

City of Chelsea, Massachusetts

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

Jay Ash
City Manager



Prepared by the Finance Division

CITY OF CHELSEA, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

	Page
Introductory Section.....	1
Letter of Transmittal.....	2
Organizational Chart.....	8
Elected Officials	9
Principal Officials	10
GFOA Certificate of Achievement.....	11
Financial Section	12
Independent Auditors' Report.....	13
Management's Discussion and Analysis	15
Basic Financial Statements.....	27
Statement of Net Assets	28
Statement of Activities	29
Governmental Funds - Balance Sheet.....	31
Reconciliation of the Governmental Funds Total Fund Balances to the Statement of Net Assets	34
Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances	35
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	38
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual ...	39
Proprietary Funds - Statement of Fund Net Assets.....	40
Proprietary Funds - Statement of Revenues, Expenses and Changes in Fund Net Assets	41
Proprietary Funds - Statement of Cash Flows	42
Fiduciary Funds - Statement of Fiduciary Net Assets	43
Fiduciary Funds - Statement of Changes in Fiduciary Net Assets.....	44
Notes to Basic Financial Statements.....	45
Combining and Individual Fund Statements and Schedules.....	70
Nonmajor Governmental Funds.....	71

Narrative.....	71
Combining Balance Sheet.....	73
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	77
Internal Service Funds	82
Narrative.....	82
Combining Statement of Fund Net Assets.....	83
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets.....	84
Combining Statement of Cash Flows.....	85
Agency Funds	86
Narrative.....	86
Schedule of Changes in Assets and Liabilities.....	87
General Fund.....	88
Narrative.....	88
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual.....	89
Statistical Section	94
General Fund Revenues by Source and Expenditures by Function	95
Property Tax Levies and Collections	97
Assessed Value and Equalized Valuation of Taxable Property.....	98
Property and Motor Vehicle Excise Tax Rates.....	99
Computation of Legal Debt Margin.....	100
Ratio of Net Bonded Debt to Assessed Valuation and Net Bonded Debt Per Capita.....	101
Ratio of Annual Debt Service for General Bonded Debt to General Fund Expenditures.....	102
Computation of Overlapping Debt.....	103
Principal Taxpayers.....	104
Salaries of Principal Officials.....	105
Miscellaneous Statistics.....	106

Introductory Section



CAPIC Head Start Center

Community Action Programs InterCity, Inc. (CAPIC) renovated the former furniture warehouse to provide a permanent facility for its Head Start Program. Completed in June 2004, the Head Start Center's classrooms and administrative offices are a celebration of one of the most successful and longest running pre-school programs in the country.



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City Manager

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September 14, 2004

Ladies and Gentlemen of the Council:

I am pleased to submit the City of Chelsea's *Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2004. The City is responsible for the accuracy, completeness and fairness of the data presented in the CAFR. This letter of transmittal and management's discussion and analysis (located in the financial section of the CAFR) provides the reader with a comprehensive financial overview of the City.

A primary focus of the City continues to be strict adherence to all Charter mandates and applicable ordinances and laws. This CAFR meets and exceeds its legal requirements and presents itself as an informative resource for all those interested in the workings of the municipality.

The management of City government, as depicted in the CAFR, demonstrates the very best results that have come from the leadership, cooperation and commitment that the City Council and City Administration continue to exhibit. Through the substantial and in-depth reporting contained within, this CAFR provides City leaders and the public-at-large with the opportunity to review and critique the City's operational performance. This CAFR also serves to provide the basis for the establishment of new areas of focus. Additionally, the information contained within this CAFR should reassure the City's stakeholders that professionalism and accountability have taken firm grasp of municipal operations and have led to substantial improvements in local government.

The achievement of financial stability through responsible fiscal management is the cornerstone of the City's success. Prudent financial planning and decision making drives the City's commitment to professionalism and achievement. The City's financial management is meeting and exceeding expectations while further solidifying a strong financial base. As evidence of the City's overall commitment, and resulting in balanced budgets, unchanged bond ratings, material weakness-free audit reports and budgeting and audit reporting awards, the City has remained focused on financial health as a means from which all success is derived.

In fact, the City's focus on its "Fundamentals" has been the basis for growth in financial and other programmatic areas. Defining a basic philosophy and promoting achievement, the foundation created by attention to financial, economic development, neighborhood enhancement, community development, public safety and governmental philosophy policy and action has supported much accomplishment. Among the proven achievements are balanced budgets, permitted major private investment, rapidly escalating property values, expanding community programming, continuing public safety gains and greater focus on overall citizen participation. Of course, the continuity of government provided for by the City's legislative and administrative branches means that the single focus to an agreed upon pro-Chelsea agenda has allowed for initiatives to run their desired courses and provide the basis for even greater individual and community achievement.

As it turns out, the City was "dead-on" in the philosophy of building reserves to serve as a cushion in tough times. Now that those tough times seem to have subsided, stagnation threatens to delay the benefits that a robust economy can produce. In terms of municipal budgets, economic stagnation creates pressures, as slow or no revenue growth cannot keep up with or, ideally, outpace increased spending needs, especially in areas like health insurance. With an eye towards continuing to manage through stagnate times, the City has focused on a Three-Year Budget Strategy for fiscal years 2006-2008. By carefully considering the financial possibilities over a broader, yet still predictable, period than the Annual Budget provides, the City hopes to take a realistic look at the most likely scenarios ahead and continue to fashion responses to allow the City to survive and thrive.

REPORTING ENTITY AND SERVICES PROVIDED

The basic financial statements present all of the financial information of the City (the primary government) and its component units as required by accounting principles generally accepted in the United States of America. Component units are included in the City's basic financial statements because of the nature and/or significance of their relationship with the City. The inclusion of such component units within the reporting entity does not affect their legal standing.

The City has included the Chelsea Contributory Retirement System (System) as a component unit (blended) in the basic financial statements. The financial statements of the System are presented for the year ended December 31, 2003, which represents the fiscal reporting period for the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission.

The City provides a full range of traditional municipal services, including general government, public safety, education, public works, community development, health and human and culture and recreation services to its citizenry.

ECONOMIC CONDITIONS

The recession of the late 80's, early 90's was mild compared to that which hit during the early 2000's. Yet, while the City plummeted into State Receivership from 1991-94, no such malady was even threatening during the more severe times early this decade. Financial planning and the steadying influence of a professional government played a large role in the avoidance of those factors that resulted in the City earlier becoming the only municipality in the country to enter Receivership since the Great Depression. Regarding those two important contributors, the City was able to manage through historic reductions in its largest revenue source, local aid, and manage skyrocketing costs in areas like health insurance, retirement and assessments, by reigning in spending, generating non-local aid revenues and, ultimately, relying on reserves to plug gaps that would have otherwise impacted core municipal services. The ironic result was a stronger community during more difficult times.

As the region, state and nation still climb out of the hole left by the recession, municipalities are ailing. While there are issues on the horizon that still concern the City going forward, including the delayed return of elevated local aid receipts, still double-digit increasing health insurance premiums, unmet contract expectations of the City's labor unions, and a general squeezing of City government that has stressed the foundation that promotes municipal service, a beacon of light does continue to shine in the distance. With the support of ample reserves, articulated fiscal policies and responsible management and leadership, the City's strong financial position has allowed it to weather the storm. Vital services have been protected and new initiatives promoted to encourage continuing revitalization today and into the future.

