)	-	( 196)
Construction	( 3,986)	( 169)	-	( 4,155)
Infrastructure	( 14,555)	( 357)	-	(14,912)
Machinery and equipment	( 1,568)	( 46)	-	( 1,614)
Licenses and vehicles	( 19)	( 32)	-	( 51)
Total accumulated depreciation	( 20,321)	( 607)	-	(20,928)
Total capital assets, being depreciated, net	14,658	( 438)	-	14,220
Capital assets, not being depreciated:				
Land, easements & right of way	252	-	-	252
Construction in progress	391	4,990	-	5,381
Total capital assets, not being depreciated	643	4,990	-	5,633
Business-type activities capital assets, net	\$ 15,301	\$ 4,552	\$ -	\$ 19,853

Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:	
General government	\$ 104
Public safety	268
Education	2,324
Public works	847
Culture and recreation	<u>6</u>
Total depreciation expense - governmental activities	<u>\$ 3,549</u>

Business-Type Activities:	
Enterprise	<u>\$ 607</u>

The City has active construction projects as of June 30, 2006. At year end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to June 30, 2006</u>	<u>Commitments Outstanding</u>
Water treatment plant improvements	\$ 1,056,657	\$ 2,150,000
Water distribution system improvements	<u>4,324,417</u>	<u>2,116,500</u>
Total	<u>\$ 5,381,074</u>	<u>\$ 4,266,500</u>

## **12. Warrants and Accounts Payable**

Warrants payable represent 2006 expenditures paid by July 15, 2006 as permitted by law. Accounts payable represent additional 2006 expenditures paid after July 15, 2006.

## **13. Accrued Liabilities**

The City had the following accrued liabilities as of June 30, 2006:

Salaries and wages	\$ 925,413
Debt interest	<u>740,683</u>
Total accrued liabilities	<u>\$ 1,666,096</u>

## **14. Deferred Revenue**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2006 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

## **15. Anticipation Notes Payable**

The City had the following notes outstanding at June 30, 2006:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2006</u>
Roads and surface drains	3.75%	8/19/05	8/18/06	\$ 3,500,000
Roads and water distribution system	2.98%	8/19/05	8/18/06	1,213,500
Water distribution system	3.74%	1/26/06	1/26/07	1,250,000
Recreation	3.50%	10/13/05	8/18/06	<u>250,000</u>
<b>Total</b>				<b>\$ 6,213,500</b>

The following summarizes activity in notes payable during fiscal year 2006:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Roads & Drainage	\$ 3,000,000	\$ 4,000,000	\$ (3,000,000)	\$ 4,000,000
Recreation	-	250,000	-	250,000
Water Distribution Sys	<u>713,500</u>	<u>1,963,500</u>	<u>( 713,500)</u>	<u>1,963,500</u>
<b>Total</b>	<b>\$ 3,713,500</b>	<b>\$ 6,213,500</b>	<b>\$ (3,713,500)</b>	<b>\$ 6,213,500</b>

## **16. Other Current Liabilities**

Other current liabilities as of June 30, 2006 consist of the following:

IBNR (see note 27)	\$ 1,206,257
Guaranteed deposits	1,194,638
Employee withholdings and other	<u>13,023</u>
<b>Total other current liabilities</b>	<b>\$ 2,413,918</b>

## **17. Capital Lease Obligations**

The City's outstanding lease agreements include the acquisition of computers, fire trucks, highway trucks, police vehicles and a communication system. These leases qualify as capital leases. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2006:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2007	\$ 399,355	\$ 80,540
2008	313,383	80,540
2009	304,782	80,539
2010	138,733	-
2011	<u>110,860</u>	<u>-</u>
Total minimum lease payments	1,267,115	\$ 241,619
Less amount representing interest	( 100,783)	( 14,256)
Present Value of Minimum Lease Payments	<u>\$ 1,166,332</u>	<u>\$ 227,363</u>

The following is an analysis of the leased assets included in capital assets at June 30, 2006:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery, vehicles and equipment	\$ 1,589,219	\$ 384,939
Less: accumulated depreciation	( 95,758)	( 18,790)
Equipment under capital leases, net	<u>\$ 1,493,461</u>	<u>\$ 366,149</u>

## 18. Long-Term Debt

### A. Long-Term Debt Supporting Activities

The City issues general obligation bonds to provide funds for the acquisition, construction, and improvements of major capital facilities and infrastructure. General obligation bonds have been issued for both governmental and business-type activities and are repaid with general and enterprise fund revenues. Compensated absences are paid from the fund responsible for the employee's compensation with significant liabilities paid from general fund and the rest from enterprise fund. Landfill closure costs are paid from general fund, and capital lease payments are made from general and enterprise funds.

### B. General Obligation Bonds

General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Original Issue Amount</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2006</u>
Recreation	\$ 253,600 *	11/01/11	4.80	\$ 180,100
Recreation	1,600,000	11/01/12	5.01	735,000
Marsh School Expansion	17,399,400 *	11/01/16	4.80	14,529,900

(continued)

(continued)

<u>Governmental Activities:</u>	<u>Original Issue Amount</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2006</u>
Timony School Expansion	21,190,000	11/01/16	5.01	14,840,000
Landfill Closure	3,500,000	11/01/16	5.01	2,020,000
Tenney School Expansion	22,850,000	05/15/17	4.79	16,035,000
Additional School Expansion	6,500,000	10/15/19	5.00	4,995,000
Library	4,800,000	10/15/19	5.00	3,525,000
Road and Surface Drains	5,630,000	09/01/21	3.27	4,925,000
Landfill Closure	85,000	09/01/21	3.91	<u>80,000</u>
<b>Total Governmental Activities</b>				<b>\$ <u>61,865,000</u></b>

\*Partially refunded, original amount shown

<u>Business-Type Activities:</u>	<u>Original Issue Amount</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2006</u>
Sewer *	\$ 821,670	02/01/15	variable	\$ 475,895
Water Meters	1,800,000	05/15/17	4.24	260,000
Sewer*	395,100	08/01/18	variable	370,600
Storm water Management*	468,063	08/01/23	variable	432,616
Water Distribution System*	5,786,500	07/15/25	2.00	<u>5,786,500</u>
<b>Total Business-Type Activities</b>				<b>\$ <u>7,325,611</u></b>

\*Registered owner of these bonds is the Massachusetts Water Pollution Abatement Trust.

### **C. Future Debt Service**

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2006 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 5,370,000	\$ 2,857,011	\$ 8,227,011
2008	5,485,000	2,617,050	8,102,050
2009	5,590,000	2,373,747	7,963,747
2010	5,705,000	2,123,663	7,828,663
2011	5,840,000	1,848,486	7,688,486
2012 - 2016	28,235,000	4,931,599	33,166,599
2017 - 2021	5,590,000	293,475	5,883,475
2022	<u>50,000</u>	<u>1,075</u>	<u>51,075</u>
<b>Total</b>	<b>\$ <u>61,865,000</u></b>	<b>\$ <u>17,046,106</u></b>	<b>\$ <u>78,911,106</u></b>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 559,749	\$ 217,661	\$ 777,410
2008	332,088	141,108	473,196
2009	340,560	134,833	475,393
2010	349,221	127,804	477,025
2011	358,543	120,317	478,860
2012 - 2016	1,862,772	487,281	2,350,053
2017 - 2021	1,753,771	281,825	2,035,596
2022 - 2026	<u>1,768,907</u>	<u>92,334</u>	<u>1,861,241</u>
Total	<u>\$ 7,325,611</u>	<u>\$ 1,603,163</u>	<u>\$ 8,928,774</u>

*D. Bond Authorizations*

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2006 are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
7/01/97	Landfill closure	\$ 300,000
6/17/98	Riverdale sewer replacement project	113,158
1/31/01	MWPAT	200,000
8/04/05	Water treatment plan improvements	14,250,000
7/07/04	Water distribution system	<u>750,000</u>
Total		<u>\$ 15,613,158</u>

*E. Changes in General Long-Term Liabilities*

During the year ended June 30, 2006, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/05	Additions	Reductions	Total Balance 6/30/06	Less Current Portion	Equals Long-Term Portion 6/30/06
<u>Governmental Activities</u>						
General obligation debt	\$ 67,385	\$ -	\$ (5,520)	\$ 61,865	\$ (5,370)	\$ 56,495
Other:						
Capital leases	1,259	232	( 325)	1,166	( 371)	795
Landfill closure	1,875	-	( 75)	1,800	( 75)	1,725
Accrued employee benefits	<u>2,893</u>	<u>1,620</u>	<u>(1,444)</u>	<u>3,069</u>	<u>( 767)</u>	<u>2,302</u>
Totals	<u>\$ 73,412</u>	<u>\$ 1,852</u>	<u>\$ (7,364)</u>	<u>\$ 67,900</u>	<u>\$ (6,583)</u>	<u>\$ 61,317</u>

	Total Balance 7/1/05	Additions	Reductions	Total Balance 6/30/06	Less Current Portion	Equals Long-Term Portion 6/30/06
<b><u>Business-Type Activities</u></b>						
General obligation debt	\$ 1,986	\$ 5,787	\$ (447)	\$ 7,326	\$ (560)	\$ 6,766
Other:						
Capital leases	303	-	( 76)	227	( 75)	152
Accrued employee benefit	<u>155</u>	<u>132</u>	<u>(129)</u>	<u>158</u>	<u>-</u>	<u>158</u>
Totals	<u>\$ 2,444</u>	<u>\$ 5,919</u>	<u>\$ (652)</u>	<u>\$ 7,711</u>	<u>\$ (635)</u>	<u>\$ 7,076</u>

General obligation bonds, issued by the City for various municipal projects, are approved by City Council and repaid with property taxes recorded in the General Fund. Compensated absences are repaid from the funds that the costs relate to, mostly general fund and also enterprise fund. Landfill closure costs are repaid from general fund revenues. Capital leases are repaid with general fund and special revenue fund revenues.

#### *F. Prior Year Defeasance of Debt*

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements.

Defeased debt still outstanding at June 30, 2006 is \$ 12,800,000.

### **19. Subsequent Events**

The City issued a general obligation bond dated October 13, 2006 to refund prior year debt in the amount of \$ 30,985,000.

### **20. Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The \$ 1,800,000 is reported as landfill postclosure care liability at June 30, 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

## **21. Restricted Net Assets**

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings, which are available to be spent based on donor restrictions.

## **22. Reserves and Designations of Fund Equity**

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves and designations are reported at June 30, 2006:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents amounts reserved for future debt service of \$ 26,985 and future special education costs of \$ 465,292.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Designated - Represents amount designated by management for capital costs of improving the area.

## **23. Commitments and Contingencies**

Outstanding Lawsuits - There are several pending lawsuits in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

## **24. Malden Mills Bankruptcy**

The City has been monitoring Malden Mills and the impact on the City's finances ever since a catastrophic fire to Malden Mills' facilities in the winter of 1995. Prior to the fire, Malden Mills was one of the City's largest users of sewer and water. As the events of Malden Mills unfolded, the City planned for the loss of revenues. Accordingly, recent budgets/rates have been established without heavy reliance on Malden Mills Industries, Inc.

Malden Mills filed for Chapter 11 Bankruptcy Reorganization on November 29, 2001, and as part of the bankruptcy settlement, the City was recovering a significant portion of Malden Mills pre-bankruptcy obligations. Malden Mills approved a payment plan to pay off priority and unsecured creditors. The City of Methuen hired the law firm of Rosenberg and Weinberg to assist in the process of recovering what is owed to the City. Negotiations with the firm of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. representing Malden Mills have resulted in a settlement agreement with the City of Methuen in the amount of \$ 2,385,000, payable in quarterly installments for the next five years. The City received an initial payment per the settlement agreement of \$ 486,040 in May 2005. In June 2005, the first quarterly payment of \$ 100,000 was received as well. Malden Mills has continued to make the agreed upon quarterly payments as scheduled. As of December of 2006, the City had been paid a total of \$ 1,186,039.

