

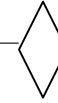
**CITY OF NORTHAMPTON, MASSACHUSETTS**

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

**FISCAL YEAR ENDED JUNE 30, 2004**

**Thomas J. Scanlon & Associates**  
Certified Public Accountants

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**Independent Auditors' Report**

To the Honorable Mayor  
Northampton, 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 Northampton, Massachusetts, as of and for the fiscal year ended June 30, 2004, (except for the Northampton Contributory Retirement System, which is as of and for the year ended December 31, 2003), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Northampton, Massachusetts' 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 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 also 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 opinion.

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 Northampton, Massachusetts, as of June 30, 2004, (except for the Northampton Contributory Retirement System, which is as of December 31, 2003), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2004, on our consideration of the City of Northampton, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the City of Northampton, Massachusetts, taken as a whole. The

supplementary supporting statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Northampton, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements taken as a whole.

Management's discussion and analysis, located on the following pages, are not a required part of the basic financial statements but is 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 therefore, express no opinion on it.

THOMAS J. SCANLON,  
Certified Public Accountant

South Deerfield, Massachusetts  
December 1, 2004

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

## Management's Discussion and Analysis

As management of the City of Northampton, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004.

### Financial Highlights

- The City's assets exceeded its liabilities by \$86,399,746 (net assets) for the fiscal year reported. This represents a \$1,208,261 or 1.4% increase over restated total net assets at June 30, 2003.
- Total net assets are comprised of the following:
  - (1) Capital assets, net of related debt, of \$60,719,983 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net assets of \$9,497,411 are restricted by constraints imposed from outside the City such as grantors, laws or regulations.
  - (3) Unrestricted net assets of \$16,182,352 represent a portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds reported total ending fund balance of \$12,932,959 this year. This compares to the prior year ending fund balance of \$13,153,876 showing a decrease of \$220,917 during the current year. Unreserved fund balance of \$11,707,874 for fiscal year 2004 shows a \$238,836 decrease from the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,291,044, or 6.8% of total General Fund expenditures including transfers and 6.6% of total General Fund revenues including transfers.
- Total liabilities of the City decreased by \$1,633,795 to \$66,667,664 during the fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Northampton's basic financial statements. These 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 finances, in a manner similar to private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works, health and human services, culture and recreation, education, employee benefits and insurance, state assessments and interest. The business-type activities include the sewer, water and solid waste activities.

The government-wide financial statements include not only the City of Northampton itself (known as the *primary government*), but also a legally separate public employee retirement system for which the City of Northampton is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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

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

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

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

**Proprietary funds.** The City maintains three types of propriety funds.

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

**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 propriety funds.

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

## Financial Highlights

### Statement of Net Assets Highlights

	Governmental Activities		
	2004	2003 as restated	Change
<b>Assets:</b>			
Current assets	\$ 24,697,382	\$ 23,606,166	\$ 1,091,216
Noncurrent assets (excluding capital)	25,069,414	26,324,346	(1,254,932)
Capital assets	64,111,826	65,407,294	(1,295,468)
<b>Total assets</b>	<b>113,878,622</b>	<b>115,337,806</b>	<b>(1,459,184)</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt)	4,751,738	4,610,086	141,652
Noncurrent liabilities (excluding debt)	2,920,031	1,985,032	934,999
Current debt	5,249,913	3,613,272	1,636,641
Noncurrent debt	38,426,106	42,058,020	(3,631,914)
<b>Total liabilities</b>	<b>51,347,788</b>	<b>52,266,410</b>	<b>(918,622)</b>
<b>Net Assets:</b>			
Capital assets net of related debt	47,032,638	47,738,345	(705,707)
Restricted	9,497,411	9,014,011	483,400
Unrestricted	6,000,785	6,319,040	(318,255)
<b>Total net assets</b>	<b>62,530,834</b>	<b>63,071,396</b>	<b>(540,562)</b>

	Business-Type Activities		
	2004	2003 as restated	Change
<b>Assets:</b>			
Current assets	\$ 11,171,207	\$ 10,467,117	\$ 704,090
Noncurrent assets (excluding capital)	-	-	-
Capital assets	28,017,581	27,688,021	329,560
<b>Total assets</b>	<b>39,188,788</b>	<b>38,155,138</b>	<b>1,033,650</b>
<b>Liabilities:</b>			
Current liabilities (excluding debt)	330,940	555,017	(224,077)
Noncurrent liabilities (excluding debt)	133,759	117,914	15,845
Current debt	3,163,301	2,281,942	881,359
Noncurrent debt	11,691,876	13,080,176	(1,388,300)
<b>Total liabilities</b>	<b>15,319,876</b>	<b>16,035,049</b>	<b>(715,173)</b>
<b>Net Assets:</b>			
Capital assets net of related debt	13,687,345	12,325,903	1,361,442
Restricted	-	-	-
Unrestricted	10,181,567	9,794,186	387,381
<b>Total net assets</b>	<b>23,868,912</b>	<b>22,120,089</b>	<b>1,748,823</b>



## Financial Highlights

### Statement of Activities Highlights

	Governmental Activities		
	2004	2003	Change
	as restated		
<b>Program Revenues:</b>			
Charges for services	\$ 9,239,917	\$ 8,908,110	\$ 331,807
Operating grants and contributions	22,399,688	22,689,521	(289,833)
Capital grants and contributions	858,409	1,750,534	(892,125)
<b>General Revenues:</b>			
Property taxes	30,322,695	28,771,310	1,551,385
Motor vehicle and other taxes	2,237,740	2,244,329	(6,589)
Hotel room occupancy taxes	336,309	313,224	23,085
Penalties and interest on taxes	318,777	214,128	104,649
Nonrestricted grants and contributions	4,292,955	4,970,586	(677,631)
Unrestricted investment income	228,770	244,321	(15,551)
Miscellaneous	13,961	31,272	(17,311)
<b>Contributions to Permanent Funds</b>	10,900	-	10,900
<b>Special Item - Loss on Sale of Capital Assets</b>	(385,000)	-	(385,000)
<b>Total revenues and special items</b>	<b>69,875,121</b>	<b>70,137,335</b>	<b>(262,214)</b>
<b>Expenses:</b>			
General government	5,444,243	5,015,478	(428,765)
Public safety	8,704,168	9,078,872	374,704
Public works	3,448,272	3,270,911	(177,361)
Education	32,594,238	33,024,385	430,147
Health and human services	1,670,159	2,315,877	645,718
Culture and recreation	2,250,289	2,455,793	205,504
Employee benefits and insurance	14,806,321	13,860,756	(945,565)
State assessments	1,502,002	449,628	(1,052,374)
Interest	2,487,214	2,276,400	(210,814)
<b>Total expenses</b>	<b>72,906,906</b>	<b>71,748,100</b>	<b>(1,158,806)</b>
<b>Transfers, net</b>	<b>2,491,223</b>	<b>2,422,330</b>	<b>68,893</b>
<b>Change in net assets</b>	<b>(540,562)</b>	<b>811,565</b>	<b>(1,352,127)</b>
	Business-Type Activities		
	2004	2003	Change
	as restated		
<b>Program Revenues:</b>			
Sewer	\$ 3,658,688	\$ 4,580,624	\$ (921,936)
Water	3,380,722	4,087,253	(706,531)
Solid Waste	3,378,632	3,239,013	139,619
<b>Total Revenues</b>	<b>10,418,042</b>	<b>11,906,890</b>	<b>(1,488,848)</b>
<b>Expenses:</b>			
Sewer	2,680,447	2,800,033	119,586
Water	1,899,188	2,091,877	192,689
Solid Waste	1,650,438	1,854,747	204,309
<b>Total expenses</b>	<b>6,230,073</b>	<b>6,746,657</b>	<b>516,584</b>
<b>Unrestricted investment income</b>	<b>52,077</b>	<b>66,802</b>	<b>(14,725)</b>
<b>Transfers, net</b>	<b>(2,491,223)</b>	<b>(2,422,330)</b>	<b>(68,893)</b>
<b>Change in net assets</b>	<b>1,748,823</b>	<b>2,804,705</b>	<b>(1,055,882)</b>

## ***Government-wide Financial Analysis***

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$86,399,746 at the close of FY2004.

Net assets of \$60,719,983 (70%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets \$9,497,411 (11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$16,182,352 (19%) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The governmental activities net assets decreased by \$540,562 during the current fiscal year, which reflects the general fund's results of operations. This was mainly attributed to expenditures exceeding revenues by \$2,646,785, transfers in from the sewer, water and solid waste funds of \$2,491,223 and a loss of \$385,000 on the sale of capital assets.

There was an increase of \$1,748,823 in net assets reported in connection with the sewer, water and solid waste business-type activities. Of this, the sewer department incurred a decrease of \$304,778 and was attributed to budgeting revenues sufficient to cover current operational costs by \$994,803, less transfers out to the general fund of \$1,299,581, the water and solid waste departments incurred increases of \$983,966 and \$1,069,635, respectively and was attributable to budgeting revenues sufficient to cover current operational costs.

## ***Financial Analysis of the Government's Funds***

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

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$12,932,959. Of this year-end total, \$4,291,044 is the undesignated general fund balance, indicating availability for continuing City service requirements. Reserved and designated fund balances include \$644,673 committed to liquidate

encumbrances and carried forward articles remaining from the prior year; \$580,412 in perpetual permanent funds; \$929,975 reserved for the 2005 budget; \$7,745,696 in special revenue funds; (\$1,342,870) in capital project funds; and \$84,029 in permanent funds.

The total ending fund balances of the governmental funds shows a decrease of \$220,917 in comparison with the prior year. The decrease is attributable to expenditures exceeding revenues by \$2,712,140 and transfers in from the business-type activities of \$2,491,223.