Most promising regarding the budgetary needs of the City is that economic development continues almost unabated. Despite poor market conditions for office and hotel development in the general area, the City is seeing success in the Everett Avenue Urban Renewal District, where concentrated and aggressive municipal economic development activities are paying great dividends. The City has gone to great lengths to assess today and tomorrow's market, and has strategically shifted emphasis away from a still important economic development agenda that has produced much success over the past eight years. While still seeking development in major focus areas of back office, airport-related, health, downtown support services and food, the City is eyeing the benefits that a "white-hot" residential market portends for local coffers.

FUTURE OUTLOOK

In general, the City is optimistic about the future. Notwithstanding a slip back into recession, and hoping that the State's budget issues have themselves been stabilized, the City is in a position to continue to balance budgets, protect core services, offer new initiatives and promote further overall revitalization. This optimism must be tempered, though, with the inarguable point that spending cannot rise precipitously, and focus needs to remain squarely on generating new revenues through economic development activities and maybe more.

Financially, the City is balancing budgets and planning to do more. But reserve balances are dwindling, so prudent management dictates that: 1. structural deficits must be eliminated, 2. reserves need to be rebuilt, 3. core deferred needs must be addressed, and then, and only then, 4. spending in other priority areas can take place. Of all the challenges that lie ahead, such a focus may be the toughest to maintain among all the stakeholders in a financially viable government.

Economic Development looks promising, with new office buildings, hotels, major retailing and hundreds of housing units, if not more, being proposed and built. Of course, in 1.8 sq. miles, and in a community with a mature land use pattern, each major economic development project becomes tougher. The results may be that the City needs to be as aggressive, if not more, in promoting a conversion from underutilized properties and aging industries into development more consistent with economic, workforce and tax base development goals.

Neighborhood Enhancement has produced one of the hottest residential markets in the state. While the investment is causing double-digit increases in prices annually, the City receives no direct financial benefit from skyrocketing values because of limitations placed upon property taxation through Proposition 2 ½. Additionally, spiraling prices are creating an affordable housing crisis; this despite the city having one of the top five rates of affordable housing in the state. Balancing gentrification, therefore, is challenging, as are the demands created in neighborhoods as the City raises expectations by solving so many other "problem properties" issues.

Community Development continues with new facilities and programs addressing individual and community needs. CAPIC's new Head Start home is the latest of many infrastructure projects that are ensuring that local resources are second to none. In those buildings, programs like the City's Community Schools Program are providing local residents with unparalleled opportunities. Residents need more of those opportunities. Youth issues, in particular, have the entire community focused on CHAMPION Youth and other community initiatives.

Public Safety has been enhanced, especially with the release of a 14-point plan to improve public safety, through items that include the installation of video monitoring equipment in more than two dozen areas around the city. While improvements have been made, low level gang activity consumes many youth, domestic violence impacts many households and homeland security continues to be of concern.

Government Philosophy has resulted in more doors being opened to local residents to participate. Through the use of the Internet and a Geographic Information System (GIS) program, access is instantaneous. *Chelsea Participates!* is training more new residents, with the result being that more new residents are being engaged in the community. Civic activity is at an all-time high. More can and will be done, though, always with an eye towards not slipping backwards to a day and place where a few controlled the majority.

RISK MANAGEMENT

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

The City is self-insured for its retirees' health insurance and workers' compensation activities. These activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

CAPITAL FINANCING AND DEBT MANAGEMENT

In conjunction with the operating budget, the City annually prepares a capital budget for the upcoming fiscal year and five-year CIP that is used as a guide for future capital expenditures. The CIP for the five-year period beginning in fiscal year 2005 through fiscal year 2009, which was approved by the City Council in September, 2004 has an estimated cost of \$2,736,130 for fiscal year 2005. \$833,630 of this plan will be funded through grants, \$641,500 will be funded through the issuance of general fund general obligation bonds and \$1,186,000 will be funded through the issuance of Water and Sewer Enterprise bonds. Financing of \$75,000 for the fiscal year 2005 administrative portion of the CIP was appropriated from free cash by the City Council in September, 2004 with the adoption of this Capital Improvement plan.

The City's debt burden is relatively low in relation to other communities its size. Outstanding long-term debt (related to governmental funds) as of June 30, 2004, totaled \$69,010,814, of which \$58,590,000 relates to School Construction and \$6,340,484 relates to urban renewal, leaving a balance of \$4,080,330 related to CIP projects. The Commonwealth of Massachusetts reimburses the City for 95 percent of the principal and interest related to the School Construction bonds.

Since fiscal year 1997, the City had funded a portion (\$200,000 annually) of its CIP on a "pay-as-you-go" basis out of current revenues. In order to maintain this type of funding, even in difficult economic conditions, a Capital Stabilization Fund was established and has been funded with three years worth of "pay-as-you-go" reserves totaling approximately \$700,000.

CASH MANAGEMENT

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

Idle cash is invested. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City does not require collateral for its certificates of deposit, money market accounts, checking or savings accounts when dealing with major banking institutions in the Boston area. However, City officials reserve the right to require collateral when it is in the best interest of the City to do so.

At June 30, 2004, general fund cash and short-term investments totaled \$15,803,949, while the balance of unrestricted cash and short-term investments for all governmental funds totaled \$35,625,253.

INDEPENDENT AUDIT

The City's financial records, books of accounts and financial transactions are audited each fiscal year by an independent firm of certified public accountants. The independent public accounting firm of Sullivan, Rogers & Company, LLC performed the City's annual audit for the fiscal year ended June 30, 2004. The independent auditors' report on the basic financial statements, for the fiscal year ended June 30, 2004, is included herein and contains an unqualified opinion.

CERTIFICATES, AFFILIATIONS AND AWARDS

Certificate of Achievement

For the sixth straight year, the City has been recognized by the Government Finance Officers Association of the United States and Canada (GFOA) with a "Certificate of Achievement for Excellence in Financial Reporting" for its June 30, 2003 CAFR. The Certificate of Achievement is the most prestigious award of its kind. The award reflects the effort and emphasis that the City places in meeting and exceeding the highest standards for financial and operational reporting. In order to be awarded the Certificate of Achievement, a government must publish an easily readable and well-organized document that conforms to accounting principles generally accepted in the United States of America and the Certificate Program requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this fiscal year 2004 CAFR continues to meet the Certificate Program's requirements and, accordingly, we have submitted it to the GFOA to determine its eligibility for another Certificate of Achievement.

Distinguished Budget Award

The City received its seventh consecutive Distinguished Budget Award from the GFOA for the 2003 Budget. The Budget Award is similarly reflective of the City's focus on presenting financial and operational material that is both functional and descriptive. The City's annual budgets serve as a policy document, operational guide, financial plan and communication device.

By receiving both the Certificate of Achievement and Distinguished Budget Award, the City is one of only a handful of communities in the Commonwealth of Massachusetts that can boast such success.

Keep Chelsea Beautiful

The City's affiliation with the nationally acclaimed Keep America Beautiful (KAB) organization continues to help local residents Keep Chelsea Beautiful (KCB). KCB focuses City and community attention on eliminating blight throughout the community. The City's participation in KAB is another example of management "outside the box" addressing pressing community needs.