In January of 2007, Malden Mills filed to reorganize under Chapter 11 and then be sold. During the reorganization process, Malden Mills filed its schedules, which listed the City of Methuen's earlier settlement as a disputed claim. Attorney Herbert Weinberg argued the City of Methuen's case in court, and the City of Methuen was ruled to be a secured creditor. At the sale of Malden Mills, the City of Methuen was paid \$ 1,561,020, which represented the remaining balance of the original \$ 2,385,000 agreement, plus all current tax balances due.

## **25. Post-Employment Health Care and Life Insurance Benefits**

The City of Methuen has accepted Chapter 32B of the Massachusetts General Laws to provide health insurance and life insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the City's group insurance plans. The cost of these benefits is included in the total cost of benefits for both active and retired employees. The cost of post-employment health insurance benefits for 544 retirees, their dependents, or their survivors for the year ended June 30, 2006 was \$ 2,737,778. The cost of post-employment life insurance benefits for 417 retirees for fiscal year 2006 was \$ 10,796.

## 26. Contributory Retirement System

### A. Plan Description and Contribution Information

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Methuen Contributory Retirement System (MCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the MCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the MCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The MCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2005:

Retirees and beneficiaries receiving benefits	415
Terminated plan members entitled to but not yet receiving benefits	61
Active plan members	<u>683</u>
 Total	 <u>1,159</u>
Number of participating employers	2

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). For contribution amounts and percentages, refer to Schedule of Funding Progress and Employer Contributions in RSI.

### B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contri-

butions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

#### C. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

\* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The City's current year covered payroll for teachers was approximately \$ 32,000,000.

In fiscal year 2006, the Commonwealth of Massachusetts contributed \$ 5,346,800 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

#### 27. Self Insurance

The City self-insures for health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget. The City contracts with an insurance carrier for excess liability coverage and an

insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for claims up to \$ 125,000 per incident. The claims liability represents an estimate of claims incurred but unpaid at year-end, based on past historical costs and claims paid subsequent to year-end.

Changes in the aggregate liability for claims for the years current and prior are as follows:

	Year Ended <u>June 30, 2006</u>	Year Ended <u>June 30, 2005</u>
Unpaid claims, beginning of fiscal year	\$ 1,823,705	\$ 1,354,776
Claims incurred (including IBNRs)	12,785,410	11,416,667
Claims paid	(13,402,858)	(10,947,738)
Unpaid claims, end of fiscal year	\$ <u>1,206,257</u> *	\$ <u>1,823,705</u>

\*This liability is considered to be all current.

## **28. Risk Management**

The government 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 government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

## **29. Beginning Net Assets Restatement**

The beginning (July 1, 2005) net assets of the City have been restated as follows:

	<u>Governmental Activities</u>
As previously reported	\$ 30,630,872
Restatement of capital assets	<u>1,665,584</u>
As restated	\$ <u>32,296,456</u>

**CITY OF METHUEN, MASSACHUSETTS**  
**CONTRIBUTORY RETIREMENT SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedules of Funding Progress and Employer Contributions**

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

**Schedule of Funding Progress:**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
01/01/04	\$ 71,932,860	\$ 117,599,583	\$ (45,666,723)	61.2%	\$ 25,933,704	176.1%
01/01/01	68,625,708	92,496,265	(23,870,557)	74.2%	22,480,573	106.2%
01/01/97	42,617,519	66,863,478	(24,245,959)	63.7%	16,295,087	148.8%
01/01/96	37,886,763	58,261,376	(20,374,613)	65.0%	15,520,687	131.3%
01/01/93	25,970,674	45,965,677	(19,995,003)	56.5%	14,905,887	134.1%

**Schedule of Employer Contributions:**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	\$ 2,572,051	100%
2002	2,674,933	100%
2003	2,772,000	100%
2004	2,244,581	70%
2005	3,186,100	100%
2006	4,966,000	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	1/1/04
Actuarial cost method	Individual entry age normal
Amortization method	4.5% increasing payments
Remaining amortization period	31 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increase	5.00%

See Independent Auditors' Report.

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## **Combining Financial Statements**

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## **NON-MAJOR GOVERNMENTAL FUNDS**

### **SPECIAL REVENUE FUNDS**

Special Revenue Funds are established to account for resources obtained and expended for specified purposes and restricted by law or local action.

Special Revenue Funds are established for the following purposes:

- Community Development: to account for the use of Community Development Block Grant Funds as received from the federal government through the Massachusetts Department of Housing and Community Development. Current grants are mainly designed for City of Methuen economic development, housing rehabilitation, first-time homebuyer assistance, public service, and public facilities.
- School Lunch: to account for local funds and funds received from the federal and state governments to provide lunches at City of Methuen schools.
- Revolving Fund: To account for the revenues and expenditures thereof of certain departmental activities segregated in revolving funds established in accordance with MGL Chapter 44, Sections 53, 53C, 53D, 53E and 53E ½ and available for expenditure without further appropriation.
- State Grants: To account for grant funds received from the Commonwealth of Massachusetts and designated for specific programs.
- Federal Grants: to account for grant funds received from the United States government, either directly or through the Commonwealth of Massachusetts, and designated for specific programs.
- Other Fund: to account for other receipts from a specific revenue source that by law must be accounted for separately from the General Fund (segregated) and in some instances must be appropriated by the City Council.
- Law Enforcement Trust: to account for the receipt of forfeited funds per Chapter 486 of the Acts of 1984 and their expenditure for law enforcement activities.
- Expendable Trust: to account for trust funds established for specific purposes, which may be expended for that purpose.
- Stabilization Trust: to account for funds set aside for tax rate stabilization purposes that can only be utilized by future appropriation.
- Other Trust: to account for other miscellaneous trust funds, which can only be accessed by appropriation by the City Council.

## **CAPITAL PROJECT FUNDS**

Capital Project Funds are established to account for resources obtained and expended for the acquisition of major capital facilities or equipment other than those employed in the delivery of services accounted for in Enterprise Funds.

The current funds were established for the following purposes:

- Recreation Fund: to fund major improvements to the City's parks, sports fields, and recreation facilities through the issuance of long-term bonds and notes and other available funds.
- School Expansion: to fund the City's major school renovation and construction projects through the issuance of long-term bonds and notes, state grants and other available funds.
- Nevins Library Expansion: to fund the City's share of the major renovation of the Nevins Memorial Library through the issuance of long-term bonds and notes and other available funds.
- Stormwater Management: to fund the City's improvement of its drainage system through the issuance of loans from the Massachusetts Water Pollution Abatement Trust.
- Searles Repairs: to fund various major projects relative the repair and upkeep of the City's public buildings from other available funds.

## **PERMANENT FUND**

Permanent Funds are established to account for certain assets held by the City in a fiduciary capacity as trustee. Permanent Funds are used to report principal balances legally restricted to the extent that only earnings, not principal, may be used for the support of certain government programs.

- Perpetual Care: to account for the principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

CITY OF METHUEN, MASSACHUSETTS

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2006

Special Revenue Funds

	<u>Community Development</u>	<u>School Lunch</u>	<u>Revolving Fund</u>	<u>State Grants</u>	<u>Federal Grants</u>
<b>ASSETS</b>					
Cash and short-term investments	\$ 1,163,493	\$ 152,399	\$ 2,034,505	\$ 112,200	\$ 301,300
Departmental and other receivables	-	-	190,472	-	-
Intergovernmental receivables	550,280	-	-	421,036	-
Loans receivable	<u>1,078,293</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<b>\$ 2,792,066</b>	<b>\$ 152,399</b>	<b>\$ 2,224,977</b>	<b>\$ 533,236</b>	<b>\$ 301,300</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Warrants and accounts payable	\$ 37,115	\$ 14,684	\$ 62,035	\$ 373,180	\$ 47,598
Accrued liabilities	-	2,342	65,405	14,766	5,403
Deferred revenues	1,628,573	-	140,796	-	-
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<b>1,665,688</b>	<b>17,026</b>	<b>268,236</b>	<b>387,946</b>	<b>53,001</b>
Fund Balances:					
Reserved for:					
Perpetual permanent fund	-	-	-	-	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds	1,126,378	135,373	1,956,741	145,290	248,299
Capital project funds	-	-	-	-	-
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Fund Balances</b>	<b><u>1,126,378</u></b>	<b><u>135,373</u></b>	<b><u>1,956,741</u></b>	<b><u>145,290</u></b>	<b><u>248,299</u></b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,792,066</b>	<b>\$ 152,399</b>	<b>\$ 2,224,977</b>	<b>\$ 533,236</b>	<b>\$ 301,300</b>

		Special Revenue Funds			
Other Fund	Law Enforcement Trust	Expendable Trust	Stabilization Trust	Other Trust	<u>Subtotals</u>
\$ 220,064 910	\$ 28,290	\$ 80,226 390	\$ 50,754	\$ 27,803	\$ 4,171,034 191,772 971,316 1,078,293
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 220,974</u>	<u>\$ 28,290</u>	<u>\$ 80,616</u>	<u>\$ 50,754</u>	<u>\$ 27,803</u>	<u>\$ 6,412,415</u>
\$ 5,358	\$ 1,086	\$ 246	\$ -	\$ -	\$ 541,302 87,916 1,769,369 -
-	-	-	-	-	-
-	-	-	-	-	-
<u>5,358</u>	<u>1,086</u>	<u>246</u>	<u>-</u>	<u>-</u>	<u>2,398,587</u>
215,616	27,204	80,370	50,754	27,803	4,013,828
-	-	-	-	-	-
-	-	-	-	-	-
<u>215,616</u>	<u>27,204</u>	<u>80,370</u>	<u>50,754</u>	<u>27,803</u>	<u>4,013,828</u>
<u>\$ 220,974</u>	<u>\$ 28,290</u>	<u>\$ 80,616</u>	<u>\$ 50,754</u>	<u>\$ 27,803</u>	<u>\$ 6,412,415</u>

(continued)

(continued)

	Capital Project Funds			
	Recreation Fund	School Expansion	Nevins Library Expansion	Stormwater Management
<b><u>ASSETS</u></b>				
Cash and short-term investments	\$ 28,657	\$	\$ 174,735	\$ -
Departmental and other receivables	-	-	-	-
Intergovernmental receivables	-	-	-	-
Loans receivable	-	-	-	-
<b>Total Assets</b>	<b>\$ 28,657</b>	<b>\$ -</b>	<b>\$ 174,735</b>	<b>\$ -</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Warrants and accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Deferred revenues	-	-	-	-
Notes payable	<u>250,000</u>	-	-	-
<b>Total Liabilities</b>	<b>250,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund Balances:				
Reserved for:				
Perpetual permanent fund	-	-	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds	-	-	-	-
Capital project funds	(221,343)	-	174,735	-
Permanent fund	-	-	-	-
<b>Total Fund Balances</b>	<b>(221,343)</b>	<b>-</b>	<b>174,735</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 28,657</b>	<b>\$ -</b>	<b>\$ 174,735</b>	<b>\$ -</b>

Capital Project Funds		Permanent Fund	Total Nonmajor Governmental Funds
Searles Repairs	Subtotal	Perpetual Care	
\$ 115,599	\$ 318,991	\$ 587,955	\$ 5,077,980
-	-	-	191,772
-	-	-	971,316
-	-	-	1,078,293
<u>\$ 115,599</u>	<u>\$ 318,991</u>	<u>\$ 587,955</u>	<u>\$ 7,319,361</u>
\$ 4,956	\$ 4,956	\$ -	\$ 546,258
-	-	-	87,916
-	-	-	1,769,369
-	<u>250,000</u>	<u>-</u>	<u>250,000</u>
4,956	254,956	-	2,653,543
-	-	581,112	581,112
-	-	-	4,013,828
110,643	64,035	-	64,035
<u>-</u>	<u>-</u>	<u>6,843</u>	<u>6,843</u>
<u>110,643</u>	<u>64,035</u>	<u>587,955</u>	<u>4,665,818</u>
<u>\$ 115,599</u>	<u>\$ 318,991</u>	<u>\$ 587,955</u>	<u>\$ 7,319,361</u>

