

City of Methuen, Massachusetts

Comprehensive Annual Financial Report

In memory of our caretaker and friend



Walter "Red" Winn
1942 - 2008



Fiscal Year June 30, 2007



Walter "Red" Winn III was born in Lawrence on Nov. 18, 1942. Raised in Andover on the campus of Phillips Academy. Educated in Andover schools, graduate of Andover High School. Earned his bachelor's degree in civil engineering from Wentworth Institute of Technology. Served in the Naval Construction Force "Sea Bees" of the U.S. Navy, and completed basic training at Naval Station Great Lakes in North Chicago.

Red lived in Methuen for all of his married life. He loved the city of Methuen and took great pride in his volunteerism and civic participation. He was the facilities manager for the Nevins Memorial Library and was the caretaker of the Tenney Gatehouse and the Methuen Memorial Music Hall.

He was a member of the Friends of Nevins Memorial Library, the Methuen Planning Board and the Zoning Board. Red was a precinct warden at the Donald Timony School polling location. He was a member of the Historic District Commission and volunteered his time at the Festival of Trees and Methuen's Celebration 2000. He was previously active in Methuen Youth Hockey as a past president, coach and parent.

Red was previously facilities manager at Cedars Home for the Elderly in Methuen and, before that, was superintendent of Grounds at Phillips Academy in Andover.

Red possessed a love of nature, horticulture and New England's four distinct seasons. He loved St. Bernard's and Cape Cod, especially Provincetown, where he vacationed every summer of his life, except one. He was a prolific collector of old and antique postcards with extensive collections of images of Phillips Academy, Lawrence and Methuen.

All who were fortunate enough to have known him will miss his generosity and kindness to others. He is someone who will be hard to live without.

Introducing the various sections of this report are pictures of the various facilities "Red" managed. It is with great pleasure and admiration the staff of the City Auditors dedicate this years Comprehensive Annual Financial Report to Walter "Red" Winn III. Special thanks to Sharon Morley and Ed Sampson for their cooperation and assistance.

CITY OF METHUEN, MASSACHUSETTS
Comprehensive Annual Financial Report
For the Years Ended June 30, 2007



Prepared by:
The Office of the City Auditor

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**City of Methuen, Massachusetts
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007**

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City of Methuen, Massachusetts

Introductory Section



Methuen Memorial Music Hall



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Letter of Transmittal
February 6, 2008

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

At the close of each fiscal year, state law requires the City of Methuen to publish a complete set of financial statements in conformity with accounting principals generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Annual Financial Report of the City of Methuen, Massachusetts for the fiscal year ending June 30, 2007 for your review.

This report consists of management's representations concerning the finances of the City of Methuen. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Methuen has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Methuen's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Methuen's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. The City of Methuen's financial statements have been audited by Melanson Heath & Company PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Methuen for the fiscal year ended June 30, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Methuen financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with GAAP.

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

Profile of the City of Methuen

The City is located in Essex County, 11 miles east of Lowell and 27 miles northwest of Boston and is a border community to New Hampshire. Established as a Town in 1725, Methuen became the City known as the Town of Methuen in 1978. Methuen has an estimated population of 44,609 (2005 Department of Revenue Estimate) Federal Census) and occupies a land area of 23.5 miles.

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

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

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

The School Department Administration was directed by a seven-member School Committee, which was elected at-large by the voters. The School Committee is empowered to appoint all School Department personnel. Effective January 1994, the Mayor became the chairperson of the school committee and the seven-member School Committee became a six-member elected school committee.

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

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

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

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

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

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

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

In a City form of government, within 120 days (extended to 170 days by special legislation) after the annual organization of the city government (which is ordinarily in early January), the Mayor is required to submit a budget of proposed expenditures

for the fiscal year beginning on the next July 1. The City or Town council may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the Mayor, the council may not make any appropriation for a purpose not included in the proposed budget, except by a two-thirds vote in case of a failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the Council. The Council may not increase any item without the recommendation of the Mayor (except as provided by legislation, subject to local acceptance, under which the school budget or regional school district assessment can be increased upon recommendation of the School Committee or Regional District School Committee and by two-thirds vote of the Council, provided that such increase does not cause the total annual budget to exceed property tax limitations). If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect.

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

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

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

Factors Affecting Financial Condition

The City of Methuen has established itself as an attractive location for business and industry with close to 1,000 companies operating under a Methuen address. Strategic location, a competitive commercial tax rate, a coordinated development approach, a skilled and trained workforce, and a high quality of life for work and leisure combine to create a thriving environment for economic development. In the last five years, Methuen has been host to \$ 250 million in private commercial investment and benefited from the creation or retention of over 3,000 jobs.

The Methuen economy is healthy and stable. A diversified group of existing service and manufacturing businesses has been complemented by new technological and retail businesses. Several major initiatives have contributed to Methuen's highest level of commercial and industrial activity in its history. Recognizing the need to balance growth while making economic development a priority, Methuen reorganized the Department of Economic & Community Development. Central to its mission was the creation of a system to streamline permitting, market community resources, and improve communication between City Hall and Methuen businesses. A leader in the Merrimack Valley, Methuen has created a customer service department within the office of Community Development that oversees the entire permitting and approval process for companies seeking to locate, relocate, or expand within the City's borders.

Equally important, the City has been pro-active in the planning process in order to provide a vision and direction for City officials to pursue development while maintaining the high quality of life Methuen's residents and businesses have grown to enjoy. In the summer of 2007, the City adopted the updated Methuen Master Plan, last revised in 1986. This document, which took one year and a dozen public meetings to complete, will serve as the blueprint for short- and long-term planning for the next twenty years. In the spring of 2004, the City of Methuen completed the process of developing a downtown plan. Utilizing a \$ 45,000 grant from the Massachusetts Department of Housing & Community Development (DHCD), Methuen held a series of committee meetings to advance the findings of the Downtown Methuen Development Plan. The areas discussed included the downtown's strengths, weaknesses, economy, market, businesses, regulatory controls and land-use. The plan identified a vision and the steps necessary to maximize its potential in the local and regional marketplace and strengthen the downtown's vitality. Several of the plan's recommendations have since been implemented.

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

supporting ongoing economic development projects, and finding innovative ways to strengthen its fiscal standing at the local level.

Currently, the City of Methuen maintains multiple commercial and industrial sites scattered throughout the community in retail centers, industrial parks, downtown, and as stand-alone facilities. In retail, Methuen has five shopping centers. Most notable is *The Loop*, an \$ 80 million dollar entertainment and retail complex open in 2000 that is recognized nationally for its success as a “lifestyle” plaza. Formerly the Methuen Mall, it had been the retail sales and employment center of the Merrimack Valley, employing approximately 2,000 people until it closed a decade prior. A municipal and regional economic development priority for many years, The Loop project now represents more than a tripling of property tax revenues from that site to over \$ 1 million annually. The facility includes a Loews 20-screen Cineplex, a 135,000 square foot Home Depot, Super Stop & Shop, noted retailers Marshall's, The Gap, Old Navy, and numerous restaurants, including Bugaboo Creek, TGI Friday's, Not Your Average Joe's, Chuck E. Cheese and Wendy's. The project has created more than 500 new permanent jobs and 300-400 new part-time positions, and has exceeded its retail expectations since opening. The adjacent Methuen Shopping Center consists of 160,000 square feet and houses the chain stores of Market Basket and Wal-Mart, along with Sleepy's Mattress Store and a new Japanese steakhouse. Since the redevelopment of this area there has been a lot of activity and interest along Pleasant Valley Street as this area continues to grow, including an Applebee's restaurant and a large Public Storage facility adjacent to The Loop. Having received permits in less than fifty days from the City, Target opened its doors at a site directly across from The Loop in October 2007. The long-standing Mann's Orchard store relocated to accommodate the Target and expanded, opening its new store and bakery in October 2007.

The Village Mall has 95,496 square feet and houses some smaller retailers including Joann Fabrics, a workout facility and a newly opened Fuddrucker's restaurant. Methuen Plaza, consisting of 159,916 square feet, is the home of Market Basket, Mar-Lin retail store, Rite-Aid and AJ Wright's, a subsidiary of TJ Maxx. Several restaurants are located adjacent to the plaza, including a new KFC/Taco Bell.

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

Unfortunately, the City received word in November 2001 that Malden was experiencing financial troubles and they filed for Chapter 11 bankruptcy protection shortly thereafter. City officials worked closely with Malden Mills to ensure the company's long-term presence in the City and successful climb out of bankruptcy protection. Malden Mills came out of bankruptcy in 2003 with financial support from a new partner. In March 2006, Chrysalis Capital Partners acquired the Malden Mills brand, company and real estate, and now operates the company under the name Polartec LLC. The company has enjoyed a strong year, and is concentrating heavily on new product development along with serving its biggest customer, the numerous divisions of the U.S. Armed Services.

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

Methuen Industrial Park encompasses manufacturing, warehousing and distribution uses, housing such noted companies as Shaw's, General Mills' Yoplait-Colombo operations, Aulson and Graebel Van Lines. Yoplait-Colombo has expanded its presence to over 140,000 square feet and produces 35 million cases of yogurt products annually. They employ 200 people, and plan to expand further in the 2008-2009 timeframe, adding 10 new employees and investing \$ 25 million in plant improvements and equipment.

Branch Street is maintained by Brooks Properties, who oversees in excess of 275,000 square feet of office space adjacent to I-93 at the Route 110 rotary. Genesys Software, Object Associates, and the Massachusetts Eye and Ear Infirmary currently occupy this site among others. The facility has recently added ancillary businesses such as pharmaceutical sales and distribution. In the fall of 2006, two new tenants occupied a total of 30,000 square feet - Metragen, a pharmaceutical company headquartered in Florida and Raid, a computer software storage firm relocating from nearby Lawrence, MA.

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

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

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

Ranger Plaza, the re-development of the former Fox Nissan site, has turned an abandoned, blighted site into a critical gateway project for the City. Located on Pelham Street adjacent to Route 93, the project has completed phase I attracting The Outback Restaurant, McDonald's, and Dunkin' Donuts. Phase II, slated for completion by the end of 2008, will include the complete renovation of 23,000 square feet of remaining retail space.

The Tambone building, a 250,000 square foot office/warehouse facility completed construction in the fall of 2001. This building was sold in 2006 for \$ 18.35 million. The \$ 12 million project helped to develop the remaining 17 acres in Aegean Industrial Park, which now contains Cytec Inc., Mygrant Glass, and several others.

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

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

On Ayers Village Road along the Salem, New Hampshire border the former White Buffalo site was demolished and replaced by a \$ 2 million 23,000 square foot retail and commercial center that includes a restaurant, bank, and a deluxe Mobil station and car wash.

Construction is ongoing for a 7,200-yard professional golf course with seventy-five new residential dwellings, and a 5,000 square foot clubhouse in East Methuen. The project should be recognized as one of the state of the art facilities now that it has opened at a cost of nearly \$ 10 million dollars. The estimated value of the new residential dwellings should exceed \$ 400 million.

In 2006, the Merrimack Valley Golf Course received approvals to expand and improve the existing golf course. The Donald Ross golf course is the most recognized golf course in the Merrimack Valley, dating back to its opening in 1920. The expansion of the course will lengthen three golf holes and will add seventy-five new residential dwellings along the border of the course. Roughly 35 of the 75 homes are built, with many sold. The rehabilitation to the golf course will be an estimated \$ 5 million dollars and the new residential dwellings should be valued at approximately \$ 365 million dollars.

The Cafua Management Company is presenting plans to the City in early 2008 for the construction of a new 35,000 retail complex located at 280 Merrimack Street, which will include a Dunkin Donuts retail site and will house the company's headquarters, along with a restaurant, bank and several retail bays. Down the street at 380 Merrimack Street, JP Realty received approvals and constructed a 30,000 square foot commercial building, which is nearly full with tenants, including Jeanne D'Arc Federal Credit Union, and several professional office uses.

Other new banks to Methuen include Bank of New England, which constructed a new 3,000 square foot branch at the corner of Pelham and Cross Streets, and Enterprise Bank, which is completing construction of a 4,000 square foot branch on Broadway in the downtown area.

Plans are underway to demolish an existing Burger King on Haverhill Street and construct a new restaurant and CVS Pharmacy.

Heavenly Donuts, a regional donut shop, has submitted plans to redevelop an abandoned gasoline station. The plans depict a 2,500 square foot restaurant and drive-thru on Pelham Street at a cost of nearly \$ 1 million dollars. Construction is expected in the summer of 2008.

Irving Gasoline has identified Methuen as a desired location for their new state of the art facility, and received approvals in 2007 for its gas station/convenience store layout at 181 Pelham Street. In order to accommodate this project, Irving worked with the City and Mass Highway to coordinate necessary roadway and I-93 on-ramp improvements, which are now complete. The project is estimated to cost \$ 3 million dollars, and is expected to be completed in 2008.

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

Two other large tracts of industrial-zoned land are receiving considerable attention from local commercial developers and focus from the City of Methuen. Both Lindbergh Avenue (with frontage along I-93) and Old Ferry Road have historically been home to contractors' yards and related businesses. The growth in the regional economy, coupled with the prestige associated with I-93 and I-495 visibility, has afforded the City the opportunity to attract higher and better uses to these sites. Combined, they represent more than 200 acres of industrial land with the potential to house in excess of 1.5 million square feet of industrial space. In 2007, Lindberg Avenue became home to a new F.W. Webb plumbing supply warehouse and retail facility. The company invested \$ 11 million to construct the 128,000 sf. building, made infrastructure improvements in the way of roadway, water and sewer, and will employ 100 people starting in May 2008.

Downtown development is concurrently keeping pace. A cornerstone project was the conversion of a vacant mill into a 97-unit luxury apartment complex in the heart of downtown Methuen. Mills Falls, a \$ 10 million dollar project, began renting in

2001. Consistent with the Downtown Revitalization Program, Phase I of the Spigot Falls Riverwalk Park was completed, as was Phase II (a pedestrian bridge), to facilitate accessibility and enhance the downtown. The City recently completed the first phase of the streetscape lighting project, valued at \$ 1 million. The City has also established a building and façade program for downtown businesses to assist with the redevelopment of building facades through a 30-year deferred loan program. A \$ 35,000 sign program helped to coordinate the overall appearance of the Historic Downtown District.

Methuen Assisted Living, LLC has begun construction of a 91-unit assisted living facility at 4 Gleason Street, a former Brownfield's site. The proposed building represents a \$ 19 million investment in downtown and will create approximately 30 full-time jobs. Adjacent to this exciting development is the opportunity for 20,000+ square feet of retail and commercial space at the corner of Gleason Street and Broadway.

Seica Tech Solutions, based in Torino, Italy has located its North American Headquarters in downtown Methuen on Osgood Street. Seica produces test equipment for circuit boards and services several Fortune 500 companies. The completely renovated building now houses four businesses and is fully occupied. Other major improvements on Osgood Street such as Mill Falls Apartments, the Wolverine Building, and now home to Harvey Sign, along with the Broadway refurbishing continue to enhance Methuen's downtown area.

Financial Position

The City of Methuen is extremely proud of maintaining a solid financial position in all economies, as indicated by its continued "A1" bond rating. On July 31, 2007, the bond rating was reduced to "A2" due to declining reserves. The City of Methuen expects moderate growth in its \$ 4.9 billion tax base given continued residential and commercial development. The City's assessed values have grown a strong average of 13.9% annually from 2001 to 2007, bringing the total assessed value to \$ 5.063 billion. The largest driver of these gains is The Loop, an \$80 million retail and entertainment complex that is anchored by a 20-screen Loew's movie theater, a Home Depot and Super Stop & Shop. The City of Methuen expects the tax base growth to remain sound, due to a number of developments including construction of two golf courses with 75 new residential units, both expected to be completed in 2008, as well as the availability of 194 acres of industrially zoned land adjacent to the Griffin Brook Industrial Park. Mann's Apple Orchards has been subdivided and a Target super store is being built on the site along with a renovated orchard farm with new buildings.

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

Investment of City Funds

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

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

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

Acknowledgements

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

Respectfully submitted,

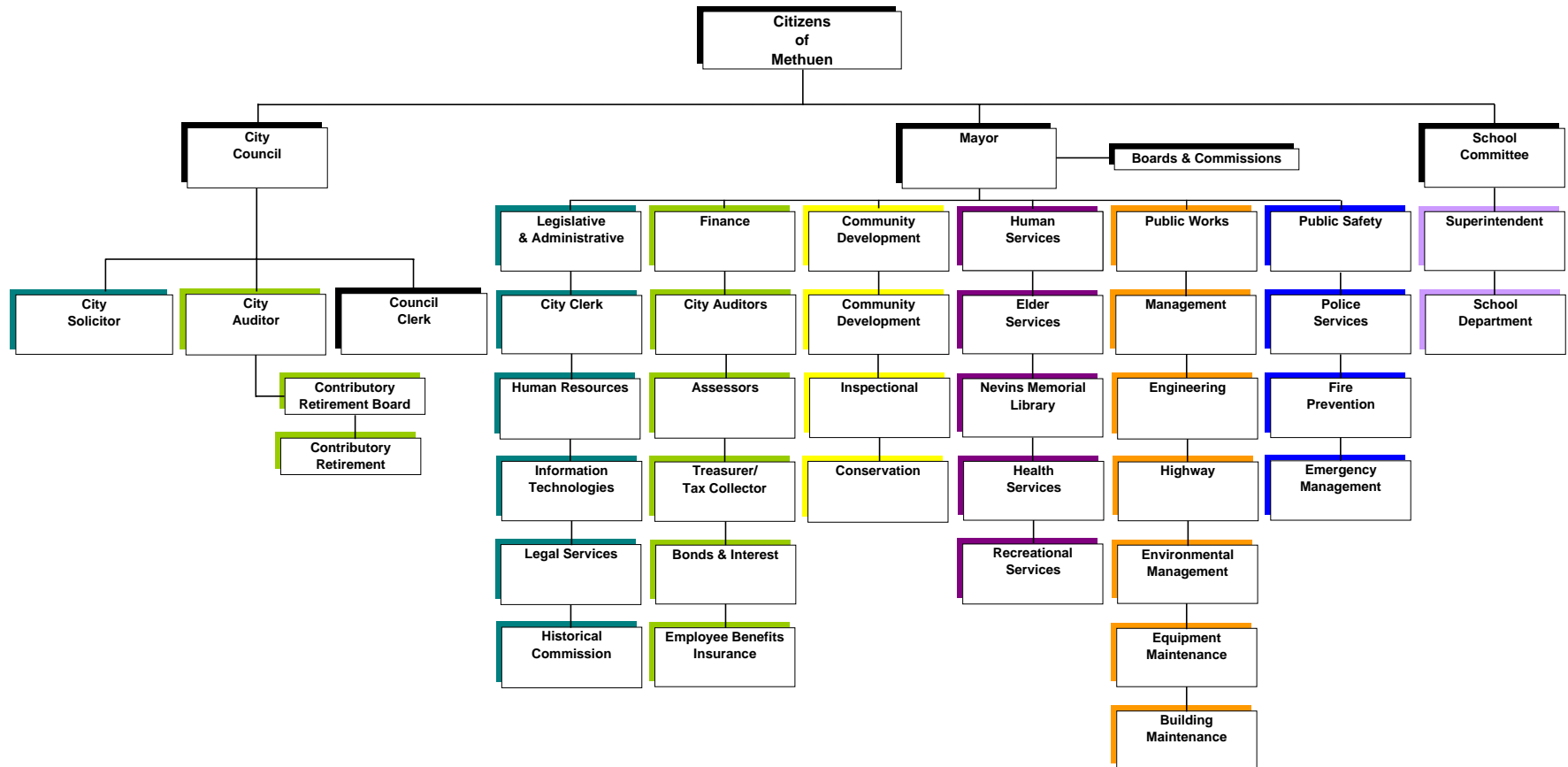
A handwritten signature in blue ink that reads "Thomas J. Kelly". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

Thomas J. Kelly
City Auditor

A handwritten signature in blue ink that reads "Louise A. Moss". The signature is written in a cursive style with a large, stylized 'L' and 'M'.