Annually, the City participates in the KAB Great American Cleanup. This past year, 250 civic-minded volunteers logged 1,000 man-hours cleaning more than a dozen sites throughout the community. Most of the sites were properties of other governmental entities, as City land is regularly cleaned and under control. Graffiti continues to be on the decline, and community spirit continues to increase as a result of KCB. To further advance the KCB agenda, the City announced an 8-point plan that is directing even further attention to litter and blight.

Chelsea, An "All-America City"

While the City's designation as an "All-America City" by the National Civic League was made six years ago, the ideals that embodied the City in 1998 have been strengthened and recommitted to each year since then. Thus, the City continues to engage stakeholders, including government officials, businesspersons, not-for-profit leaders, neighborhood members and individual residents, in the setting of goals and the subsequent review of the City's achievement. The entire community is better having made the effort, and the trust that is established through reporting mechanisms like the CAFR makes possible even more long-lasting gains. Thus, as our community continues to work together to guard against a fall back into the days of no financial planning, budget deficits, insufficient reporting and the like, the foundation of an All-America City continues to be strong and expanding.

ACKNOWLEDGEMENTS

A community is a group of people tied together by a commonality of place and interest. The community of Chelsea continues to build upon that concept, and each and every local resident is the beneficiary.

At City Hall, the responsibility of City leaders is to develop and then implement responsible policies for the administration of City government. This City government tends to be an activist organization, so in addition to core responsibilities, like policing the streets, City government leads community efforts, like through Keep Chelsea Beautiful. The "roll-up your sleeves and hold hands" approach has many doing much more than is possible by any single individual or even individually as a City government.

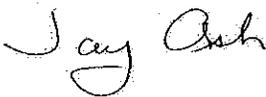
City officials realize that the starting point for all that can be good begins with professional fiscal management. The City Council has adopted such an approach, and together with the City Administration, the leadership of City government has proven to be in very competent hands. Perhaps most impressive is the prioritization of planning to address issues of a multitude of years, and then the commitment to stick to the plans once leaders agree on the direction policy should take. Over and over again, from balanced budgets to the elimination of problem properties in the community, this "plan the work and work the plan" approach is making a difference.

There will be struggles ahead. Unforeseen this and controversial that; no municipal entity is exempt from such. However, every day, and now every year the City moves further away from the dark days of the early 1990's, the not-so-new, anymore, Chelsea continues to reach new levels of competency and achievement.

In terms of this CAFR, the City's finance officials deserve special recognition and praise. Their efforts drive the Financial Fundamental. Operational managers, though, also merit praise, as the City stresses interdisciplinary understanding and cooperation. Everyone embracing and working off of each other's agenda allows for an openness of discussion and direction that has a major benefit: a City focused on those it represents.

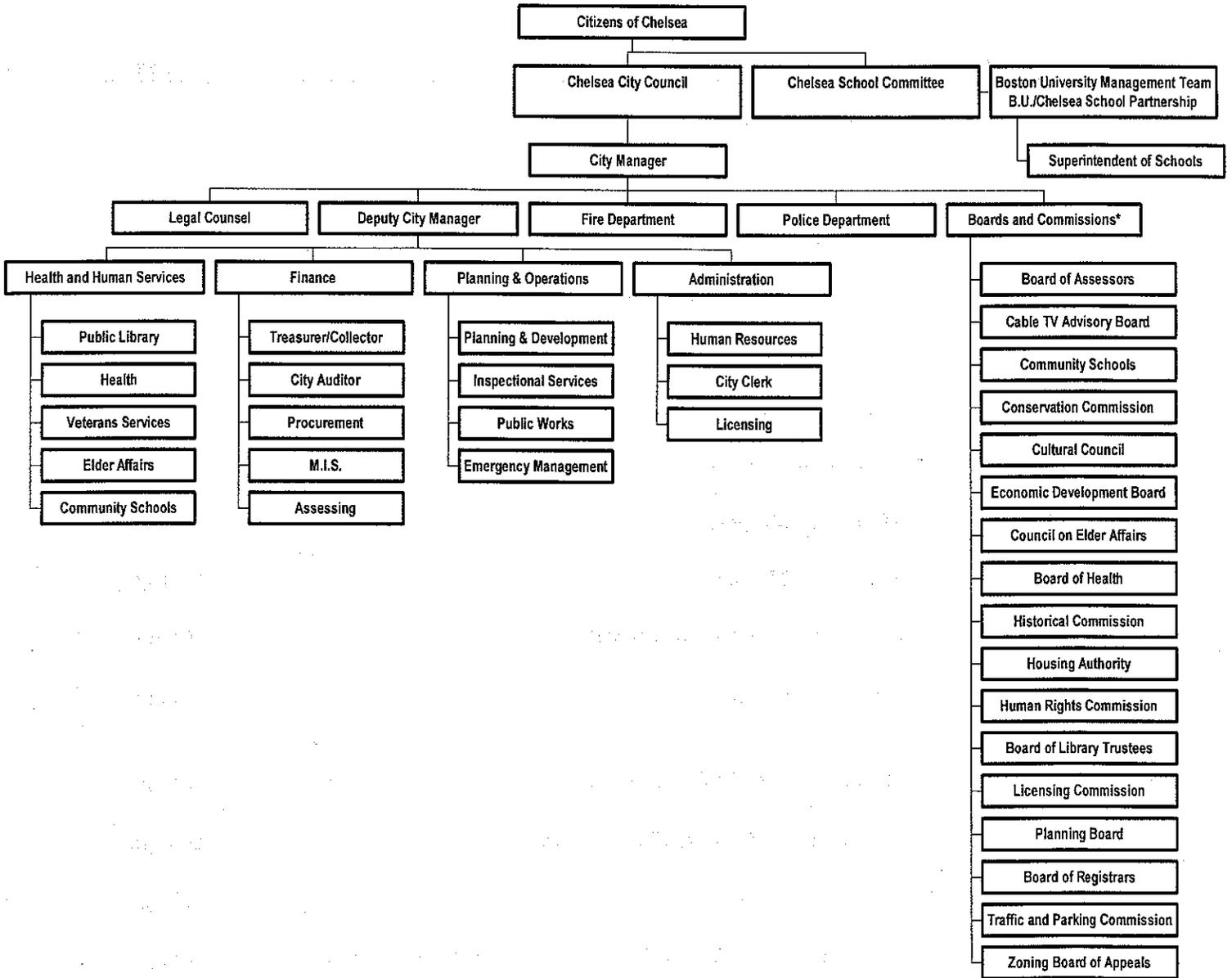
The City Council and City Administration are pleased to share with the public the City's financial reports for fiscal year 2004. While more of the same can sometimes be a bore, in Chelsea, more of the same is continuing to provide steady service and further revitalization of a truly great community.