CITY OF METHUEN, MASSACHUSETTS

Combining Statement of Revenues, Expenditures  
and Changes in Fund Equity

Nonmajor Governmental Funds

For the Year Ended June 30, 2006

	Special Revenue Funds				
	<u>Community Development</u>	<u>School Lunch</u>	<u>Revolving Fund</u>	<u>State Grants</u>	<u>Federal Grants</u>
<b>Revenues:</b>					
Intergovernmental	\$ 1,349,117	\$ 834,588	\$ 1,297,581	\$ 2,772,275	\$ 4,113,051
Charges for services		1,082,506	3,521,097	-	-
Investment income	5,072	-	-	-	-
Contributions	-	-	14,345	-	-
Other revenue	-	-	-	-	-
<b>Total Revenues</b>	<b>1,354,189</b>	<b>1,917,094</b>	<b>4,833,023</b>	<b>2,772,275</b>	<b>4,113,051</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	-	-	-	-	-
Public safety	-	-	993,712	547,392	221,249
Education	-	1,965,217	2,740,453	970,278	4,187,824
Public works	1,188,905	-	23,424	776,233	-
Health and human services	-	-	87,884	134,184	-
Culture and recreation	-	-	444,281	-	-
<b>Total Expenditures</b>	<b>1,188,905</b>	<b>1,965,217</b>	<b>4,289,754</b>	<b>2,428,087</b>	<b>4,409,073</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>165,284</b>	<b>(48,123)</b>	<b>543,269</b>	<b>344,188</b>	<b>(296,022)</b>
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	-	7,000	-	-
Transfers out	<u>(8,006)</u>	<u>-</u>	<u>-</u>	<u>(22,987)</u>	<u>(12,944)</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>(8,006)</u></b>	<b><u>-</u></b>	<b><u>7,000</u></b>	<b><u>(22,987)</u></b>	<b><u>(12,944)</u></b>
<b>Net change in fund balances</b>	<b>157,278</b>	<b>(48,123)</b>	<b>550,269</b>	<b>321,201</b>	<b>(308,966)</b>
<b>Fund Balances (deficit), beginning of year</b>	<b>969,100</b>	<b>183,496</b>	<b>1,406,472</b>	<b>(175,911)</b>	<b>557,265</b>
<b>Fund Balances, end of year</b>	<b>\$ 1,126,378</b>	<b>\$ 135,373</b>	<b>\$ 1,956,741</b>	<b>\$ 145,290</b>	<b>\$ 248,299</b>

**Special Revenue Funds**

<u>Other Funds</u>	<u>Law Enforcement Trust</u>	<u>Expendable Trust</u>	<u>Stabilization Trust</u>	<u>Other Trust</u>	<u>Subtotals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,366,612
71,906	-	-	-	-	4,675,509
-	-	269	46,019	214	51,574
-	2,345	-	-	3,819	20,509
<u>172,959</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,959</u>
244,865	2,345	269	46,019	4,033	15,287,163
129,754	-	9,735	-	-	139,489
-	6,334	246	-	3,304	1,772,237
-	-	-	-	-	9,863,772
52,210	-	-	-	-	2,040,772
3,107	-	-	-	-	225,175
-	-	<u>6,024</u>	<u>-</u>	<u>-</u>	<u>450,305</u>
<u>185,071</u>	<u>6,334</u>	<u>16,005</u>	<u>-</u>	<u>3,304</u>	<u>14,491,750</u>
59,794	(3,989)	(15,736)	46,019	729	795,413
29,255	-	-	-	-	36,255
<u>(550,852)</u>	<u>-</u>	<u>(12,000)</u>	<u>(1,165,782)</u>	<u>-</u>	<u>(1,772,571)</u>
<u>(521,597)</u>	<u>-</u>	<u>(12,000)</u>	<u>(1,165,782)</u>	<u>-</u>	<u>(1,736,316)</u>
(461,803)	(3,989)	(27,736)	(1,119,763)	729	(940,903)
677,419	<u>31,193</u>	<u>108,106</u>	<u>1,170,517</u>	<u>27,074</u>	<u>4,954,731</u>
<u>\$ 215,616</u>	<u>\$ 27,204</u>	<u>\$ 80,370</u>	<u>\$ 50,754</u>	<u>\$ 27,803</u>	<u>\$ 4,013,828</u>

(continued)

(continued)

	Capital Project Funds			
	Recreational Fund	School Expansion	Library Expansion	Nevins Stormwater Management
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Investment income	-	-	-	-
Contributions	-	-	-	-
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,000</b>
<b>Expenditures:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Education	-	-	-	-
Public works	-	-	-	15,000
Health and human services	-	-	-	-
Culture and recreation	<u>221,343</u>	<u>-</u>	<u>1,173</u>	<u>-</u>
<b>Total Expenditures</b>	<b><u>221,343</u></b>	<b><u>-</u></b>	<b><u>1,173</u></b>	<b><u>15,000</u></b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(221,343)</b>	<b>-</b>	<b>(1,173)</b>	<b>-</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	-	-
Transfers out	<u>-</u>	<u>(177,689)</u>	<u>-</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>-</u></b>	<b><u>(177,689)</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Net change in fund balances</b>	<b>(221,343)</b>	<b>(177,689)</b>	<b>(1,173)</b>	<b>-</b>
<b>Fund Balances (deficit), beginning of year</b>	<b><u>-</u></b>	<b><u>177,689</u></b>	<b><u>175,908</u></b>	<b><u>-</u></b>
<b>Fund Balances, end of year</b>	<b><u>\$ (221,343)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 174,735</u></b>	<b><u>\$ -</u></b>

Capital Project Funds		Permanent Fund	Total Nonmajor Governmental Funds
Searles Repairs	Subtotal	Perpetual Care	
\$ 200	\$ 200	\$ -	\$ 10,366,812
-	-	-	4,675,509
-	-	72,426	124,000
-	-	-	20,509
-	<u>15,000</u>	-	<u>187,959</u>
200	15,200	72,426	15,374,789
			139,489
		-	1,772,237
		-	9,863,772
229,058	244,058	-	2,284,830
-	-	28,425	253,600
-	<u>222,516</u>	-	<u>672,821</u>
<u>229,058</u>	<u>466,574</u>	<u>28,425</u>	<u>14,986,749</u>
(228,858)	(451,374)	44,001	388,040
-	-	-	36,255
	<u>(177,689)</u>	<u>(104,255)</u>	<u>(2,054,515)</u>
-	<u>(177,689)</u>	<u>(104,255)</u>	<u>(2,018,260)</u>
(228,858)	(629,063)	(60,254)	(1,630,220)
<u>339,501</u>	<u>693,098</u>	<u>648,209</u>	<u>6,296,038</u>
\$ <u>110,643</u>	\$ <u>64,035</u>	\$ <u>587,955</u>	\$ <u>4,665,818</u>

**Detail and Combining Budget  
and Actual Schedules**

## **GENERAL FUND**

The General Fund is established to account for all resources obtained and used for those services commonly provided by a city, which are not accounted for in any other fund. These services include among other items: General Government, Public Safety, Education, Public Works, Solid Waste Disposal, Health and Human Services, and Culture and Recreation. The primary sources of revenue of the General Fund are: property taxes, unrestricted state revenue sharing grants, certain restricted grants and fees for services rendered.

CITY OF METHUEN, MASSACHUSETTS

Detail Schedule of Revenues and Other Financing Sources -  
Budget and Actual - General Fund

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b><u>Revenues</u></b>				
Property Tax	\$ 49,350,882	\$ 49,350,882	\$ 49,350,882	\$ -
Local Revenue:				
Motor vehicle excise	4,600,000	4,600,000	5,112,206	512,206
Motel/hotel license	55,000	55,000	42,944	(12,056)
Licenses	1,052,950	1,052,950	1,298,423	245,473
Fines	340,000	340,000	339,311	(689)
Special assessment	65,000	65,000	166,225	101,225
General government	578,000	578,000	644,020	66,020
Protection of person	1,015,000	1,015,000	1,162,738	147,738
Cemetery	210,000	210,000	178,837	(31,163)
Interest	600,000	600,000	381,428	(218,572)
Medicare reimbursement	50,000	50,000	706,639	656,639
In lieu of tax	<u>130,000</u>	<u>130,000</u>	<u>167,323</u>	<u>37,323</u>
Total Local Revenue	8,695,950	8,695,950	10,200,094	1,504,144
Cherry Sheet and Miscellaneous	41,570,891	41,570,891	41,654,798	83,907
Non-Recurring:				
Sale of City Owned Property	800,000	800,000	1,177,737	377,737
Fire Department Gifts	-	2,150	2,150	-
Miscellaneous Revenue	113,173	113,173	113,173	-
Gift - Brooks	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Total Non-Recurring	1,113,173	1,115,323	1,493,060	377,737
Transfers In:				
Transfers from other funds	1,827,531	1,832,531	1,840,571	8,040
Enterprise fund indirect costs	<u>1,435,715</u>	<u>1,435,715</u>	<u>1,435,715</u>	<u>-</u>
Total Transfers In	3,263,246	3,268,246	3,276,286	8,040
Other Financing Sources:				
Use of free cash	-	603,713	603,713	-
Miscellaneous	-	912	912	-
Loan premium	-	-	26,985	26,985
Use of reserved fund balance	957,889	957,889	957,889	-
Use of overlay surplus	<u>203,082</u>	<u>327,582</u>	<u>327,582</u>	<u>-</u>
Total Other Financing Sources	<u>1,160,971</u>	<u>1,890,096</u>	<u>1,917,081</u>	<u>26,985</u>
Total	<u>\$ 105,155,113</u>	<u>\$ 105,891,388</u>	<u>\$ 107,892,201</u>	<u>\$ 2,000,813</u>

CITY OF METHUEN, MASSACHUSETTS

Detail Schedule of Expenditures and Other Financing Uses  
Budget and Actual - General Fund

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b><u>Expenditures</u></b>				
<b>General Government:</b>				
Assessment	\$ 336,021	\$ 431,233	\$ 431,233	\$ -
City auditor	474,655	475,267	475,267	-
City clerk	261,041	254,853	254,853	-
City council	137,517	137,741	137,741	-
Economic development	787,342	777,796	777,796	-
Historical commission	7,325	7,076	7,076	-
Human resources	388,847	522,280	522,280	-
Information technology	587,727	609,164	609,164	-
Insurance	8,935,188	9,129,222	9,129,222	-
Legal services	182,795	241,507	241,507	-
Mayor	239,876	270,788	270,788	-
Retirement	4,885,575	4,885,556	4,885,556	-
Unpaid bills	-	965	965	-
Treasurer/tax collector	428,958	416,332	416,332	-
Reserve fund	321,400	-	-	-
<b>Total General Government</b>	<b>17,974,267</b>	<b>18,159,780</b>	<b>18,159,780</b>	<b>-</b>
Intergovernmental	942,900	984,727	984,727	-
<b>Public Safety:</b>				
Emergency management	6,100	5,523	532,338	(526,815)
Fire prevention	6,865,513	6,893,870	6,893,870	-
Law enforcement	7,491,744	7,276,587	7,276,587	-
<b>Total Public Safety</b>	<b>14,363,357</b>	<b>14,175,980</b>	<b>14,702,795</b>	<b>(526,815)</b>
Education	53,781,444	53,752,982	53,752,982	-
Public Works	5,239,774	6,026,891	6,026,891	-
Solid Waste Disposal	2,717,183	2,742,565	2,742,565	-
Library	1,171,081	1,171,993	1,171,993	-
<b>Health and Human Services:</b>				
Elder services	242,638	241,412	241,412	-
Health services	337,691	336,200	336,200	-
Leisure services	117,287	115,156	115,156	-
<b>Total Heath and Human Services</b>	<b>697,616</b>	<b>692,768</b>	<b>692,768</b>	<b>-</b>
Debt Service	8,267,491	8,183,702	8,183,702	-
<b>Total</b>	<b>\$ 105,155,113</b>	<b>\$ 105,891,388</b>	<b>\$ 106,418,203</b>	<b>\$ (526,815)</b>

## **Enterprise Funds**

Enterprise Funds were established to account for activities that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the activity be self-supporting based on user charges.

The City of Methuen has the following Enterprise Fund:

**Enterprise Fund:** To account for the operation of water and sewer treatment plants, City wells and water system, pumping stations and sewer lines.