Louise A Moss
Deputy Director of Budget and Finance

CITY OF METHUEN, MASSACHUSETTS ORGANIZATIONAL CHART



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**Principal City Officials
as of June 30, 2007**

Title	Name	Selection/Term	Term Expires
Mayor	William M. Manzi, III	Elected	December 31, 2007
City Council:			
Chairman - Councilor at Large	Stephen N. Zanni	Elected	December 31, 2007
Vice Chairman - Councilor at Large	Kathleen Corey Rahme	Elected	December 31, 2007
Councilor at Large	Kenneth R. Willette Jr.	Elected	December 31, 2007
Central District Councilor	John A. Cronin, Jr.	Elected	December 31, 2007
Central District Councilor	Phillip J. Lahey, Jr.	Elected	December 31, 2007
East District Councilor	Larry F. Giordano	Elected	December 31, 2007
East District Councilor	Joseph A. Leone, III	Elected	December 31, 2007
West District Councilor	Robert A. Andrews	Elected	December 31, 2007
West District Councilor	Deborah R. Quinn	Elected	December 31, 2007
City Auditor	Thomas J. Kelly	Appointed by City Council	December 31, 2008
City Solicitor	Peter McQuillan	Appointed by City Council	December 31, 2008
Chief of Staff	Matthew A. Kraunelis	Appointed by Mayor	***
City Clerk	Christine R. Touma-Conway	Appointed by Mayor	***
Director of Community Development	Karen Sawyer	Appointed by Mayor	***
Director of Information Technology	Kinglsey Lough	Appointed by Mayor	***
Director of Public Works	Raymond E. DiFiore	Appointed by Mayor	***
Executive Director - Council on Aging	Corrine LaCharite	Appointed by Mayor	***
Fire Chief	Clifford J. Gallant	Appointed by Mayor	***
Human Resource Manager	David Bain	Appointed by Mayor	***
Municipal Appraiser	John Cena	Appointed by Mayor	***
Police Chief	Joseph Solomon	Appointed by Mayor	***
Treasurer/Tax Collector	Ann Guastaferro	Appointed by Mayor	***

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City of Methuen, Massachusetts
Financial Section



*The Archways of
Nevins Memorial Library*

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Methuen, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Methuen, Massachusetts, as of and for the year ended June 30, 2007 (except for the Methuen Contributory Retirement System, which is as of and for the year ended December 31, 2006), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Methuen's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Methuen, as of June 30, 2007 (except the Methuen Contributory Retirement System, which is as of December 31, 2006), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the required supplementary information, appearing on page 71, are not required parts of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Melanson, Heath + Company P.C.

Andover, Massachusetts
February 6, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Methuen, we offer readers this narrative overview and analysis of the financial activities of the City of Methuen for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include water and sewer activities.

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

divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

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

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

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

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

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

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

B. FINANCIAL HIGHLIGHTS

All amounts in Section B are in thousands.

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 55,451 (i.e., net assets), a change of \$ 4,142 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 4,879, a change of \$ (146) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 613, a change of \$ (1,309) in comparison with the prior year.
- Total bonds payable at the close of the current fiscal year was \$ 63,721, a change of \$ (5,470) in comparison to the prior year.
- Total notes payable at the close of the current fiscal year was \$ 10,904, a change of \$ 4,691 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

The largest portion of net assets \$ 42,245 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 1,693 represents resources that are subject to external restrictions on how they may be used. The remaining balance of

unrestricted net assets \$ 11,513 may be used to meet the government's ongoing obligations to citizens and creditors.

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

City of Methuen's Net Assets						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 22,263	\$ 21,683	\$ 5,315	\$ 5,259	\$ 27,578	\$ 26,942
Capital assets	89,057	92,146	26,274	15,301	115,331	107,447
Total assets	<u>111,320</u>	<u>113,829</u>	<u>31,589</u>	<u>20,560</u>	<u>142,909</u>	<u>134,389</u>
Long-term liabilities	62,727	67,900	7,091	2,444	69,818	70,344
Other liabilities	9,932	11,050	7,707	929	17,639	11,979
Total liabilities	<u>72,659</u>	<u>78,950</u>	<u>14,798</u>	<u>3,373</u>	<u>87,457</u>	<u>82,323</u>
Net assets:						
Invested in capital assets, net of related debt	28,751	25,408	13,494	10,585	42,245	35,993
Restricted	1,693	2,104	-	-	1,693	2,104
Unrestricted	8,216	7,366	3,297	5,846	11,513	13,212
Total net assets	<u>\$ 38,660</u>	<u>\$ 34,878</u>	<u>\$ 16,791</u>	<u>\$ 16,431</u>	<u>\$ 55,451</u>	<u>\$ 51,309</u>

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

City of Methuen's Changes in Net Assets						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues						
Charges for services	\$ 8,359	\$ 8,442	\$ 7,444	\$ 6,964	\$ 15,803	\$ 15,406
Operating grants and contributions	48,119	43,952	20	20	48,139	43,972
Capital grants and contributions	1,674	3,971	-	-	1,674	3,971
General revenues						
Property Taxes	53,079	49,662	-	-	53,079	49,662
Excises	4,499	4,546	-	-	4,499	4,546
Interest and Penalties	552	268	-	-	552	268
Grants and contributions not restricted to specific programs	12,844	11,659	-	-	12,844	11,659

(continued)

(continued)

	Governmental		Business-Type		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Investment income	243	351	86	199	329	550
Other	402	527	-	-	402	527
Gain on sale of assets	36	1,168	-	-	36	1,168
Malden Mills settlement	-	-	1,097	-	1,097	-
	<u>-</u>	<u>-</u>	<u>1,097</u>	<u>-</u>	<u>1,097</u>	<u>-</u>
Total revenues	129,807	124,546	8,647	7,183	138,454	131,729
Expenses:						
General government	12,203	11,397	-	-	12,203	11,397
Public safety	17,597	18,168	-	-	17,597	18,168
Education	81,000	77,036	-	-	81,000	77,036
Public works	8,981	8,514	-	-	8,981	8,514
Sanitation	2,712	2,741	-	-	2,712	2,741
Health and human services	1,151	1,078	-	-	1,151	1,078
Culture and recreation	1,298	1,173	-	-	1,298	1,173
Interest and costs	2,275	3,293	-	-	2,275	3,293
Enterprise services	-	-	7,095	6,503	7,095	6,503
Total expenses	<u>127,217</u>	<u>123,400</u>	<u>7,095</u>	<u>6,503</u>	<u>134,312</u>	<u>129,903</u>
Change in net assets before transfers and loss	2,590	1,146	1,552	680	4,142	1,826
Transfers in (out)	<u>1,192</u>	<u>1,436</u>	<u>(1,192)</u>	<u>(1,436)</u>	<u>-</u>	<u>-</u>
Change in net assets	3,782	2,582	360	(756)	4,142	1,826
Beginning net assets	<u>34,878</u>	<u>32,296</u>	<u>16,431</u>	<u>17,187</u>	<u>51,309</u>	<u>49,483</u>
Ending net assets	<u>\$ 38,660</u>	<u>\$ 34,878</u>	<u>\$ 16,791</u>	<u>\$ 16,431</u>	<u>\$ 55,451</u>	<u>\$ 51,309</u>

Governmental activities. The City's positive result of \$ 3,782 in governmental activities is due in large to several factors. A conservative approach to budgeting and careful monitoring of expenses and revenue activity throughout the fiscal year allows us to react, when possible, to changing fiscal conditions. Strong revenue collections in excess of estimated amounts in certain categories played a key role in the positive outcome in FY 2007. Redistribution of income from the Commonwealth of Massachusetts was also higher in 2007, particularly the lottery revenue distributed to the City increased by \$ 1,163.

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 360. This change resulted primarily from:

- Use of net assets (retained earnings) for ongoing operations.
- Malden Mills settlement revenue, see footnote 24.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

A change in governmental fund balances of \$ (146) resulted primarily from General Fund operating results.

The General Fund is the chief operating fund. At the end of the current fiscal year, undesignated fund balance of the General Fund was \$ 613, while total fund balance was \$ 3,986. Total fund balance changed by \$ (144). Undesignated fund balance was changed by \$ (1,309), primarily as a result of an increase in reserve for encumbrances and expenditures \$ 507 and \$ 658, respectively. Undesignated fund balance represents 1% of total expenditures, while total fund balance represents 3% of total expenditures.

Significant changes in general fund expenditures includes increases in contributions to health insurance and workers compensation costs of 12% and 44% respectively.

The Road and Drainage major fund was granted a \$ 10,000 authorization in April 2001 under Massachusetts General Laws, Chapter 44 Sec 7(1), 7(5), and 7(6) in order to undertake an extensive rehabilitation of the City's major streets. As of June 30, 2007, the project is approximately 95% completed. In September 2004, as part of the City's \$ 19,000 bond issue (which included refunding of certain bonds of the City), \$ 6,000 in road and drainage bond anticipation notes were converted to \$ 5,630 in general obligation bonds, with \$ 370 being paid down from other available funds. An additional \$ 4,000 in bond anticipation notes was outstanding as of the end of the last fiscal year. In fiscal year 2007, \$ 125 was paid down and \$ 3,875 is outstanding at year end. It is anticipated that upon maturity, the note will be rolled over into a bond.

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

finances of the enterprise fund have already been addressed in the entity-wide discussion of business-type activities.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

At the close of fiscal year 2007, the City of Methuen experienced one of its most difficult years, financially. We were committed to develop a budget that adequately funded critical programs and services, and in order to accomplish this we used \$ 1 million in “free cash” as an “other financing source” to balance the budget. However, by year-end we were forced to use another \$ 1.2 million in “free cash” to cover budgetary shortfalls in the area of snow and ice, workers compensation, veterans benefits and collective bargaining agreements. The general fund budgetary appropriations closed zero dollars to fund balance and local, Cherry Street, and miscellaneous revenues exceeded estimates by a modest \$ 613,168. Only due to a significant increase in Medicare reimbursement in the amount of \$ 576,215 over an estimate of \$ 63,847, were we able to close the \$ 613,168 to fund balance. The impact to fund balance was significant and reason for concern. The appropriations of free cash and recent draws on available reserves to balance operating budgets have resulted in serious deterioration of Methuen's financial position. The City needs a clear plan to regain structural balance and replenish reserves to levels consistent with its current rating category. There are very few new growth revenue areas, and real and personal property values are expected to decline this year. This, coupled with increasing capital needs, makes it clear that upcoming budgets will be our tightest year in recent memory. With very little assistance from the State; level funded local revenues and diminishing reserves a new process to analyze and assess costs, identify needs, and develop funding allocations is in place.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. All amounts in section F are in thousands. Total capital assets for governmental and business-type activities at year-end amounted to \$ 115,331 (net of accumulated depreciation), a change of \$ 3,332 from the prior year. This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and infrastructure.

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

City of Methuen's Capital Assets (net of accumulated depreciation)						
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land improvements	\$ 1,876	\$ 2,043	\$ 19	\$ 22	\$ 1,895	2,065
Construction	67,388	69,433	4,167	4,337	71,555	73,770
Infrastructure	7,579	7,956	8,940	9,244	16,519	17,200
Machinery and equipment	1,699	2,035	360	410	2,059	2,445
Licensed vehicles	1,256	1,420	175	207	1,431	1,627
Land, easements, and right of way	9,210	9,210	252	252	9,462	9,462
Construction in progress	49	49	12,361	5,381	12,410	5,430
Total net assets	<u>\$ 89,057</u>	<u>\$ 92,146</u>	<u>\$ 26,274</u>	<u>\$ 19,853</u>	<u>\$ 115,331</u>	<u>\$ 111,999</u>

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

Governmental:

Road resurfacing	\$ 258
Computer hardware and software	13
Pickup truck	21
Rescue truck	152
Sport-utility vehicle	19
Copier	15
Laptop	6

Business-Type:

Water treatment plant improvements	\$ 1,577
Distribution system improvements	5,371
Server projects	32

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

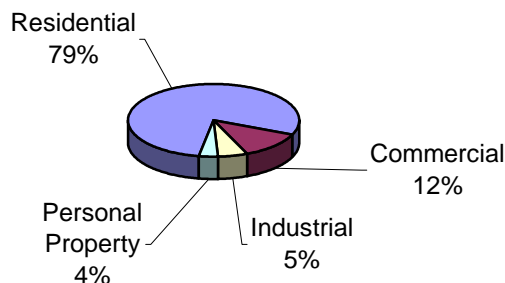
Debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 63,721, all of which was backed by the full faith and credit of the government. Total loans and bond anticipation notes at the end of the current fiscal year was \$ 10,904. The City's credit rating went from a rating of A1 in FY06 to a rating of A2 in August 2007.

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

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

The City of Methuen continued its pattern of new growth realizing \$ 89,458,482 or 2% of additional new growth. While new growth is a useful tool in reducing the tax rate, it's masquerading the fact that home values continue to climb, which is becoming burdensome to the homeowner. Over the past four years the property tax values have exploded. State aid cuts, declining commercial values as opposed to increased residential values have all contributed to a surge in property taxes on residents in recent years. Property taxes now account for a greater share of local revenues than at any point since fiscal 1982. In fiscal year 2008 the tax levy for the City of Methuen represented 46% of revenues to support the operating budget. The administration of the City of Methuen has recognized this and has begun the process of implementing a land use study. The land use study serves several purposes. Protecting open space is vital; however attracting new commercial and industrial businesses will be a priority. The purpose is to increase the commercial and industrial value of the city and assist in taking the some of the burden of increased taxes away from the residential side of the community. The City of Methuen's value of \$ 5.06 billion is heavily weighted in the residential value, while commercial and industrial represent 17%. In order to have an equitable shift of the tax burden the city will need to attract new businesses.

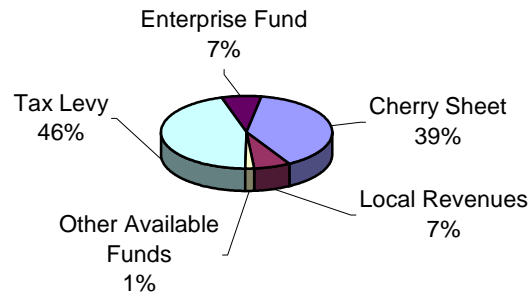
Tax Classifications



Unlike most communities in Massachusetts, the City of Methuen continues to enjoy the comfort of excess levy capacity, however with rising health care costs, required pension contributions, mandated Net School Spending and declining Cherry Sheet Revenues the excess levy capacity will vanish. The fiscal year 2009 operating budget will be faced with all of these issues. Preliminary Cherry Sheet numbers have been released by the Governor and although the City of Methuen stands to receive \$ 45.2 million in State Aid, an increase of \$ 1.333 million, \$ 1.235 million of the increase goes directly to the School Department as Chapter 70 funding, and an additional \$ 99,312 increase in local aid assessment fees leaves the General Government with an overall decrease in revenues (\$ 1,528). The Net School Spending requirement for the Methuen Schools is \$ 67,010,293, an increase of \$ 2,416,888 from last year. Even if we apply the additional Chapter 70 funding of \$ 1.235 million to the increased assessment, a balance of \$ 1,160

million will have to be funded from some other revenue sources, a daunting task considering the two major revenue sources that support the Municipal Operating Budget are the Tax Levy (46%) and the Cherry Sheet (39%).

Revenues



Like other municipalities throughout the Commonwealth of Massachusetts, the City of Methuen is faced with a monumental task of balancing a fiscal year 2009 operating budget. New and innovative thinking will be critical to find alternative methods to fund the services provided to the citizens by way of their tax dollars.

General Fund Budget

	FY 2007	FY 2008	Increase (Decrease)	% Change
City	\$ 52,999,921 (1)	\$ 57,272,467 (1)	\$ 4,272,546	8.06%
School	\$ 56,551,807	\$ 60,473,832	\$ 3,922,025	6.94%
County	\$ 1,195,374	\$ 1,305,950	\$ 110,576	9.25%
Enterprise Fund	\$ 7,370,465 (2)	\$ 7,766,448 (2)	\$ 395,983	5.37%
Total Budget	<u>\$ 118,117,567</u>	<u>\$ 126,818,698</u>	<u>\$ 8,701,131</u>	<u>7.37%</u>

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

(2) Excludes indirect costs.