Very truly yours,



Jay Ash
City Manager

City of Chelsea Organizational Chart



ELECTED OFFICIALS

Council/Committee	Name	District
City Council	Mr. Stanley Troisi, <i>Vice President</i>	1
	Ms. Roseann T. Bongiovanni	2
	Mr. David Cleveland	3
	Mr. Mike Mekonnen Tsegaye	4
	Ms. Paula S. Barton	5
	Ms. Dora E. Santaniello	6
	Mr. Calvin T. Brown	7
	Mr. Ron D. Morgese	8
	Mr. Paul R. Nowicki	At-large
	Mr. Roy A. Avellaneda, <i>President</i>	At-large
	Mr. Leo Robinson	At-large
School Committee	Ms. Elizabeth McBride, <i>Chairman</i>	At-large
	Ms. Rosemarie Carlisle, <i>Vice-Chairman</i>	At-large
	Mr. Arthur C. Bowen	At-large
	Mr. Ed Ells, <i>Delegate to the Boston University Management Team</i>	At-large
	Mr. Morrie Seigal	At-large
	Ms. Lydia Walata	At-large
	Ms. Deborah A. Washington, <i>Delegate to the Chelsea City Council</i>	At-large

PRINCIPAL OFFICIALS

Department	Official(s)	Areas
Assessors	Philip J. Waterman, <i>Chairman</i> Ken Stein, <i>Director</i>	
Auditing/Budget	Thomas Durkin, <i>Finance Director</i>	
City Clerk	Robert Bishop, <i>City Clerk</i>	Traffic & Parking
City Council	Roy Avellaneda, <i>President</i> Paul Casino, <i>Administrator</i>	
Executive	Jay Ash, <i>City Manager</i> Kimberly Driscoll, <i>Deputy City Manager</i>	
Emergency Management	Allan Alpert, <i>Director</i>	
Fire	Joseph Siewko, <i>Chief</i>	
Health and Human Services	Luis Prado, <i>Director</i>	Elder Affairs, Health, Library, Veteran Services, Workforce Development, Cultural Affairs
Inspectional Services	Joseph Cooney, <i>Director</i>	
Legal	Cheryl Anne Watson, <i>Corporate Counsel</i>	
Licensing	Deborah Colombo, <i>Director</i>	Recreation
Management Information Systems	Matthew Killen, <i>Director</i>	
Human Resources	Karen Budrow, <i>Director</i>	
Planning and Development	Ned Keefe, <i>Executive Director</i>	Planning, Economic Development, Housing
Police	Frank Garvin, <i>Chief</i>	Animal Control, E-911
Procurement	Monica Ford, <i>Chief Procurement Officer</i>	
Public Works	Joseph Foti, <i>Director</i>	
Retirement Board	Joseph Siewko, <i>Chairman</i>	
School	Dr. Thomas Kingston, <i>Superintendent</i> Elizabeth McBride, <i>Chairperson</i>	
Treasurer/Collector	Anna Tenaglia, <i>Assistant Finance Director</i>	

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Chelsea,
Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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



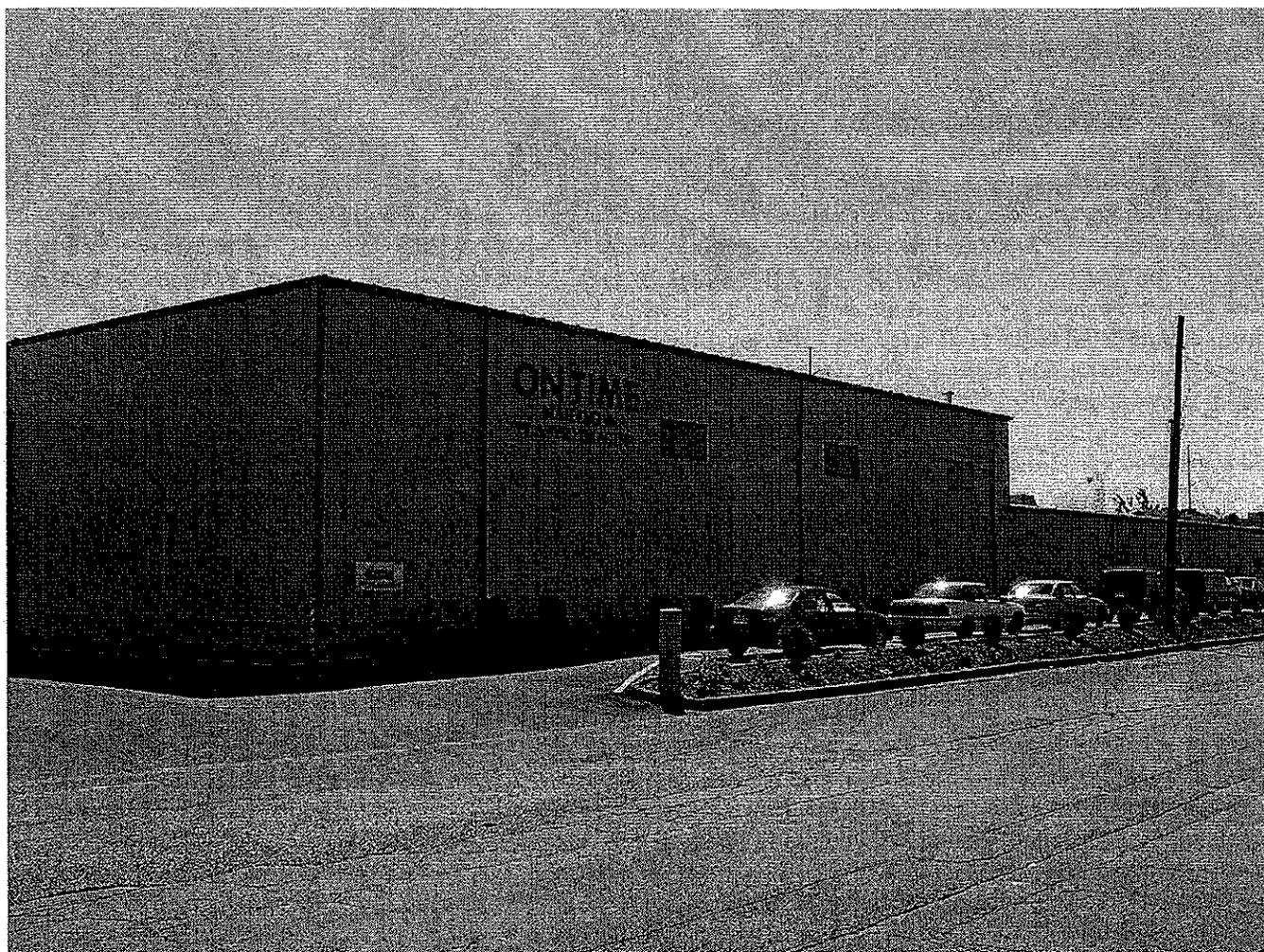
Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

Financial Section



On-Time Mailing Facility

On-Time Mailing, a manufacturer of credit cards and other cards for a number of national companies, moved to Chelsea in order to grow its business. The new \$2.5 million facility on Crescent Avenue opened in July 2004 on an underused and blighted industrial parcel, and employs between 30 and 50 employees.

Independent Auditors' Report

To the Honorable City Council and City Manager
City of Chelsea, 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 Chelsea, Massachusetts, as of and for the fiscal year ended June 30, 2004 (except for the Chelsea Contributory Retirement System which is as of and for the fiscal year ended December 31, 2003), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chelsea, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Chelsea, Massachusetts, as of June 30, 2004 (except for the Chelsea Contributory Retirement System, which is as of December 31, 2003), and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 16, the City has restated the beginning net assets of its governmental activities.

The management's discussion and analysis (located on pages 15 through 25) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 September 14, 2004, on our consideration of the City of Chelsea, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chelsea, Massachusetts' basic financial statements. The introductory section, combining and individual fund financial statements and schedules, 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 fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory 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.