CITY OF METHUEN, MASSACHUSETTS

Schedule of Revenues and Expenses -  
Budget and Actual

Enterprise Fund

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance from Final Budget</u>
<b>Revenues:</b>				
User charges	\$ 6,875,000	\$ 6,875,000	\$ 6,998,976	\$ 123,976
Connections fees	194,000	194,000	164,698	(29,302)
Other departmental revenue	965,000	965,000	227,464	(737,536)
Investment income	34,527	34,527	101,370	66,843
Appropriation of Retained Earnings	<u>213,000</u>	<u>276,000</u>	<u>276,000</u>	<u>-</u>
<b>Total Revenues</b>	<b>8,281,527</b>	<b>8,344,527</b>	<b>7,768,508</b>	<b>(576,019)</b>
<b>Expenses:</b>				
Personal services	356,069	360,500	360,500	-
Laborers	1,667,886	1,678,088	1,594,686	83,402
Other expenses	1,704,200	1,767,200	1,461,008	306,192
Equipment outlay	101,540	101,540	91,799	9,741
Debt service	489,271	489,271	488,653	618
Capital improvements	104,000	104,000	91,076	12,924
Greater Lawrence Sanitary District	2,422,846	2,408,213	2,219,466	188,747
Enterprise fund indirect costs	<u>1,435,715</u>	<u>1,435,715</u>	<u>1,435,715</u>	<u>-</u>
<b>Total Expenses</b>	<b><u>8,281,527</u></b>	<b><u>8,344,527</u></b>	<b><u>7,742,903</u></b>	<b><u>601,624</u></b>
<b>Net Income</b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>25,605</u></b>	<b>\$ <u>25,605</u></b>

## **FIDUCIARY FUNDS**

### **AGENCY FUND**

Agency Funds are established to account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others.

- Agency Fund represents student activity funds, which are contributions from students and fundraising receipts used to pay for student-related activities.

CITY OF METHUEN, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2006

	<u>Balance</u> <u>July 1,</u> <u>2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>
<b><u>Student Activity Funds:</u></b>				
Assets - cash and short-term investments	\$ <u>216,982</u>	\$ <u>661,760</u>	\$ <u>(677,646)</u>	\$ <u>201,096</u>
Liabilities - other liabilities	\$ <u>216,982</u>	\$ <u>661,760</u>	\$ <u>(677,646)</u>	\$ <u>201,096</u>

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*City of Methuen, Massachusetts*  
*Statistical Section*



*The Searles Building*  
*“City Hall”*

**CITY OF METHUEN, MASSACHUSETTS**

**GOVERNMENT-WIDE EXPENSES BY FUNCTION**  
**(in thousands)**

<b>Governmental Activities</b>																
<b>Fiscal Year</b>	<b>General Government</b>	<b>Public Safety</b>	<b>Education</b>	<b>Public Works</b>	<b>Sanitation</b>	<b>Health and Human Services</b>	<b>Culture and Recreation</b>	<b>Interest</b>	<b>Intergovernmental<sup>(1)</sup></b>	<b>Subtotal</b>	<b>Enterprise Services</b>	<b>Total</b>				
2003	\$ 8,347	\$ 16,474	\$ 66,162	\$ 8,633	\$ 2,478	\$ 1,137	\$ 1,128	\$ 3,825	\$ 410	\$ 108,594	\$ 6,169	\$ 114,763				
2004	8,124	16,672	70,865	9,781	2,479	1,200	1,179	3,595	970	114,865	6,151	121,016				
2005	9,247	16,763	72,033	9,284	2,610	1,135	1,140	3,250	-	115,462	6,357	121,819				
2006	11,397	18,168	77,036	8,514	2,741	1,078	1,173	3,293	-	123,400	6,503	129,903				

**Source: Comprehensive Annual Financial Report**

Note: No information prior to fiscal year 2003 is provided because in fiscal year 2003 the City implemented the reporting requirements of GASB 34. In future years, the City intends on reporting additional year comparative information on this table so that after fiscal year 2012 there will be ten years presented.

<sup>(1)</sup> Intergovernmental expense was allocated by function from fiscal year 2005.

**CITY OF METHUEN, MASSACHUSETTS**

**GOVERNMENT-WIDE REVENUES**  
**(in thousands)**

Program Revenues										General Revenues											
Fiscal Year	Charges for Services		Operating Grants and Contributions		Capital Grants and Contributions		Property Taxes		Excise Taxes		Penalties, Interest, and Other Taxes		Grants and Contributions Not Restricted to Specific Programs		Investment Income		Gain on Sale of Assets		Other Revenues		Total
2003	\$ 14,412	\$ 39,186	\$ 7,546	\$ 43,466	\$ 4,440	\$ 616	\$ 4,909	\$ 203	\$ 11	\$ 1,328	\$ 116,117										
2004	14,440	41,243	6,366	44,088	4,183	516	5,568	257	969	1,349	118,979										
2005	15,606	42,661	746	47,403	5,025	456	10,908	378	1,108	118	124,409										
2006	15,406	43,972	3,971	49,662	4,546	268	11,659	550	1,168	527	131,729										

Source: Comprehensive Annual Financial Report

Note: Only fiscal years 2003 - 2006 information is provided because in fiscal year 2003 the City implemented the reporting requirements of GASB 34. In future years, the City intends on reporting additional year comparative information on this table so that after fiscal year 2012 there will be ten years presented.

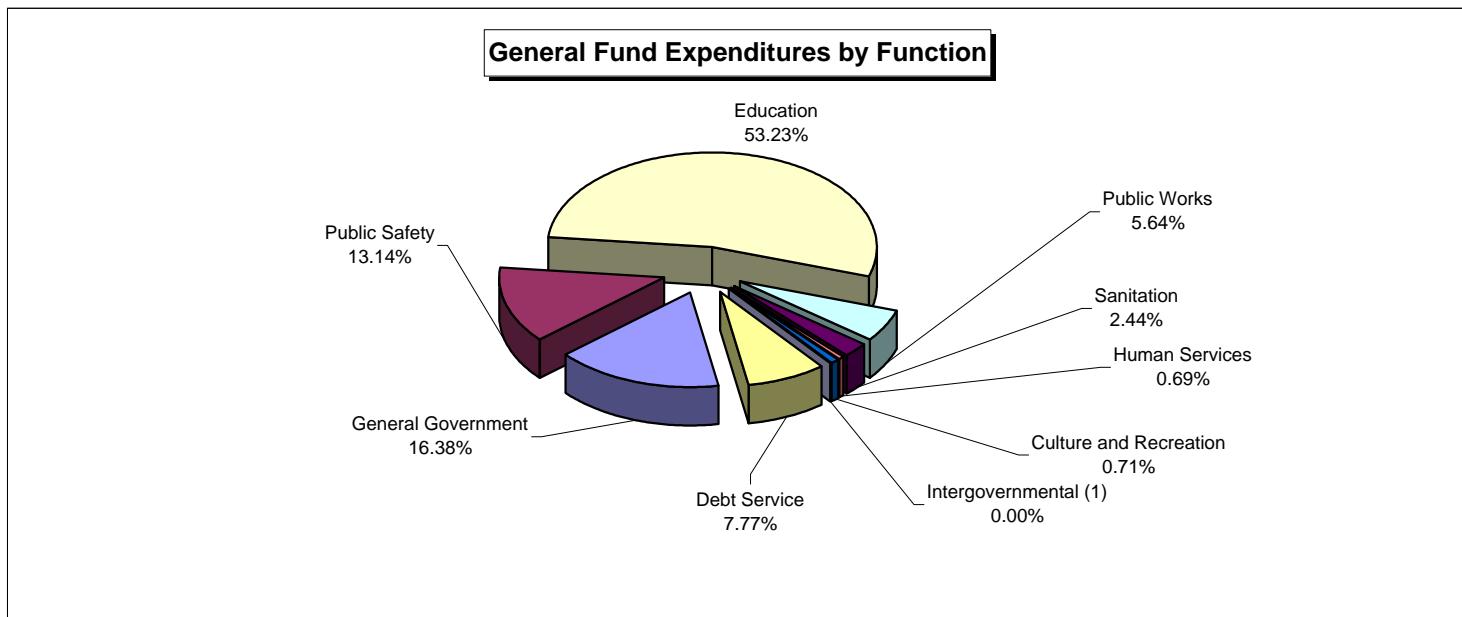
City of Methuen, Massachusetts  
 Change in Fund Balance, General Fund  
 Last Ten Fiscal Years  
 (modified accrual basis of accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Revenues</b>										
Taxes	\$ 31,927,661	\$ 32,320,991	\$ 33,411,423	\$ 36,549,871	\$ 38,048,304	\$ 41,356,397	\$ 43,990,300	\$ 44,228,947	\$ 47,495,311	\$ 49,821,988
Excise Taxes	2,228,166	2,822,535	3,194,012	3,399,012	3,871,423	4,598,319	4,380,173	4,472,041	4,326,783	5,112,206
Departmental	1,379,677	1,182,075	1,316,142	1,345,634	1,521,365	1,456,457	1,771,903	1,769,134	1,773,327	1,972,328
Licenses and permits	678,897	606,021	603,757	845,854	829,469	1,091,393	828,563	1,118,277	1,437,780	1,341,367
Intergovernmental	20,612,349	26,986,612	29,505,608	34,595,555	37,453,781	39,557,518	39,218,561	40,280,247	44,964,703	47,716,649
Charges for Services	67,253	-	-	-	63,581	59,556	93,498	93,903	76,812	166,225
Interest Earnings	1,489,451	2,536,772	2,114,313	1,421,629	1,033,517	578,595	655,740	523,673	551,997	381,428
Fines & Forfeitures	269,505	261,482	249,552	272,484	247,930	225,897	277,479	353,363	384,466	339,721
Miscellaneous	406,680	30,680	294,619	753,327	222,561	248,022	544,928	1,468,670	76,636	347,665
<b>Total Revenues</b>	<b>59,059,639</b>	<b>66,747,168</b>	<b>70,689,426</b>	<b>79,183,366</b>	<b>83,291,931</b>	<b>89,172,154</b>	<b>91,761,145</b>	<b>94,308,255</b>	<b>101,087,815</b>	<b>107,199,577</b>
<b>Expenditures by Function</b>										
General government	12,237,076	11,754,666	12,333,065	12,485,591	11,321,986	11,922,661	15,098,035	13,969,039	15,498,242	18,413,201
Public safety	8,482,522	8,455,664	9,611,206	10,367,545	11,247,233	12,180,525	12,288,787	12,915,593	13,857,890	14,769,865
Education	30,861,006	32,991,942	37,052,144	42,062,545	45,019,527	47,521,569	48,760,070	52,072,525	55,062,302	59,829,005
Public works	2,159,613	2,284,717	2,625,352	2,704,469	6,148,191	4,939,551	5,310,879	5,084,748	6,837,924	6,342,088
Sanitation	1,241,719	1,587,118	1,499,470	2,356,469	2,374,492	2,506,064	2,478,490	2,478,884	2,609,506	2,741,065
Human services	574,564	572,023	652,641	718,055	749,250	855,823	909,859	906,215	690,512	772,235
Culture and recreation	350,250	375,325	410,251	427,000	399,497	530,000	785,000	761,447	760,538	801,824
Intergovernmental <sup>(1)</sup>	497,268	523,628	348,517	298,814	300,501	360,204	409,809	969,530	898,268	-
Debt service	2,889,926	5,457,542	6,924,050	7,846,263	8,063,617	8,623,025	8,622,028	8,304,881	7,755,896	8,732,471
<b>Total Expenditures</b>	<b>59,293,944</b>	<b>64,002,625</b>	<b>71,456,696</b>	<b>79,266,751</b>	<b>85,624,294</b>	<b>89,439,422</b>	<b>94,662,957</b>	<b>97,462,862</b>	<b>103,971,078</b>	<b>112,401,754</b>
<b>Excess of revenues</b>										
Over/(Under) Expenditures	(234,305)	2,744,543	(767,270)	(83,385)	(2,332,363)	(267,268)	(2,901,812)	(3,154,607)	(2,883,263)	(5,202,177)
<b>Other Financing Sources (Uses)</b>										
Issuance of Refunded Bonds	-	-	-	-	-	-	-	-	13,285,000	-
Payments to Escrow Agent	-	-	-	-	-	-	-	-	(13,772,700)	-
Bond Premium	-	-	-	-	-	-	-	-	813,355	-
Sale of Capital Assets	-	-	-	-	-	-	-	-	-	1,177,737
Capital Leases	-	-	-	-	-	-	-	-	722,015	232,252
Transfers in	1,184,330	1,890,198	2,210,679	2,177,322	2,171,096	2,176,557	2,562,321	3,253,530	2,588,849	3,453,975
Transfers out	(1,316,229)	(1,856,145)	(1,041,490)	(836,044)	(1,345,833)	(1,248,674)	(3,192)	(27,624)	(983,235)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(131,899)</b>	<b>34,053</b>	<b>1,169,189</b>	<b>1,341,278</b>	<b>825,263</b>	<b>927,883</b>	<b>2,559,129</b>	<b>3,225,906</b>	<b>2,653,284</b>	<b>4,863,964</b>
<b>Net Change in Fund Balance</b>	<b>(366,204)</b>	<b>2,778,596</b>	<b>401,919</b>	<b>1,257,893</b>	<b>(1,507,100)</b>	<b>660,615</b>	<b>(342,683)</b>	<b>71,299</b>	<b>(229,979)</b>	<b>(338,213)</b>
<b>Fund Balance, Beginning</b>	<b>1,743,787</b>	<b>1,377,583</b>	<b>4,156,179</b>	<b>4,558,098</b>	<b>5,815,991</b>	<b>4,308,891</b>	<b>4,969,506</b>	<b>4,626,823</b>	<b>4,698,122</b>	<b>4,468,143</b>
<b>Fund Balance, Ending</b>	<b>\$ 1,377,583</b>	<b>\$ 4,156,179</b>	<b>\$ 4,558,098</b>	<b>\$ 5,815,991</b>	<b>\$ 4,308,891</b>	<b>\$ 4,969,506</b>	<b>\$ 4,626,823</b>	<b>\$ 4,698,122</b>	<b>\$ 4,468,143</b>	<b>\$ 4,129,930</b>