Tax Levy

	FY 2007	FY 2008	Increase (Decrease)	% Change
General Government	\$ 12,698,233	\$ 14,569,282	\$ 1,871,049	14.73%
Fixed Costs	\$ 12,905,169	\$ 13,472,736	\$ 567,567	4.40%
School	\$ 27,023,972	\$ 29,198,597	\$ 2,174,625	8.05%
Overlay	\$ 262,227	\$ 241,415	\$ (20,812)	-7.94%
Court Judgment	\$ 32,256	\$ -	\$ (32,256)	-100.00%
Total Levy	<u>\$ 52,921,856</u>	<u>\$ 57,482,030</u>	<u>\$ 4,560,174</u>	<u>8.62%</u>

	FY 2007	FY 2008	Increase (Decrease)	% Change
Residential	\$ 9.65	\$ 10.25	\$ 0.60	6.22%
Commercial	\$ 17.56	\$ 18.73	\$ 1.17	6.66%

Valuation by Classification

Classification	FY 2007 Values	FY 2008 Values	Increase (Decrease)	% Change
Residential	\$ 4,351,545,812	\$ 4,405,836,612	\$ 54,290,800	1.25%
Commercial	\$ 353,761,242	\$ 378,239,624	\$ 24,478,382	6.92%
Industrial	\$ 158,401,520	\$ 165,348,420	\$ 6,946,900	4.39%
Personal Property	\$ 110,242,660	\$ 114,297,950	\$ 4,055,290	3.68%
	<u>\$ 4,973,951,234</u>	<u>\$ 5,063,722,606</u>	<u>\$ 89,771,372</u>	<u>1.80%</u>

Utility Fund Budget

	FY 2007	FY 2008	Increase (Decrease)	% Change
Water & Sewer Enterprise Fund	\$ 8,562,611	\$ 9,290,163	\$ 727,552	8.50%

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Methuen's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 13,613,746	\$ 1,992,207	\$ 15,605,953
Receivables, net of allowance for uncollectibles:			
Property taxes	2,133,338	-	2,133,338
Excises	810,000	-	810,000
User fees	-	3,025,491	3,025,491
Assessments	334,792	-	334,792
Departmental and other	1,920,747	-	1,920,747
Intergovernmental	725,772	296,812	1,022,584
Loans	1,399,109	-	1,399,109
Total current assets	20,937,504	5,314,510	26,252,014
Noncurrent:			
Property taxes	200,862	-	200,862
Deferred debt expense	1,124,764	-	1,124,764
Capital assets:			
Nondepreciable capital assets	9,259,070	12,612,883	21,871,953
Other capital assets, net of accumulated depreciation	79,797,491	13,661,357	93,458,848
Total noncurrent assets	90,382,187	26,274,240	116,656,427
TOTAL ASSETS	111,319,691	31,588,750	142,908,441
LIABILITIES			
Current:			
Accounts payable	1,718,025	728,613	2,446,638
Accrued liabilities	1,415,206	198,516	1,613,722
Notes payable	4,125,000	6,779,432	10,904,432
Other current liabilities	2,673,676	-	2,673,676
Current portion of long-term liabilities:			
Bonds payable	5,585,000	332,088	5,917,088
Other liabilities	1,944,615	75,788	2,020,403
Total current liabilities	17,461,522	8,114,437	25,575,959
Noncurrent:			
Bonds payable, net of current portion	51,370,000	6,433,774	57,803,774
Other liabilities, net of current portion	3,827,758	249,645	4,077,403
Total noncurrent liabilities	55,197,758	6,683,419	61,881,177
TOTAL LIABILITIES	72,659,280	14,797,856	87,457,136
NET ASSETS			
Invested in capital assets, net of related debt	28,751,289	13,494,139	42,245,428
Restricted externally or constitutionally for:			
Loan and grant programs	1,152,584	-	1,152,584
Permanent fund:			
Nonexpendable	540,939	-	540,939
Unrestricted	8,215,599	3,296,755	11,512,354
TOTAL NET ASSETS	\$ 38,660,411	\$ 16,790,894	\$ 55,451,305

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

		Program Revenues		
		Charges for	Operating	Capital
	<u>Expenses</u>	<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
Governmental Activities:				
General government	\$ 12,203,222	\$ 1,629,977	\$ 95,478	\$ -
Public safety	17,596,875	2,749,454	941,395	-
Education	81,000,450	2,715,384	46,771,024	-
Public works	8,980,526	309,421	-	1,674,411
Sanitation	2,711,581	-	-	-
Health and human services	1,151,343	108,326	158,152	-
Culture and recreation	1,298,286	846,316	153,037	-
Interest	2,274,932	-	-	-
Total Governmental Activities	127,217,215	8,358,878	48,119,086	1,674,411
Business-Type Activities:				
Enterprise services	7,095,436	7,444,470	19,627	-
Total	\$ 134,312,651	\$ 15,803,348	\$ 48,138,713	\$ 1,674,411

General Revenues and Transfers:

Property taxes
 Excise taxes
 Interest and penalties
 Grants and contributions not restricted
 to specific programs
 Investment income
 Other
 Gain on sale of capital assets
 Malden Mills settlement
 Transfers, net

Total general revenues and transfers

Change in Net Assets

Net Assets:

Beginning of year

End of year

See notes to financial statements.

<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ (10,477,767)	\$ -	\$ (10,477,767)
(13,906,026)	-	(13,906,026)
(31,514,042)	-	(31,514,042)
(6,996,694)	-	(6,996,694)
(2,711,581)	-	(2,711,581)
(884,865)	-	(884,865)
(298,933)	-	(298,933)
<u>(2,274,932)</u>	<u>-</u>	<u>(2,274,932)</u>
(69,064,840)	-	(69,064,840)
<u>-</u>	<u>368,661</u>	<u>368,661</u>
(69,064,840)	368,661	(68,696,179)
53,078,518	-	53,078,518
4,499,213	-	4,499,213
552,439	-	552,439
12,843,547	-	12,843,547
242,904	86,272	329,176
401,800	-	401,800
36,248	-	36,248
-	1,097,531	1,097,531
<u>1,192,146</u>	<u>(1,192,146)</u>	<u>-</u>
<u>72,846,815</u>	<u>(8,343)</u>	<u>72,838,472</u>
3,781,975	360,318	4,142,293
<u>34,878,436</u>	<u>16,430,576</u>	<u>51,309,012</u>
<u>\$ 38,660,411</u>	<u>\$ 16,790,894</u>	<u>\$ 55,451,305</u>

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2007

	<u>General</u>	<u>Roads and Drainage</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 6,442,080	\$ 93,135	\$ 5,036,911	\$ 11,572,126
Receivables:				
Property taxes	2,572,697	-	-	2,572,697
Excises	963,716	-	-	963,716
Assessments	334,792	-	-	334,792
Departmental and other	1,800,006	-	277,712	2,077,718
Intergovernmental	-	-	725,772	725,772
Loans	-	-	1,399,109	1,399,109
	<u>-</u>	<u>-</u>	<u>1,399,109</u>	<u>1,399,109</u>
TOTAL ASSETS	\$ <u>12,113,291</u>	\$ <u>93,135</u>	\$ <u>7,439,504</u>	\$ <u>19,645,930</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants and accounts payable	\$ 1,487,199	\$ -	\$ 187,956	\$ 1,675,155
Accrued liabilities	503,191	-	131,618	634,809
Deferred revenues	5,178,720	-	2,194,949	7,373,669
Notes payable	-	3,875,000	250,000	4,125,000
Other liabilities	958,450	-	-	958,450
	<u>8,127,560</u>	<u>3,875,000</u>	<u>2,764,523</u>	<u>14,767,083</u>
TOTAL LIABILITIES	8,127,560	3,875,000	2,764,523	14,767,083
Fund Balances:				
Reserved for:				
Encumbrances	2,022,297	220	-	2,022,517
Expenditures	1,150,063	-	-	1,150,063
Perpetual permanent fund	-	-	540,939	540,939
Unreserved - designated	200,000	-	-	200,000
Unreserved - undesignated, reported in:				
General fund	613,371	-	-	613,371
Special revenue funds	-	-	3,859,136	3,859,136
Capital project funds	-	(3,782,085)	274,906	(3,507,179)
	<u>3,985,731</u>	<u>(3,781,865)</u>	<u>4,674,981</u>	<u>4,878,847</u>
TOTAL FUND BALANCES	<u>3,985,731</u>	<u>(3,781,865)</u>	<u>4,674,981</u>	<u>4,878,847</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>12,113,291</u>	\$ <u>93,135</u>	\$ <u>7,439,504</u>	\$ <u>19,645,930</u>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

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

JUNE 30, 2007

Total governmental fund balances	\$ 4,878,847
<ul style="list-style-type: none"> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	89,056,561
<ul style="list-style-type: none"> Deferred debt expense for refunding is net of amortization on the statement of net assets, whereas all debt expense is reported when paid in the governmental funds. 	1,124,764
<ul style="list-style-type: none"> Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	6,702,804
<ul style="list-style-type: none"> Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. 	405,205
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(780,397)
<ul style="list-style-type: none"> Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. 	
Bonds payable	(56,955,000)
Capital lease payable	(968,077)
Landfill liability	(1,725,000)
Compensated absences liability	<u>(3,079,296)</u>
Net assets of governmental activities	<u><u>\$ 38,660,411</u></u>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Roads and Drainage</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 52,807,551	\$ -	\$ -	\$ 52,807,551
Excise taxes	4,508,214	-	-	4,508,214
Departmental	1,779,893	-	-	1,779,893
Licenses and permits	1,486,440	-	-	1,486,440
Intergovernmental	53,723,189	-	8,220,604	61,943,793
Charges for services	88,581	-	4,473,985	4,562,566
Interest and penalties	192,983	-	-	192,983
Investment income	552,439	-	49,920	602,359
Fines and forfeitures	349,695	-	-	349,695
Contributions	-	-	242,243	242,243
Other revenue	<u>1,022,919</u>	<u>-</u>	<u>316,109</u>	<u>1,339,028</u>
Total Revenues	116,511,904	-	13,302,861	129,814,765
Expenditures:				
Current:				
General government	19,792,877	-	95,652	19,888,529
Public safety	14,881,766	-	1,594,084	16,475,850
Education	63,129,356	-	9,642,978	72,772,334
Public works	6,647,076	136,026	1,107,812	7,890,914
Sanitation	2,711,581	-	-	2,711,581
Health and human services	915,957	-	218,301	1,134,258
Culture and recreation	816,243	-	475,917	1,292,160
Debt service:				
Principal	5,370,000	-	-	5,370,000
Interest	<u>2,596,933</u>	<u>-</u>	<u>-</u>	<u>2,596,933</u>
Total Expenditures	116,861,789	136,026	13,134,744	130,132,559
Excess (deficiency) of revenues over expenditures	(349,885)	(136,026)	168,117	(317,794)
Other Financing Sources (Uses):				
Issuance of refunded bond	30,985,000	-	-	30,985,000
Payment to escrow for refunding	(32,214,589)	-	-	(32,214,589)
Capital leases	172,927	-	-	172,927
Sale of capital assets	36,248	-	-	36,248
Transfers in	1,367,147	125,000	-	1,492,147
Transfers out	<u>(141,047)</u>	<u>-</u>	<u>(158,954)</u>	<u>(300,001)</u>
Total Other Financing Sources (Uses)	205,686	125,000	(158,954)	171,732
Net change in fund balances	(144,199)	(11,026)	9,163	(146,062)
Fund Balances, at Beginning of Year	<u>4,129,930</u>	<u>(3,770,839)</u>	<u>4,665,818</u>	<u>5,024,909</u>
Fund Balances, at End of Year	\$ <u>3,985,731</u>	\$ <u>(3,781,865)</u>	\$ <u>4,674,981</u>	\$ <u>4,878,847</u>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (146,062)																										
<ul style="list-style-type: none"> 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: <table> <tr> <td>Capital outlay purchases</td><td>483,943</td></tr> <tr> <td>Depreciation</td><td>(3,570,930)</td></tr> <tr> <td>Net effect of disposal of assets</td><td>(2,749)</td></tr> </table> Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table> <tr> <td></td><td>893,260</td></tr> </table> 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: <table> <tr> <td>Repayments of debt</td><td>5,370,000</td></tr> <tr> <td>Deposit to escrow account</td><td>654,075</td></tr> <tr> <td>Deferred debt amortization</td><td>(140,595)</td></tr> <tr> <td>Capital lease financing</td><td>(172,927)</td></tr> <tr> <td>Payments of capital leases</td><td>371,182</td></tr> </table> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table> <tr> <td></td><td>(39,713)</td></tr> </table> Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table> <tr> <td>Compensated absences</td><td>(10,137)</td></tr> <tr> <td>Landfill</td><td>75,000</td></tr> </table> Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table> <tr> <td></td><td>17,628</td></tr> </table> 	Capital outlay purchases	483,943	Depreciation	(3,570,930)	Net effect of disposal of assets	(2,749)		893,260	Repayments of debt	5,370,000	Deposit to escrow account	654,075	Deferred debt amortization	(140,595)	Capital lease financing	(172,927)	Payments of capital leases	371,182		(39,713)	Compensated absences	(10,137)	Landfill	75,000		17,628	
Capital outlay purchases	483,943																										
Depreciation	(3,570,930)																										
Net effect of disposal of assets	(2,749)																										
	893,260																										
Repayments of debt	5,370,000																										
Deposit to escrow account	654,075																										
Deferred debt amortization	(140,595)																										
Capital lease financing	(172,927)																										
Payments of capital leases	371,182																										
	(39,713)																										
Compensated absences	(10,137)																										
Landfill	75,000																										
	17,628																										
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>3,781,975</u>																										

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Other Sources:				
Property Tax	\$ 52,377,073	\$ 52,377,073	\$ 52,377,073	\$ -
Local Revenue	9,001,847	9,001,847	9,487,518	485,671
Cherry Sheet and Misc	45,695,705	45,695,705	45,823,204	127,499
Non-Recurring	500,000	665,019	1,077,365	412,346
Transfers in	1,367,146	1,367,146	1,367,305	159
Other Financing Sources	<u>1,165,292</u>	<u>2,568,909</u>	<u>2,580,488</u>	<u>11,579</u>
Total Revenues and Other Sources	110,107,063	111,675,699	112,712,953	1,037,254
Expenditures and Other Uses:				
Current:				
General government	19,353,384	19,699,783	19,699,783	-
Intergovernmental	1,262,874	1,312,874	1,315,874	(3,000)
Public safety	14,595,057	15,120,565	15,120,565	-
Education	56,551,807	56,463,058	56,463,058	-
Public works	5,623,460	6,334,850	6,334,850	-
Sanitation	2,717,183	2,710,081	2,710,081	-
Library	1,242,351	1,217,909	1,217,909	-
Health and Human Services	710,043	833,951	833,951	-
Debt service	<u>8,050,904</u>	<u>7,982,628</u>	<u>7,982,628</u>	<u>-</u>
Total Expenditures and Other Uses	<u>110,107,063</u>	<u>111,675,699</u>	<u>111,678,699</u>	<u>(3,000)</u>
Excess of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,034,254</u>	\$ <u>1,034,254</u>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Business-Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
<u>ASSETS</u>		
Current:		
Cash and short-term investments	\$ 1,992,207	\$ 2,041,617
User fees receivable	3,025,491	-
Intergovernmental receivable	296,812	-
Other receivables	-	121,678
Total current assets	5,314,510	2,163,295
Noncurrent:		
Capital assets:		
Nondepreciable capital assets	12,612,883	-
Other capital assets, net of accumulated depreciation	13,661,357	-
Total noncurrent assets	26,274,240	-
TOTAL ASSETS	31,588,750	2,163,295
<u>LIABILITIES</u>		
Current:		
Accounts payable	728,613	42,864
Accrued liabilities	198,516	-
Notes payable	6,779,432	-
Other current liabilities	-	1,715,226
Current portion of long-term liabilities:		
Bonds payable	332,088	-
Other liabilities	75,788	-
Total current liabilities	8,114,437	1,758,090
Noncurrent:		
Bonds payable, net of current portion	6,433,774	-
Other liabilities, net of current portion	249,645	-
Total noncurrent liabilities	6,683,419	-
TOTAL LIABILITIES	14,797,856	1,758,090
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	13,494,139	-
Unrestricted	3,296,755	405,205
TOTAL NET ASSETS	\$ 16,790,894	\$ 405,205

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities <u>Enterprise Fund</u>	Governmental Activities <u>Internal Service Fund</u>
Operating Revenues:		
Charges for services	\$ 7,308,637	\$ -
Contributions	-	13,858,038
Permits and fees	<u>135,833</u>	<u>-</u>
Total Operating Revenues	7,444,470	13,858,038
Operating Expenses:		
Personal services	2,068,089	-
Materials	1,723,054	-
Depreciation	554,497	-
Sanitary district assessment	2,542,545	-
Employee benefits	-	13,840,410
Other expenses	<u>5,197</u>	<u>-</u>
Total Operating Expenses	<u>6,893,382</u>	<u>13,840,410</u>
Operating Income (Loss)	551,088	17,628
Nonoperating Revenues (Expenses):		
Malden Mills settlement	1,097,531	-
Intergovernmental revenue	19,627	-
Investment income	86,272	-
Interest expense	<u>(202,054)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>1,001,376</u>	<u>-</u>
Income (Loss) Before Transfers	1,552,464	17,628
Transfers out	<u>(1,192,146)</u>	<u>-</u>
Change in Net Assets	360,318	17,628
Net Assets at Beginning of Year	<u>16,430,576</u>	<u>387,577</u>
Net Assets at End of Year	<u>\$ 16,790,894</u>	<u>\$ 405,205</u>

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities Enterprise Fund	Governmental Activities Internal Service Fund
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 7,198,876	\$ -
Employer contributions	-	8,273,794
Employee contributions	-	5,462,566
Payments of employee salaries, benefits, and related expenses	(2,026,002)	(13,288,827)
Payments to vendors	(2,311,204)	-
Payments to other governments	(2,542,545)	-
Net Cash Provided By (Used For) Operating Activities	319,125	447,533
<u>Cash Flows From Noncapital Financing Activities:</u>		
Receipts from Malden Mills settlement	1,097,531	-
Transfers to other funds	(1,192,146)	-
Net Cash (Used For) Noncapital Financing Activities	(94,615)	-
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(6,980,259)	-
Proceeds from bonds and notes	7,517,864	-
Principal payments on bonds, notes, and capital leases	(548,123)	-
Interest expense	(217,661)	-
Intergovernmental subsidy	19,627	-
Net Cash (Used For) Capital and Related Financing Activities	(208,552)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	86,272	-
Net Cash Provided By Investing Activities	86,272	-
Net Change in Cash and Short-Term Investments	102,230	447,533
Cash and Short-Term Investments, Beginning of Year	1,889,977	1,594,084
Cash and Short-Term Investments, End of Year	\$ 1,992,207	\$ 2,041,617
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating income	\$ 551,088	\$ 17,628
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	554,497	-
Loss on disposal of assets	4,323	-
Changes in assets and liabilities:		
User fees	(245,594)	-
Other receivables	-	(121,678)
Accounts payable	(435,700)	42,614
Accrued liabilities	26,481	-
Other liabilities	(151,576)	508,969
Compensated absences	15,606	-
Net Cash Provided By (Used For) Operating Activities	\$ 319,125	\$ 447,533

See notes to financial statements.

CITY OF METHUEN, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	Pension Trust Fund (As of December 31, 2006)	Private Purpose Trust Fund	Agency Fund
<u>ASSETS</u>			
Pooled cash and short-term investments	\$ 32,526	\$ -	\$ -
Non-pooled cash and short-term investments	541,083	482,214	241,590
Investments, at fair value:			
Corporate equities	27,698,958	-	-
Pooled domestic equity funds	7,947,163	-	-
Pooled international equity funds	12,804,358	-	-
Pooled domestic fixed income funds	21,891,334	-	-
Pooled alternative investments	4,083,893	-	-
Pooled real estate funds	6,604,292	-	-
Receivables	<u>6,400</u>	<u>-</u>	<u>-</u>
Total Assets	81,610,007	482,214	241,590
<u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	74,503	-	-
Other liabilities	<u>-</u>	<u>-</u>	<u>241,590</u>
Total Liabilities	<u>74,503</u>	<u>-</u>	<u>241,590</u>
<u>NET ASSETS</u>			
Total net assets held in trust for pension benefits and other purposes	<u>\$ 81,535,504</u>	<u>\$ 482,214</u>	<u>\$ -</u>

CITY OF METHUEN, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Pension Trust Fund (For the Year Ended <u>December 31, 2006</u>)	Private Purpose Trust Fund
Additions:		
Contributions:		
Employers	\$ 5,150,000	\$ -
Other systems and Commonwealth of Massachusetts	395,668	-
Plan members	2,796,585	-
Other	56,546	-
Total contributions	<u>8,398,799</u>	<u>-</u>
Investment Income:		
Increase in fair value of investments	8,706,624	17,689
Less: management fees	(445,812)	-
Net investment income	<u>8,260,812</u>	<u>17,689</u>
Total additions	16,659,611	17,689
Deductions:		
Benefit payments to plan members and beneficiaries	7,793,950	-
Refunds to plan members	198,121	-
Transfers to other systems	188,132	-
Administrative expenses	230,835	-
Other	-	200
Total deductions	<u>8,411,038</u>	<u>200</u>
Net increase	8,248,573	17,489
Net assets:		
Beginning of year	<u>73,286,931</u>	<u>464,725</u>
End of year	<u>\$ 81,535,504</u>	<u>\$ 482,214</u>

See notes to financial statements.