Zulli, Fog & Company, LLC

September 14, 2004

Required by the Government Auditing Standards

Management's Discussion and Analysis

As management of the City of Chelsea, Massachusetts (City), we offer readers of these financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2004.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$139,003,381 (net assets). Of this amount, \$31,516,025 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$11,389,483.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances totaling \$29,074,230, a decrease of \$132,497 in comparison with the prior year. Approximately \$30,388,968 is available for spending at the City's discretion (unreserved fund balance of the general fund, special revenue fund, debt service fund and permanent fund). The capital projects fund deficit totaling \$9,122,271 will be funded through the issuance of long-term debt in future fiscal years.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$5,986,814, or 6.0 percent of total general fund expenditures.
- The City's total long-term debt principal decreased by \$4,566,860 during the fiscal year. The City issued \$2,840,000 in general obligation bonds and \$192,920 of MWRA notes during the fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

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

The **statement of net assets** presents information on all of the City's non-fiduciary 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 of the City 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, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the City 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*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, community development and debt service (interest). Business-type activities include the water and sewer operations.

The government-wide financial statements can be found on pages 28-30 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 expendable resources, as well as on balances of expendable 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 effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 21 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, stabilization (special revenue), debt service and school facilities (capital projects) funds, each of which are considered to be major funds. Data from the other 17 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements on pages 71-80 of this report.

The City adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided to demonstrate compliance with the fiscal year 2004 budget.

The basic governmental funds financial statements can be found on pages 31-39 of this report.

Proprietary funds

The City maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations and is considered to be a major fund.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its retirees' health insurance and workers' compensation risk-financing activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements but are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 82-85 of this report.

The basic proprietary fund financial statements can be found on pages 40-42 of this report.

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 programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary funds provide separate information for the City's pension trust fund. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary fund financial statements can be found on pages 43-44 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45-69 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the City's progress in funding its obligation to provide pension benefits to its employees. Such information can be located on page 68 of this report.

The combining statements previously referred to are presented immediately following the basic financial statements.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$139,003,381 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2004	2003*	2004	2003	2004	2003*
Assets						
Current assets.....	\$ 46,578,773	\$ 50,365,625	\$ 3,559,199	\$ 3,705,984	\$ 50,137,972	\$ 54,071,609
Noncurrent assets (excluding capital assets).....	52,719,981	58,157,703	-	-	52,719,981	58,157,703
Capital assets (net).....	126,877,553	132,774,533	12,465,541	11,332,041	139,343,094	144,106,574
Total assets.....	226,176,307	241,297,861	16,024,740	15,038,025	242,201,047	256,335,886
Liabilities						
Current liabilities (excluding debt).....	7,672,925	6,582,288	543,778	318,831	8,216,703	6,901,119
Noncurrent liabilities (excluding debt).....	2,039,000	1,724,000	-	-	2,039,000	1,724,000
Current debt.....	22,843,507	24,120,729	827,134	1,466,074	23,670,641	25,586,803
Noncurrent debt.....	62,167,307	65,232,871	7,104,015	6,498,229	69,271,322	71,731,100
Total liabilities.....	94,722,739	97,659,888	8,474,927	8,283,134	103,197,666	105,943,022
Net Assets						
Invested in capital assets (net of related debt).....	87,769,262	94,181,198	4,534,392	3,367,738	92,303,654	97,548,936
Restricted.....	15,183,702	24,824,976	-	957,423	15,183,702	25,782,399
Unrestricted.....	28,500,604	24,631,799	3,015,421	2,429,730	31,516,025	27,061,529
Total net assets.....	\$ 131,453,568	\$ 143,637,973	\$ 7,549,813	\$ 6,754,891	\$ 139,003,381	\$ 150,392,864

* As restated and more fully described in Note 16 on page 69 of this report.

The largest portion of the City's net assets (66.4%) reflects its investment in capital assets (e.g., land, buildings and improvements, machinery and equipment, and infrastructure); less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (10.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (22.7% or \$31,516,025) may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$28,500,604 may be used to support governmental activities and \$3,015,421 may be used to support business-type activities.

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

Changes in Net Assets

For the fiscal year ended June 30, 2004, the City's total net assets decreased by \$11,389,483, compared to an increase of \$5,221,744 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2004	2003*	2004	2003	2004	2003*
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 6,199,855	\$ 6,152,890	\$ 11,137,737	\$ 9,304,762	\$ 17,337,592	\$ 15,457,652
Operating grants and contributions.....	60,350,646	70,132,050	14,132	36,892	60,364,778	70,168,942
Capital grants and contributions.....	400,045	438,833	-	302,313	400,045	741,146
<i>General Revenues:</i>						
Real estate and personal property taxes.....	23,780,306	22,753,878	-	-	23,780,306	22,753,878
Motor vehicle and other excise taxes.....	2,331,503	3,136,517	-	-	2,331,503	3,136,517
Tax and trash liens.....	321,130	636,587	-	-	321,130	636,587
Penalties and interest on taxes.....	661,775	272,770	-	-	661,775	272,770
Payments in lieu of taxes.....	1,132,798	1,641,658	-	-	1,132,798	1,641,658
Grants and contributions not restricted to specific programs.....	8,327,219	8,843,073	-	-	8,327,219	8,843,073
Unrestricted investment income.....	413,762	821,315	-	-	413,762	821,315
Premium from issuance of short-term notes.....	1,706	760,544	-	-	1,706	760,544
Gain (Loss) on sale of capital assets.....	(1,636,100)	30,995	-	-	(1,636,100)	30,995
Other.....	32,612	41,233	-	-	32,612	41,233
Total revenues.....	102,317,257	115,662,343	11,151,869	9,643,967	113,469,126	125,306,310
Expenses						
General government.....	4,012,030	4,175,305	-	-	4,012,030	4,175,305
Public safety.....	20,951,948	20,788,760	-	-	20,951,948	20,788,760
Education.....	70,629,480	68,117,532	-	-	70,629,480	68,117,532
Public works.....	5,390,668	6,170,407	-	-	5,390,668	6,170,407
Health and human services.....	4,297,219	4,362,128	-	-	4,297,219	4,362,128
Culture and recreation.....	603,279	607,745	-	-	603,279	607,745
Community development.....	2,607,842	2,503,532	-	-	2,607,842	2,503,532
Debt service - interest.....	7,000,683	4,994,998	-	-	7,000,683	4,994,998
Water and sewer.....	-	-	9,365,460	8,364,159	9,365,460	8,364,159
Total expenses.....	115,493,149	111,720,407	9,365,460	8,364,159	124,858,609	120,084,566
Change in net assets before transfers.....	(13,175,892)	3,941,936	1,786,409	1,279,808	(11,389,483)	5,221,744
Transfers, net.....	991,487	1,014,252	(991,487)	(1,014,252)	-	-
Change in net assets.....	(12,184,405)	4,956,188	794,922	265,556	(11,389,483)	5,221,744
Net assets - beginning of year (as restated).....	143,637,973	138,681,785	6,754,891	6,489,335	150,392,864	145,171,120
Net assets - end of year.....	\$ 131,453,568	\$ 143,637,973	\$ 7,549,813	\$ 6,754,891	\$ 139,003,381	\$ 150,392,864

* As restated and more fully described in Note 16 on page 69 of this report.