(1) Intergovernmental expense was allocated to the respective functions in 2006.

City of Methuen, Massachusetts  
 General Fund Expenditures by Function  
 Last Ten Fiscal Years

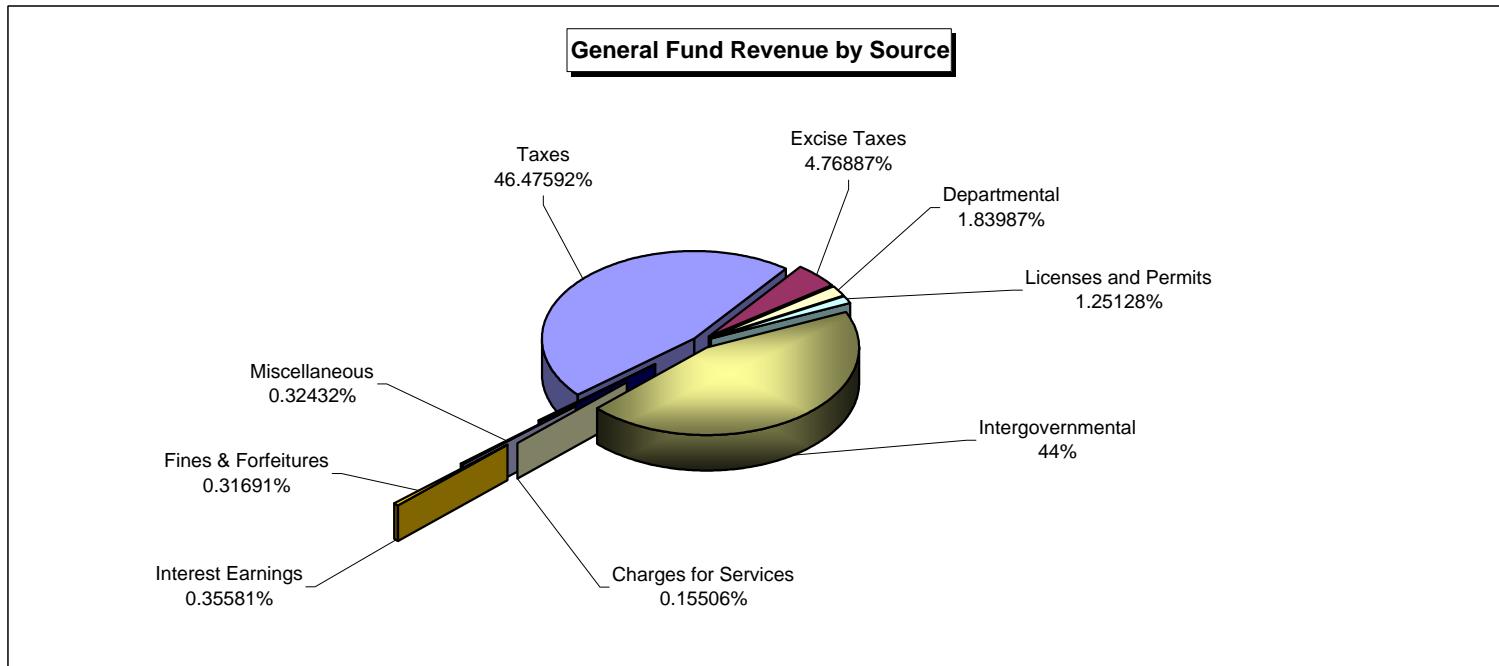
Account/Description	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
<b>General Government</b>	\$ 12,237,076	\$ 11,754,666	\$ 12,333,065	\$ 12,485,591	\$ 11,321,986	\$ 11,922,661	\$ 15,098,035	\$ 13,969,039	\$ 15,498,242	\$ 18,413,201
<b>Public Safety</b>	8,482,522	8,455,664	9,611,206	10,367,545	11,247,233	12,180,525	12,288,787	12,915,593	13,857,890	14,769,865
<b>Education</b>	30,861,006	32,991,942	37,052,144	42,062,545	45,019,527	47,521,569	48,760,070	52,072,525	55,062,302	59,829,005
<b>Public Works</b>	2,159,613	2,284,717	2,625,352	2,704,469	6,148,191	4,939,551	5,310,879	5,084,748	6,837,924	6,342,088
<b>Sanitation</b>	1,241,719	1,587,118	1,499,470	2,356,469	2,374,492	2,506,064	2,478,490	2,478,884	2,609,506	2,741,065
<b>Human Services</b>	574,564	572,023	652,641	718,055	749,250	855,823	909,859	906,215	690,512	772,235
<b>Culture and Recreation</b>	350,250	375,325	410,251	427,000	399,497	530,000	785,000	761,447	760,538	801,824
<b>Intergovernmental (1)</b>	497,268	523,628	348,517	298,814	300,501	360,204	409,809	969,530	898,268	-
<b>Debt Service</b>	2,889,926	5,457,542	6,924,050	7,846,263	8,063,617	8,623,025	8,622,028	8,304,881	7,755,896	8,732,471
<b>Total Expenditures</b>	<b>\$ 59,293,944</b>	<b>\$ 64,002,625</b>	<b>\$ 71,456,696</b>	<b>\$ 79,266,751</b>	<b>\$ 85,624,294</b>	<b>\$ 89,439,422</b>	<b>\$ 94,662,957</b>	<b>\$ 97,462,862</b>	<b>\$ 103,971,078</b>	<b>\$ 112,401,754</b>



(1) Intergovernmental expense was allocated to the respective functions in 2006.

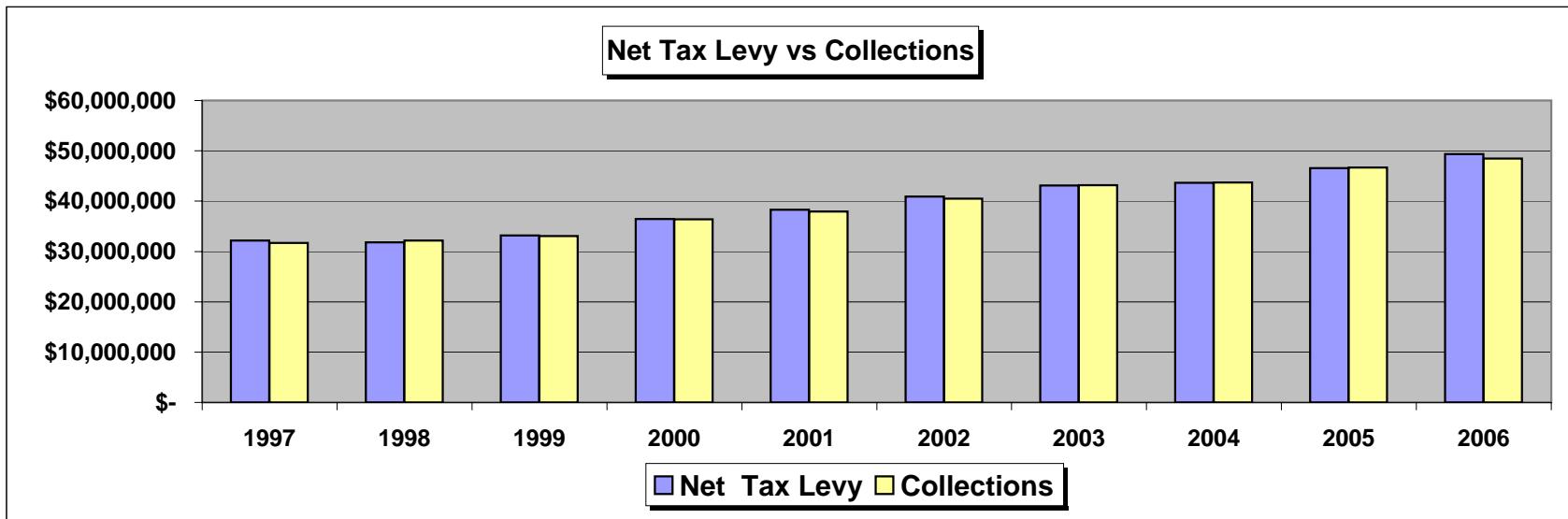
City of Methuen, Massachusetts  
General Fund Revenues by Source  
Last Ten Fiscal Years

Account/Description	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
<b>Revenues</b>										
<b>Taxes</b>	\$ 31,927,661	\$ 32,320,991	\$ 33,411,423	\$ 36,549,871	\$ 38,048,304	\$ 41,356,397	\$ 43,990,300	\$ 44,228,947	\$ 47,495,311	\$ 49,821,988
<b>Excise Taxes</b>	2,228,166	2,822,535	3,194,012	3,399,012	3,871,423	4,598,319	4,380,173	4,472,041	4,326,783	5,112,206
<b>Departmental</b>	1,379,677	1,182,075	1,316,142	1,345,634	1,521,365	1,456,457	1,771,903	1,769,134	1,773,327	1,972,328
<b>Licenses and Permits</b>	678,897	606,021	603,757	845,854	829,469	1,091,393	828,563	1,118,277	1,437,780	1,341,367
<b>Intergovernmental</b>	20,612,349	26,986,612	29,505,608	34,595,555	37,453,781	39,557,518	39,218,561	40,280,247	44,964,703	47,716,649
<b>Charges for Services</b>	67,253	-	-	-	63,581	59,556	93,498	93,903	76,812	166,225
<b>Interest Earnings</b>	1,489,451	2,536,772	2,114,313	1,421,629	1,033,517	578,595	655,740	523,673	551,997	381,428
<b>Fines &amp; Forfeitures</b>	269,505	261,482	249,552	272,484	247,930	225,897	277,479	353,363	384,466	339,721
<b>Miscellaneous</b>	406,680	30,680	294,619	753,327	222,561	248,022	544,928	1,468,670	76,636	347,665
<b>Total Revenues</b>	<b>\$ 59,059,639</b>	<b>\$ 66,747,168</b>	<b>\$ 70,689,426</b>	<b>\$ 79,183,366</b>	<b>\$ 83,291,931</b>	<b>\$ 89,172,154</b>	<b>\$ 91,761,145</b>	<b>\$ 94,308,255</b>	<b>\$ 101,087,815</b>	<b>\$ 107,199,577</b>