### ***Major Governmental Funds***

The *general fund* is the City's primary operating fund and the largest source of day-to-day operations. At the end of the current fiscal year, unreserved/undesignated fund balance of the general fund was \$4,291,044, while total fund balance reached \$4,935,717. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and revenues and transfers. Unreserved fund balance represents 6.8% of total general fund expenditures including transfers and total fund balance represents 7.8% of that same amount. Unreserved fund balance represents 6.6% of total general fund revenues including transfers and total fund balance represents 7.6% of that same amount.

The fund balance of the general fund increased by \$1,395,421. Of this amount \$2,366,077 was attributed to the expenditures over revenues, \$1,270,275 of net transfers in from the stabilization fund and non-major funds and \$2,491,223 in transfers in from the business-type activities.

The *stabilization fund* has accumulated a fund balance of \$1,220,384, or 1.9% of total General Fund expenditures including transfers and 1.8% of total General Fund revenues including transfers. These funds can be used for general or capital purposes upon City Council approval.

The fund balance of the stabilization fund decreased by \$1,183,734. Of this amount \$16,266 was attributed to interest income and \$1,200,000 was attributed to budgeted transfers to the general fund in support of operations. Please refer to Note 3G for additional information.

***Proprietary funds.*** The proprietary funds statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

### ***Major Proprietary Funds***

The *sewer fund* is the financing and operations of the City's sewer system. The sewer fund shows a decrease of \$304,778 in total operations, the result of revenues exceeding expenditures by \$994,803 and \$1,299,581 of transfers to the general fund.

The *water fund* is the financing and operations of the City's water system. The water fund shows an increase of \$983,966 in total operations, the result of revenues exceeding expenditures by \$1,499,254 and \$515,288 of transfers to the general fund.

The *solid waste fund* is the financing and operations of the City's solid waste system. The solid waste fund shows an increase of \$1,069,635 in total operations, the result of revenues exceeding expenditures by \$1,745,989 and \$676,354 of transfers to the general fund.

### ***General Fund Budgetary Highlights***

The final general fund budget for fiscal year 2004 was \$59,483,879. This was a decrease of \$605,427 over the previous year's final budget.

There was a negative variance in interest on investments revenue of \$27,496 attributed to estimating interest too high. This was more than offset by budgetary surpluses attributed primarily to Tax Title revenue plus accumulated interest of \$535,569, Charges for Services and Fees of \$320,578, and Licenses and Permits of \$163,954. Overall, actual total revenue exceeded the budget by \$1,121,682.

A negative variance of \$92,664 exists in the state assessments. This was attributed to the expenditures exceeding the amount estimated for RMV Non-Renewal Surcharge Assessment, the Pioneer Valley Transit Authority Assessment and School Charter Assessment.

During the year, the City Council voted increases totaling \$680,222 to the original budget. The increases are primarily attributed to an increase in police repairs and maintenance of \$15,430, snow and ice expenditures of \$317,226, sick leave buyback of \$260,000, legal services of \$42,000, DPW flood control of \$3,400, building department of \$14,100, tax collection services of \$7,400, city website redesign of \$9,900, and channel markers for \$3,250. Of the \$1,189,326 in unexpended/committed budget expenditures \$644,673 has been carried over to fiscal year 2004 leaving a surplus of \$544,653 to close to designated fund balance.

### ***Capital Asset and Debt Administration***

**Capital Assets.** Major Capital asset additions (including the completion of construction in progress items) in the governmental activities consisted of \$985,571 for public safety equipment and vehicles including a fire aerial platform fire truck for \$780,156, an ambulance for \$73,850 and 3 police cruisers for \$74,544, \$41,830 for public works repairs to replace the engine/transmission of the dresser loader, \$190,709 for infrastructure consisting of \$67,709 for reconstruction of the Clement Street drainage channel and \$123,000 in traffic signal improvements, \$148,000 for a new heating system in the schools and \$245,667 for exterior renovations to the Academy of Music.

Capital asset additions during the year of \$907,011 in the business-type activity consisted; in the sewer fund, \$140,699 for vehicles, \$58,420 for a skid type sewer jet for truck mounting, and \$240,467 in infrastructure; in the water fund, \$161,026 for vehicles, \$18,400 for a water meter reader equipment and software and \$287,999 in infrastructure.

Construction in progress expenditures of \$988,249 consisted of; in the water fund, \$198,690 in engineering for the water plant and \$296,031 for route 66 water mains; for in the solid waste fund, \$493,528 for the cell I landfill closure project.

**Debt Administration.** The City's outstanding governmental long-term debt, as of June 30, 2004, totaled \$42,073,019, of which \$36,452,602 is for school projects, \$5,041,462 is for City building projects, \$428,759 is for land acquisitions leaving a balance of \$150,196 for other capital related projects.

The City's outstanding business-type long term debt was \$4,109,169 in sewer debt, \$5,463,508 in water debt, and \$3,507,500 in solid waste debt that is fully supported by the rates and do not rely on a general fund subsidy.

***Requests for Information***

This financial report is designed to provide a general overview of the City of Northampton's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Auditor, City Hall, 210 Main Street, Northampton, Massachusetts.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF NORTHAMPTON, MASSACHUSETTS  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and Cash Equivalents	\$ 14,271,154	\$ 9,978,943	\$ 24,250,097
Investments	1,752,473	-	1,752,473
Receivables, net of allowance for uncollectibles			
Property Taxes	722,029	-	722,029
Deferred Property Taxes	117,933	-	117,933
Taxes in Litigation	6,794	-	6,794
Rollback Taxes	1,580	-	1,580
Tax Liens	934,974	-	934,974
Excise Taxes and Other Taxes	400,259	-	400,259
User Charges	-	1,146,095	1,146,095
Departmental	54,756	-	54,756
Special Assessments	29,689	46,169	75,858
Loans	115,164	-	115,164
Due from Other Governments	6,290,577	-	6,290,577
Total current assets	<u>24,697,382</u>	<u>11,171,207</u>	<u>35,868,589</u>
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Due from Other Governments	25,069,414	-	25,069,414
Capital Assets, net of accumulated Depreciation	64,111,826	28,017,581	92,129,407
Total noncurrent assets	<u>89,181,240</u>	<u>28,017,581</u>	<u>117,198,821</u>
<b>Total Assets</b>	<u>113,878,622</u>	<u>39,188,788</u>	<u>153,067,410</u>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants Payable	1,714,615	175,510	1,890,125
Accrued Payroll	2,288,309	50,367	2,338,676
Payroll Withholdings	167,434	-	167,434
Tax Refund Payable	135,331	-	135,331
Taxes Collected in Advance	1,192	-	1,192
Accrued Interest	291,171	98,024	389,195
Compensated Absences	153,686	7,039	160,725
Bond Anticipation Notes	1,603,000	1,775,000	3,378,000
Bonds Payable	3,646,913	1,388,301	5,035,214
Total current liabilities	<u>10,001,651</u>	<u>3,494,241</u>	<u>13,495,892</u>
<b>NONCURRENT:</b>			
Compensated Absences	2,920,031	133,759	3,053,790
Bonds Payable	38,426,106	11,691,876	50,117,982
Total noncurrent liabilities	<u>41,346,137</u>	<u>11,825,635</u>	<u>53,171,772</u>
<b>Total Liabilities</b>	<u>51,347,788</u>	<u>15,319,876</u>	<u>66,667,664</u>
<b>NET ASSETS:</b>			
Invested in Capital Assets, net of related deb	47,032,638	13,687,345	60,719,983
Restricted for:			
Capital Projects	260,130	-	260,130
Loans	115,164	-	115,164
Federal & State Grants	3,608,780	-	3,608,780
Permanent Funds:			
Expendable	84,029	-	84,029
Nonexpendable	580,412	-	580,412
Other Purposes	4,848,896	-	4,848,896
Unrestricted	6,000,785	10,181,567	16,182,352
<b>Total Net Assets</b>	<u>\$ 62,530,834</u>	<u>\$ 23,868,912</u>	<u>\$ 86,399,746</u>

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Program Revenues</u>				<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General Government	\$ 5,444,243	\$ 2,659,753	\$ 1,117,610	\$ -	\$ (1,666,880)	\$ -	\$ (1,666,880)
Public Safety	8,704,168	1,281,234	583,327	-	(6,839,607)	-	(6,839,607)
Public Works	3,448,272	35,495	260,038	526,282	(2,626,457)	-	(2,626,457)
Education	32,594,238	4,657,633	12,790,582	83,460	(15,062,563)	-	(15,062,563)
Health and Human Services	1,670,159	125,534	1,340,639	-	(203,986)	-	(203,986)
Culture and Recreation	2,250,289	480,268	244,896	248,667	(1,276,458)	-	(1,276,458)
Employee Benefits and Insurance	14,806,321	-	4,547,101	-	(10,259,220)	-	(10,259,220)
State Assessments	1,502,002	-	-	-	(1,502,002)	-	(1,502,002)
Interest	2,487,214	-	1,515,495	-	(971,719)	-	(971,719)
<b>Total Governmental Activities</b>	<b>72,906,906</b>	<b>9,239,917</b>	<b>22,399,688</b>	<b>858,409</b>	<b>(40,408,892)</b>	<b>-</b>	<b>(40,408,892)</b>
<b>Business-Type Activities:</b>							
Sewer	2,680,447	3,658,688	-	-	-	978,241	978,241
Water	1,899,188	3,380,722	-	-	-	1,481,534	1,481,534
Solid Waste	1,650,438	3,378,632	-	-	-	1,728,194	1,728,194
<b>Total Primary Government</b>	<b>\$ 79,136,979</b>	<b>\$ 19,657,959</b>	<b>\$ 22,399,688</b>	<b>\$ 858,409</b>	<b>(40,408,892)</b>	<b>4,187,969</b>	<b>(36,220,923)</b>
<b>General Revenues:</b>							
Property taxes					30,322,695	-	30,322,695
Motor vehicle and other taxes					2,237,740	-	2,237,740
Hotel room occupancy taxes					336,309	-	336,309
Penalties & interest on taxes					318,777	-	318,777
Grants & contributions not restricted to specific programs					4,292,955	-	4,292,955
Unrestricted investment income					228,770	52,077	280,847
Miscellaneous					13,961	-	13,961
<b>Contributions to Permanent Funds</b>					10,900	-	10,900
<b>Special Items:</b>							
Loss on Sale of Capital Assets					(385,000)	-	(385,000)
<b>Transfers, net</b>					<b>2,491,223</b>	<b>(2,491,223)</b>	<b>-</b>
<b>Total General Revenues, Special Items, Contributions and Transfers</b>					<b>39,868,330</b>	<b>(2,439,146)</b>	<b>37,429,184</b>
<b>Change in Net Assets</b>					<b>(540,562)</b>	<b>1,748,823</b>	<b>1,208,261</b>
<b>Nets Assets:</b>							
Beginning of year (as restated)					63,071,396	22,120,089	85,191,485
End of year					<b>\$ 62,530,834</b>	<b>\$ 23,868,912</b>	<b>\$ 86,399,746</b>