Governmental activities decreased the City's net assets by \$12,184,405. In the prior year, governmental activities increased the City's net assets by \$4,956,188. The key elements of this change are decreases in investment income (\$2,700,000), intergovernmental revenues (\$2,000,000), motor vehicle excise taxes (\$800,000), revenues from payments in lieu of taxes (\$500,000), and premiums from short-term notes (\$750,000). There was also amortization of deferred losses and premiums from refunding transactions (\$2,400,000) and losses from the sale of assets (\$1,600,000). The increase in expenses (\$3,800,000) was consistent with projected amounts.

Business-type activities increased the City's net assets by \$794,922. In the prior year, business-type activities increased the City's net assets by \$265,556. The key element of this change is an increase in user charges (\$1,800,000) that was greater than the increase in expenses (\$1,000,000). The increase in user charges is due to the implementation of progressive, "tiered" billing rates that are based on water and sewer usage.

Fund Financial Statement Analysis

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

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$29,074,230, a decrease of \$132,497 in comparison with the prior year. Approximately 95.6% of this total amount, or \$27,784,827, represents undesignated fund balance of the general fund, special revenue fund, debt service fund and permanent fund. The capital projects fund deficit totaling \$9,122,271 will be funded through the issuance of long-term debt in future fiscal years. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders of the prior period (\$2,468,835)
- Loans (\$3,003,207)
- Perpetual permanent funds (\$22,392)
- Other specific purposes (\$2,313,099)
- Fund a portion of the fiscal year 2005 operating budget (\$2,604,141)

The general fund is the primary operating fund of the City. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$5,986,814, while total fund balance was \$11,059,790. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 6.0% of total general fund expenditures, while total fund balance represents 11.1% of that same amount.

The balance of the City's general fund decreased by \$2,233,642 during fiscal year 2004. Although the City recognized an approximate \$5,300,000 budgetary surplus (budget vs. actual activity), approximately \$7,500,000 of reserves was utilized for spending during fiscal year 2004.

Financial highlights of the City's other major governmental funds are as follows:

The fund balance of the stabilization fund (special revenue) increased by \$99,939 during the current fiscal year. This is primarily attributable to investment income earned by the fund.

The fund balance of the debt service fund decreased by \$944,839 during the current fiscal year. This is attributable to an unrealized loss on investments, which was retained in the fund.

The fund balance of the school facilities fund (capital project) increased by \$1,140,347 during the current fiscal year. This is primarily attributable to \$1,600,000 of bond proceeds received in fiscal year 2004. The accumulated deficit of (\$15,011,901) will be funded in future fiscal years via long-term debt.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer enterprise fund at the end of the year amounted to \$3,015,421. The water and sewer enterprise fund had an increase in net assets for the year of \$794,922. Other factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$100,958,074 was increased by \$2,740,914 (2.7 %) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Various capital improvements.....	\$ 528,000	Free cash
Various departmental increases.....	59,600	Transfer from special revenue - parking
Various departmental increases.....	50,012	Free cash
Fire department overtime.....	100,000	Free cash
Urban Self Help Program.....	437,000	Free cash
Debt principal and interest.....	841,248	Transfer from special revenue - urban renewal
Community development loan program.....	725,054	Free cash
Total increase.....	\$ <u>2,740,914</u>	

During the year, general fund revenues and other financing sources exceeded budgetary estimates and expenditures were less than the appropriations, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$5,336,000.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$139,343,094 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year totaled 3.3% (a 4.1% decrease for governmental activities and a 0.8% increase for business-type activities).

Major capital asset events that occurred during the current fiscal year include the following:

- Sale of Everett Avenue Urban Renewal land (\$4,000,000)
- Playground and park improvements (\$550,000)
- Additional construction on Chelsea High School (\$450,000)
- Computer equipment upgrades (\$750,000)
- Continued reconstruction of roadways, sidewalks and drains (\$440,000)
- Continued upgrades of the water and sewer infrastructure (\$1,450,000)

The following table summarizes the City's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2004	2003*	2004	2003	2004	2003*
Land.....	\$ 5,673,731	\$ 9,710,528	\$ -	\$ -	\$ 5,673,731	\$ 9,710,528
Buildings and improvements.....	112,999,170	115,429,641	-	-	112,999,170	115,429,641
Machinery and equipment.....	2,907,990	2,583,913	-	-	2,907,990	2,583,913
Infrastructure.....	5,296,662	5,050,451	12,465,541	11,332,041	17,762,203	16,382,492
Total capital assets.....	\$ 126,877,553	\$ 132,774,533	\$ 12,465,541	\$ 11,332,041	\$ 139,343,094	\$ 144,106,574

* As restated and more fully described in Note 16 on page 69 of this report.

Additional information on the City's capital assets can be found in Note 5 on pages 59-60 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$76,941,963, which is backed by the full faith and credit of the City, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2004	2003	2004	2003	2004	2003
General obligation bonds.....	\$ 68,350,445	\$ 73,282,030	\$ 7,399,551	\$ 6,832,967	\$ 75,749,996	\$ 80,114,997
State house notes.....	660,369	880,490	-	-	660,369	880,490
MWRA notes.....	-	-	531,598	513,336	531,598	513,336
Total bonds and notes.....	\$ 69,010,814	\$ 74,162,520	\$ 7,931,149	\$ 7,346,303	\$ 76,941,963	\$ 81,508,823

The City's total bonded debt decreased by \$4,566,860 (or 5.6%) during the fiscal year, including issuances of \$2,840,000 of general obligation bonds and \$192,920 of MWRA notes.

The City has an A- and Baa1 bond ratings from Standard & Poor's and Moody's Investors Service, respectively.

State statutes limit the amount of general obligation debt the City may issue to 2 ½% of its total assessed valuation. The current debt limit is \$55,164,970. However, through various debt exclusions, the City's legal debt margin (capacity to borrow within the debt limit) totals \$51,745,009.

Additional information on the City's long-term debt can be found in Note 9 on pages 62-65 of this report.

Economic Factors and Next Year's Budgets and Rates

The impact of a national recession on the State budget has resulted in many (and there are many) who rely upon local aid to fund municipal operations to find little solace in the prognostications that the recovery has finally begun. Communities around the commonwealth, large, small and in-between, are finding it difficult, if not impossible, to navigate through what may be the worst municipal finance environment since the Great Depression. It should come as no surprise to the causal observer, and the municipal expert easily recognizes, that gloom and doom are varying distances away from local communities and those around the country. Among the only remedies providing some with relief are the preventive medicines, or precautions, some took while times were good; in order to be healthier when times got bad.

The City is fortunate thanks to the great leadership offered in the past by the City Council and City Administration to be among those who coveted surpluses instead of spending beyond one's means. If anything can be learned from the ailment impacting one and all it is that moderation in good times can help moderate the pain in bad times. The City built reserves as it strove for higher plateaus. While a flood of red ink is unfortunately drowning others, the City continues to sit high enough on those reserves to maintain it's breathe while hoping for the rain clouds to go away. In fact, barring any further downturn, the City can expect to weather the storm for at least another fiscal year, and maybe one or two more. Certainly, by then, help will be on the way. But what if it is not? The latter question is what City leaders must wrestle with today, for if one waits too long to ask the tough questions and make the difficult choices, all can be lost.

In reviewing the harsh realities of finances in fiscal year 2004, credit rating analysts were impressed that the City not only had a plan to balance budgets in fiscal year 2004 and fiscal year 2005, but also one for fiscal year 2006. Perhaps no one else is more determined to ensure that history, meaning Receivership, does not repeat itself. So, while the City can take comfort in the knowledge that its financial preparedness and managerial navigation have it seemingly in a good place, City's leaders cannot sit idly by and hope for the best. No, instead it is owed to residents and taxpayers that even further steps be taken to protect the City in the case that the recovery is weak and the pain of that which the City has little control over is protracted.