City of Methuen, Massachusetts  
Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year	Gross Tax Levy	Overlay		Net Tax Levy	Net as % of Total	Collections During the Fiscal Year Payable		Cumulative Collections as of June 30, 2006		Outstanding Balance as of 30-Jun-06	Percent of Outstanding to Net Tax Levy
		Reserved for Abatements				Dollar Amount	% of Net Levy	Dollar Amount	% of Net Levy		
1997 (1)	\$ 32,697,842	\$ 500,000	\$ 32,197,842	98.47%	\$ 30,722,557	95.42%	\$ 31,723,436	98.53%	\$ 26,826	0.08%	(2)
1998	32,977,500	1,175,909	31,801,591	96.43%	31,178,348	98.04%	32,178,315	101.18%	16,338	0.05%	(2)
1999	33,681,810	521,577	33,160,233	98.45%	32,063,991	96.69%	33,046,054	99.66%	30,729	0.09%	(2)
2000 (1)	37,191,667	753,153	36,438,514	97.97%	35,184,062	96.56%	36,399,962	99.89%	11,094	0.03%	(2)
2001	38,862,468	550,664	38,311,804	98.58%	36,775,279	95.99%	37,912,247	98.96%	27,375	0.07%	(2)
2002	41,381,324	472,457	40,908,867	98.86%	39,633,212	96.88%	40,492,558	98.98%	24,969	0.06%	(2)
2003 (1)	43,633,135	503,473	43,129,662	98.85%	42,528,985	98.61%	43,162,651	100.08%	11,100	0.03%	(2)
2004	44,148,900	497,525	43,651,375	98.87%	43,005,020	98.52%	43,693,958	100.10%	10,148	0.02%	(2)
2005	47,151,585	607,920	46,543,665	98.71%	46,075,920	99.00%	46,669,185	100.27%	8,502	0.02%	(2)
2006 (1)	49,846,630	495,748	49,350,882	99.01%	48,434,709	98.14%	48,434,709	98.14%	1,023,511	2.07%	

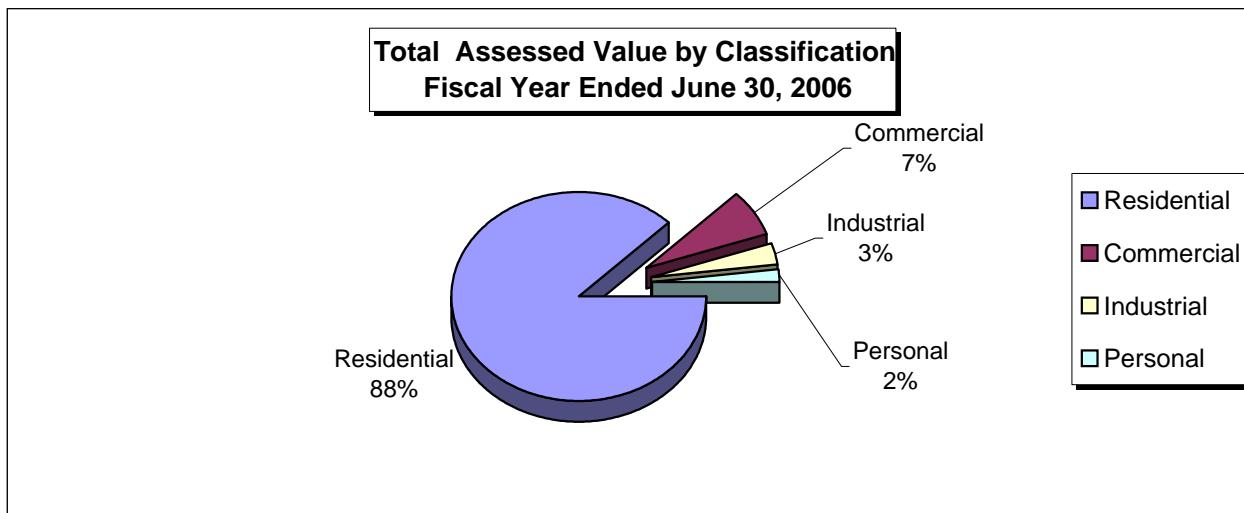


(1) Revaluation Year

(2) Outstanding amount represents personal property tax only.  
Outstanding real estate has been committed to tax title.

City of Methuen, Massachusetts  
 Assessed Value of Taxable Property by Classification  
 Last Ten Fiscal Years

Fiscal Year	Residential Value	Residential		Commercial Value	Industrial Value	Personal Property	Total CIP* Value	CIP % of Total Value	Total City Value
		% of Total Value	Commercial						
1997 (1)	\$ 1,510,364,100	82.15%	\$ 188,409,100	\$ 83,567,400	\$ 56,116,990	\$ 328,093,490	17.85%	\$ 1,838,457,590	
1998	1,534,133,700	82.78%	175,693,400	85,572,700	57,828,526	319,094,626	17.22%	1,853,228,326	
1999	1,574,409,100	82.79%	181,389,700	86,089,800	59,868,355	327,347,855	17.21%	1,901,756,955	
2000 (1)	1,933,688,085	84.35%	180,591,865	118,226,170	59,977,340	358,795,375	15.65%	2,292,483,460	
2001	1,961,006,835	82.18%	236,678,881	117,737,690	70,745,540	425,162,111	17.82%	2,386,168,946	
2002	2,167,953,038	82.99%	243,341,862	131,757,320	69,226,410	444,325,592	17.01%	2,612,278,630	
2003 (1)	2,887,566,345	85.79%	275,059,918	130,484,010	72,741,360	478,285,288	14.21%	3,365,851,633	
2004	2,924,524,851	85.80%	272,434,197	136,737,760	74,811,500	483,983,457	14.20%	3,408,508,308	
2005	3,703,116,105	87.18%	300,728,636	145,846,390	97,764,480	544,339,506	12.82%	4,247,455,611	
2006 (1)	4,267,426,852	87.54%	353,520,884	153,055,220	100,709,550	607,285,654	12.46%	4,874,712,506	



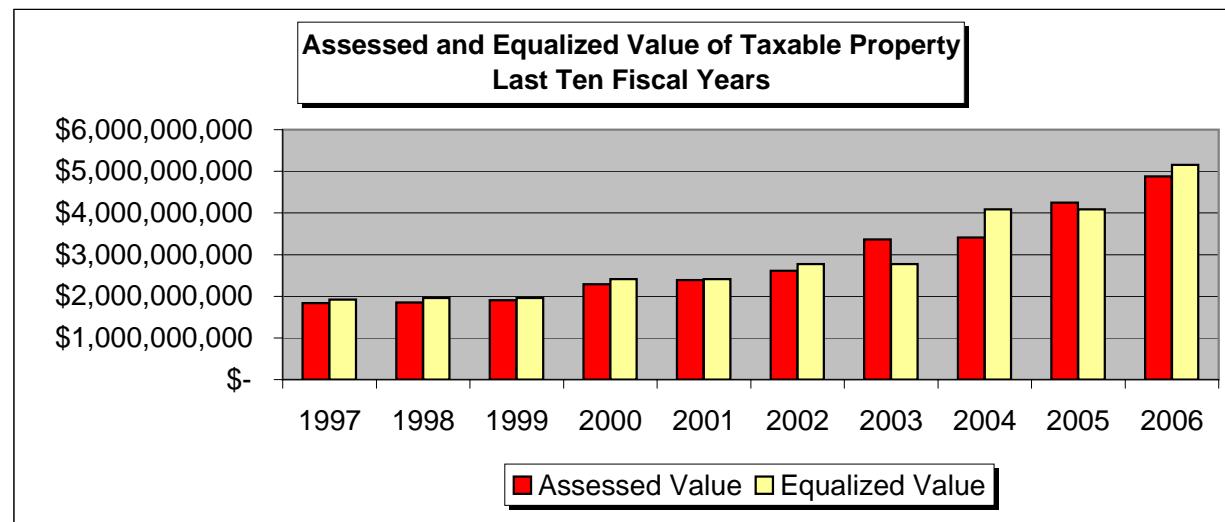
(1) Revaluation Year

Source: Department of Revenue Tax Rate Recapitulation Sheets

\* Commercial, Industrial, and Personal Property

City of Methuen, Massachusetts  
 Assessed Value and Equalized Valuation of Taxable Property  
 Last Ten Fiscal Years

Fiscal Year	Assessed Value			U.S. Census Population	Total Assessed	(2) Equalized Value	Ratio of Assessed to Equalized Value
	Real Property	Personal Property	Total				
1997 (1)	\$ 1,782,340,600	\$ 56,116,990	\$ 1,838,457,590	39,990	\$ 45,973	\$ 1,922,748,900	95.62%
1998	1,795,399,800	57,828,526	1,853,228,326	39,990	46,342	1,959,211,600	94.59%
1999	1,841,888,600	59,868,355	1,901,756,955	39,990	47,556	1,959,211,600	97.07%
2000 (1)	2,232,506,120	59,977,340	2,292,483,460	39,990	57,326	2,408,465,100	95.18%
2001	2,315,423,406	70,745,540	2,386,168,946	43,789	54,492	2,408,465,100	99.07%
2002	2,543,052,220	69,226,410	2,612,278,630	43,789	59,656	2,770,350,300	94.29%
2003 (1)	3,293,110,273	72,741,360	3,365,851,633	43,789	76,865	2,770,350,300	121.50%
2004	3,333,696,808	74,811,500	3,408,508,308	43,789	77,839	4,088,755,700	83.36%
2005	4,149,691,131	97,764,480	4,247,455,611	43,789	96,998	4,088,755,700	103.88%
2006 (1)	4,774,002,956	100,709,550	4,874,712,506	43,789	111,323	5,156,208,600 (3)	94.54%



(1) Revaluation Year

(2) Equalized valuations are determined biennially by the Commissioner of Revenue

Sources: Department of Revenue Tax Rate Recapitulation Sheets

U.S. Census Records

(3) Proposed Equalized Valuation per Massachusetts Department of Revenue

City of Methuen, Massachusetts  
 Property Tax Rates per \$1000 of Assessed Valuation  
 Last Ten Fiscal Years

Fiscal Year	Residential	Commercial & Industrial		Personal
<b>Assessed Valuation:</b>				
<b>1997</b>	<b>(1)</b>	<b>\$ 1,510,364,100</b>	<b>\$ 271,976,500</b>	<b>\$ 56,116,990</b>
<b>1998</b>		<b>1,534,133,700</b>	<b>261,266,100</b>	<b>57,828,526</b>
<b>1999</b>		<b>1,574,409,100</b>	<b>267,479,500</b>	<b>59,868,355</b>
<b>2000</b>	<b>(1)</b>	<b>1,933,688,085</b>	<b>298,818,035</b>	<b>59,977,340</b>
<b>2001</b>		<b>1,961,006,835</b>	<b>354,416,571</b>	<b>70,745,540</b>
<b>2002</b>		<b>2,167,953,038</b>	<b>375,099,182</b>	<b>69,226,410</b>
<b>2003</b>	<b>(1)</b>	<b>2,887,566,345</b>	<b>405,543,928</b>	<b>72,741,360</b>
<b>2004</b>		<b>2,924,524,851</b>	<b>409,171,957</b>	<b>74,811,500</b>
<b>2005</b>		<b>3,703,116,105</b>	<b>446,575,026</b>	<b>97,764,480</b>
<b>2006</b>	<b>(1)</b>	<b>4,267,426,852</b>	<b>506,576,104</b>	<b>100,709,550</b>
<b>Tax Levies:</b>				
<b>1997</b>	<b>(1)</b>	<b>\$ 25,404,324</b>	<b>\$ 6,046,038</b>	<b>\$ 1,247,481</b>
<b>1998</b>		<b>25,880,836</b>	<b>5,810,558</b>	<b>1,286,106</b>
<b>1999</b>		<b>26,434,329</b>	<b>5,921,996</b>	<b>1,325,485</b>
<b>2000</b>	<b>(1)</b>	<b>29,334,048</b>	<b>6,544,115</b>	<b>1,313,504</b>
<b>2001</b>		<b>29,513,153</b>	<b>7,793,620</b>	<b>1,555,694</b>
<b>2002</b>		<b>31,175,165</b>	<b>8,616,028</b>	<b>1,590,131</b>
<b>2003</b>	<b>(1)</b>	<b>33,900,029</b>	<b>8,252,819</b>	<b>1,480,287</b>
<b>2004</b>		<b>34,304,677</b>	<b>8,322,558</b>	<b>1,521,666</b>
<b>2005</b>		<b>37,179,286</b>	<b>8,181,254</b>	<b>1,791,045</b>
<b>2006</b>	<b>(1)</b>	<b>39,601,721</b>	<b>8,545,939</b>	<b>1,698,970</b>
<b>Tax Rates:</b>				
<b>1997</b>	<b>(1)</b>	<b>\$ 16.82</b>	<b>\$ 22.23</b>	<b>\$ 22.23</b>
<b>1998</b>		<b>16.87</b>	<b>22.24</b>	<b>22.24</b>
<b>1999</b>		<b>16.79</b>	<b>22.14</b>	<b>22.14</b>
<b>2000</b>	<b>(1)</b>	<b>15.17</b>	<b>21.90</b>	<b>21.90</b>
<b>2001</b>		<b>15.05</b>	<b>21.99</b>	<b>21.99</b>
<b>2002</b>		<b>14.38</b>	<b>22.97</b>	<b>22.97</b>
<b>2003</b>	<b>(1)</b>	<b>11.74</b>	<b>20.35</b>	<b>20.35</b>
<b>2004</b>		<b>11.73</b>	<b>20.34</b>	<b>20.34</b>
<b>2005</b>		<b>10.04</b>	<b>18.32</b>	<b>18.32</b>
<b>2006</b>	<b>(1)</b>	<b>9.28</b>	<b>16.87</b>	<b>16.87</b>