**CITY OF NORTHAMPTON, MASSACHUSETTS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	General Fund	Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 7,509,298	\$ -	\$ 6,761,856	\$ 14,271,154
Investments	-	1,220,384	532,089	1,752,473
Receivables, net of allowance for uncollectibles				
Property Taxes	722,029	-	-	722,029
Deferred Property Taxes	117,933	-	-	117,933
Taxes in Litigation	6,794	-	-	6,794
Rollback Taxes	1,580	-	-	1,580
Tax Liens	934,974	-	-	934,974
Excise Taxes	400,259	-	-	400,259
Departmental	54,356	-	400	54,756
Special Assessments	-	-	29,689	29,689
Loans	-	-	115,164	115,164
Due from Other Governments	27,302,950	-	4,057,041	31,359,991
<b>Total Assets</b>	<b>\$ 37,050,173</b>	<b>\$ 1,220,384</b>	<b>\$ 11,496,239</b>	<b>\$ 49,766,796</b>
<b>LIABILITIES AND FUND EQUITY:</b>				
<b>Liabilities:</b>				
Warrants Payable	\$ 977,389	\$ -	\$ 737,226	\$ 1,714,615
Accrued Payroll	2,108,217	-	180,092	2,288,309
Employee Withholdings	167,434	-	-	167,434
Tax Refund Payable	135,331	-	-	135,331
Taxes Collected in Advance	1,192	-	-	1,192
Accrued Interest on Short-Term Debt	10,595	-	-	10,595
Deferred Revenue:				
Property Taxes	631,260	-	-	631,260
Other	28,083,038	-	2,199,063	30,282,101
Bond Anticipation Note Payable	-	-	1,603,000	1,603,000
<b>Total Liabilities</b>	<b>32,114,456</b>	<b>-</b>	<b>4,719,381</b>	<b>36,833,837</b>
<b>Fund Equity:</b>				
Reserved For:				
Encumbrances and continuing appropriation:	644,673	-	-	644,673
Perpetual Permanent Funds	-	-	580,412	580,412
Unreserved:				
Designated for Subsequent Years' Expenditures:				
Undesignated, reported in:				
General Fund	4,291,044	-	-	4,291,044
Special Revenue	-	420,384	7,325,312	7,745,696
Capital Projects	-	-	(1,342,870)	(1,342,870)
Permanent Funds	-	-	84,029	84,029
<b>Total Fund Equity</b>	<b>4,935,717</b>	<b>1,220,384</b>	<b>6,776,858</b>	<b>12,932,959</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 37,050,173</b>	<b>\$ 1,220,384</b>	<b>\$ 11,496,239</b>	<b>\$ 49,766,796</b>

The Notes to the Financial Statements are an integral part of this Statement

**CITY OF NORTHAMPTON, MASSACHUSETTS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004**

	General Fund	Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 30,523,181	\$ -	\$ -	\$ 30,523,181
State Receipts	14,613,055	-	-	14,613,055
Excise and Other Taxes	2,519,376	-	4,214	2,523,590
Licenses, Permits, Fees	7,752,178	-	-	7,752,178
Interest on Taxes	318,777	-	-	318,777
Interest on Investments	212,504	16,266	31,538	260,308
Net Increase (Decrease) in Fair Value of Investments	-	-	(12,018)	(12,018)
Intergovernmental - "On-behalf" Payments	4,545,778	-	-	4,545,778
Additions	-	-	10,900	10,900
Grants and Fees	-	-	11,263,204	11,263,204
<b>Total Revenues</b>	<b>60,484,849</b>	<b>16,266</b>	<b>11,297,838</b>	<b>71,798,953</b>
<b>Expenditures:</b>				
Current:				
General Government	3,804,296	-	1,209,617	5,013,913
Public Safety	7,203,653	-	1,862,800	9,066,453
Public Works	2,553,884	-	918,960	3,472,844
Education	24,352,371	-	5,810,784	30,163,155
Health and Human Services	506,062	-	1,119,350	1,625,412
Culture and Recreation	1,701,153	-	668,415	2,369,568
Employee Benefits and Insurance	15,243,010	-	-	15,243,010
State Assessments	1,502,002	-	-	1,502,002
Debt Service:				
Principal	3,547,474	-	50,214	3,597,688
Interest	2,437,021	-	20,027	2,457,048
<b>Total Expenditures</b>	<b>62,850,926</b>	<b>-</b>	<b>11,660,167</b>	<b>74,511,093</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(2,366,077)</b>	<b>16,266</b>	<b>(362,329)</b>	<b>(2,712,140)</b>
<b>Other Financing Sources (Uses):</b>				
Operating Transfers In	3,867,732	-	106,234	3,973,966
Operating Transfers Out	(106,234)	(1,200,000)	(176,509)	(1,482,743)
<b>Total Other Financing Sources (Uses)</b>	<b>3,761,498</b>	<b>(1,200,000)</b>	<b>(70,275)</b>	<b>2,491,223</b>
<b>Net Change in Fund Balances</b>	<b>1,395,421</b>	<b>(1,183,734)</b>	<b>(432,604)</b>	<b>(220,917)</b>
<b>Fund Balances, Beginning of Year</b>	<b>3,540,296</b>	<b>2,404,118</b>	<b>7,209,462</b>	<b>13,153,876</b>
<b>Fund Balances, End of Year</b>	<b>\$ 4,935,717</b>	<b>\$ 1,220,384</b>	<b>\$ 6,776,858</b>	<b>\$ 12,932,959</b>

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**Total Fund Balances to the Statement of Net Assets**  
**For the Year Ended June 30, 2004**

<b>Total Governmental Fund Balances</b>	\$	12,932,959
Capital Assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds		64,111,826
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis		30,913,361
Long Term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:		
Bonds and Notes Payable	\$ (42,073,019)	
Compensated Absences	<u>(3,073,717)</u>	(45,146,736)
In statement of activities, interest is accrued on outstanding long term debt, whereas in governmental funds interest is not reported until due		<u>(280,576)</u>
<b>Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u><u>62,530,834</u></u></b>

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, 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, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ (220,917)

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 Outlay Purchases	\$ 2,092,809	
Sale of Capital Assets	(385,000)	
Depreciation	<u>(3,003,277)</u>	(1,295,468)

Revenue 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 (1,538,832)

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:  
 Repayment of Debt Principal 3,598,273

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Net Change in Compensated Absences	(1,052,867)	
Net Change in Accrued Interest on Long-Term Debt	<u>(30,751)</u>	<u>(1,083,618)</u>

**Change in Net Assets of Governmental Activities** \$ (540,562)

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS  
STATEMENT OF REVENUES AND EXPENDITURES -  
BUDGETARY BASIS - (NON-GAAP) -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Amounts Carried Forward to Next Year	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Budgetary Basis		
<b>Revenues:</b>					
Taxes	\$ 30,065,020	\$ 30,075,787	\$ 30,477,945	\$ -	\$ 402,158
State Receipts	14,570,360	14,570,360	14,613,056	-	42,696
Excise and Other Taxes	2,193,000	2,193,000	2,519,376	-	326,376
Licenses, Permits, Fees	7,234,972	7,234,972	7,752,178	-	517,206
Interest on Taxes	180,250	180,250	318,776	-	138,526
Interest on Investments	240,000	240,000	212,504	-	(27,496)
<b>Total Revenues</b>	<b>54,483,602</b>	<b>54,494,369</b>	<b>55,893,835</b>	<b>-</b>	<b>1,399,466</b>
<b>Expenditures:</b>					
Current:					
General Government	3,846,241	4,034,263	3,804,296	100,582	129,385
Public Safety	7,270,168	7,371,826	7,203,653	42,720	125,453
Public Works	2,565,364	2,885,990	2,553,883	242,898	89,209
Education	24,569,294	24,623,295	24,352,371	258,097	12,827
Health and Human Services	533,169	541,204	506,062	199	34,943
Culture and Recreation	1,768,877	1,745,309	1,701,153	177	43,979
Employee Benefits and Insurance	10,790,499	10,986,947	10,697,233	-	289,714
State Assessments	1,303,977	1,303,977	1,502,002	-	(198,025)
Debt Service:					
Principal	3,628,475	3,547,475	3,547,474	-	1
Interest	2,527,593	2,443,593	2,426,426	-	17,167
<b>Total Expenditures</b>	<b>58,803,657</b>	<b>59,483,879</b>	<b>58,294,553</b>	<b>644,673</b>	<b>544,653</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(4,320,055)</b>	<b>(4,989,510)</b>	<b>(2,400,718)</b>	<b>(644,673)</b>	<b>1,944,119</b>
<b>Other Financing Sources (Uses):</b>					
Operating Transfers In (Out)	3,758,385	3,768,285	3,761,498	-	(6,787)
<b>Total Other Financing Sources (Uses)</b>	<b>3,758,385</b>	<b>3,768,285</b>	<b>3,761,498</b>	<b>-</b>	<b>(6,787)</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<b>(561,670)</b>	<b>(1,221,225)</b>	<b>1,360,780</b>	<b>(644,673)</b>	<b>1,937,332</b>
<b>Budgetary Fund Balance - Beginning of Year</b>	<b>3,630,094</b>	<b>3,630,094</b>	<b>3,630,094</b>	<b>-</b>	<b>-</b>
<b>Budgetary Fund Balance - End of Year</b>	<b>\$ 3,068,424</b>	<b>\$ 2,408,869</b>	<b>\$ 4,990,874</b>	<b>\$ (644,673)</b>	<b>\$ 1,937,332</b>