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CITY OF METHUEN, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

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

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

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

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

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

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

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

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

D. Cash and Short-Term Investments

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

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

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

E. Investments

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

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

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2007 tax levy reflected an excess capacity of approximately \$ 2,975,000.

G. Capital Assets

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

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

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

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

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

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

H. Compensated Absences

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

I. Long-Term Obligations

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

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. Use of Estimates

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

2. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

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

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

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

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 116,511,905	\$ 116,861,789
Other financing sources/uses (GAAP basis)	<u>32,561,322</u>	<u>32,355,636</u>
Subtotal (GAAP Basis)	149,073,227	149,217,425

(continued)

(continued)

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Adjust tax revenue to accrual basis	(264,890)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(880,683)
Add end of year appropriation carryforwards to expenditures	-	2,022,297
To reverse the effect of non-budgeted State contributions for teachers retirement	(6,569,138)	(6,569,138)
Reverse unbudgeted transfer	-	(16,047)
Reverse gross up of capital leases	(172,927)	(172,927)
Reverse refunding issue	(30,985,000)	(31,560,514)
Reverse refunding premium and costs	(937,228)	(361,714)
Recognize use of reserved fund balance	465,292	-
Recognize use of overlay surplus	164,340	-
Recognize use of free cash	<u>1,939,277</u>	<u>-</u>
Budgetary basis	\$ <u><u>112,712,953</u></u>	\$ <u><u>111,678,699</u></u>

D. Deficit Fund Equity

The following funds or projects within the funds had deficits as of June 30, 2007:

Major Governmental Fund:	
Roads and Drainage	\$ 3,781,865

Nonmajor Governmental Funds:	
Methuen on the Move	\$ 2,288
Police, State, Shannon Anti-Gang Grant	\$ 11,124
21st Century Continuation 2007	\$ 32,895
Even Start 2007	\$ 3,125
SPED Program Improvements	\$ 17,648
TECH Enhancement 2007	\$ 4,504
Weed and Seed	\$ 52,073
Title V 2007	\$ 2,359
Recreation	\$ 139,825

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

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

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

No investment manager's cash position may exceed 10% for more than 5 consecutive days (allowing for settlement) without the consent of the Board. It is the responsibility of the managers to contact the Board to obtain authorization to maintain a cash position greater than 10%. As of June 30, 2007 and December 31, 2006, \$ 7,160,584 and \$ 206,662 of the City's and System's bank balance of \$ 17,861,166 and \$ 675,107

respectively, was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's and System's name.

4. Investments

A. Credit Risk

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

At December 31, 2006, the System's investments consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Duration</u>	<u>Average Rating</u>
Corporate equity funds	\$ 27,698,958	-	-
Pooled funds	<u>53,331,040</u>	4.45	AA
Total	\$ <u>81,029,998</u>		

B. Custodial Credit Risk

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

C. Concentration of Credit Risk

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

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

Wells Fargo	\$ 17,954,970
Brandes International Equity	12,804,358
PREF AMREIT II	4,278,273

D. Interest Rate Risk

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

E. Foreign Currency Risk

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

5. Taxes Receivable

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

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

Taxes receivable at June 30, 2007 consist of the following (in thousands):

Real Estate		
2007		\$ 1,268
Personal Property		
2007	10	
2006	6	
2005	8	
2004	8	
2003	9	
2002	23	
Prior	<u>237</u>	
		301
Tax Liens		<u>1,004</u>
Total		\$ <u><u>2,573</u></u>

6. **Allowance for Doubtful Accounts**

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

Property taxes	\$ 238
Excises	154

7. **User Fees Receivable**

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

8. **Departmental and Other Receivables**

The City's departmental and other receivables at June 30, 2007 consist of the following:

	Fire <u>Ambulance</u>	Police Outside <u>Detail</u>	Veterans <u>Benefits</u>	<u>Other</u>	<u>Total</u>
Gross	\$ 1,289,949	\$ 206,590	\$ 306,974	\$ 395,883	\$ 2,199,396
Less: Allowance for doubtful accounts	<u>(257,990)</u>	<u>(20,659)</u>	<u>-</u>	<u>-</u>	<u>(278,649)</u>
Total	<u>\$ 1,031,959</u>	<u>\$ 185,931</u>	<u>\$ 306,974</u>	<u>\$ 395,883</u>	<u>\$ 1,920,747</u>

9. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2007 and the amount to be drawn down from Massachusetts Water Pollution Abatement Trust for the improvement of the water distribution system, which is included in the City's long-term debt, see footnote 18.

10. Loans Receivable

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

11. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 5,695	\$ -	\$ -	\$ 5,695
Construction	106,945	-	-	106,945
Infrastructure	22,329	258	-	22,587
Machinery and equipment	10,429	34	(28)	10,435
Licenses and vehicles	<u>8,639</u>	<u>192</u>	<u>(54)</u>	<u>8,777</u>
Total capital assets, being depreciated	154,037	484	(82)	154,439
Less accumulated depreciation for:				
Land improvements	(3,652)	(168)	-	(3,820)
Construction	(37,512)	(2,045)	-	(39,557)
Infrastructure	(14,373)	(634)	-	(15,007)
Machinery and equipment	(8,394)	(367)	25	(8,736)
Licenses and vehicles	<u>(7,219)</u>	<u>(356)</u>	<u>54</u>	<u>(7,521)</u>
Total accumulated depreciation	<u>(71,150)</u>	<u>(3,570)</u>	<u>79</u>	<u>(74,641)</u>
Total capital assets, being depreciated, net	82,887	(3,086)	(3)	79,798
Capital assets, not being depreciated:				
Land, easements and right of way	9,210	-	-	9,210
Construction in progress	<u>49</u>	<u>-</u>	<u>-</u>	<u>49</u>
Total capital assets, not being depreciated	<u>9,259</u>	<u>-</u>	<u>-</u>	<u>9,259</u>
Governmental activities capital assets, net	<u>\$ 92,146</u>	<u>\$ (3,086)</u>	<u>\$ (3)</u>	<u>\$ 89,057</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Land improvements	\$ 218	\$ -	\$ -	\$ 218
Construction	8,492	-	-	8,492
Infrastructure	24,156	-	-	24,156
Machinery and equipment	2,024	-	(168)	1,856
Licenses and vehicles	<u>258</u>	<u>-</u>	<u>-</u>	<u>258</u>
Total capital assets, being depreciated	35,148	-	(168)	34,980
Less accumulated depreciation for:				
Land improvements	(196)	(3)	-	(199)
Construction	(4,155)	(170)	-	(4,325)
Infrastructure	(14,912)	(304)	-	(15,216)
Machinery and equipment	(1,614)	(46)	164	(1,496)
Licenses and vehicles	<u>(51)</u>	<u>(32)</u>	<u>-</u>	<u>(83)</u>
Total accumulated depreciation	<u>(20,928)</u>	<u>(555)</u>	<u>164</u>	<u>(21,319)</u>
Total capital assets, being depreciated, net	14,220	(555)	(4)	13,661
Capital assets, not being depreciated:				
Land, easements & right of way	252	-	-	252
Construction in progress	<u>5,381</u>	<u>6,980</u>	<u>-</u>	<u>12,361</u>
Total capital assets, not being depreciated	<u>5,633</u>	<u>6,980</u>	<u>-</u>	<u>12,613</u>
Business-type activities capital assets, net	<u>\$ 19,853</u>	<u>\$ 6,425</u>	<u>\$ (4)</u>	<u>\$ 26,274</u>

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

Governmental Activities:

General government	\$ 159
Public safety	242
Education	2,300
Public works	864
Culture and recreation	<u>6</u>

Total depreciation expense - governmental activities	\$ <u>3,571</u>
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Business-Type Activities:

Enterprise	\$ <u>554</u>
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The City has active construction projects as of June 30, 2007. At year end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to June 30, 2007</u>	<u>Commitments Outstanding</u>
Water treatment plant improvements	\$ 3,120,373	\$ 14,941,566
Water distribution system improvements	9,209,433	1,057,967
Sewer projects	<u>31,327</u>	<u>200,000</u>
Total	\$ <u>12,361,133</u>	\$ <u>16,199,533</u>

12. Warrants and Accounts Payable

Warrants payable represent 2007 expenditures paid by July 15, 2007 as permitted by law. Accounts payable represent additional 2007 expenditures paid after July 15, 2007.

13. Accrued Liabilities

The City had the following accrued liabilities as of June 30, 2007:

Salaries and wages	\$ 680,358
Debt interest	<u>933,364</u>
Total accrued liabilities	\$ <u>1,613,722</u>

14. Deferred Revenue

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

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2007 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

15. Loan and Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2007:

	Interest Rate	Date of Issue	Date of Maturity	Balance at June 30, 2007
Roads and surface drains	3.75%	08/18/06	08/18/07	\$ 3,875,000
Water distribution system	2.98%	08/18/06	08/18/07	713,500
Recreation	3.50%	08/18/06	08/18/07	250,000
Water treatment plant improvements	3.74%	01/26/07	01/26/08	<u>1,250,000</u>
Subtotal				6,088,500
Water treatment plant improvements, State revolving fund loan	1.76%	01/30/07	12/31/07	4,815,932
Total				<u>\$ 10,904,432</u>

The following summarizes activity in notes payable during fiscal year 2007:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Roads & Drainage	\$ 4,000,000	\$ 3,875,000	\$ (4,000,000)	\$ 3,875,000
Recreation	250,000	250,000	(250,000)	250,000
Water Distribution Sys	713,500	713,500	(713,500)	713,500
Water treatment plant improvements	1,250,000	1,250,000	(1,250,000)	1,250,000
Treatment plant improvements	<u>-</u>	<u>4,815,932</u>	<u>-</u>	<u>4,815,932</u>
Total	<u>\$ 6,213,500</u>	<u>\$ 10,904,432</u>	<u>\$ (6,213,500)</u>	<u>\$ 10,904,432</u>

16. Other Current Liabilities

Other current liabilities as of June 30, 2007 consist of the following:

IBNR (see note 27)	\$ 1,715,226
Guaranteed deposits	919,497
Employee withholdings and other	<u>38,953</u>
Total other current liabilities	<u>\$ 2,673,676</u>

17. Capital Lease Obligations

The City's outstanding lease agreements include the acquisition of computers, fire trucks, highway trucks, police vehicles and a communication system. These leases qualify as capital leases. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2007:

	Governmental Activities	Business-Type Activities
2008	\$ 363,920	\$ 80,540
2009	355,319	80,540
2010	189,270	-
2011	153,439	-
Total minimum lease payments	1,061,948	161,080
Less amount representing interest	(93,871)	(9,504)
Present Value of Minimum Lease Payments	<u>\$ 968,077</u>	<u>\$ 151,576</u>

The following is an analysis of the leased assets included in capital assets at June 30, 2007:

	Governmental Activities	Business-Type Activities
Machinery, vehicles and equipment	\$ 1,896,996	\$ 386,204
Less: accumulated depreciation	<u>(357,582)</u>	<u>(82,999)</u>
Equipment under capital leases, net	<u>\$ 1,539,414</u>	<u>\$ 303,205</u>

18. Long-Term Debt

A. Long-Term Debt Supporting Activities

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

B. General Obligation Bonds

General obligation bonds currently outstanding are as follows:

	Original Issue Amount		Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
<u>Governmental Activities:</u>					
Recreation	\$ 253,600 *		11/01/11	4.80%	\$ 142,500
Recreation	1,600,000 *		11/01/12	5.01%	636,000
Marsh School Expansion	17,399,400 *		11/01/16	4.80%	12,957,500
Timony School Expansion	21,190,000 *		11/01/16	5.01%	13,904,000
Landfill Closure	3,500,000 *		11/01/16	5.01%	1,897,000
Tenney School Expansion	22,850,000 *		05/15/17	4.79%	15,010,000
Additional School Expansion	6,500,000 *		10/15/19	5.00%	4,720,000
Library	4,800,000 *		10/15/19	5.00%	3,388,000
Road and Surface Drains	5,630,000		09/01/21	3.27%	4,225,000
Landfill Closure	85,000		09/01/21	3.91%	75,000
Total Governmental Activities					<u>\$ 56,955,000</u>

*Partially refunded, original amount shown

	Original Issue Amount		Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2007
<u>Business-Type Activities:</u>					
Sewer	\$ 821,670 *		02/01/15	variable	\$ 434,203
Sewer	395,100 *		08/01/18	variable	345,500
Storm water Management	468,063 *		08/01/23	variable	414,442
Water Distribution System	5,786,500 *		07/15/25	2.00%	5,571,717
Total Business-Type Activities					<u>\$ 6,765,862</u>

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

C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2007 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 5,585,000	\$ 2,366,383	\$ 7,951,383
2009	5,720,000	2,122,323	7,842,323
2010	5,840,000	1,853,933	7,693,933
2011	5,955,000	1,601,281	7,556,281
2012	6,060,000	1,329,794	7,389,794
2013 - 2017	26,790,000	2,921,359	29,711,359
2018 - 2022	1,005,000	70,558	1,075,558
Total	<u>\$ 56,955,000</u>	<u>\$ 12,265,631</u>	<u>\$ 69,220,631</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 332,088	\$ 2,366,383	\$ 2,698,471
2009	340,560	2,122,323	2,462,883
2010	349,222	1,853,933	2,203,155
2011	358,543	1,601,281	1,959,824
2012	368,134	1,329,794	1,697,928
2013 - 2017	1,845,561	2,921,359	4,766,920
2018 - 2022	1,756,731	70,558	1,827,289
2023 - 2026	1,415,023	59,084	1,474,107
Total	\$ <u>6,765,862</u>	\$ <u>12,324,715</u>	\$ <u>19,090,577</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2007 are as follows:

<u>Date</u>	<u>Purpose</u>	<u>Amount</u>
07/01/97	Landfill closure	\$ 300,000
07/01/97	Roads and drainage	3,875,000
06/17/98	Riverdale sewer replacement project	113,158
01/31/01	MWPAT	200,000
07/07/04	Water distribution system	713,500
08/04/05	Water treatment plant improvements	15,500,000
09/10/05	Recreation	250,000
11/16/05	Water distribution system improvements	750,000
07/05/06	Sewer rehab and East Capital St. project	1,200,000
07/05/06	Storm water planning	200,000
10/05/06	Waster treatment plant improvements	<u>4,300,000</u>
Total		\$ <u>27,401,658</u>

E. Changes in General Long-Term Liabilities

During the year ended June 30, 2007, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/06	Additions	Refunding	Reductions	Total Balance 6/30/07	Less Current Portion	Equals Long-Term Portion 6/30/07
<u>Governmental Activities</u>							
General obligation debt	\$ 61,865	\$ 30,985	\$ (30,525)	\$ (5,370)	\$ 56,955	\$ (5,585)	\$ 51,370
Other:							
Capital leases	1,166	173	-	(371)	968	(330)	638
Landfill closure	1,800	-	-	(75)	1,725	(75)	1,650
Accrued employee benefits	3,069	1,803	-	(1,793)	3,079	(1,539)	1,540
Totals	<u>\$ 67,900</u>	<u>\$ 32,961</u>	<u>\$ (30,525)</u>	<u>\$ (7,609)</u>	<u>\$ 62,727</u>	<u>\$ (7,529)</u>	<u>\$ 55,198</u>
	Total Balance 7/1/06	Additions	Refunding	Reductions	Total Balance 6/30/07	Less Current Portion	Equals Long-Term Portion 6/30/07
<u>Business-Type Activities</u>							
General obligation debt	\$ 7,326	\$ -	\$ -	\$ (560)	\$ 6,766	\$ (332)	\$ 6,434
Other:							
Capital leases	227	-	-	(75)	152	(77)	75
Accrued employee benefit	162	145	-	(133)	174	-	174
Totals	<u>\$ 7,715</u>	<u>\$ 145</u>	<u>\$ -</u>	<u>\$ (768)</u>	<u>\$ 7,092</u>	<u>\$ (409)</u>	<u>\$ 6,683</u>

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

F. Current Year Defeasance of Debt

On October 13, 2006 the City issued general obligation bonds in the amount of \$ 30,985,000 with a variable interest rate ranging from 3.8% to 5.0% to advance refund \$ 30,525,000 of term bonds with interest rates ranging from 4.536% to 5.080%. The term bonds mature on October 15, 2010 and were callable on October 13, 2006. The general obligation bonds (plus a premium of \$ 937,228), after paying total issuance costs of \$361,714, the net proceeds were \$ 31,560,514. The City also deposited \$ 654,075, which was used to pay off noncallable portion of defeased debt. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on October 15, 2010. The advance refunding met the requirements of an in-substance

debt of defeasance and the term bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$ 1,013,208, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$ 458,852.

Defeased debt still outstanding at June 30, 2007 is \$ 29,870,925.

G. Prior Year Defeasance of Debt

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

Defeased debt still outstanding at June 30, 2007 is \$ 12,810,000.

19. Subsequent Events

The City issued a general obligation bond dated August 15, 2007 for roads and surface drains, water treatment plant, and other water purposes in the amount of \$ 5,450,000. On December 18, 2007, Water State Revolving Loan became permanent at an interest rate of 2.0%, maturing July 15, 2027.

20. Landfill Closure and Postclosure Care Costs

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

The \$ 1,725,000 is reported as landfill postclosure care liability at June 30, 2007. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

21. Restricted Net Assets

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

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

22. Reserves and Designations of Fund Equity

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

The following types of reserves and designations are reported at June 30, 2007:

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

Reserved for Expenditures - Represents amounts reserved for 2008 expenditures of \$ 1,000,000 and Medicaid costs of \$ 150,063.

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

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

23. Commitments and Contingencies

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

There is a pending lawsuit in which the City is involved that occurred subsequent to year end. The amount of the probable settlement might be material to the financial statements and will be recognized as a liability or expense in fiscal year 2008.

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

24. Malden Mills Bankruptcy

The City has been monitoring Malden Mills and the impact on the City’s finances ever since a catastrophic fire to Malden Mills’ facilities in the winter

of 1995. Prior to the fire, Malden Mills was one of the City's largest users of sewer and water. As the events of Malden Mills unfolded, the City planned for the loss of revenues. Accordingly, recent budgets/rates have been established without heavy reliance on Malden Mills Industries, Inc.

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

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

25. Post-Employment Health Care and Life Insurance Benefits

The City of Methuen has accepted Chapter 32B of the Massachusetts General Laws to provide health insurance and life Insurance benefits to retirees, their dependents, or their survivors. These benefits are provided through the City's group insurance plans. The cost of these benefits is included in the total cost of benefits for both active and retired employees. The cost of post-employment health insurance benefits for 599 retirees, their dependents, or their survivors for the year ended June 30, 2007 was \$ 2,996,283. The cost of post-employment life insurance benefits for 441 retirees for fiscal year 2007 was \$ 17,625.