**(1) Revaluation Year**

**Source: Department of Revenue Tax Rate Recapitulation Sheets**

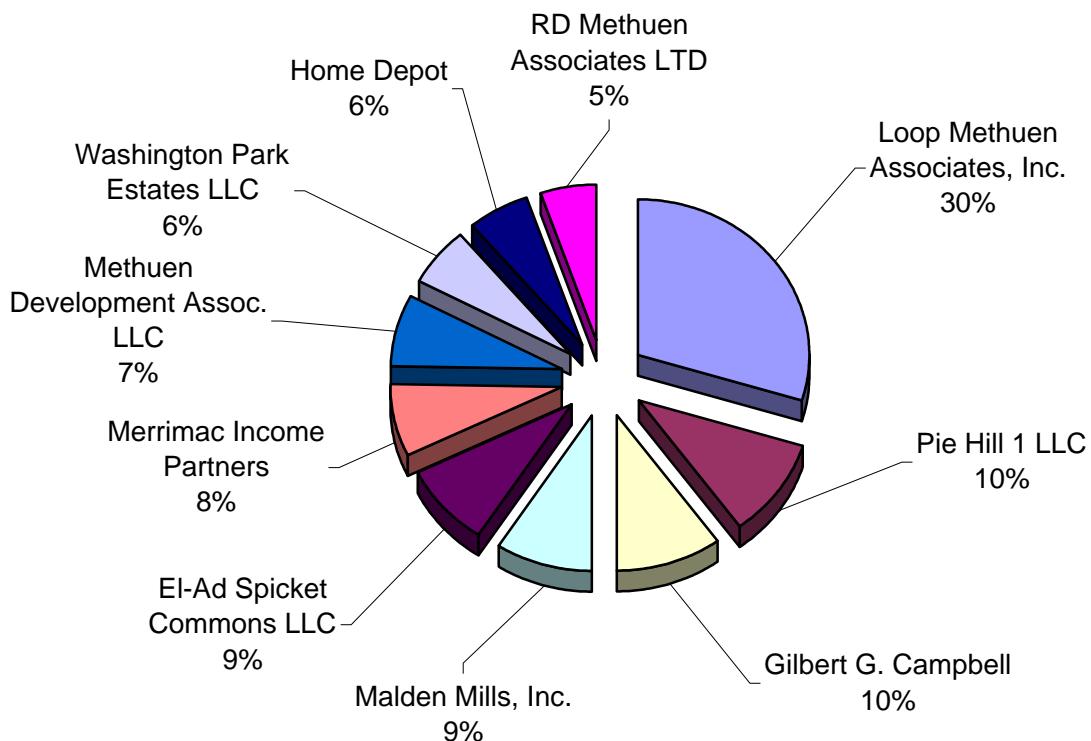
City of Methuen, Massachusetts

Principal Taxpayers

Fiscal Year 2006

Name	Nature of Business	Total Assessed Valuations for Fiscal Year 2006	% of Total Estimated Assessed Value
Loop Methuen Associates, Inc.	Retail/Entertainment	\$ 55,177,700	1.13%
Pie Hill 1 LLC	Apartments	19,315,600	0.40%
Gilbert G. Campbell	Vacant Land, Office, Bank, Apartments	18,489,300	0.38%
Malden Mills, Inc.	Manufacturing	16,714,000	0.34%
El-Ad Spicket Commons LLC	Apartments/Condominiums	15,871,700	0.33%
Merrimac Income Partners	Shopping Center	14,381,400	0.30%
Methuen Development Assoc. LLC	Industrial Warehouse	13,730,500	0.28%
Washington Park Estates LLC	Apartments	11,321,200	0.23%
Home Depot	Building Supplies	10,676,200	0.22%
RD Methuen Associates LTD	Shopping Center	9,940,600	0.20%
		<hr/>	<hr/>
		\$ 185,618,200	3.81%

**Principal Taxpayers**



City of Methuen, Massachusetts  
 Computation of Legal Debt Margin  
 June 30, 2006

State equalized valuation - real estate and personal property	(1)	<u>\$ 5,156,208,600</u>
Debt Limit - 5% of equalized value		\$ 257,810,430
Total bonded debt (including authorized and unissued of \$ 15,613,158 and bond anticipation notes outstanding of \$ 6,213,500.)		91,017,170
Less bonded debt not included in computation of legal debt margin, as defined by Massachusetts statutes.	(2)	(60,985,695)
Less bonded debt authorized but not yet issued which is outside the debt limit.	(2)	<u>(15,500,000)</u>
Total debt applicable to limitation		<u>14,531,475</u>

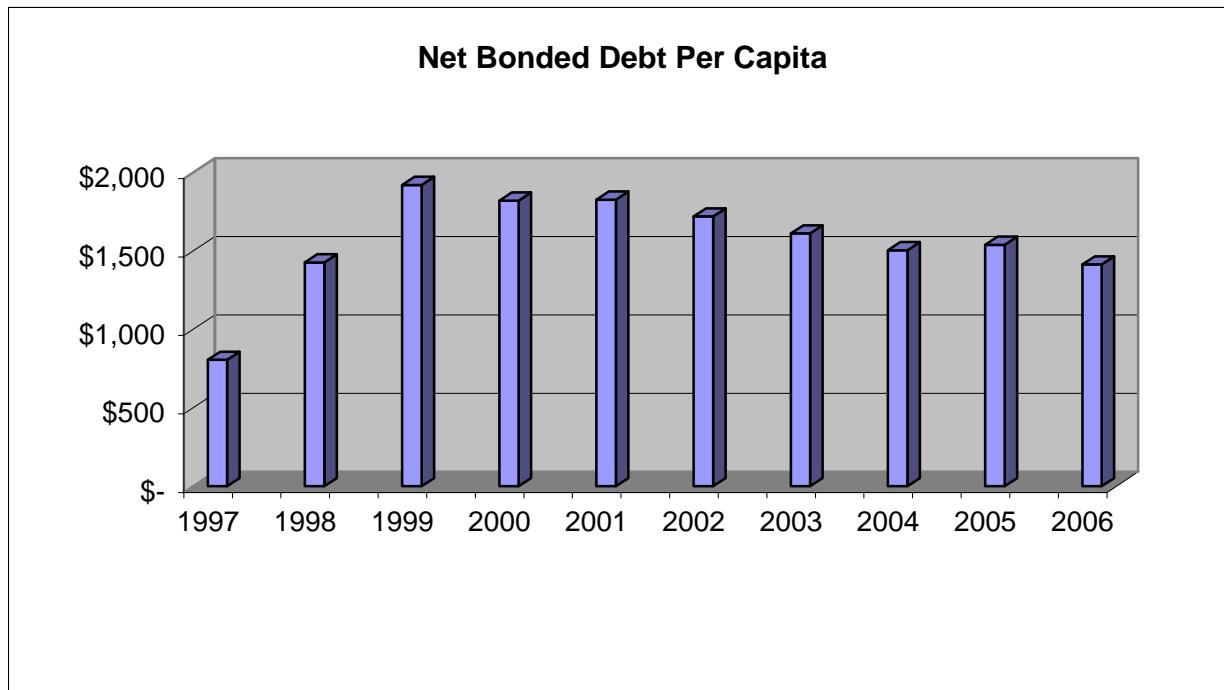
**Legal Debt Margin** \$ 243,278,955

(1) The equalization of all taxable property in the State of Massachusetts is conducted bi-annually by the Massachusetts Department of Revenue

(2) Subject to an "outside" debt limit of 5% of the Town's equalized valuation.

City of Methuen, Massachusetts  
 Ratio of General Obligation Bonded Debt  
 to Equalized Value and Net Bonded Debt per Capita  
 Last Ten Fiscal Years

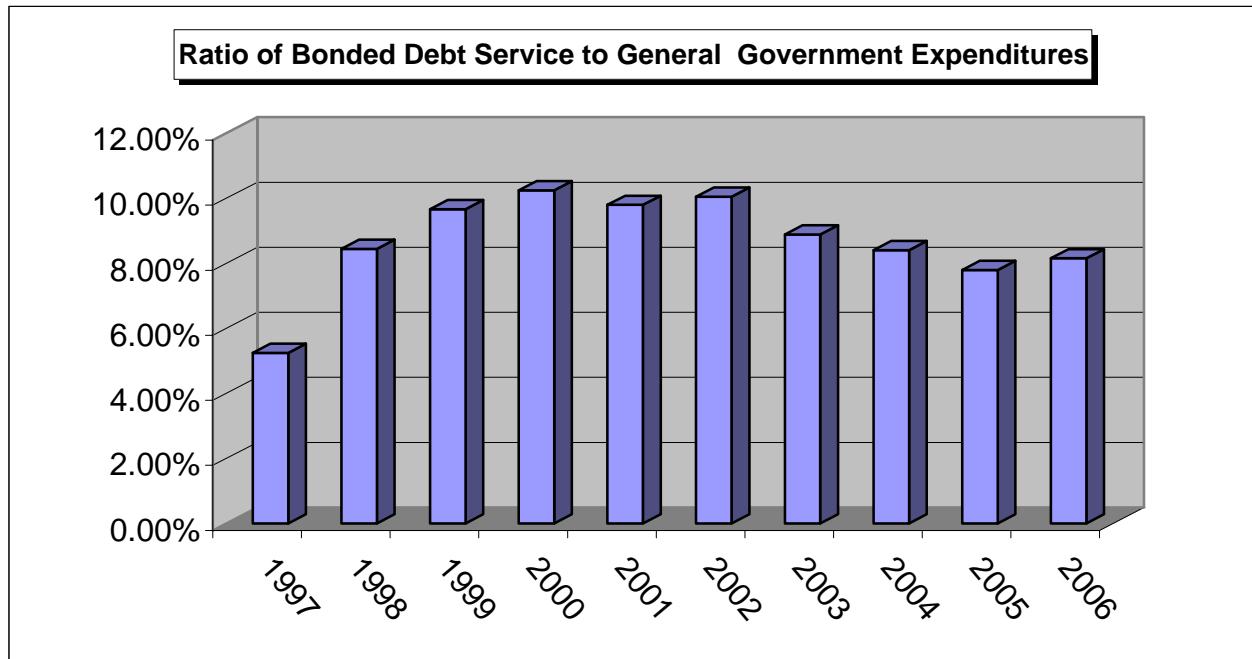
Fiscal Year	U.S. Census Population	State Equalized Value	Outstanding Gross Bonded Debt	Less Self-Supporting Debt	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1997	39,990	\$ 1,922,748,900	\$ 38,000,221	\$ 5,788,904	\$ 32,211,317	1.68%	\$ 805
1998	39,990	1,959,211,600	61,935,382	4,925,065	57,010,317	2.91%	1,426
1999	39,990	1,959,211,600	83,396,713	6,605,509	76,791,204	3.92%	1,920
2000	39,990	2,408,465,100	78,334,393	5,578,189	72,756,204	3.02%	1,819
2001	43,789	2,408,465,100	84,437,693	4,496,489	79,941,204	3.32%	1,826
2002	43,789	2,770,350,300	78,944,629	3,666,312	75,278,317	2.72%	1,719
2003	43,789	2,770,350,300	73,350,003	2,833,003	70,517,000	2.55%	1,610
2004	43,789	4,088,755,700	68,336,910	2,506,910	65,830,000	1.61%	1,503
2005	43,789	4,088,755,700	69,370,891	1,985,891	67,385,000	1.65%	1,539
2006	43,789	5,156,208,600	69,190,611	7,325,611	61,865,000	1.20%	1,413