The Notes to the Financial Statements are an integral part of this Statement

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**Reconciliation of Revenues and Expenditures**  
**from Budgetary Basis to GAAP Basis**  
**For the Year Ended June 30, 2004**

	<b>Revenues</b>	<b>Expenditures</b>
<b>Reported on a Budgetary Basis</b>	\$ 55,893,835	\$ 58,294,553
Net Increase in Revenue from recording		
Refund Taxes Payable	112,639	
Recognition of intergovernmental Revenue -		
"on behalf payments"	4,545,778	
Recognition of Expenditures -		
"on behalf payments"		4,545,778
Net Increase in Expenditures - Accrued Expenses		10,595
Net Decrease in Revenue from Recording		
60-Day Receipts	(67,403)	
<b>Reported on a GAAP Basis</b>	\$ 60,484,849	\$ 62,850,926

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2004**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
<b>ASSETS</b>				
CURRENT:				
Cash and Cash Equivalents	\$ 1,982,231	\$ 5,245,989	\$ 2,750,723	\$ 9,978,943
User Charges, net of allowance for uncollectibles	309,384	251,626	585,085	1,146,095
Special Assessments	46,169	-	-	46,169
Total current assets	<u>2,337,784</u>	<u>5,497,615</u>	<u>3,335,808</u>	<u>11,171,207</u>
NONCURRENT:				
Capital Assets, net of accumulated depreciation	7,824,116	11,523,225	8,670,240	28,017,581
Total noncurrent assets	<u>7,824,116</u>	<u>11,523,225</u>	<u>8,670,240</u>	<u>28,017,581</u>
<b>Total Assets</b>	<u>10,161,900</u>	<u>17,020,840</u>	<u>12,006,048</u>	<u>39,188,788</u>
<b>LIABILITIES</b>				
CURRENT:				
Accounts Payable	84,365	60,589	30,556	175,510
Accrued Payroll	20,089	20,140	10,138	50,367
Accrued Interest	35,419	36,208	26,397	98,024
Compensated Absences	3,078	2,003	1,958	7,039
Bonds and Notes Payable	293,019	2,302,782	567,500	3,163,301
Total current liabilities	<u>435,970</u>	<u>2,421,722</u>	<u>636,549</u>	<u>3,494,241</u>
NONCURRENT:				
Compensated Absences	58,489	38,064	37,206	133,759
Bonds and Notes Payable	3,816,150	4,935,726	2,940,000	11,691,876
Total noncurrent liabilities	<u>3,874,639</u>	<u>4,973,790</u>	<u>2,977,206</u>	<u>11,825,635</u>
<b>Total Liabilities</b>	<u>4,310,609</u>	<u>7,395,512</u>	<u>3,613,755</u>	<u>15,319,876</u>
<b>NET ASSETS:</b>				
Invested in Capital Assets, net of related debt	3,714,947	4,809,658	5,162,740	13,687,345
Unrestricted	2,136,344	4,815,670	3,229,553	10,181,567
<b>Total Net Assets</b>	<u>\$ 5,851,291</u>	<u>\$ 9,625,328</u>	<u>\$ 8,392,293</u>	<u>\$ 23,868,912</u>

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2004**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Water Fund	Solid Waste Fund	Total
<b>Operating Revenues:</b>				
Charges for Services	\$ 3,530,102	\$ 3,322,272	\$ 3,354,321	\$ 10,206,695
Other	128,586	58,450	24,311	211,347
<b>Total Operating Revenues</b>	<b>3,658,688</b>	<b>3,380,722</b>	<b>3,378,632</b>	<b>10,418,042</b>
<b>Operating Expenses:</b>				
Salaries & Wages	597,115	589,656	285,679	1,472,450
Operating Expenses	1,149,835	543,021	758,253	2,451,109
Depreciation	706,349	453,560	405,791	1,565,700
<b>Total Operating Expenses</b>	<b>2,453,299</b>	<b>1,586,237</b>	<b>1,449,723</b>	<b>5,489,259</b>
<b>Operating Income (Loss)</b>	<b>1,205,389</b>	<b>1,794,485</b>	<b>1,928,909</b>	<b>4,928,783</b>
<b>Non-Operating Revenues (Expenses):</b>				
Interest Income	16,562	17,720	17,795	52,077
Interest Expense	(227,148)	(312,951)	(200,715)	(740,814)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(210,586)</b>	<b>(295,231)</b>	<b>(182,920)</b>	<b>(688,737)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>994,803</b>	<b>1,499,254</b>	<b>1,745,989</b>	<b>4,240,046</b>
<b>Operating Transfers:</b>				
Transfers In (Out)	(1,299,581)	(515,288)	(676,354)	(2,491,223)
<b>Total Operating Transfers</b>	<b>(1,299,581)</b>	<b>(515,288)</b>	<b>(676,354)</b>	<b>(2,491,223)</b>
<b>Change in Net Assets</b>	<b>(304,778)</b>	<b>983,966</b>	<b>1,069,635</b>	<b>1,748,823</b>
<b>Net Assets at Beginning of Year (as restated)</b>	<b>6,156,069</b>	<b>8,641,362</b>	<b>7,322,658</b>	<b>22,120,089</b>
<b>Net Assets at End of Year</b>	<b>\$ 5,851,291</b>	<b>\$ 9,625,328</b>	<b>\$ 8,392,293</b>	<b>\$ 23,868,912</b>

The Notes to the Financial Statements are an integral part of this Statement.



**CITY OF NORTHAMPTON, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2004**

	<b>Business-Type Activities Enterprise Funds</b>			
	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Solid Waste Fund</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>				
Receipts from Customers and Users	3,871,456	3,543,267	3,198,867	\$ 10,613,590
Receipts from Other Revenues	128,586	58,450	24,311	211,347
Payments to Vendors	(1,260,588)	(583,091)	(802,265)	(2,645,944)
Payments to Employees	(596,871)	(584,606)	(286,193)	(1,467,670)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>2,142,583</b>	<b>2,434,020</b>	<b>2,134,720</b>	<b>6,711,323</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Transfers from (to) Other Funds	(1,299,581)	(515,288)	(676,354)	(2,491,223)
<b>Net Cash Provided by (Used for) Noncapital Financing Activities</b>	<b>(1,299,581)</b>	<b>(515,288)</b>	<b>(676,354)</b>	<b>(2,491,223)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Proceeds from the issuance of Bonds and Notes	-	1,000,000	-	1,000,000
Acquisition and Construction of Capital Assets	(439,586)	(962,146)	(493,528)	(1,895,260)
Principal Payments on Bonds and Notes	(291,960)	(517,482)	(698,084)	(1,507,526)
Interest Expense	(229,008)	(312,227)	(217,171)	(758,406)
<b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>	<b>(960,554)</b>	<b>(791,855)</b>	<b>(1,408,783)</b>	<b>(3,161,192)</b>
<b>Cash Flows from Investing Activities:</b>				
Investment Income	16,562	17,720	17,795	52,077
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>16,562</b>	<b>17,720</b>	<b>17,795</b>	<b>52,077</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(100,990)</b>	<b>1,144,597</b>	<b>67,378</b>	<b>1,110,985</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>2,083,221</b>	<b>4,101,392</b>	<b>2,683,345</b>	<b>8,867,958</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 1,982,231</b>	<b>\$ 5,245,989</b>	<b>\$ 2,750,723</b>	<b>\$ 9,978,943</b>

**CITY OF NORTHAMPTON, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2004**

**Business-Type Activities  
 Enterprise Funds**

	Sewer Fund	Water Fund	Solid Waste Fund	Total
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**Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:**

<b>Operating Income (Loss)</b>	\$ 1,205,389	\$ 1,794,485	\$ 1,928,909	4,928,783
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>				
Depreciation	706,349	453,560	405,791	1,565,700
Change in Assets and Liabilities:				
Increase (Decrease) in Warrants Payable	(110,753)	(40,070)	(44,012)	(194,835)
Increase (Decrease) in Accrued Payroll	(2,695)	(9,973)	(514)	(13,182)
Increase (Decrease) in Compensated Absences	2,939	15,023	-	17,962
Decrease (Increase) in User Charges Receivable	341,354	220,995	(155,454)	406,895
<b>Total Adjustments</b>	937,194	639,535	205,811	1,782,540
<b>Net Cash Provided by (Used for) Operating Activities</b>	\$ 2,142,583	\$ 2,434,020	\$ 2,134,720	\$ 6,711,323

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2004**

	<b>NORTHAMPTON</b>		
	<b>Employees Retirement System Pension</b>		
	<b>Trust Fund (as of December 31, 2003)</b>	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 822,113	\$ 138,012	\$ 43,797
Investments	51,524,695	485,017	50,807
Accrued Interest and Dividends	161,095	-	-
Accounts Receivable	667,115	-	2,688
<b>Total Assets</b>	<b>53,175,018</b>	<b>623,029</b>	<b>97,292</b>
<b>LIABILITIES</b>			
Warrants Payable	222,692	5,077	3,985
Due to Others	-	-	48
Due to Student Groups	-	-	34,764
Deposits and Escrows	-	-	58,495
<b>Total Liabilities</b>	<b>222,692</b>	<b>5,077</b>	<b>97,292</b>
<b>NET ASSETS:</b>			
Held in Trust for Pension Benefits and Other Purposes	\$ 52,952,326	\$ 617,952	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004**

	<b>NORTHAMPTON</b>	
	<b>Employees</b>	
	<b>Retirement</b>	
	<b>System Pension</b>	
	<b>Trust Fund</b>	<b>Private</b>
	<b>(as of December</b>	<b>Purpose</b>
	<b>31, 2003)</b>	<b>Trust Funds</b>
<b>Additions</b>		
Contributions:		
Employers	\$ 2,766,106	\$ -
Plan Members	1,628,163	-
Transfers/Reimbursements from Other Systems	169,403	-
Federal Grant Reimbursements	20,895	-
Commonwealth of Massachusetts - COLA	55,607	-
Total Contributions	4,640,174	-
Investment Income:		
Interest & Dividends	2,326,803	10,422
Net Change in Fair Value of Investments	4,248,555	54,291
Total Investment Earnings	6,575,358	64,713
Less Investment Expense	(177,883)	-
Net Investment Earnings	6,397,475	64,713
<b>Total Additions</b>	11,037,649	64,713
<b>Deductions:</b>		
Benefit Payments to Plan Members and Beneficiaries	4,201,060	-
Refunds to Members	177,047	-
Transfers to Other Systems	144,692	-
Human Services	-	343
General Expenses	147,982	6,453
<b>Total Deductions</b>	4,670,781	6,796
<b>Change in Net Assets</b>	6,366,868	57,917
<b>Net Assets at Beginning of Year</b>	46,585,458	560,035
<b>Nets Assets at End of Year</b>	\$ 52,952,326	\$ 617,952

The Notes to the Financial Statements are an integral part of this Statement.