26. Contributory Retirement System

A. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at December 31, 2006:

Retirees and beneficiaries receiving benefits	412
Terminated plan members entitled to but not yet receiving benefits	61
Active plan members	<u>705</u>
Total	<u><u>1,178</u></u>
Number of participating employers	2

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

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

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

B. Summary of Significant Accounting Policies

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

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

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

C. Teachers

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

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

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

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

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

The City's current year covered payroll for teachers was approximately \$ 34,000,000.

In fiscal year 2007, the Commonwealth of Massachusetts contributed \$ 6,569,138 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

27. Self Insurance

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

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

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

	Year Ended <u>June 30, 2007</u>	Year Ended <u>June 30, 2006</u>
Unpaid claims, beginning of fiscal year	\$ 1,206,257	\$ 1,823,705
Claims incurred (including IBNRs)	13,840,410	12,785,410
Claims paid	<u>(13,331,441)</u>	<u>(13,402,858)</u>
Unpaid claims, end of fiscal year	\$ <u>1,715,226</u> *	\$ <u>1,206,257</u> *

*This liability is considered to be all current.

28. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

CITY OF METHUEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Funding Progress and Employer Contributions

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

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b - a)/c]
01/01/07	\$ 79,875,823	\$ 146,337,558	\$ (66,461,735)	54.6%	\$ 29,257,209	227.2%
01/01/04	71,932,860	117,599,583	(45,666,723)	61.2%	25,933,704	176.1%
01/01/01	68,625,708	92,496,265	(23,870,557)	74.2%	22,480,573	106.2%
01/01/97	42,617,519	66,863,478	(24,245,959)	63.7%	16,295,087	148.8%
01/01/96	37,886,763	58,261,376	(20,374,613)	65.0%	15,520,687	131.3%
01/01/93	25,970,674	45,965,677	(19,995,003)	56.5%	14,905,887	134.1%

Schedule of Employer Contributions:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	\$ 2,572,051	100%
2002	2,674,933	100%
2003	2,772,000	100%
2004	2,244,581	70%
2005	3,186,100	100%
2006	4,966,000	100%
2007	5,160,000	100%

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

Valuation date	1/1/07
Actuarial cost method	Individual entry age normal
Amortization method	4.5% increasing payments
Remaining amortization period	21 years
Asset valuation method	Actuarial value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increase	Service based table with ultimate rates of 4.75, 5.00%, and 5.25% for groups 1, 2, and 4, respectively.

See Independent Auditors' Report.

Combining Financial Statements

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Special Revenue Funds are established for the following purposes:

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

CAPITAL PROJECT FUNDS

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

The current funds were established for the following purposes:

- Recreation Fund: to fund major improvements to the City's parks, sports fields, and recreation facilities through the issuance of long-term bonds and notes and other available funds.
- Nevins Library Expansion: to fund the City's share of the major renovation of the Nevins Memorial Library through the issuance of long-term bonds and notes and other available funds.
- Pleasant Valley Street Infrastructure: to fund the City's improvements to the street's infrastructure.
- Searles Repairs: to fund various major projects relative the repair and upkeep of the City's public buildings from other available funds.

PERMANENT FUND

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

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

CITY OF METHUEN, MASSACHUSETTS

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2007

	Special Revenue Funds				
	<u>Community Development</u>	<u>School Lunch</u>	<u>Revolving Fund</u>	<u>State Grants</u>	<u>Federal Grants</u>
<u>ASSETS</u>					
Cash and short-term investments	\$ 788,200	\$ 270,497	\$ 2,079,017	\$ 200,656	\$ 144,291
Departmental and other receivables	-	9,575	262,684	-	-
Intergovernmental receivables	589,250	-	-	129,022	7,500
Loans receivable	<u>1,399,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 2,776,559</u>	<u>\$ 280,072</u>	<u>\$ 2,341,701</u>	<u>\$ 329,678</u>	<u>\$ 151,791</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Warrants and accounts payable	\$ 20,359	\$ 37,274	\$ 64,730	\$ 37,324	\$ 23,619
Accrued liabilities	2,541	2,418	93,417	22,077	11,165
Deferred revenues	1,988,359	-	206,590	-	-
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	2,011,259	39,692	364,737	59,401	34,784
Fund Balances:					
Reserved for:					
Perpetual permanent fund	-	-	-	-	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds	765,300	240,380	1,976,964	270,277	117,007
Capital project funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>765,300</u>	<u>240,380</u>	<u>1,976,964</u>	<u>270,277</u>	<u>117,007</u>
Total Liabilities and Fund Balances	<u>\$ 2,776,559</u>	<u>\$ 280,072</u>	<u>\$ 2,341,701</u>	<u>\$ 329,678</u>	<u>\$ 151,791</u>

Special Revenue Funds

<u>Other Fund</u>	<u>Law Enforcement Trust</u>	<u>Expendable Trust</u>	<u>Stabilization Trust</u>	<u>Other Trust</u>	<u>Subtotals</u>
\$ 246,167	\$ 24,228	\$ 132,963	\$ 53,413	\$ 29,814	\$ 3,969,246
4,478	-	975	-	-	277,712
-	-	-	-	-	725,772
-	-	-	-	-	1,399,109
<u>\$ 250,645</u>	<u>\$ 24,228</u>	<u>\$ 133,938</u>	<u>\$ 53,413</u>	<u>\$ 29,814</u>	<u>\$ 6,371,839</u>
\$ 1,171	\$ -	\$ 776	\$ -	\$ 883	\$ 186,136
-	-	-	-	-	131,618
-	-	-	-	-	2,194,949
-	-	-	-	-	-
1,171	-	776	-	883	2,512,703
-	-	-	-	-	-
249,474	24,228	133,162	53,413	28,931	3,859,136
-	-	-	-	-	-
249,474	24,228	133,162	53,413	28,931	3,859,136
<u>\$ 250,645</u>	<u>\$ 24,228</u>	<u>\$ 133,938</u>	<u>\$ 53,413</u>	<u>\$ 29,814</u>	<u>\$ 6,371,839</u>

(continued)

(continued)

	Capital Project Funds		
	Recreation Fund	Nevins Library Expansion	Pleasant Valley Street Infrastructure
<u>ASSETS</u>			
Cash and short-term investments	\$ 110,175	\$ 167,356	\$ 200,000
Departmental and other receivables	-	-	-
Intergovernmental receivables	-	-	-
Loans receivable	-	-	-
Total Assets	<u>\$ 110,175</u>	<u>\$ 167,356</u>	<u>\$ 200,000</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Warrants and accounts payable	\$ -	\$ -	\$ 1,820
Accrued liabilities	-	-	-
Deferred revenues	-	-	-
Notes payable	<u>250,000</u>	<u>-</u>	<u>-</u>
Total Liabilities	250,000	-	1,820
Fund Balances:			
Reserved for:			
Perpetual permanent fund	-	-	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	-	-	-
Capital project funds	<u>(139,825)</u>	<u>167,356</u>	<u>198,180</u>
Total Fund Balances	<u>(139,825)</u>	<u>167,356</u>	<u>198,180</u>
Total Liabilities and Fund Balances	<u>\$ 110,175</u>	<u>\$ 167,356</u>	<u>\$ 200,000</u>

Capital Project Funds		Permanent Fund	Total Nonmajor Governmental Funds
Searles Repairs	Subtotal	Perpetual Care	
\$ 49,195	\$ 526,726	\$ 540,939	\$ 5,036,911
-	-	-	277,712
-	-	-	725,772
-	-	-	1,399,109
<u>\$ 49,195</u>	<u>\$ 526,726</u>	<u>\$ 540,939</u>	<u>\$ 7,439,504</u>
\$ -	\$ 1,820	\$ -	\$ 187,956
-	-	-	131,618
-	-	-	2,194,949
-	250,000	-	250,000
-	251,820	-	2,764,523
-	-	540,939	540,939
-	-	-	3,859,136
49,195	274,906	-	274,906
49,195	274,906	540,939	4,674,981
-	-	-	-
<u>\$ 49,195</u>	<u>\$ 526,726</u>	<u>\$ 540,939</u>	<u>\$ 7,439,504</u>

CITY OF METHUEN, MASSACHUSETTS

Combining Statement of Revenues, Expenditures
and Changes in Fund Equity

Nonmajor Governmental Funds

For the Year Ended June 30, 2007

	Special Revenue Funds				
	<u>Community Development</u>	<u>School Lunch</u>	<u>Revolving Fund</u>	<u>State Grants</u>	<u>Federal Grants</u>
Revenues:					
Intergovernmental	\$ 523,920	\$ 953,610	\$ 1,268,069	\$ 1,674,040	\$ 3,800,965
Charges for services	-	1,215,495	3,202,173	-	-
Investment income	4,583	-	-	-	-
Contributions	-	-	36,020	-	-
Other revenue	-	-	-	-	-
Total Revenues	528,503	2,169,105	4,506,262	1,674,040	3,800,965
Expenditures:					
Current:					
General government	-	-	15,000	7,118	-
Public safety	-	-	1,093,119	373,187	124,417
Education	-	2,064,098	2,834,327	936,713	3,807,840
Public works	892,481	-	28,423	121,877	-
Health and human services	-	-	87,167	110,158	-
Culture and recreation	-	-	443,003	-	-
Total Expenditures	892,481	2,064,098	4,501,039	1,549,053	3,932,257
Excess (deficiency) of revenues over (under) expenditures	(363,978)	105,007	5,223	124,987	(131,292)
Other Financing Sources (Uses):					
Transfers in	2,900	-	15,000	-	-
Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	2,900	-	15,000	-	-
Net change in fund balances	(361,078)	105,007	20,223	124,987	(131,292)
Fund Balances (deficit), beginning of year	1,126,378	135,373	1,956,741	145,290	248,299
Fund Balances, end of year	\$ <u>765,300</u>	\$ <u>240,380</u>	\$ <u>1,976,964</u>	\$ <u>270,277</u>	\$ <u>117,007</u>

Special Revenue Funds					
<u>Other Funds</u>	<u>Law Enforcement Trust</u>	<u>Expendable Trust</u>	<u>Stabilization Trust</u>	<u>Other Trust</u>	<u>Subtotals</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,220,604
56,317	-	-	-	-	4,473,985
-	-	7,218	2,659	282	14,742
-	-	88,360	-	846	125,226
<u>116,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>116,109</u>
172,426	-	95,578	2,659	1,128	12,950,666
71,714	-	-	-	-	93,832
-	2,976	385	-	-	1,594,084
-	-	-	-	-	9,642,978
3,583	-	-	-	-	1,046,364
4,173	-	-	-	-	201,498
<u>-</u>	<u>-</u>	<u>25,535</u>	<u>-</u>	<u>-</u>	<u>468,538</u>
<u>79,470</u>	<u>2,976</u>	<u>25,920</u>	<u>-</u>	<u>-</u>	<u>13,047,294</u>
92,956	(2,976)	69,658	2,659	1,128	(96,628)
40,902	-	76,034	-	-	134,836
<u>(100,000)</u>	<u>-</u>	<u>(92,900)</u>	<u>-</u>	<u>-</u>	<u>(192,900)</u>
<u>(59,098)</u>	<u>-</u>	<u>(16,866)</u>	<u>-</u>	<u>-</u>	<u>(58,064)</u>
33,858	(2,976)	52,792	2,659	1,128	(154,692)
<u>215,616</u>	<u>27,204</u>	<u>80,370</u>	<u>50,754</u>	<u>27,803</u>	<u>4,013,828</u>
<u>\$ 249,474</u>	<u>\$ 24,228</u>	<u>\$ 133,162</u>	<u>\$ 53,413</u>	<u>\$ 28,931</u>	<u>\$ 3,859,136</u>

(continued)

(continued)

	Capital Project Funds		
	Recreational <u>Fund</u>	Nevins Library <u>Expansion</u>	Pleasant Valley Street <u>Infrastructure</u>
Revenues:			
Intergovernmental	\$ -	\$ -	\$ -
Charges for services	-	-	-
Investment income	-	-	-
Contributions	81,518	-	-
Other revenue	-	-	200,000
	<hr/>	<hr/>	<hr/>
Total Revenues	81,518	-	200,000
Expenditures:			
Current:			
General government	-	-	1,820
Public safety	-	-	-
Education	-	-	-
Public works	-	-	-
Health and human services	-	-	-
Culture and recreation	-	7,379	-
	<hr/>	<hr/>	<hr/>
Total Expenditures	-	7,379	1,820
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	81,518	(7,379)	198,180
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	-	-	-
	<hr/>	<hr/>	<hr/>
Net change in fund balances	81,518	(7,379)	198,180
Fund Balances (deficit), beginning of year	(221,343)	174,735	-
	<hr/>	<hr/>	<hr/>
Fund Balances, end of year	\$ <u>(139,825)</u>	\$ <u>167,356</u>	\$ <u>198,180</u>

<u>Capital Project Funds</u>		<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Searles Repairs</u>	<u>Subtotal</u>	<u>Perpetual Care</u>	
\$ -	\$ -	\$ -	\$ 8,220,604
-	-	-	4,473,985
-	-	35,178	49,920
-	81,518	35,499	242,243
-	200,000	-	316,109
-	281,518	70,677	13,302,861
-	1,820	-	95,652
-	-	-	1,594,084
-	-	-	9,642,978
61,448	61,448	-	1,107,812
-	-	16,803	218,301
-	7,379	-	475,917
61,448	70,647	16,803	13,134,744
(61,448)	210,871	53,874	168,117
-	-	-	134,836 ⁽¹⁾
-	-	(100,890)	(293,790) ⁽¹⁾
-	-	(100,890)	(158,954)
(61,448)	210,871	(47,016)	9,163
110,643	64,035	587,955	4,665,818
\$ <u>49,195</u>	\$ <u>274,906</u>	\$ <u>540,939</u>	\$ <u>4,674,981</u>

(1) Transfers are netted for the presentation on page 36.

**Detail and Combining Budget
and Actual Schedules**

GENERAL FUND

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

CITY OF METHUEN, MASSACHUSETTS

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

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
<u>Revenues</u>				
Property Tax	\$ 52,377,073	\$ 52,377,073	\$ 52,377,073	\$ -
Local Revenue:				
Motor vehicle excise	4,750,000	4,750,000	4,508,214	(241,786)
Motel/hotel license	44,000	44,000	72,062	28,062
Licenses	1,279,000	1,279,000	1,137,158	(141,842)
Fines	365,000	365,000	338,995	(26,005)
Special assessment	60,000	60,000	88,581	28,581
General government	610,000	610,000	454,142	(155,858)
Protection of person	1,100,000	1,100,000	1,143,486	43,486
Cemetery	170,000	170,000	193,806	23,806
Interest	400,000	400,000	745,422	345,422
Medicare reimbursement	63,847	63,847	640,063	576,216
In lieu of tax	<u>160,000</u>	<u>160,000</u>	<u>165,589</u>	<u>5,589</u>
Total Local Revenue	9,001,847	9,001,847	9,487,518	485,671
Cherry Sheet and Miscellaneous	45,695,705	45,695,705	45,823,204	127,499
Non-Recurring:				
FEMA Aid, May 2006 floods	-	163,969	690,785	526,816
Sale of City owned property	-	-	36,248	36,248
Fire department gifts	-	1,050	1,050	-
Impact fees	<u>500,000</u>	<u>500,000</u>	<u>349,282</u>	<u>(150,718)</u>
Total Non-Recurring	500,000	665,019	1,077,365	412,346
Transfers In:				
Transfers from other funds	175,000	175,000	175,159	159
Enterprise fund indirect costs	<u>1,192,146</u>	<u>1,192,146</u>	<u>1,192,146</u>	<u>-</u>
Total Transfers In	1,367,146	1,367,146	1,367,305	159
Other Financing Sources:				
Use of free cash	700,000	1,939,277	1,939,277	-
Loan premium	-	-	11,579	11,579
Use of reserved fund balance	465,292	465,292	465,292	-
Use of overlay surplus	<u>-</u>	<u>164,340</u>	<u>164,340</u>	<u>-</u>
Total Other Financing Sources	<u>1,165,292</u>	<u>2,568,909</u>	<u>2,580,488</u>	<u>11,579</u>
Total	<u>\$ 110,107,063</u>	<u>\$ 111,675,699</u>	<u>\$ 112,712,953</u>	<u>\$ 1,037,254</u>

CITY OF METHUEN, MASSACHUSETTS

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

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>Expenditures</u>				
General Government:				
Assessment	\$ 266,786	\$ 413,147	\$ 413,147	\$ -
City auditor	490,256	497,522	497,522	-
City clerk	278,416	272,360	272,360	-
City council	146,313	145,051	145,051	-
Economic development	1,163,935	1,205,467	1,205,467	-
Historical commission	29,500	29,484	29,484	-
Human resources	182,226	187,502	187,502	-
Information technology	651,212	628,233	628,233	-
Insurance	9,850,288	10,227,960	10,227,960	-
Legal services	186,242	288,286	288,286	-
Mayor	276,813	270,084	270,084	-
Retirement	5,101,007	5,102,286	5,102,286	-
Unpaid bills	-	900	900	-
Treasurer/tax collector	430,390	431,501	431,501	-
Reserve fund	300,000	-	-	-
Total General Government	19,353,384	19,699,783	19,699,783	-
Intergovernmental	1,262,874	1,312,874	1,315,874	(3,000)
Public Safety:				
Emergency management	6,100	169,938	169,938	-
Fire prevention	7,089,613	7,233,554	7,233,554	-
Law enforcement	7,499,344	7,717,073	7,717,073	-
Total Public Safety	14,595,057	15,120,565	15,120,565	-
Education	56,551,807	56,463,058	56,463,058	-
Public Works	5,623,460	6,334,850	6,334,850	-
Solid Waste Disposal	2,717,183	2,710,081	2,710,081	-
Library	1,242,351	1,217,909	1,217,909	-
Health and Human Services:				
Elder services	254,472	257,992	257,992	-
Health services	332,776	454,451	454,451	-
Leisure services	122,795	121,508	121,508	-
Total Health and Human Services	710,043	833,951	833,951	-
Debt Service	8,050,904	7,982,628	7,982,628	-
Total	\$ 110,107,063	\$ 111,675,699	\$ 111,678,699	\$ (3,000)

Enterprise Funds

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

The City of Methuen has the following Enterprise Fund:

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

CITY OF METHUEN, MASSACHUSETTS

Schedule of Revenues and Expenses -
Budget and Actual

Enterprise Fund

For the Year Ended June 30, 2007

	Original <u>Budget</u>	Final <u>Budget</u>	Actual (Budgetary Basis)	Variance from <u>Final Budget</u>
Revenues:				
User charges	\$ 6,999,000	\$ 6,999,000	\$ 6,858,359	\$ (140,641)
Connections fees	82,000	82,000	169,326	87,326
Other departmental revenue	189,000	189,000	88,774	(100,226)
Investment income	150,000	150,000	131,610	(18,390)
Sale of water and Malden Mills	443,750	443,750	957,611	513,861
Use of retained earnings	<u>698,861</u>	<u>698,861</u>	<u>698,861</u>	<u>-</u>
Total Revenues	8,562,611	8,562,611	8,904,541	341,930
Expenses:				
Personal services	361,392	380,069	380,069	-
Laborers	1,776,221	1,762,851	1,672,413	90,438
Other expenses	1,704,200	1,790,837	1,732,160	58,677
Equipment outlay	80,540	80,540	80,540	-
Debt service	765,784	765,783	765,783	-
Greater Lawrence Sanitary District	2,682,328	2,590,385	2,542,545	47,840
Enterprise fund indirect costs	<u>1,192,146</u>	<u>1,192,146</u>	<u>1,192,146</u>	<u>-</u>
Total Expenses	<u>8,562,611</u>	<u>8,562,611</u>	<u>8,365,656</u>	<u>196,955</u>
Net Income	\$ <u>-</u>	\$ <u>-</u>	\$ <u>538,885</u>	\$ <u>538,885</u>