Source: City Auditor's Records and U.S. Census

City of Methuen, Massachusetts  
 Ratio of Annual Debt Service Expenditures for General Fund Bonded Debt  
 to Total General Fund Expenditures  
 Last Ten Fiscal Years

Fiscal Year	Annual General Fund Debt Service	City General Governmental Expenditures (1)	Ratio of General Fund Debt Service to General Government Expenditures
1997	\$ 3,124,926	\$ 59,575,804	5.25%
1998	5,457,542	64,627,538	8.44%
1999	6,924,050	71,605,885	9.67%
2000	7,846,263	76,579,286	10.25%
2001	8,063,617	82,282,394	9.80%
2002	8,623,025	85,826,481	10.05%
2003	8,145,303	91,636,290	8.89%
2004	7,840,906	93,282,528	8.41%
2005	7,716,136	98,976,765	7.80%
2006	8,732,471	107,054,954	8.16%



(1) Excludes on-behalf payments made by the Commonwealth of Massachusetts

City of Methuen, Massachusetts  
 Computation of Direct and Overlapping Bonded Debt  
 General Obligation Bonds  
 June 30, 2006

Jurisdiction	General Obligation Bonded Debt Outstanding	Percentage Applicable to City of Methuen (1)	Amount Applicable to City of Methuen
<b>Direct:</b>			
City of Methuen	\$ 69,190,611	100.00%	\$ 69,190,611
<b>Overlapping:</b>			
Greater Lawrence Regional Vocational Technical School District	40,455,000	13.67%	5,530,199
Merrimack Valley Regional Transit Authority	-	N/A	-
Greater Lawrence Sanitary District	<u>33,449,116</u>	21.90%	<u>7,325,356</u>
<b>Total Overlapping Debt</b>	<u>73,904,116</u>		<u>12,855,555</u>
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>	<b><u>\$ 143,094,727</u></b>		<b><u>\$ 82,046,166</u></b>

(1) Estimated share based on debt service only

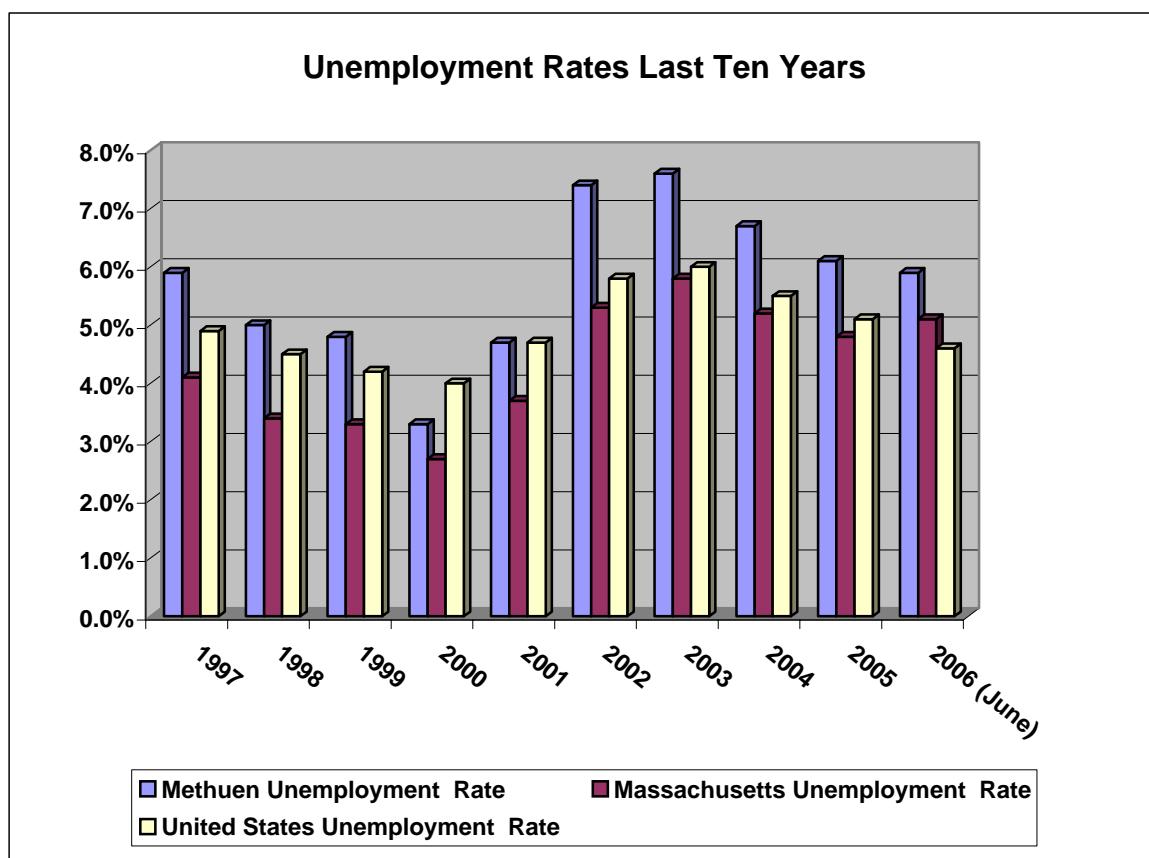
City of Methuen Massachusetts  
Building Permits  
Last Ten Years

Year	New Construction				Additions/Alterations							
	No.	Residential	No.	Non-Residential	No.	Residential	No.	Non-Residential	No.	Total	Value	
	No.	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	
1997	125	\$ 16,892,808	9	\$ 2,439,000	1020	\$ 6,644,610	115	\$ 24,099,567	1269	\$ 50,075,985		
1998	133	20,949,500	9	4,294,500	1147	7,225,165	107	29,228,320	1396	61,697,485		
1999	156	26,154,850	4	22,620,129	1111	8,517,108	114	6,069,366	1385	63,361,453		
2000	136	25,043,750	30	17,695,560	936	8,153,433	98	9,434,377	1038	60,327,120		
2001	115	23,075,380	14	12,350,160	1041	10,349,728	159	13,343,071	1329	59,118,339		
2002	86	25,160,549	7	9,194,117	1542	14,381,064	158	23,136,398	1793	71,872,128		
2003	80	14,153,500	2	762,000	1556	16,712,623	157	9,007,269	1795	40,635,392		
2004	57	13,407,840	4	3,044,791	1683	21,350,459	131	9,296,864	1875	47,099,954		
2005	98	49,359,695	3	2,085,000	1544	21,906,481	128	5,094,998	1773	78,446,174		
2006	102	31,268,528	3	3,131,220	1426	17,649,111	134	7,182,791	1665	59,231,650		

**SOURCE: Building Commissioner**

City of Methuen, Massachusetts  
Annual Unemployment Rates  
Last Ten Years

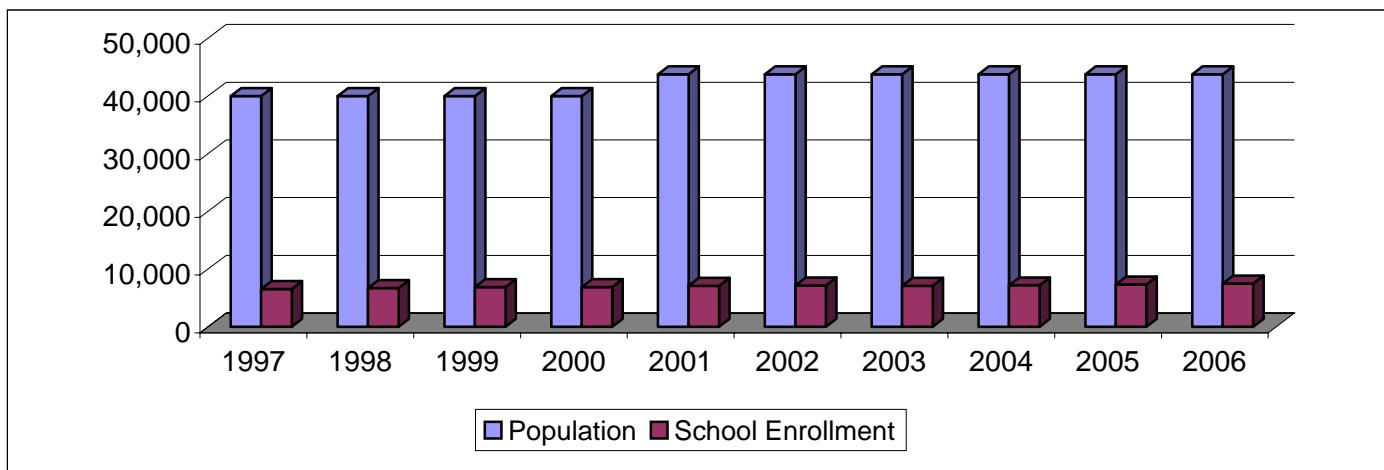
Calendar Year	Methuen Labor Force	Methuen Unemployment Rate	Massachusetts Unemployment Rate	United States Unemployment Rate
1997	21,422	5.9%	4.1%	4.9%
1998	21,737	5.0%	3.4%	4.5%
1999	22,220	4.8%	3.3%	4.2%
2000	22,428	3.3%	2.7%	4.0%
2001	22,864	4.7%	3.7%	4.7%
2002	23,267	7.4%	5.3%	5.8%
2003	23,364	7.6%	5.8%	6.0%
2004	23,148	6.7%	5.2%	5.5%
2005	22,992	6.1%	4.8%	5.1%
2006 (June)	23,111	5.9%	5.1%	4.6%



Source: MA Department of Employment and Training

City of Methuen, Massachusetts  
 Population and School Enrollment  
 Last Ten Years

Year	Population	Increase (Decrease)	School Enrollment	Increase (Decrease)	School % of Total
1997	39,990	***	6,545	***	16.37%
1998	39,990	0	6,718	173	16.80%
1999	39,990	0	6,903	185	17.26%
2000	39,990	0	6,903	0	17.26%
2001	43,789	3,799	7,123	220	16.27%
2002	43,789	0	7,152	29	16.33%
2003	43,789	0	7,097	(55)	16.21%
2004	43,789	0	7,193	96	16.43%
2005	43,789	0	7,313	120	16.70%
2006	43,789	0	7,485	172	17.09%



City of Methuen, Massachusetts  
Age, Income and Wealth Levels

Category	Year	Methuen	Massachusetts	United States
<b><u>Median Age</u></b>	2000	37.5	36.5	35.3
	1990	35.0	33.6	32.9
	1980	32.8	31.2	30.0
	1970	31.7	29.0	28.1
<b><u>Median Family Income</u></b>	2000	\$ 59,831	\$ 61,664	\$ 50,046
	1990	44,901	44,367	35,225
	1980	21,486	21,166	19,908
	1970	10,923	10,835	9,867
<b><u>Per Capita Income</u></b>	2000	\$ 22,305	\$ 25,952	\$ 21,587
	1990	15,598	17,224	14,420
	1980	7,002	7,459	7,313
	1970	3,228	3,425	3,139