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Northampton, Massachusetts is a municipality in which citizens elect the mayor, seven council members and two at-large council members.

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete.

Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. The following component unit is blended within the primary government in the fiduciary funds:

The Northampton Contributory Retirement System (the System) was established to provide retirement benefits to City employees, the City Housing Authority, employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The system did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 210 Main Street, Northampton, Massachusetts.

The City is responsible for electing the governing board and/or committee members of the Northampton Housing Authority. This related organization is excluded from the financial reporting entity because the City's accountability does not extend beyond the City electing the board and/or committee members. Audited financial statements are available from the respective organization. A description of the related organization is as follows:

**Northampton Housing Authority** - A public housing agency that provides housing assistance to eligible and qualified low and moderate income elderly, handicap and families. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The City has no significant influence over management, budget or policies of the authority.

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

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

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

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

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 function 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*.

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. Non-major funds are aggregated and displayed in a single column.

Fiduciary funds are reported by fund type.

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

The governmental-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.

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 thereafter to be used to pay current liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The 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 *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves, and planning and development's ongoing and future operations.

The government reports the following major proprietary funds:

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

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

The *solid waste fund* is used to account for the integrated solid waste management program.

Additionally, the government reports the following fund types:

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

The *Northampton Employees Retirement System Pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

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

The nonmajor governmental fund consists of other special revenue, capital projects, and permanent funds that are aggregated and presented in the *nonmajor governmental funds*

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

column on the governmental funds financial statements. The following describes the general use of these funds types:

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

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

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

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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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.

#### **D. Cash and Cash Equivalents**

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. The City maintains a cash and investment pool 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 cash equivalents".

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

#### **E. Investments**



**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

State and local statutes place certain limitations on the nature of deposits and investments available to the City. 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 less than one year 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 in the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments.

All investments are carried at market value.

**F. Receivables**

The recognition of revenues related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

***Property Taxes, Deferred Property Taxes, Taxes in Litigation, Rollback Taxes, and Tax Liens***

Property taxes are based on assessments as of January 1, 2003 and include betterments, special assessments and liens. Taxes are used to finance the operations of the City for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable on July 1st. The City has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the City sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The City has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

The City mailed preliminary tax bills for the fiscal year 2004 on July 1, 2003 that were due on August 1, 2003 and November 3, 2003 and actual bills on December 29, 2003 that were due on February 2, 2004 and May 3, 2004.

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a City. The legal levy limit under Proposition 2 1/2 for fiscal year 2004 is \$30,538,148 consisting of a base of \$28,286,980 and a debt exclusion of \$2,251,168. The total amount raised by taxation was \$30,513,877.

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

***Excise Taxes***

Excise taxes consist of motor vehicle excise and vessel excise. Excise taxes are assessed annually for each vehicle and vessel registered in the City, and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The Board of Assessors of the City is responsible for determining the value of each vessel.

The tax calculation is the fair market value of the vehicle or vessel multiplied by the \$25 per \$1,000 of value and \$10 per \$1,000 of valuation, respectively.

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

***User Charges***

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

The allowance for uncollectibles is based on historical trends and a percentage ranging from 11 percent to 25 percent.

***Departmental***

Departmental receivables consist primarily of veterans services, school department fees and other general government receipts.

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

***Special Assessments***

Special assessments consists of Title V septic betterments in the governmental funds and sewer betterments in the business-type funds.

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

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

***Loans***

The Community Development Block Grant office administers loan programs that provide housing assistance to residents of the City and commercial loans to businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

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

***Due from Other Governments***

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

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

**G. Capital Assets**

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

All purchase of equipment in excess of \$15,000 and construction costs of in excess of \$50,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<b>Capital Asset Type</b>	<b>Years</b>
Buildings and improvements	20-50
Machinery, equipment and other	3-10
Infrastructure	20-50

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

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

**H. Interfund Transfers**

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

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers net."

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

**I. Deferred Revenue**

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

**J. Net Assets and Fund Equity**

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

Net assets have been "restricted for" the following:

"Capital projects" represents amounts restricted for capital purposes.

"Loans" represents community development outstanding loan receivable balances.

"Federal and state grants" represents amounts restricted for by the federal and state government for various programs.

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

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

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

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

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

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

“Perpetual Permanent Funds” represent amounts held in trust for which only investment earnings may be expended.

“Designated for subsequent years’ expenditures” represents the amount of fund balance appropriated to be used for expenditures in the subsequent year’s budget. The Town includes the following in the reserve:

<b>Major Governmental Funds:</b>		
Stabilization fund		800,000
<b>Nonmajor Governmental Funds:</b>		
Municipal waterways fund	4,100	
Conservation wetlands fees	4,000	
Sale of cemetery lots	5,000	
Receipts reserved for the payment of debt	111,875	
Cemetery perpetual care fund	5,000	129,975
		\$ 929,975
		\$ 929,975

**K. Long-term Debt**

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets.

The face amount of governmental funds long-term debt is reported as other financing sources.

**L. Compensated Absences**

The City grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at 20% of their current rates of pay.

**M. Post Retirement Benefits**

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer’s

60% and 80% share for PPO plans and HMO plans, respectively, insurance premiums in the general fund in the fiscal year paid. There were approximately 587 participants eligible to receive benefits at June 30, 2004. The estimated cost is \$2,061,481.

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2004**

**N. Use of Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of 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**

An annual budget is adopted for the City's General Fund. Although legislative approval is required for the acceptance of grants, capital projects and borrowing authorizations, annual budgets are not prepared for any other fund; therefore comparison of budget to actual is only presented for the General Fund.

The City must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non property tax revenues estimated to be received, including available funds. Supplemental appropriations may be made from available funds after the setting of the tax rate. Appropriations may be transferred between departments with the City Council approval.

The City follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

Every board and committee in charge of a department shall annually, on the first day of December, send to the mayor and to the committee on finances an estimate in detail of the appropriations needed to enable the department to properly perform its duties.

Hearings are conducted and the Mayor then submits a budget to the City Council.

The budget is legally enacted by vote of the City Council prior to the end of the fiscal year.

Throughout the fiscal year, any unencumbered appropriation, balance or portion thereof, may be transferred from one department, commission, board or office, to another by City Council vote.

Massachusetts law requires cities and towns to provide for a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . . "

**CITY OF NORTHAMPTON, MASSACHUSETTS**

**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2004**

For fiscal year 2004, the City incurred a final budget deficit of \$1,221,225 for the General Fund.

The City voted from the following sources to fund the deficit budget during the fiscal year:

Unreserved fund balance:	
Council votes	\$ 659,556
Prior year's encumbrances	637,654
Reserved for deficits	<u>(75,985)</u>
	<u>\$ 1,221,225</u>

**3. DETAILED NOTES**

**A. Cash and Investments**

The City maintains a cash and investment pool that is available for use by all funds. The portion of the pool allocated to each fund type is displayed on the combined balance sheet as "Cash and Cash Equivalents."

State and local statutes place certain limitations on the nature of deposits and investments to the City. Generally, the treasurer of the City is authorized to invest in the following investments: national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States government or agency thereof and having a maturity from date of purchase of one year or less, with certain other limitations, or the Commonwealth Treasurer's Investment Pool.

The pool is administered by the Massachusetts Municipal Depository Trust, which was established by the Treasurer of the Commonwealth who serves as trustee. The fair value of the position in the pool is the same as the value of the pool shares. The pooled investment fund is exempt from categorization under the exemption for pools and mutual funds as outlined in GASB No. 3.

The carrying amount of the City's deposits with financial institutions was \$24,431,906 and the bank balance was \$24,003,944. The bank balance is categorized as follows:

Amount insured by the Federal Depository Insurance and Depositors Insurance Fund or collateralized with securities held by the City in its name	\$ 13,348,672
Uninsured and Uncollateralized	<u>10,655,272</u>
	<u>\$ 24,003,944</u>

The carrying amount of the System's deposits with financial institutions was \$822,113 and the bank balance was \$887,936. The bank balance is categorized as follows:

**CITY OF NORTHAMPTON, MASSACHUSETTS  
NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2004**

Amount insured by the FDIC or  
collateralized with securities held  
by the System's in its name \$ 887,936

Investments made by the City, including repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

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

	<b>Category</b>			<b>Carrying</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>Amount</b>
Government Agencies	\$ 30,955	\$ -	\$ -	\$ 30,955
Equity securities	150,141	-	-	150,141
	<u>\$ 181,096</u>	<u>\$ -</u>	<u>\$ -</u>	<u>181,096</u>
Money market investments				364,021
Investment in Massachusetts Municipal Depository Trust				1,312,782
Other				430,398
				<u><u>\$ 2,288,297</u></u>

Investments made by the System, including repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the System or its agent in the System's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the System's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the System's name.