FIDUCIARY FUNDS

AGENCY FUND

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

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

CITY OF METHUEN, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2007

	Balance July 1, <u>2006</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2007</u>
<u>Student Activity Funds:</u>				
Assets - cash and short-term investments	\$ <u>201,096</u>	\$ <u>568,760</u>	\$ <u>(528,266)</u>	\$ <u>241,590</u>
Liabilities - other liabilities	\$ <u>201,096</u>	\$ <u>568,760</u>	\$ <u>(528,266)</u>	\$ <u>241,590</u>

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City of Methuen, Massachusetts
Statistical Section



The Tenney Gate House

CITY OF METHUEN, NEW HAMPSHIRE

STATISTICAL SECTION

The City of Methuen's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

	<u>Page</u>
Financial Trends	
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	94 - 97
Revenue Capacity	
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	98 - 103
Debt Capacity	
<i>These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	104 - 107
Demographic and Economic Information	
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	108 - 111

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

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENT-WIDE EXPENSES BY FUNCTION
(in thousands)

Governmental Activities												
<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Education</u>	<u>Public Works</u>	<u>Sanitation</u>	<u>Health and Human Services</u>	<u>Culture and Recreation</u>	<u>Interest</u>	<u>Intergovernmental⁽¹⁾</u>	<u>Subtotal</u>	<u>Enterprise Services</u>	<u>Total</u>
2003	\$8,347	\$16,474	\$66,162	\$8,633	\$2,478	\$1,137	\$1,128	\$3,825	\$410	\$108,594	\$6,169	\$114,763
2004	\$8,124	\$16,672	\$70,865	\$9,781	\$2,479	\$1,200	\$1,179	\$3,595	\$970	\$114,865	\$6,151	\$121,016
2005	\$9,247	\$16,763	\$72,033	\$9,284	\$2,610	\$1,135	\$1,140	\$3,250	\$0	\$115,462	\$6,357	\$121,819
2006	\$11,397	\$18,168	\$77,036	\$8,514	\$2,741	\$1,078	\$1,173	\$3,293	\$0	\$123,400	\$6,503	\$129,903
2007	\$12,203	\$17,597	\$81,000	\$8,981	\$2,712	\$1,151	\$1,298	\$2,275	\$0	\$127,217	\$7,096	\$134,313

Source: Comprehensive Annual Financial Report

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

⁽¹⁾ Intergovernmental expense was allocated by function from fiscal year 2005.

CITY OF METHUEN, MASSACHUSETTS

GOVERNMENT-WIDE REVENUES

(in thousands)

Program Revenues						General Revenues					
Fiscal Year	Charges for Services	Operating	Capital	Property Taxes	Excise Taxes	Penalties, Interest, and Other Taxes	Grants and Contributions	Investment Income	Other Revenues	Total	
		Grants and Contributions	Not Restricted to Specific Programs								
2003	\$ 14,412	\$ 39,186	\$ 7,546	\$ 43,466	\$ 4,440	\$ 616	\$ 4,909	\$ 203	\$ 1,339	\$ 116,117	
2004	\$ 14,440	\$ 41,243	\$ 6,366	\$ 44,088	\$ 4,183	\$ 516	\$ 5,568	\$ 257	\$ 2,318	\$ 118,979	
2005	\$ 15,606	\$ 47,485	\$ 5,726	\$ 47,403	\$ 5,025	\$ 457	\$ 5,928	\$ 239	\$ 1,226	\$ 129,095	
2006	\$ 15,406	\$ 43,972	\$ 3,971	\$ 49,662	\$ 4,546	\$ 268	\$ 11,659	\$ 351	\$ 1,695	\$ 131,530	
2007	\$ 15,803	\$ 48,139	\$ 1,674	\$ 53,079	\$ 4,499	\$ 552	\$ 12,844	\$ 329	\$ 1,536	\$ 138,455	

Source: Comprehensive Annual Financial Report

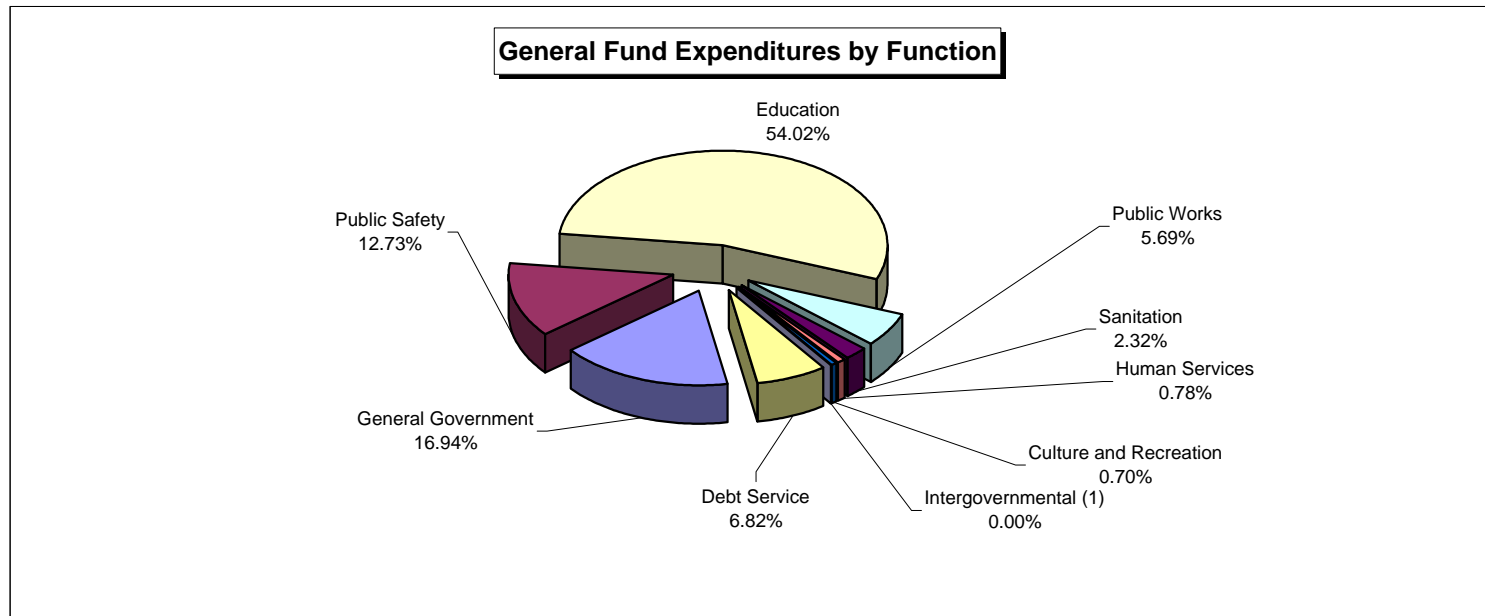
Note: Only fiscal years 2003 - 2007 information is provided because in fiscal year 2003 the City implemented the reporting requirements of GASB 34. In future years, the City intends on reporting additional year comparative information on this table so that after fiscal year 2012 there will be ten years presented.

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

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Revenues										
Taxes	\$ 32,320,991	\$ 33,411,423	\$ 36,549,871	\$ 38,048,304	\$ 41,356,397	\$ 43,990,300	\$ 44,228,947	\$ 47,495,311	\$ 49,821,988	\$ 52,807,551
Excise Taxes	2,822,535	3,194,012	3,399,012	3,871,423	4,598,319	4,380,173	4,472,041	4,326,783	5,112,206	4,508,214
Departmental	1,182,075	1,316,142	1,345,634	1,521,365	1,456,457	1,771,903	1,769,134	1,773,327	1,972,328	1,779,893
Licenses and permits	606,021	603,757	845,854	829,469	1,091,393	828,563	1,118,277	1,437,780	1,341,367	1,486,440
Intergovernmental	26,986,612	29,505,608	34,595,555	37,453,781	39,557,518	39,218,561	40,280,247	44,964,703	47,716,649	53,723,189
Charges for Services	-	-	-	63,581	59,556	93,498	93,903	76,812	166,225	88,581
Interest & Penalties	-	-	-	-	-	-	-	-	-	192,983
Investment Income	2,536,772	2,114,313	1,421,629	1,033,517	578,595	655,740	523,673	551,997	381,428	552,439
Fines & Forfeitures	261,482	249,552	272,484	247,930	225,897	277,479	353,363	384,466	339,721	349,695
Miscellaneous	30,680	294,619	753,327	222,561	248,022	544,928	1,468,670	76,636	347,665	1,022,919
Total Revenues	66,747,168	70,689,426	79,183,366	83,291,931	89,172,154	91,761,145	94,308,255	101,087,815	107,199,577	116,511,904
Expenditures by Function										
General government	11,634,166	12,218,663	12,485,591	11,321,986	11,866,064	14,977,851	13,907,894	15,422,332	18,413,201	19,792,877
Public safety	8,455,664	9,611,206	10,367,545	11,247,233	12,180,525	12,288,787	12,915,593	13,857,890	14,769,865	14,881,766
Education	32,991,942	37,052,144	42,062,545	45,019,527	47,521,569	48,760,070	52,072,525	55,062,302	59,829,005	63,129,356
Public works	2,284,717	2,625,352	2,704,469	6,148,191	4,939,551	5,310,879	5,084,748	6,837,924	6,342,088	6,647,076
Sanitation	1,587,118	1,499,470	2,356,469	2,374,492	2,506,064	2,478,490	2,478,884	2,609,506	2,741,065	2,711,581
Human services	947,348	1,062,892	1,145,055	1,148,747	1,385,823	909,859	906,215	690,512	772,235	915,957
Culture and recreation	5,457,542	-	-	-	-	785,000	761,447	760,538	801,824	816,243
Miscellaneous	120,500	114,402	-	-	56,597	120,184	61,145	75,910	-	-
Intergovernmental	523,628	348,517	298,814	300,501	360,204	409,809	969,530	898,268	-	-
Debt service	-	6,924,050	7,846,263	8,063,617	8,623,025	8,622,028	8,304,881	7,716,136	8,732,471	7,966,933
Total Expenditures	64,002,625	71,456,696	79,266,751	85,624,294	89,439,422	94,662,957	97,462,862	103,931,318	112,401,754	116,861,789
Excess of revenues										
Over/(Under) Expenditures	2,744,543	(767,270)	(83,385)	(2,332,363)	(267,268)	(2,901,812)	(3,154,607)	(2,843,503)	(5,202,177)	(349,885)
Other Financing Sources (Uses)										
Issuance of Refunded Bonds	-	-	-	-	-	-	-	13,285,000	-	30,985,000
Payments to Escrow Agent	-	-	-	-	-	-	-	(13,772,700)	-	(32,214,589)
Bond Premium	-	-	-	-	-	-	-	813,355	-	-
Bond Issuance Cost	-	-	-	-	-	-	-	(39,760)	-	-
Sale of Capital Assets	-	-	-	-	-	-	-	-	1,177,737	36,248
Capital Leases	-	-	-	-	-	-	-	722,015	232,252	172,927
Transfers in	1,890,198	2,210,679	2,177,322	2,171,096	2,176,557	2,562,321	3,253,530	2,588,849	3,453,975	1,367,147
Transfers out	(1,856,145)	(1,041,490)	(836,044)	(1,345,833)	(1,248,674)	(3,192)	(27,624)	(983,235)	-	(141,047)
Total Other Financing Sources (Uses)	34,053	1,169,189	1,341,278	825,263	927,883	2,559,129	3,225,906	2,613,524	4,863,964	205,686
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	2,778,596	401,919	1,257,893	(1,507,100)	660,615	(342,683)	71,299	(229,979)	(338,213)	(144,199)
Fund Balance, Beginning	1,377,583	4,156,179	4,558,098	5,815,991	4,308,891	4,969,506	4,626,823	4,698,122	4,468,143	4,129,930
Fund Balance, Ending	\$ 4,156,179	\$ 4,558,098	\$ 5,815,991	\$ 4,308,891	\$ 4,969,506	\$ 4,626,823	\$ 4,698,122	\$ 4,468,143	\$ 4,129,930	\$ 3,985,731

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

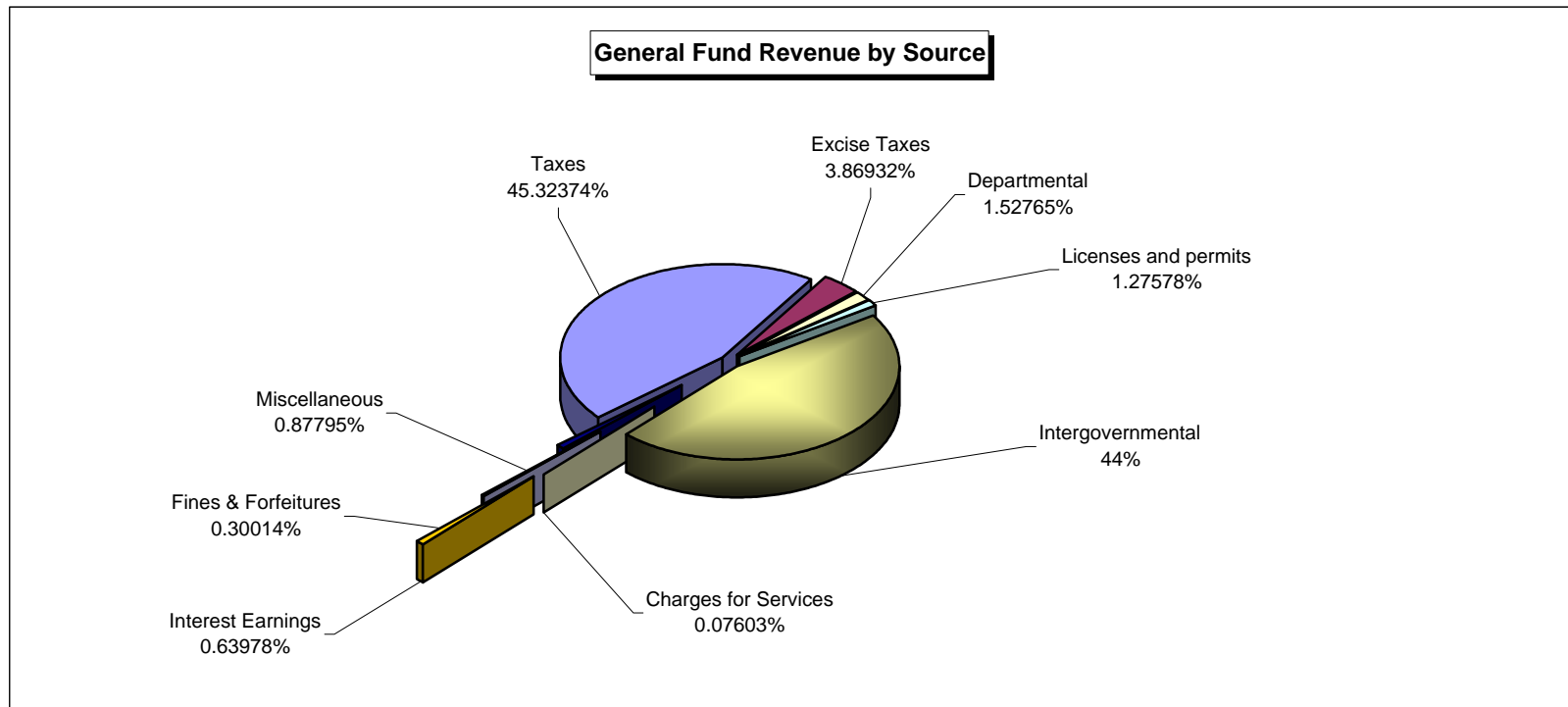
Account/Description	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
General Government	\$ 11,754,666	\$ 12,333,065	\$ 12,485,591	\$ 11,321,986	\$ 11,922,661	\$ 15,098,035	\$ 13,969,039	\$ 15,498,242	\$ 18,413,201	\$ 19,792,877
Public Safety	8,455,664	9,611,206	10,367,545	11,247,233	12,180,525	12,288,787	12,915,593	13,857,890	14,769,865	14,881,766
Education	32,991,942	37,052,144	42,062,545	45,019,527	47,521,569	48,760,070	52,072,525	55,062,302	59,829,005	63,129,356
Public Works	2,284,717	2,625,352	2,704,469	6,148,191	4,939,551	5,310,879	5,084,748	6,837,924	6,342,088	6,647,076
Sanitation	1,587,118	1,499,470	2,356,469	2,374,492	2,506,064	2,478,490	2,478,884	2,609,506	2,741,065	2,711,581
Human Services	572,023	652,641	718,055	749,250	855,823	909,859	906,215	690,512	772,235	915,957
Culture and Recreation	375,325	410,251	427,000	399,497	530,000	785,000	761,447	760,538	801,824	816,243
Intergovernmental ⁽¹⁾	523,628	348,517	298,814	300,501	360,204	409,809	969,530	898,268	-	-
Debt Service	5,457,542	6,924,050	7,846,263	8,063,617	8,623,025	8,622,028	8,304,881	7,755,896	8,732,471	7,966,933
Total Expenditures	\$ 64,002,625	\$ 71,456,696	\$ 79,266,751	\$ 85,624,294	\$ 89,439,422	\$ 94,662,957	\$ 97,462,862	\$ 103,971,078	\$ 112,401,754	\$ 116,861,789