**CITY OF NORTHAMPTON, MASSACHUSETTS  
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**June 30, 2004**

	Category			Carrying Amount
	1	2	3	
U. S. Treasury Obligations	\$ 500,000	\$ -	\$ 686,920	\$ 1,186,920
Government Agencies	-	-	2,573,394	2,573,394
Equity securities	-	-	31,297,801	31,297,801
Fixed income securities	-	-	14,258,687	14,258,687
	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 48,816,802</u>	<u>49,316,802</u>
Money market investments				2,207,893
				<u><u>\$ 51,524,695</u></u>

**B. Receivables**

At June 30, 2004, receivables for the individual major governmental funds, non-major governmental funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross	Allowance	Net
	Amount	for Uncollectibles	Amont
<b>Major and nonmajor governmental funds:</b>			
Property taxes	\$ 888,842	\$ (166,813)	\$ 722,029
Deferred property taxes	117,933	-	117,933
Taxes in litigation	6,794	-	6,794
Rollback taxes	1,580	-	1,580
Tax liens	934,974		934,974
Excise taxes and other taxes	941,191	(540,932)	400,259
Departmental	56,375	(1,619)	54,756
Special assessments	29,689	-	29,689
Loans	115,164	-	115,164
Due from other governments	31,359,991	-	31,359,991
<b>Fiduciary funds:</b>			
Agency funds - Deputy Tax Collector	2,688	-	2,688
<b><i>Employees Retirement System (as of December 31, 2003)</i></b>			
Accounts receivable	667,115	-	667,115
	<u>\$ 35,122,336</u>	<u>\$ (709,364)</u>	<u>\$ 34,412,972</u>

At June 30, 2004, receivables for the sewer, water and solid waste enterprise consist of the following:

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
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	<b>Gross Amount</b>	<b>Allowance for Uncollectibles</b>	<b>Net Amont</b>
<b>Sewer Fund:</b>			
User charges	\$ 459,234	\$ (149,850)	\$ 309,384
Special assessments	46,169	-	46,169
<b>Water Fund:</b>			
User charges	271,691	(20,065)	251,626
<b>Solid Waste Fund:</b>			
User charges	665,085	(80,000)	585,085
	<b>\$ 1,442,179</b>	<b>\$ (249,915)</b>	<b>\$ 1,192,264</b>

The composition of amounts due from other governments as of June 30, 2004 for government funds is as follows:

**General Fund:**

***Commonwealth of Massachusetts:***

Department of Education - School Building Assistance	\$ 26,567,142	
Department of Housing and Community Development:		
Community Development Block Grant	41,192	
Northampton Contributory Retirement System	8,452	
City Department - Parks and Recreation	2,093	
Private Funds:		
Smith College District-wide Substitute Reimbursement	817	
Five Colleges, Inc.	14,472	
Various Towns - Smith Vocational High School Tuitions	668,782	\$ 27,302,950

**Nonmajor Governmental Funds:**

U. S. Department of Housing and Urban Development - Community Development Block Grant	1,070,134	
Supportive Housing Program	748,838	
U. S. Department of Education - School Title Grants	1,060,174	
U. S. Department of Health and Human Services - Opportunity to Work Grant	8,889	
U. S. Department of Agriculture - School Lunch	26,362	
U. S. Department of Justice - Cops in Schools	9,126	
Commonwealth of Massachusetts -		
Department of Education	113,086	
Department of Housing and Community Development	255,131	
Massachusetts Highway Department	759,385	
Other:		
Florence Leaning Center Rent	5,530	
Maintenance of School Buildings	386	4,057,041
		<b>\$ 31,359,991</b>

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.

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The balance of the general fund deferred revenues account is equal to all of June 30, 2004 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

At the end of the current fiscal year, the deferred revenue for property taxes is \$631,260.

The various components of the other deferred revenue reported in the governmental funds were as follows:

**General Fund:**

Deferred property taxes	\$ 117,933	
Taxes in litigation	6,794	
Rollback taxes	1,580	
Tax Liens	934,974	
Excise Taxes	400,259	
Departmental	54,356	
Due from other governments	<u>26,567,142</u>	\$ 28,083,038

**Nonmajor Governmental Funds:**

Departmental	400	
Special assessments	29,689	
Loans	115,164	
Due from other governments	<u>2,053,810</u>	<u>2,199,063</u>
		<u><u>\$ 30,282,101</u></u>

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
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**C. Capital Assets**

**Governmental Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 8,785,402	\$ -	\$ (385,000)	\$ 8,400,402
Construction in progress	-	435,305	-	435,305
Total capital assets not being depreciated	8,785,402	435,305	(385,000)	8,835,707
Capital assets being depreciated:				
Buildings and improvements	82,009,996	393,667	-	82,403,663
Machinery, equipment and other	5,635,342	1,073,128	-	6,708,470
Infrastructure	-	190,709	-	190,709
Total capital assets being depreciated	87,645,338	1,657,504	-	89,302,842
Less accumulated depreciation for:				
Buildings	26,988,884	2,586,211	-	29,575,095
Machinery, equipment and other	4,034,562	412,298	-	4,446,860
Infrastructure	-	4,768	-	4,768
Total accumulated depreciation	31,023,446	3,003,277	-	34,026,723
Total capital assets being depreciated, net	56,621,892	(1,345,773)	-	55,276,119
Total governmental activities capital assets, net	\$ 65,407,294	\$ (910,468)	\$ (385,000)	\$ 64,111,826

**Business-Type Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,928,050	\$ -	\$ -	\$ 1,928,050
Construction in progress	-	988,249	-	988,249
Total capital assets not being depreciated	1,928,050	988,249	-	2,916,299
Capital assets being depreciated:				
Building and Renovations	18,507,376	-	-	18,507,376
Machinery, equipment and other	1,069,206	378,545	-	1,447,751
Infrastructure	40,042,785	528,466	-	40,571,251
Total capital assets being depreciated	59,619,367	907,011	-	60,526,378
Less accumulated depreciation for:				
Building and Renovations	9,723,497	546,515	-	10,270,012
Machinery, equipment and other	784,204	103,652	-	887,856
Infrastructure	23,351,695	915,533	-	24,267,228
Total accumulated depreciation	33,859,396	1,565,700	-	35,425,096
Total capital assets being depreciated, net	25,759,971	(658,689)	-	25,101,282
Total business-type activities capital assets, net	\$ 27,688,021	\$ 329,560	\$ -	\$ 28,017,581

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
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Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
General government	\$ 335,705
Public safety	384,723
Public works	98,862
Education	2,136,759
Health and human services	6,840
Culture and recreation	40,388
Total depreciation expense - governmental activities	<u>\$ 3,003,277</u>
 <b>Business-Type Activities:</b>	
Sewer fund	\$ 706,349
Water fund	453,560
Solid waste fund	405,791
Total depreciation expense - business-type activities	<u>\$ 1,565,700</u>

**D. Interfund Receivables, Payables and Transfers**

Interfund transfers for the fiscal year ended June 30, 2004, are summarized as follows:

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General fund	\$ -	\$ 106,234	\$ 106,234
Stabilization fund	1,200,000	-	1,200,000
Nonmajor governmental funds	176,509	-	176,509
Business-type activities	2,491,223	-	2,491,223
Total transfers out	<u>\$ 3,867,732</u>	<u>\$ 106,234</u>	<u>\$ 3,973,966</u>

**E. Short-Term Financing**

Under the general laws of the Commonwealth and with the appropriate local authorization the City is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental and business-type activities are as follows:

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
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Purpose	Interest Rate	Final Maturity Date	Balance June 30, 2003	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2004
<b>Governmental Activities:</b>						
<i><b>Bond Anticipation Notes:</b></i>						
Fire truck	1.45%	11/23/2004	\$ -	\$ 80,000	\$ -	\$ 80,000
Fire truck	1.24%	11/23/2004	-	730,000	-	730,000
Forbes library	1.45%	11/23/2004	-	35,000	-	35,000
School van	1.45%	11/23/2004	-	37,000	-	37,000
City hall exterior	1.45%	11/23/2004	-	40,000	-	40,000
School remodeling	1.24%	11/23/2004	-	681,000	-	681,000
Total Governmental Activities			<u>\$ -</u>	<u>\$ 1,603,000</u>	<u>\$ -</u>	<u>\$ 1,603,000</u>
<b>Business-Type Activities:</b>						
<i><b>Bond Anticipation Notes:</b></i>						
Water mains on Route 66	1.39%	5/28/2004	\$ 775,000	\$ -	\$ 775,000	\$ -
Water mains on Route 66	1.19%	11/23/2004	-	775,000	-	775,000
Water treatment plant	1.24%	11/23/2004	-	400,000	-	400,000
Water treatment plant	1.45%	11/23/2004	-	600,000	-	600,000
Total Business-type Activities			<u>\$ 775,000</u>	<u>\$ 1,775,000</u>	<u>\$ 775,000</u>	<u>\$ 1,775,000</u>
			<u>\$ 775,000</u>	<u>\$ 3,378,000</u>	<u>\$ 775,000</u>	<u>\$ 3,378,000</u>