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

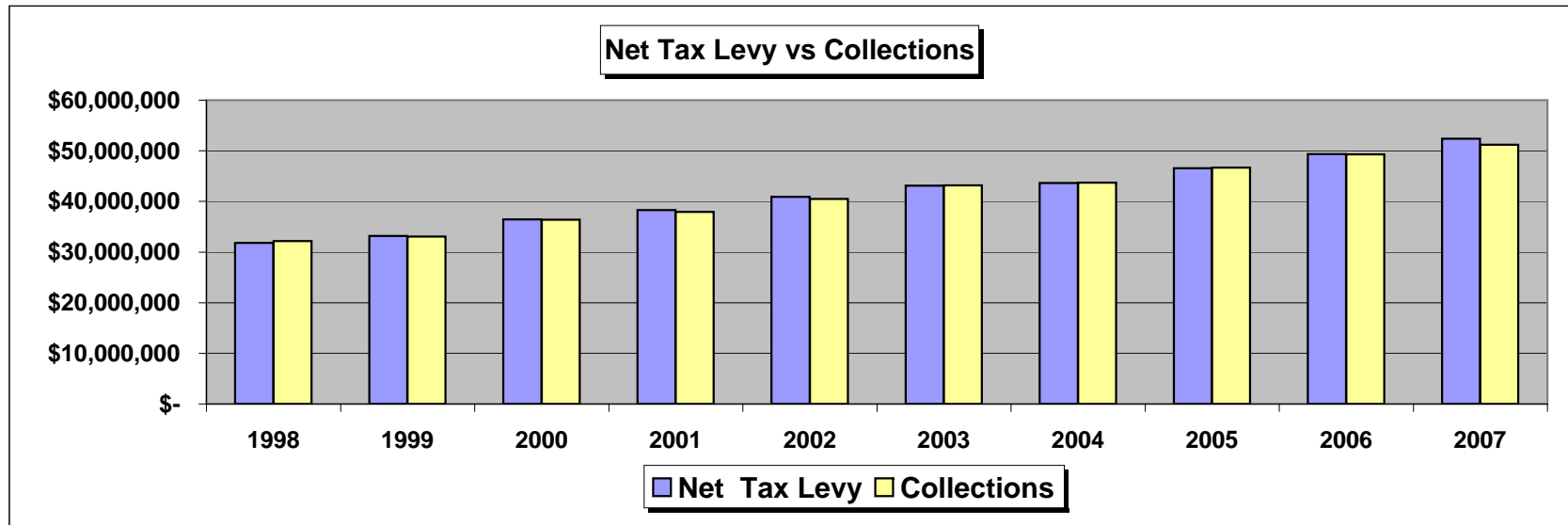
City of Methuen, Massachusetts
General Fund Revenues by Source
Last Ten Fiscal Years

Account/Description	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
Revenues										
Taxes	\$ 32,320,991	\$ 33,411,423	\$ 36,549,871	\$ 38,048,304	\$ 41,356,397	\$ 43,990,300	\$ 44,228,947	\$ 47,495,311	\$ 49,821,988	\$ 52,807,551
Excise Taxes	2,822,535	3,194,012	3,399,012	3,871,423	4,598,319	4,380,173	4,472,041	4,326,783	5,112,206	4,508,214
Departmental	1,182,075	1,316,142	1,345,634	1,521,365	1,456,457	1,771,903	1,769,134	1,773,327	1,972,328	1,779,893
Licenses and permits	606,021	603,757	845,854	829,469	1,091,393	828,563	1,118,277	1,437,780	1,341,367	1,486,440
Intergovernmental	26,986,612	29,505,608	34,595,555	37,453,781	39,557,518	39,218,561	40,280,247	44,964,703	47,716,649	53,723,189
Charges for Services	-	-	-	63,581	59,556	93,498	93,903	76,812	166,225	88,581
Interest Earnings	2,536,772	2,114,313	1,421,629	1,033,517	578,595	655,740	523,673	551,997	381,428	745,422
Fines & Forfeitures	261,482	249,552	272,484	247,930	225,897	277,479	353,363	384,466	339,721	349,695
Miscellaneous	30,680	294,619	753,327	222,561	248,022	544,928	1,468,670	76,636	347,665	1,022,919
Total Revenues	\$ 66,747,168	\$ 70,689,426	\$ 79,183,366	\$ 83,291,931	\$ 89,172,154	\$ 91,761,145	\$ 94,308,255	\$ 101,087,815	\$ 107,199,577	\$ 116,511,904



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

Fiscal Year	Gross Tax Levy	Overlay Reserved for Abatements	Net Tax Levy	Net as % of Total	Collections During the Fiscal Year Payable Dollar Amount	% of Net Levy	Cumulative Collections as of June 30, 2007 Dollar Amount	% of Net Levy	Outstanding Balance as of 30-Jun-07	Percent of Outstanding to Net Tax Levy	
1998	\$ 32,977,500	\$ 1,175,909	\$ 31,801,591	96.43%	\$ 31,178,348	98.04%	\$ 32,179,191	101.19%	\$ 15,358	0.05%	(2)
1999	\$ 33,681,810	\$ 521,577	\$ 33,160,233	98.45%	\$ 32,063,991	96.69%	\$ 33,046,517	99.66%	\$ 30,163	0.09%	(2)
2000 (1)	\$ 37,191,667	\$ 753,153	\$ 36,438,514	97.97%	\$ 35,184,062	96.56%	\$ 36,400,385	99.90%	\$ 10,609	0.03%	(2)
2001	\$ 38,862,468	\$ 550,664	\$ 38,311,804	98.58%	\$ 36,775,279	95.99%	\$ 37,912,421	98.96%	\$ 27,201	0.07%	(2)
2002	\$ 41,381,324	\$ 472,457	\$ 40,908,867	98.86%	\$ 39,633,212	96.88%	\$ 40,494,157	98.99%	\$ 23,371	0.06%	(2)
2003 (1)	\$ 43,633,135	\$ 503,473	\$ 43,129,662	98.85%	\$ 42,528,985	98.61%	\$ 43,162,667	100.08%	\$ 8,806	0.02%	(2)
2004	\$ 44,148,900	\$ 497,525	\$ 43,651,375	98.87%	\$ 43,005,020	98.52%	\$ 43,694,701	100.10%	\$ 8,313	0.02%	(2)
2005	\$ 47,151,585	\$ 607,920	\$ 46,543,665	98.71%	\$ 46,075,920	99.00%	\$ 46,668,380	100.27%	\$ 8,279	0.02%	(2)
2006 (1)	\$ 49,846,630	\$ 495,748	\$ 49,350,882	99.01%	\$ 48,434,709	98.14%	\$ 49,315,386	99.93%	\$ 6,460	0.01%	(2)
2007	\$ 52,921,856	\$ 544,783	\$ 52,377,073	98.97%	\$ 51,220,341	97.79%	\$ 51,220,341	97.79%	\$ 1,278,794	2.44%	

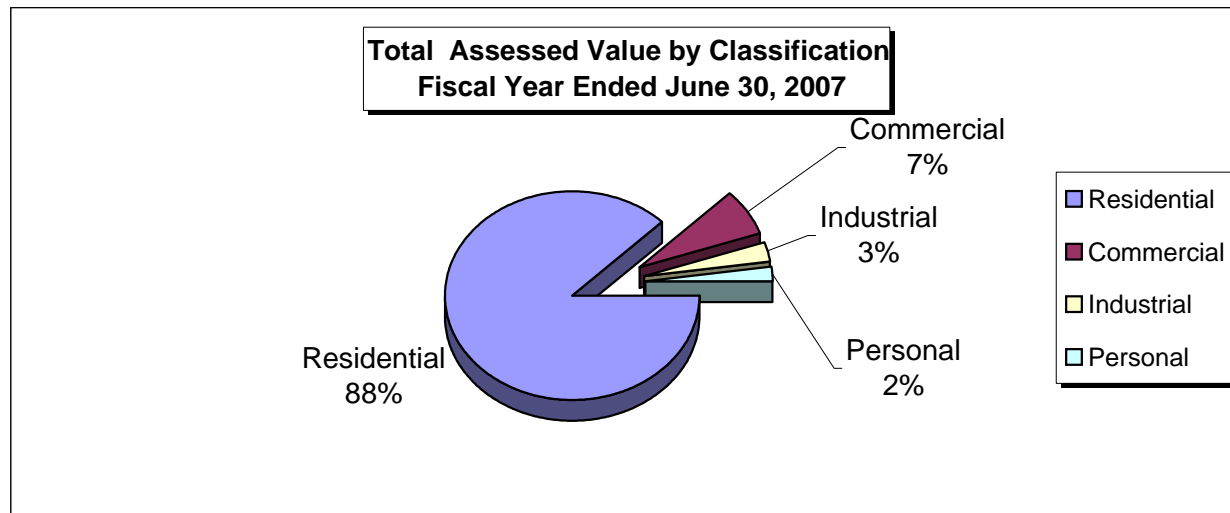


(1) Revaluation Year

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

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

Fiscal Year	Residential Value	Residential % of Total Value	Commercial Value	Industrial Value	Personal Property	Total CIP* Value	CIP % of Total Value	Total City Value
1998	\$ 1,534,133,700	82.78%	\$ 175,693,400	\$ 85,572,700	\$ 57,828,526	\$ 319,094,626	17.22%	\$ 1,853,228,326
1999	\$ 1,574,409,100	82.79%	\$ 181,389,700	\$ 86,089,800	\$ 59,868,355	\$ 327,347,855	17.21%	\$ 1,901,756,955
2000 (1)	\$ 1,933,688,085	84.35%	\$ 180,591,865	\$ 118,226,170	\$ 59,977,340	\$ 358,795,375	15.65%	\$ 2,292,483,460
2001	\$ 1,961,006,835	82.18%	\$ 236,678,881	\$ 117,737,690	\$ 70,745,540	\$ 425,162,111	17.82%	\$ 2,386,168,946
2002	\$ 2,167,953,038	82.99%	\$ 243,341,862	\$ 131,757,320	\$ 69,226,410	\$ 444,325,592	17.01%	\$ 2,612,278,630
2003 (1)	\$ 2,887,566,345	85.79%	\$ 275,059,918	\$ 130,484,010	\$ 72,741,360	\$ 478,285,288	14.21%	\$ 3,365,851,633
2004	\$ 2,924,524,851	85.80%	\$ 272,434,197	\$ 136,737,760	\$ 74,811,500	\$ 483,983,457	14.20%	\$ 3,408,508,308
2005	\$ 3,703,116,105	87.18%	\$ 300,728,636	\$ 145,846,390	\$ 97,764,480	\$ 544,339,506	12.82%	\$ 4,247,455,611
2006 (1)	\$ 4,267,426,852	87.54%	\$ 353,520,884	\$ 153,055,220	\$ 100,709,550	\$ 607,285,654	12.46%	\$ 4,874,712,506
2007	\$ 4,351,545,812	87.49%	\$ 353,761,242	\$ 158,401,520	\$ 110,242,660	\$ 622,405,422	12.51%	\$ 4,973,951,234



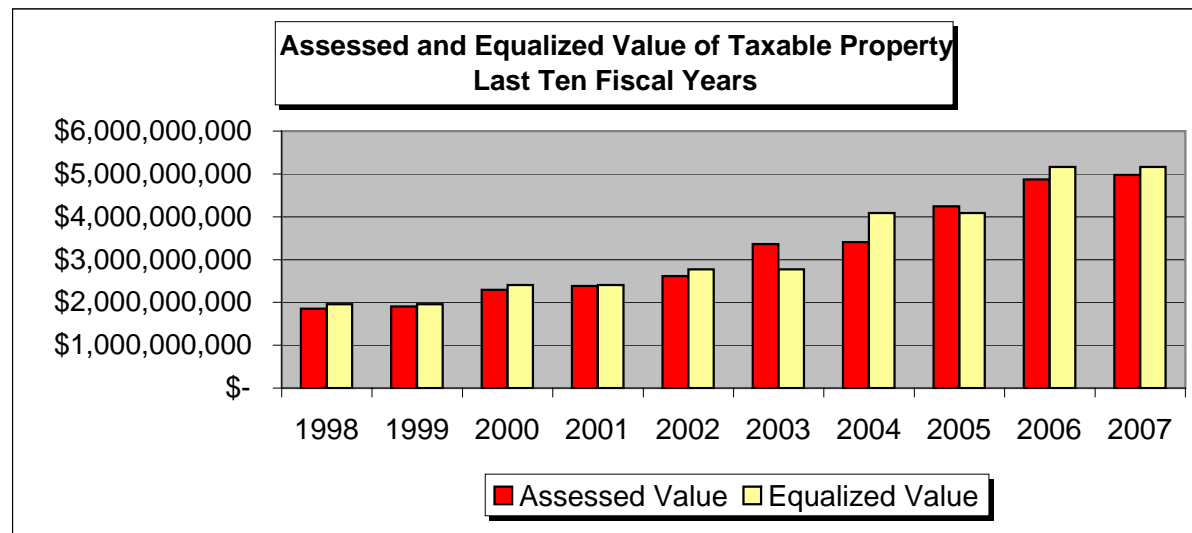
(1) Revaluation Year

Source: Department of Revenue Tax Rate Recapitulation Sheets

* Commercial, Industrial, and Personal Property

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

Fiscal Year	Assessed Value			U.S. Census Population	Total Assessed Value Per Capita	(2) Equalized Value	Ratio of Assessed to Equalized Value
	Real Property	Personal Property	Total				
1998	\$ 1,795,399,800	\$ 57,828,526	\$ 1,853,228,326	39,990	\$ 46,342	\$ 1,959,211,600	94.59%
1999	\$ 1,841,888,600	\$ 59,868,355	\$ 1,901,756,955	39,990	\$ 47,556	\$ 1,959,211,600	97.07%
2000 (1)	\$ 2,232,506,120	\$ 59,977,340	\$ 2,292,483,460	39,990	\$ 57,326	\$ 2,408,465,100	95.18%
2001	\$ 2,315,423,406	\$ 70,745,540	\$ 2,386,168,946	43,789	\$ 54,492	\$ 2,408,465,100	99.07%
2002	\$ 2,543,052,220	\$ 69,226,410	\$ 2,612,278,630	43,789	\$ 59,656	\$ 2,770,350,300	94.29%
2003 (1)	\$ 3,293,110,273	\$ 72,741,360	\$ 3,365,851,633	43,789	\$ 76,865	\$ 2,770,350,300	121.50%
2004	\$ 3,333,696,808	\$ 74,811,500	\$ 3,408,508,308	43,789	\$ 77,839	\$ 4,088,755,700	83.36%
2005	\$ 4,149,691,131	\$ 97,764,480	\$ 4,247,455,611	43,789	\$ 96,998	\$ 4,088,755,700	103.88%
2006 (1)	\$ 4,774,002,956	\$ 100,709,550	\$ 4,874,712,506	44,609	\$ 109,276	\$ 5,163,292,000	94.41%
2007	\$ 4,863,708,574	\$ 110,242,660	\$ 4,973,951,234	44,609	\$ 111,501	\$ 5,163,292,000	96.33%



(1) Revaluation Year

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

Sources: Department of Revenue Tax Rate Recapitulation Sheets

U.S. Census Records

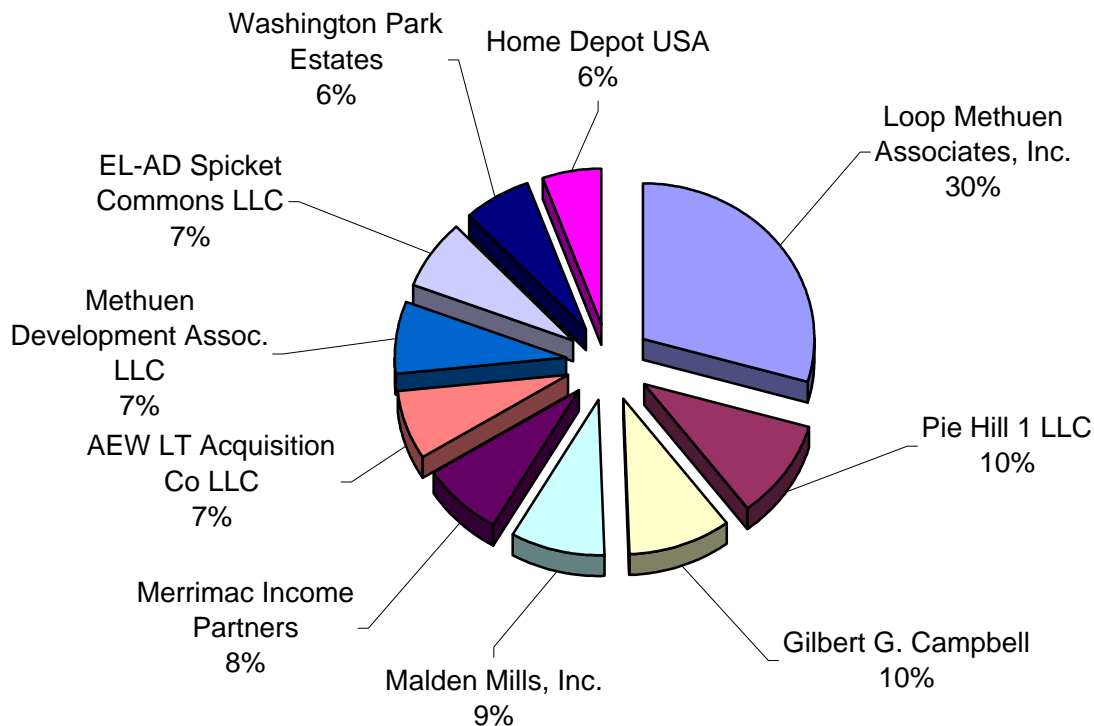
City of Methuen, Massachusetts
Property Tax Rates per \$1000 of Assessed Valuation
Last Ten Fiscal Years

Fiscal Year	Residential	Commercial & Industrial	Personal
Assessed Valuation:			
1998	\$ 1,534,133,700	\$ 261,266,100	\$ 57,828,526
1999	\$ 1,574,409,100	\$ 267,479,500	\$ 59,868,355
2000	(1) \$ 1,933,688,085	\$ 298,818,035	\$ 59,977,340
2001	\$ 1,961,006,835	\$ 354,416,571	\$ 70,745,540
2002	\$ 2,167,953,038	\$ 375,099,182	\$ 69,226,410
2003	(1) \$ 2,887,566,345	\$ 405,543,928	\$ 72,741,360
2004	\$ 2,924,524,851	\$ 409,171,957	\$ 74,811,500
2005	\$ 3,703,116,105	\$ 446,575,026	\$ 97,764,480
2006	(1) \$ 4,267,426,852	\$ 506,576,104	\$ 100,709,550
2007	\$ 4,351,545,812	\$ 512,162,762	\$ 110,242,660
Tax Levies:			
1998	\$ 25,880,836	\$ 5,810,558	\$ 1,286,106
1999	\$ 26,434,329	\$ 5,921,996	\$ 1,325,485
2000	(1) \$ 29,334,048	\$ 6,544,115	\$ 1,313,504
2001	\$ 29,513,153	\$ 7,793,620	\$ 1,555,694
2002	\$ 31,175,165	\$ 8,616,028	\$ 1,590,131
2003	(1) \$ 33,900,029	\$ 8,252,819	\$ 1,480,287
2004	\$ 34,304,677	\$ 8,322,558	\$ 1,521,666
2005	\$ 37,179,286	\$ 8,181,254	\$ 1,791,045
2006	(1) \$ 39,601,721	\$ 8,545,939	\$ 1,698,970
2007	\$ 41,992,417	\$ 8,993,578	\$ 1,935,861
Tax Rates:			
1998	\$ 16.87	\$ 22.24	\$ 22.24
1999	\$ 16.79	\$ 22.14	\$ 22.14
2000	(1) \$ 15.17	\$ 21.90	\$ 21.90
2001	\$ 15.05	\$ 21.99	\$ 21.99
2002	\$ 14.38	\$ 22.97	\$ 22.97
2003	(1) \$ 11.74	\$ 20.35	\$ 20.35
2004	\$ 11.73	\$ 20.34	\$ 20.34
2005	\$ 10.04	\$ 18.32	\$ 18.32
2006	(1) \$ 9.28	\$ 16.87	\$ 16.87
2007	\$ 9.65	\$ 17.56	\$ 17.56
(1) Revaluation Year			
Source: Department of Revenue Tax Rate Recapitulation Sheets			

City of Methuen, Massachusetts
Principal Taxpayers
Fiscal Year 2007

Name	Nature of Business	Total Assessed Valuations for Fiscal Year 2007	% of Total Estimated Assessed Value
Loop Methuen Associates, Inc.	Power Center	\$ 55,177,700	1.11%
Pie Hill 1 LLC	Apartments	\$ 19,538,900	0.39%
Gilbert G. Campbell	Vacant Land, Office, Bank, Apartments	\$ 18,489,300	0.37%
Malden Mills, Inc.	Manufacturing	\$ 16,714,700	0.34%
Merrimac Income Partners	Shopping Center	\$ 14,381,400	0.29%
AEW LT Acquisition Co LLC	Industrial Warehouse	\$ 13,857,900	0.28%
Methuen Development Assoc. LLC	Industrial Warehouse	\$ 13,730,500	0.28%
EL-AD Spicket Commons LLC	Apartments	\$ 13,693,900	0.28%
Washington Park Estates	Apartments	\$ 11,904,400	0.24%
Home Depot USA	Building Supplies	\$ 10,676,200	0.21%
		\$ 188,164,900	3.78%

Principal Taxpayers



City of Methuen, Massachusetts
Computation of Legal Debt Margin
June 30, 2007

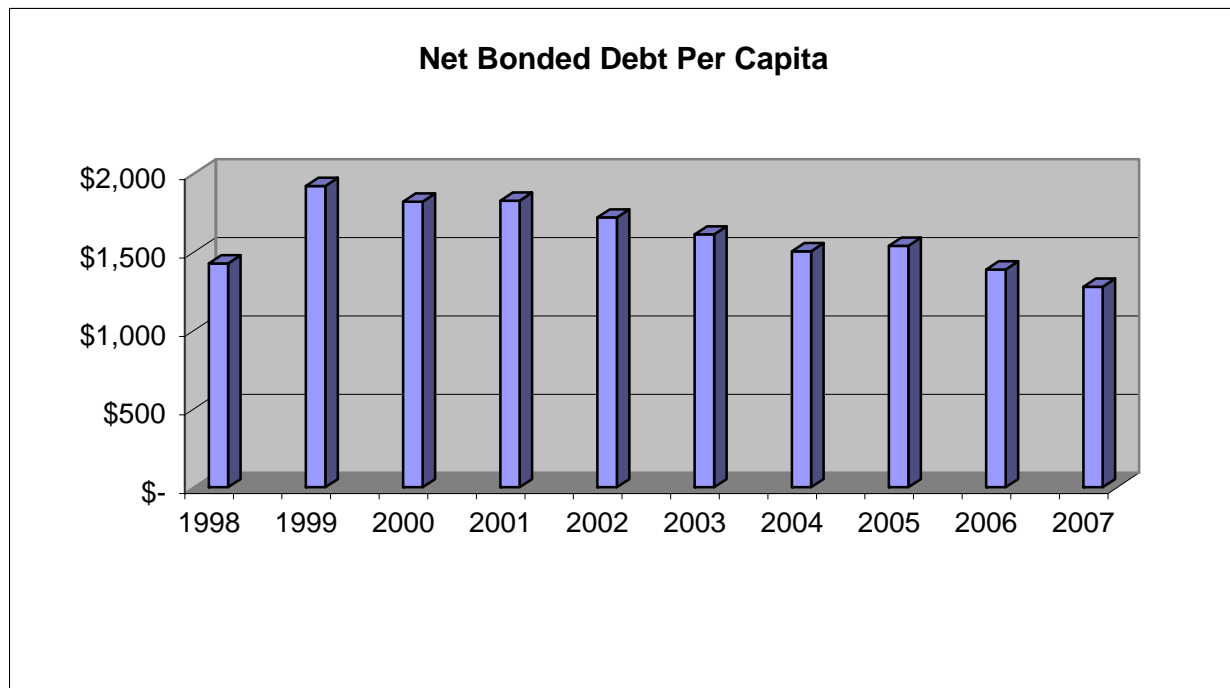
State equalized valuation - real estate and personal property	(1)	<u>\$ 5,163,292,000</u>
Debt Limit - 5% of equalized value		\$ 258,164,600
Total bonded debt (including authorized and unissued of \$16,497,226 and bond anticipation notes outstanding of \$10,904,432.)		\$ 91,122,520
Less bonded debt not included in computation of legal debt margin, as defined by Massachusetts statutes.	(2)	\$ (61,527,757)
Less bonded debt authorized but not yet issued which is outside the debt limit.	(2)	<u>\$ (16,184,068)</u>
Total debt applicable to limitation		<u>\$ 13,410,695</u>
Legal Debt Margin		<u>\$ 244,753,905</u>

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

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

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

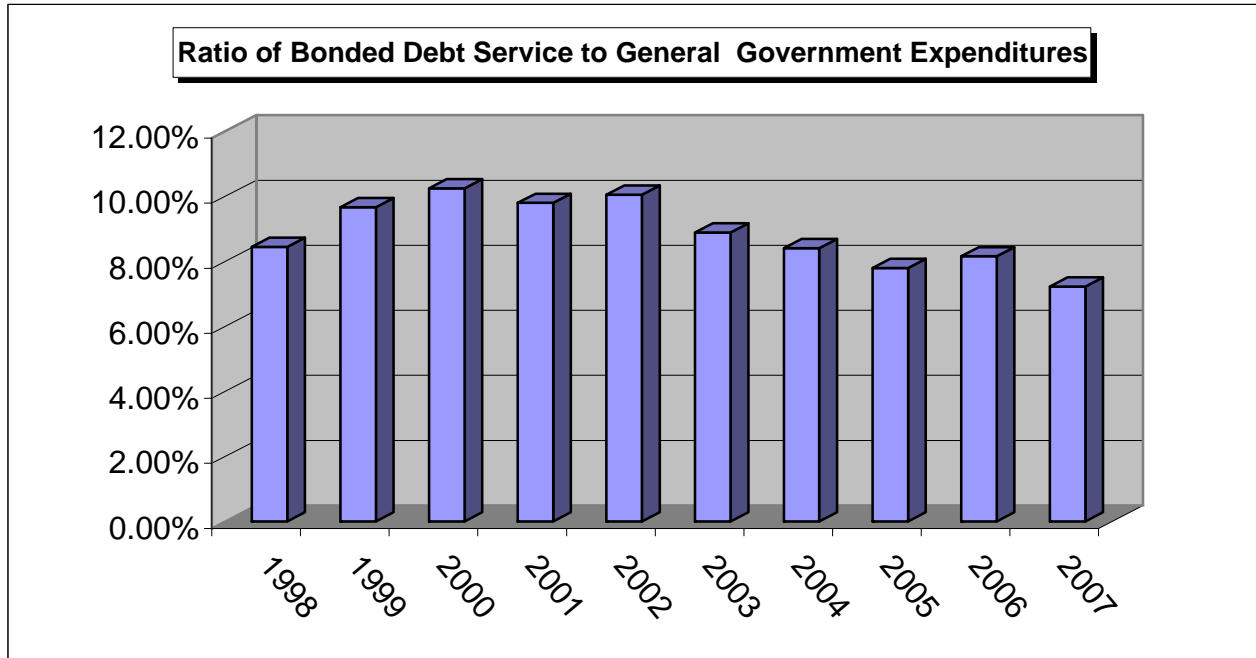
Fiscal Year	U.S. Census Population	State Equalized Value	Outstanding Gross Bonded Debt	Less Self-Supporting Debt	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1998	39,990	\$ 1,959,211,600	\$ 61,935,382	\$ 4,925,065	\$ 57,010,317	2.91%	\$ 1,426
1999	39,990	\$ 1,959,211,600	\$ 83,396,713	\$ 6,605,509	\$ 76,791,204	3.92%	\$ 1,920
2000	39,990	\$ 2,408,465,100	\$ 78,334,393	\$ 5,578,189	\$ 72,756,204	3.02%	\$ 1,819
2001	43,789	\$ 2,408,465,100	\$ 84,437,693	\$ 4,496,489	\$ 79,941,204	3.32%	\$ 1,826
2002	43,789	\$ 2,770,350,300	\$ 78,944,629	\$ 3,666,312	\$ 75,278,317	2.72%	\$ 1,719
2003	43,789	\$ 2,770,350,300	\$ 73,350,003	\$ 2,833,003	\$ 70,517,000	2.55%	\$ 1,610
2004	43,789	\$ 4,088,755,700	\$ 68,336,910	\$ 2,506,910	\$ 65,830,000	1.61%	\$ 1,503
2005	43,789	\$ 4,088,755,700	\$ 69,370,891	\$ 1,985,891	\$ 67,385,000	1.65%	\$ 1,539
2006	44,609	\$ 5,163,292,000	\$ 69,190,611	\$ 7,325,611	\$ 61,865,000	1.20%	\$ 1,387
2007	44,609	\$ 5,163,292,000	\$ 63,720,862	\$ 6,765,862	\$ 56,955,000	1.10%	\$ 1,277



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

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

Fiscal Year	Annual General Fund Debt Service		City General Governmental Expenditures (1)	Ratio of General Fund Debt Service to General Government Expenditures
1998	\$	5,457,542	\$ 64,627,538	8.44%
1999	\$	6,924,050	\$ 71,605,885	9.67%
2000	\$	7,846,263	\$ 76,579,286	10.25%
2001	\$	8,063,617	\$ 82,282,394	9.80%
2002	\$	8,623,025	\$ 85,826,481	10.05%
2003	\$	8,145,303	\$ 91,636,290	8.89%
2004	\$	7,840,906	\$ 93,282,528	8.41%
2005	\$	7,716,136	\$ 98,976,765	7.80%
2006	\$	8,732,471	\$ 107,054,954	8.16%
2007	\$	7,966,933	\$ 110,292,651	7.22%



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

City of Methuen, Massachusetts
 Computation of Direct and Overlapping Bonded Debt
 General Obligation Bonds
 June 30, 2007

Jurisdiction	General Obligation Bonded Debt Outstanding	Percentage Applicable to City of Methuen (1)	Amount Applicable to City of Methuen
Direct:			
City of Methuen	\$ 63,720,862	100.00%	\$ 63,720,862
Overlapping:			
Greater Lawrence Regional Vocational Technical School District	\$ 38,530,000	13.90%	\$ 5,355,670
Merrimack Valley Regional Transit Authority	\$ -	N/A	\$ -
Greater Lawrence Sanitary District	<u>\$ 32,078,332</u>	21.10%	<u>\$ 6,768,528</u>
Total Overlapping Debt	<u>\$ 70,608,332</u>		<u>\$ 12,124,198</u>
TOTAL DIRECT AND OVERLAPPING DEBT	<u>\$ 134,329,194</u>		<u>\$ 75,845,060</u>

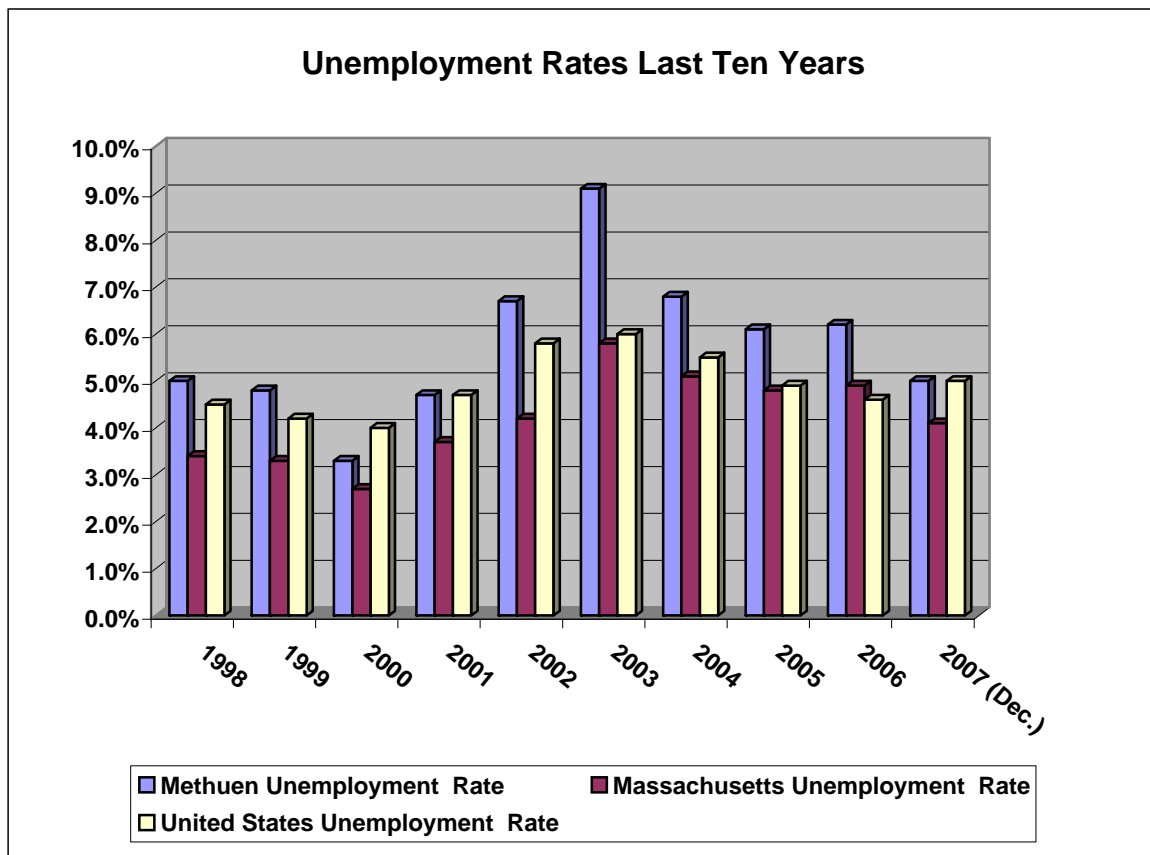
(1) Estimated share based on debt service only

City of Methuen Massachusetts
Building Permits
Last Ten Years

Year	New Construction				Additions/Alterations				Total	
	Residential		Non-Residential		Residential		Non Residential			
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1998	133	\$ 20,949,500	9	\$ 4,294,500	1147	\$ 7,225,165	107	\$ 29,228,320	1396	\$ 61,697,485
1999	156	\$ 26,154,850	4	\$ 22,620,129	1111	\$ 8,517,108	114	\$ 6,069,366	1385	\$ 63,361,453
2000	136	\$ 25,043,750	30	\$ 17,695,560	936	\$ 8,153,433	98	\$ 9,434,377	1038	\$ 60,327,120
2001	115	\$ 23,075,380	14	\$ 12,350,160	1041	\$ 10,349,728	159	\$ 13,343,071	1329	\$ 59,118,339
2002	86	\$ 25,160,549	7	\$ 9,194,117	1542	\$ 14,381,064	158	\$ 23,136,398	1793	\$ 71,872,128
2003	80	\$ 14,153,500	2	\$ 762,000	1556	\$ 16,712,623	157	\$ 9,007,269	1795	\$ 40,635,392
2004	57	\$ 13,407,840	4	\$ 3,044,791	1707	\$ 21,346,779	135	\$ 9,302,964	1903	\$ 47,102,374
2005	98	\$ 49,359,695	3	\$ 2,085,000	1544	\$ 21,906,481	128	\$ 5,094,998	1773	\$ 78,446,174
2006	102	\$ 31,268,528	3	\$ 3,131,220	1426	\$ 17,649,111	134	\$ 7,182,791	1665	\$ 59,231,650
2007	67	\$ 15,653,520	5	\$ 8,808,410	1396	\$ 15,837,208	117	\$ 36,210,996	1585	\$ 76,510,134
SOURCE: Building Commissioner										

City of Methuen, Massachusetts
Annual Unemployment Rates
Last Ten Years

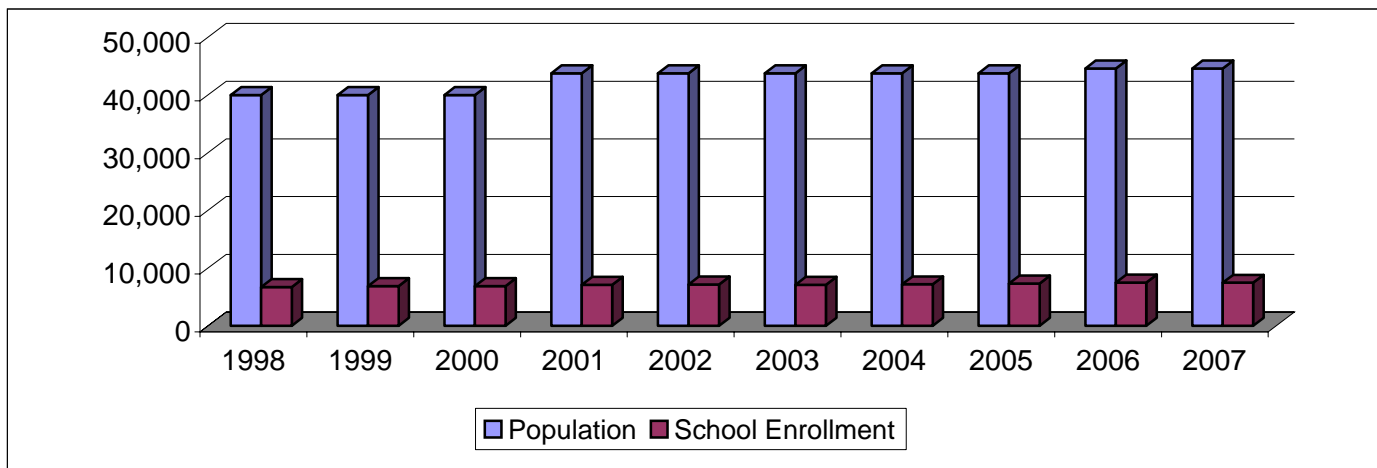
Calendar Year	Methuen Labor Force	Methuen Unemployment Rate	Massachusetts Unemployment Rate	United States Unemployment Rate
1998	21,737	5.0%	3.4%	4.5%
1999	22,220	4.8%	3.3%	4.2%
2000	22,428	3.3%	2.7%	4.0%
2001	22,864	4.7%	3.7%	4.7%
2002	22,183	6.7%	4.2%	5.8%
2003	22,677	9.1%	5.8%	6.0%
2004	23,290	6.8%	5.1%	5.5%
2005	22,992	6.1%	4.8%	4.9%
2006	23,117	6.2%	4.9%	4.6%
2007 (Dec.)	22,829	5.0%	4.1%	5.0%



Source: MA Department of Employment and Training

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

Year	Population	Increase (Decrease)	School Enrollment	Increase (Decrease)	School % of Total
1998	39,990	39,990	6,718	6,718	16.80%
1999	39,990	0	6,903	185	17.26%
2000	39,990	0	6,903	0	17.26%
2001	43,789	3,799	7,123	220	16.27%
2002	43,789	0	7,152	29	16.33%
2003	43,789	0	7,097	(55)	16.21%
2004	43,789	0	7,193	96	16.43%
2005	43,789	0	7,313	120	16.70%
2006	44,609	820	7,485	172	16.78%
2007	44,609	0	7,474	(11)	16.75%



City of Methuen, Massachusetts
Age, Income and Wealth Levels

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