**F. Long Term Debt**

**General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding of the governmental type fund are as follows:

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	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2004
<b>Inside Debt:</b>					
Land acquisition - conservation	5.24%	12/1/1995	12/1/2005	\$ 49,000	\$ 9,000
Land acquisition - police	5.24%	12/1/1995	12/1/2013	\$ 525,000	285,000
Building remodeling - school	5.24%	12/1/1995	12/1/2004	\$ 100,000	10,000
Departmental equipment - city hall	5.24%	12/1/1995	12/1/2004	\$ 47,000	5,000
Land acquisition	4.5-6.5%	5/15/1997	5/15/2016	\$ 190,000	106,000
Building remodeling - library	4.5-6.5%	5/15/1997	5/15/2006	\$ 370,000	75,000
Building remodeling - school	4.5-6.5%	5/15/1997	5/15/2006	\$ 250,000	40,000
Storm and surface drains	4.5-6.5%	5/15/1997	5/15/2017	\$ 85,000	52,000
Fire station	5.0-5.75%	10/15/1999	10/15/2018	\$ 5,031,000	3,931,000
School building remodeling	5.00%	10/15/1999	10/15/2006	\$ 55,000	23,000
Fire truck	2.50%	10/24/2003	10/22/2004	\$ 15,000	15,000
Library building remodeling	3.40%	10/15/2002	9/1/2019	\$ 830,000	771,000
Land acquisition - school	3.40%	10/15/2002	9/1/2004	\$ 29,489	28,759
Building construction	3.40%	10/15/2002	9/1/2007	\$ 135,800	134,924
Building construction	3.40%	10/15/2002	9/1/2006	\$ 177,299	129,538
<b>Massachusetts Water Pollution Abatement Trust:</b>					
Title V Community Septic Management Program Bond	N/A	10/25/2000	8/1/2018	\$ 93,837	78,196
<b>Total Inside Debt</b>					<u>\$ 5,693,417</u>
<b>Outside Debt:</b>					
School project	5.24%	12/1/1995	5/1/2013	\$ 412,500	212,000
School project	5.56%	5/15/1996	5/1/2016	\$ 14,482,000	8,480,000
High school remodeling	5.17%	10/15/2000	6/15/2020	\$ 21,610,000	17,280,000
High school roof replacement	3.40%	10/15/2002	9/1/2017	\$ 400,000	373,000
High school remodeling	3.40%	10/15/2002	9/1/2019	\$ 1,165,000	1,100,000
High school remodeling	3.40%	10/15/2002	9/1/2019	\$ 4,400,000	4,141,000
School project	3.40%	10/15/2002	9/1/2009	\$ 3,112,008	3,098,140
School project	3.40%	10/15/2002	9/1/2009	\$ 1,967,701	1,695,462
<b>Total Outside Debt</b>					<u>\$ 36,379,602</u>
<b>Total Governmental Type Debt</b>					<u>\$ 42,073,019</u>

General obligation bonds currently outstanding of the business-type fund are as follows:

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	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2004
<b>Inside Debt:</b>					
<b>Sewer:</b>					
Sewer Engineering Services	4.5%-5.6%	5/15/1997	5/15/2017	\$ 330,000	\$ 214,500
Sewer and Surface Drains	4.5%-5.6%	5/15/1997	5/15/2017	\$ 635,000	430,000
Sewer	5.0%-5.8%	10/15/1999	10/15/2019	\$ 3,865,000	3,096,000
Sewer	3.40%	10/15/2002	9/1/2009	\$ 370,129	368,669
<b>Total Inside Debt</b>					<u>\$ 4,109,169</u>
<b>Outside Debt:</b>					
<b>Water:</b>					
Water Improvement	5.24%	12/1/1995	12/1/2015	\$ 5,938,000	\$ 3,484,000
Water Improvement	4.5%-6.5%	5/15/1997	5/15/2015	\$ 1,100,000	645,000
Water Mains	5.0%-5.8%	10/15/1999	10/15/2019	\$ 970,000	770,000
Water Improvement	3.40%	10/15/2002	9/1/2009	\$ 566,989	564,508
<b>Solid Waste:</b>					
Landfill Area	5.24%	12/1/1995	12/1/2005	\$ 100,000	20,000
Landfill Closing	4.5%-6.5%	5/15/1997	5/15/2017	\$ 3,650,000	2,372,500
Landfill	5.00%	10/15/1999	10/15/2006	\$ 520,000	215,000
Expanding the City Landfill	3.40%	10/15/2002	9/1/2006	\$ 1,210,000	900,000
<b>Total Outside Debt</b>					<u>\$ 8,971,008</u>
<b>Total Business Type Debt</b>					<u><u>\$ 13,080,177</u></u>

A summary of the changes in governmental activities and business-type long term debt during the year is as follows:

	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due within One Year
<b>Governmental activities:</b>					
<b>Bond Payable:</b>					
General obligation bonds	\$ 45,587,882	\$ -	\$ 3,593,059	\$ 41,994,823	\$ 3,459,699
Massachusetts Water Pollution Abatement Trust bonds	83,410	-	5,214	78,196	5,214
<b>Compensated absences</b>	<u>2,020,850</u>	<u>1,052,867</u>	<u>-</u>	<u>3,073,717</u>	<u>153,686</u>
Governmental activity Long-term liabilities	\$ 47,692,142	\$ 1,052,867	\$ 3,598,273	\$ 45,146,736	\$ 3,618,599
<b>Business type activities:</b>					
<b>Bond Payable:</b>					
General obligation bonds	\$ 14,587,118	\$ -	\$ 1,506,941	13,080,177	\$ 1,388,301
<b>Compensated absences</b>	<u>122,836</u>	<u>17,962</u>	<u>-</u>	<u>140,798</u>	<u>7,039</u>
Business-type activity long term Long-term liabilities	\$ 14,709,954	\$ 17,962	\$ 1,506,941	\$ 13,220,975	\$ 1,395,340



**CITY OF NORTHAMPTON, MASSACHUSETTS**  
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**Future Debt Service**

The annual principal and interest payments to retire all general obligation long-term debt outstanding as of June 30, 2004 are as follows:

**Governmental Type Activities**

Year	Principal	Interest	Total
2005	\$ 3,646,913	\$ 2,073,119	\$ 5,720,032
2006	3,606,412	1,882,347	5,488,759
2007	3,486,052	1,700,877	5,186,929
2008	3,421,105	1,545,995	4,967,100
2009	3,354,998	1,392,988	4,747,986
2010-2014	13,436,480	4,871,761	18,308,241
2015-2019	9,666,059	1,711,344	11,377,403
2020	1,455,000	66,615	1,521,615
	<b>\$ 42,073,019</b>	<b>\$ 15,245,046</b>	<b>\$ 57,318,065</b>

**Business-Type Activities**

Year	Principal	Interest	Total
2005	\$ 1,388,301	\$ 646,582	\$ 2,034,883
2006	1,378,802	578,304	1,957,106
2007	1,369,161	511,908	1,881,069
2008	984,109	456,556	1,440,665
2009	990,216	408,511	1,398,727
2010-2014	4,309,588	1,342,895	5,652,483
2015-2019	2,430,000	342,512	2,772,512
2020	230,000	6,670	236,670
	<b>\$ 13,080,177</b>	<b>\$ 4,293,938</b>	<b>\$ 17,374,115</b>

**Advance Refunding**

On October 15, 2002, the City advance refunded a general obligation bond issue with a general obligation refunding note. Of this issue, the City issued \$14,365,000 of general obligation refunding bonds and \$6,360,000 to refund bonds issued March 1, 1993 and September 1, 1993 at a reduced net interest cost of 3.57%. The refunded bonds achieved a total savings of \$385,709 in interest costs over the remaining life of the bonds and a net present value savings of \$280,894. As a result, the refunded bonds, including the business-type bonds, are considered to be defeased and the liability has been removed from the general obligation long-term debt and the business-type debt.

**CITY OF NORTHAMPTON, MASSACHUSETTS  
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June 30, 2004**

**Massachusetts Water Pollution Abatement Trust**

The City has borrowed moneys from the Water Pollution Abatement Project Bond Resolution (Pool Loan Program). Under this program the borrower shall receive, as a credit against the loan repayment then due on this bond, the loan subsidy amounts (earnings on the equity of the trust). The City currently has one loan as follows:

- a gross obligation of \$138,396 representing the gross principal and interest repayments amounts; of this loan subsidy amounts consists of \$44,559 resulting in a net loan repayment of \$93,837

The following is a summary of the activity of the Water Pollution Abatement Project Bond Resolution:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Subsidy Amount</b>	<b>Loan Repayments</b>
Initial Loan Obligation	\$ 93,837	\$ 44,559	\$ 138,396	\$ 44,559	\$ 93,837
Repayments:					
Fiscal Year 2001	-	1,114	1,114	1,114	-
Fiscal Year 2002	5,213	4,073	9,286	4,073	5,213
Fiscal Year 2003	5,214	3,864	9,078	3,864	5,214
Fiscal Year 2004	5,214	3,656	8,870	3,656	5,214
	<u>\$ 78,196</u>	<u>\$ 31,852</u>	<u>\$ 110,048</u>	<u>\$ 31,852</u>	<u>\$ 78,196</u>

**Legal Debt Limit**

Under Section 10 of Chapter 44 of the Massachusetts General Laws, a City may authorize indebtedness up to a limit of 2 1/2 percent of the equalized valuation of the City. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The City's inside debt at June 30, 2004, totaled \$9,802,586.

In addition, the City is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The following is a computation of the legal debt limit as of June 30, 2004:

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
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Equalized Valuation-Real Estate and Personal Property (2002)		\$	1,933,674,200
			<u>48,341,855</u>
Debt Limit: 2.5 % of Equalized value		\$	48,341,855
Total Debt Outstanding			
Governmental Activity Debt	\$		42,073,019
Less: Debt Outside Debt Limit	<u>36,379,602</u>	\$	5,693,417
Business-Type Activity Debt	\$		<u>13,080,177</u>
Less: Debt Outside Debt Limit	<u>8,971,008</u>		4,109,169
		\$	<u>9,802,586</u>
Inside Debt Excess Borrowing Capacity at June 30, 2004		\$	<u>38,539,269</u>

**Loans Authorized and Unissued - Memorandum Only**

Under the general laws of the Commonwealth of Massachusetts, a City must authorize debt at a City Council meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or City Council votes to rescind the authorized debt.

The loan authorizations of the governmental activities as of June 30, 2004, which are not reflected in the City's financial statements are as follows:

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
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<u>Date</u> <u>Authorized</u>	<u>Purpose</u>	<u>Amount</u>
9/5/1996	Constructing a Gas Management System and a Lagoon Aeration System Upgrade for the Landfill	\$ 305,000
2/5/1998	To Reconstruct and Rehabilitate the Fitzgerald Lake Dam	24,000
11/4/1999	For Remodeling, Reconstructing, and Making Extraordinary Repairs to the Forbes Library, including Improvements to the Parking Area and Landscaping	35,000
5/4/2000	For Purchase or Otherwise Acquire for Conservation and Passive Recreation Purposes Land in the Pynchon and Manhan Meadows known as the "Burt Land"	200,000
5/4/2000	For Purchase or Otherwise Acquire for Conservation and Passive Recreation Purposes Land in the Saw Mill Hills and Known as the "Hawthorne Land"	55,000
11/1/2001	Purchase an Aerial Ladder Truck for Fire Department	810,000
12/6/2001	Conservation Commission to Purchase Parcel of Land in the Saw Mill Hills	44,000
12/20/2001	Purchase Fire Department Vehicles	15,000
6/5/2003	Purchase Police Department 4-Wheel Drive Utility Vehicle	54,000
6/5/2003	Remodeling, Reconstructing and Making Extraordinary Repairs to Various School Buildings	817,000
6/5/2003	Acquisition of Land for Upgrades to Rail Trail	72,000
6/5/2003	Drainage Improvements to Crescent Street	537,000
6/5/2003	Purchase of School Department Vehicles	94,000
6/5/2003	Repairs to City Owned Buildings	415,000
6/3/2004	Improvements to Veterans Field	455,300
		<u>\$ 3,932,300</u>

The loan authorizations of the business-type activities as of June 30, 2004, which are not reflected in the City's financial statements are as follows:

<u>Date</u> <u>Authorized</u>	<u>Purpose</u>	<u>Amount</u>
<b>Sewer Fund:</b>		
6/20/2002	Financing NPDES Phase II Stormwater Assessment and Planning Activities	\$ 385,000
<b>Water Fund:</b>		
5/16/2002	Laying and Relaying of Water Mains on Route 66	775,000
9/5/2002	New Water Filtration Plant	19,000,000
<b>Solid Waste Fund:</b>		
11/4/1999	Expanding the Landfill	65,000
6/3/2004	Engineering and Permitting Services for the Landfill	130,500
6/3/2004	Extraordinary Repairs to the Landfill	510,000
		<u>\$ 20,865,500</u>

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**G. Stabilization Fund**

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the City may for the purpose of creating a stabilization fund appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of the equalized valuation of the City and any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated in a City by the City Council for any lawful purpose. At June 30, 2004, \$1,220,384 has been set aside in a stabilization fund, which is classified as a major fund in the governmental funds financial statements.

**4. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**B. City Council Votes - Fiscal Year 2005**

The financial statements of the City of Northampton as of June 30, 2004 do not reflect the fiscal year 2005 budget approved by the City Council on June 17, 2004, with the exception of Unreserved Fund Balance-Designated for Subsequent Years' Expenditures and Reserved Retained Earnings as described below. The City Council has authorized a fiscal year 2005 operating and capital budget as follows:

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<b>Governmental Funds:</b>	
<i>From Tax Levy</i>	\$ 53,021,779
<i>From Parking Meter Receipts</i>	968,538
<b>From Business-Type Funds:</b>	
Sewer fund receipts	1,295,227
Water fund receipts	513,858
Solid waste fund receipts	753,596
<b>From Other Available Funds:</b>	
<b>Major Fund:</b>	
<b>Designated for Subsequent Years' Expenditures:</b>	
Stabilization fund	800,000
<b>Nonmajor Governmental Funds:</b>	
<b>Designated for Subsequent Years' Expenditures:</b>	
Sale of cemetery lots	5,000
Cemetery perpetual care funds	5,000
Conservation wetlands fees	4,000
Municipal waterways fund	4,100
Receipts reserved for payment of debt	111,875
	<u>\$ 57,482,973</u>
<b>Business Type-Funds:</b>	
From sewer receipts	<u>\$ 4,017,657</u>
From water receipts	<u>\$ 3,267,608</u>
From solid waste receipts	<u>\$ 3,044,286</u>

**C. Contingent Liabilities**

**Litigation**

Various cases are pending against the City at June 30, 2004. The amount of the claims cannot be estimated at the present time. As a result, the potential loss, if any on these claims has not been recorded on the financial statements.

**Federal Financial Assistance**

The City receives significant financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit procedures prescribed under the Single Audit Act Amendments of 1996. Any disallowed expenditures resulting from such audits become a liability of the City.

The outcome of lawsuits and any findings with respect to disallowed expenditures is not expected to materially affect the financial condition of the City.

**D. Landfill Closure and Postclosure Cost - Northampton Regional Sanitary Landfill**

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The City of Northampton operates and owns a landfill. The City landfill is operating under a permit dated January 11, 1994 issued by the Commonwealth of Massachusetts Department of Environmental Protection. The permit is an authorization to operate the Phase 2 Expansion of the landfill. Phase 3 has begun to be constructed with the City providing authorization to borrow in the amount of \$3,680,000. The estimated useful life of the facility is 13.4 years from the date of the permit at an estimated filling rate of 110 tons a day.

The City received a grant in the amount of \$5,656,912 from the Commonwealth of Massachusetts for Phase 1 and Phase 2 of the construction of the landfill. The total cost of Phases 1, 2 and 3 was \$11,187,743 including City funds. Sixty percent of the grant is a no interest loan with repayment of the loan to begin no later than one year after completion of the construction of the facility at a quarterly payment of \$94,281.86.

The City completed Phase 4 in fiscal year 2003. The final cost of phase 4 was \$1,600,000.

In fiscal year 2004, the capping of cell 1 is projected to be completed. A contract in the amount of \$734,810 has been awarded for the construction of Phase 4.

As a requirement of the grant the City must make the following financial assurances:

**Operational Fund** - The City shall provide adequate financial assurances to ensure that adequate funds will be available to maintain and operate the facility on a day-to-day basis through the use of an operational fund.

**Closure Fund** - The City must establish a "landfill closure fund" to be funded through a phased-in schedule as follows:

Fiscal Years 1991 - 1993	\$50,000 per year
Fiscal Years 1994 - 1995	\$75,000 per year
Fiscal Year 1996	\$100,000 per year
Fiscal Years 1997 - 2003	\$125,000 per year

On June 30, 2004 the landfill closure fund is maintained in the solid waste business-type fund in the amount of \$1,717,630 of which the balance consists of \$2,502,559 in appropriated amounts; \$68,959 in expenditures; \$985,000 in transfers and \$269,030 in interest earnings.

## **E. Pension Plan**

### **Plan Description**

The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Northampton Contributory Retirement Board. Substantially, all employees are members of the System, except for public school teachers

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and administrators who are members of Commonwealth of Massachusetts Teachers' Retirement System to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers' Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$4,545,778 for the fiscal year ending June 30, 2004, and, accordingly, are reported in the general fund as intergovernmental revenues and employee benefit expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan. Cost of living adjustments granted between 1981 and 1987, and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Northampton Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 210 Main Street, City Hall, Northampton, Massachusetts.

At December 31, 2003, the System's membership consists of the following:

Active Members	625
Inactive Members	27
Retired Members, Beneficiaries and Survivors	332
	984

**Funding Policy**

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the employers required the City to contribute 97% of the total. Chapter 32B of the Massachusetts General Laws governs the contributions of plan members and the City.

The City's contribution to the System for the fiscal years ended June 30, 2004, 2003 and 2002 is shown below, which equaled its required contribution for each fiscal year.

Year Ended June 30	City's Contribution
2004	\$ 2,668,462
2003	2,541,628
2002	2,435,618

The following schedules are presented in accordance with the GASB No. 25.



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**Schedule of Funding Progress**  
**(Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Aid (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2003	\$ 51,244	\$ 83,270	\$ 32,026	62%	\$ 18,226	176%
1/1/2000	\$ 48,306	\$ 63,748	\$ 15,442	76%	\$ 15,833	98%
1/1/1998	\$ 33,472	\$ 53,353	\$ 19,881	63%	\$ 14,026	142%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. The last actuarial valuation was prepared by the Stone Consulting, Inc. as of January 1, 2003. The actuarial cost method of the plan has been determined in accordance with the individual entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.75 % a year compounded annually, (b) projected salary, including longevity, increases of 4.75% a year per member.

**Reporting Policies**

The funds of the Northampton Employees Retirement System are accounted for under the accrual basis. Under the accrual basis of accounting, all revenues and expenditures are accrued and investments are amortized to value. The books are maintained on a calendar year basis from January 1st to December 31st in accordance with the standards and procedures outlined by the Commissioner of the Public Employees Retirement Administration.

Investments are reported in accordance with PERAC requirements.

**5. RESTATEMENTS**

**RESTATEMENT OF GOVERNMENT-WIDE FINANCIAL STATEMENTS NET ASSETS:**

June 30, 2003 Governmental activities total net assets as previously reported	\$ 66,078,309
<i>Less:</i>	
Decrease in fixed assets for an overvaluation error, net of depreciation	(2,180,000)
Vacation amounts not recognized in compensated absences	(826,913)
June 30, 2003 Governmental activities total net assets	<u><u>\$ 63,071,396</u></u>

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**RESTATEMENT OF BUSINESS-TYPE FINANCIAL STATEMENTS NET ASSETS:**

<b>Description</b>	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Solid Waste Fund</b>	<b>Total</b>
June 30, 2003 Business-type activities total net assets as previously reported	\$ 6,181,910	\$ 8,649,976	\$ 7,361,822	\$ 22,193,708
<i>Less:</i>				
Vacation amounts not recognized in in compensated absences	(25,841)	(8,614)	(39,164)	(73,619)
June 30, 2003 Business-type activities total net assets	<u>\$ 6,156,069</u>	<u>\$ 8,641,362</u>	<u>\$ 7,322,658</u>	<u>\$ 22,120,089</u>