Now in and of itself, the pronouncement of little control may seem to some to be a cop-out. After all, the argument could proceed; the City does raise taxes and should be able to cut budgets to live within its means. Perhaps, but the realities of today's complex municipal financing and administration mean that simplistic answers provide no solution. Revenues raised through local property taxes, for example, only account for 25% of annual City spending. The City receives more than half of its revenues from an entity that is hemorrhaging, the State, and is restricted by State law, in this case as a result of Proposition 2½, from raising those taxes it controls. Those realities have created a crisis in revenues. Compounding matters are that the fastest rising spending accounts, health care, retirement and wage costs, are set by union contracts and or State law. Attempts to reduce those accounts through employee reductions have managed to stem some increases. However, employee and retiree costs, also the bane of many private employers in similar predicaments, cry out for State and Federal solutions which have been long in need but short in response.

Nonetheless, the City should and will continue to take responsible actions within its own controls to raise revenues, cut expenses and, most importantly, balance budgets for as long as it takes for the recovery to take full hold. To do so, though, remain a greater challenge each and every time the exercise is undertaken. While arguably a Proposition 2 ½ override should be in order, the political will to do so does not seem to exist at this point. Therefore, revenue growth is most likely to come from further economic development, which, while still promising, is also negatively impacted by recessionary times. On the short-term, candidly, revenue growth is unlikely to provide much, if any, salvation. Regarding expenditures, cutting began in earnest almost thirteen

years ago, when the City did fall into Receivership. Some cite an expanding budget, especially in the mid-to late-nineties, as evidence to the contrary. However, those increases were caused by huge State educational aid injections, both for the construction of new schools and under the State's Education Reform Act. Spending for general government, defined as non-school municipal operations, has instead seen modest increases, and driven again by exploding health insurance and other employee benefits, casualty insurance charges and State assessments. Factor out those exploding costs as well as those expenditures paid by grants and what is left behind is an eroding base from which there is little left to cut.

Out from the potential of gloom and doom, the key to the City's optimism is the result of continuous planning which has directed City leaders to focus on two critical local factors: 1. reserves sufficient to cover short-term needs, and 2. promising tax base expansion made possible by further economic development. These pages detail well factor one. As a result of City financial planning, which has come in the form of annual budgeting, a three-year budget plan and a five-year financial forecast, reserves have been appropriately "stretched" to cover operating shortfalls. Those shortfalls have been reduced by cuts in expenditures and modest increases in certain revenue areas. The bottom line is that financial planning has resulted in a plan of action that maximizes the possible longevity of the City's reserves.

As a result, more time exists for the City to build upon an already impressive development list. It is very likely that the City can "pump-up" new growth to provide greater local revenues to fill the gaps that currently exist, and allow for a time when the City can begin to replenish reserves. The centerpiece of the City's economic development strategy, for example, has been the Everett Avenue Urban Renewal District (EAURD). The Wyndham Hotel stands as the most visible sign of the City's success, both in terms of land use planning and the use of economic development to expand the local tax base. The Wyndham in fiscal year 2003 provided the City with \$300,000 in combined property and hotel excise tax payments. That far exceeds the estimated \$40,000 in receipts the City could have expected from the old businesses that once occupied the Wyndham site before the City acquired and then facilitated the building of the hotel.

Promising, therefore, are recent actions in the EAURD. Last November, the City sold 5-acres for a potential office or mixed-use development. Plans are expected for the build-out of that opportunity on the "Emerald Block" this spring. This past month, the City has designated Gulf and HP Hood to develop the "Chelsea Gateway." The two companies, owned by the same family and with combined sales of one-half billion dollars in 2003, will begin construction on a 50,000 square foot corporate headquarters this spring as well. A hotel is likely to follow at Chelsea Gateway.

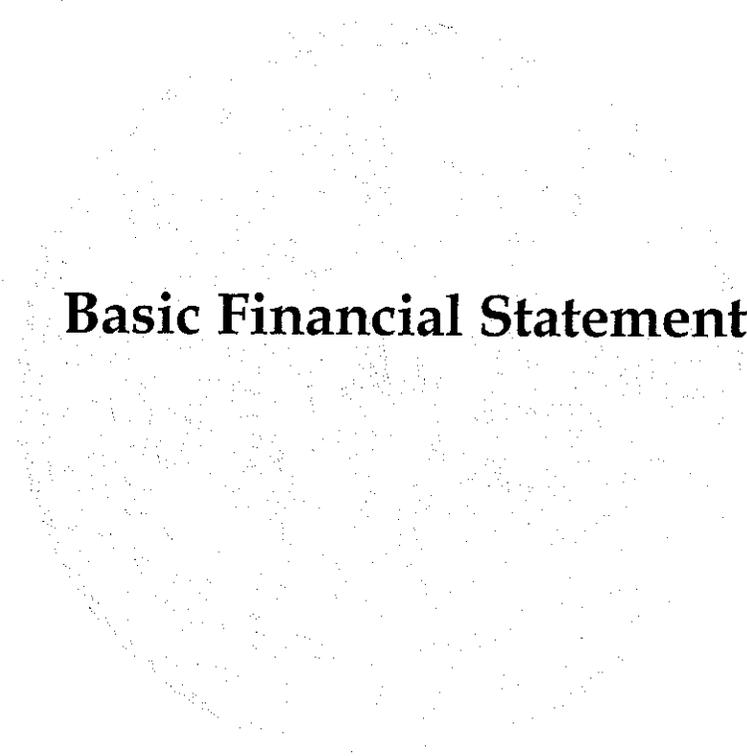
Outside the EAURD, the long-awaited redevelopment of the Parkway Plaza is expected to kick-off this upcoming November with the construction of a Home Depot. In the meantime, City development officials are far along in redevelopment discussions for the revitalization of the City's other retail center: Mystic Mall. Perhaps most promising in terms of economic development's impact on tax revenues are a half-dozen residential projects that could substantially increase the City's property tax revenues by fiscal year 2008. In fact, the mainstay of City financial plans to balance future budgets includes the development of 1,000 residential units or more over the next three years. For those who immediately think of the service impacts typically associated with such a building boom, the City believes such traditional impacts to be minimal as a result of the unit mixes that are likely to promote rental and ownership from kid-less households.

The reality of budgeting in the City these days is that City officials not only have a good handle on the issues on the horizon, but also solid plans to negotiate through any troubling times that may be ahead.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Office, City Hall, 500 Broadway, Chelsea, Massachusetts 02150.





Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2004

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and short-term investments.....	\$ 35,162,088	\$ 139,616	\$ 35,301,704
Restricted cash and short-term investments.....	988,099	554,569	1,542,668
Investments.....	2,322,600	-	2,322,600
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	548,358	-	548,358
Tax, trash and utility liens.....	754,374	174,950	929,324
Motor vehicle and other excise taxes.....	431,696	-	431,696
User charges.....	-	2,690,064	2,690,064
Trash.....	304,788	-	304,788
Departmental and other.....	41,000	-	41,000
Intergovernmental.....	6,082,548	-	6,082,548
Loans.....	554,000	-	554,000
Due from other funds.....	-	-	-
Prepaid expenses.....	96,014	-	96,014
Tax foreclosures.....	110,016	-	110,016
Total current assets.....	47,395,581	3,559,199	50,954,780
Noncurrent assets:			
Restricted cash and short-term investments.....	171,291	-	171,291
Restricted investments.....	9,586,724	-	9,586,724
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	39,695,951	-	39,695,951
Loans.....	2,449,207	-	2,449,207
Capital assets not being depreciated.....	5,673,731	-	5,673,731
Capital assets, net of accumulated depreciation.....	121,203,822	12,465,541	133,669,363
Total noncurrent assets.....	178,780,726	12,465,541	191,246,267
Total assets.....	226,176,307	16,024,740	242,201,047
LIABILITIES			
Current liabilities:			
Warrants payable.....	5,429,092	422,817	5,851,909
Accrued payroll.....	30,219	-	30,219
Tax refunds payable.....	508,000	-	508,000
Other liabilities.....	4,851	-	4,851
Abandoned property.....	292,008	-	292,008
Liabilities due depositors.....	-	36,080	36,080
Accrued interest.....	451,755	84,881	536,636
Accrued health claims payable.....	109,000	-	109,000
Workers' compensation claims.....	232,000	-	232,000
Compensated absences.....	616,000	-	616,000
Short-term notes payable.....	16,000,000	-	16,000,000
Long-term bonds and notes payable.....	6,843,507	827,134	7,670,641
Total current liabilities.....	30,516,432	1,370,912	31,887,344
Noncurrent liabilities:			
Workers' compensation claims.....	572,000	-	572,000
Compensated absences.....	1,467,000	-	1,467,000
Long-term bonds and notes payable.....	62,167,307	7,104,015	69,271,322
Total noncurrent liabilities.....	64,206,307	7,104,015	71,310,322
Total liabilities.....	94,722,739	8,474,927	103,197,666
NET ASSETS			
Invested in capital assets, net of related debt.....	87,769,262	4,534,392	92,303,654
Restricted for:			
Loans.....	3,003,207	-	3,003,207
Debt service.....	9,758,015	-	9,758,015
Permanent funds:			
Expendable.....	86,989	-	86,989
Nonexpendable.....	22,392	-	22,392
Other specific purposes.....	2,313,099	-	2,313,099
Unrestricted.....	28,500,604	3,015,421	31,516,025
Total net assets.....	\$ 131,453,568	\$ 7,549,813	\$ 139,003,381

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 4,012,030	\$ 764,743	\$ 4,878	\$ -	\$ (3,242,409)
Public safety.....	20,951,948	2,865,284	1,003,823	-	(17,082,841)
Education.....	70,629,480	814,908	54,292,094	-	(15,522,478)
Public works.....	5,390,668	1,147,770	-	362,141	(3,880,757)
Health and human services.....	4,297,219	36,938	1,097,255	-	(3,163,026)
Culture and recreation.....	603,279	3,293	63,289	-	(536,697)
Community development.....	2,607,842	566,919	1,204,756	37,904	(798,263)
Debt service - interest.....	7,000,683	-	2,684,551	-	(4,316,132)
Total governmental activities.....	115,493,149	6,199,855	60,350,646	400,045	(48,542,603)
Business-type activities:					
Water and sewer.....	9,365,460	11,137,737	14,132	-	1,786,409
Total primary government.....	\$ 124,858,609	\$ 17,337,592	\$ 60,364,778	\$ 400,045	\$ (46,756,194)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (48,542,603)	\$ 1,786,409	\$ (46,756,194)
<i>General revenues:</i>			
Real estate and personal property taxes.....	23,780,306	-	23,780,306
Motor vehicle and other excise taxes.....	2,331,503	-	2,331,503
Tax and trash liens.....	321,130	-	321,130
Penalties and interest on taxes.....	661,775	-	661,775
Payments in lieu of taxes.....	1,132,798	-	1,132,798
Grants and contributions not restricted to specific programs.....	8,327,219	-	8,327,219
Unrestricted investment income.....	413,762	-	413,762
Premium from issuance of bonds and notes.....	1,706	-	1,706
Gain (Loss) on sale of capital assets.....	(1,636,100)	-	(1,636,100)
Other.....	32,612	-	32,612
<i>Transfers, net</i>	991,487	(991,487)	-
Total general revenues and transfers.....	36,358,198	(991,487)	35,366,711
Change in net assets.....	(12,184,405)	794,922	(11,389,483)
Net assets - beginning of year (as restated).....	143,637,973	6,754,891	150,392,864
Net assets - end of year.....	\$ 131,453,568	\$ 7,549,813	\$ 139,003,381

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2004

ASSETS	General	Stabilization	Debt Service
Cash and short-term investments.....	\$ 15,803,949	\$ 1,690,978	\$ -
Investments.....	-	2,322,600	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	548,358	-	-
Tax and trash liens.....	754,374	-	-
Motor vehicle and other excise taxes.....	431,696	-	-
Trash.....	304,788	-	-
Departmental and other.....	-	-	-
Intergovernmental.....	45,242,154	-	-
Loans.....	-	-	-
Due from other funds.....	74,423	-	-
Prepaid expenses.....	96,014	-	-
Tax foreclosures.....	110,016	-	-
Restricted assets:			
Cash and short-term investments.....	-	-	171,291
Investments.....	-	-	9,586,724
TOTAL ASSETS.....	<u>\$ 63,365,772</u>	<u>\$ 4,013,578</u>	<u>\$ 9,758,015</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 4,035,484	\$ -	\$ -
Accrued payroll.....	30,219	-	-
Tax refunds payable.....	508,000	-	-
Other liabilities.....	4,851	-	-
Abandoned property.....	291,028	-	-
Deferred revenue.....	47,301,386	-	-
Due to other funds.....	-	-	-
Accrued short-term interest.....	135,014	-	-
Short-term notes payable.....	-	-	-
TOTAL LIABILITIES.....	<u>52,305,982</u>	<u>-</u>	<u>-</u>
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	2,468,835	-	-
Loans.....	-	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	2,604,141	-	-
Undesignated, reported in:			
General fund.....	5,986,814	-	-
Special revenue funds.....	-	4,013,578	-
Debt service fund.....	-	-	9,758,015
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	<u>11,059,790</u>	<u>4,013,578</u>	<u>9,758,015</u>
TOTAL LIABILITIES AND FUND BALANCES.....	<u>\$ 63,365,772</u>	<u>\$ 4,013,578</u>	<u>\$ 9,758,015</u>

See notes to basic financial statements.

School Facilities	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 17,142,227	\$ 34,637,154
-	-	2,322,600
-	-	548,358
-	-	754,374
-	-	431,696
-	-	304,788
-	41,000	41,000
-	536,345	45,778,499
-	3,003,207	3,003,207
-	-	74,423
-	-	96,014
-	-	110,016
988,099	-	1,159,390
-	-	9,586,724
<u>\$ 988,099</u>	<u>\$ 20,722,779</u>	<u>\$ 98,848,243</u>
\$ -	\$ 1,393,608	\$ 5,429,092
-	-	30,219
-	-	508,000
-	-	4,851
-	-	291,028
-	-	47,301,386
-	74,423	74,423
-	-	135,014
<u>16,000,000</u>	<u>-</u>	<u>16,000,000</u>
<u>16,000,000</u>	<u>1,468,031</u>	<u>69,774,013</u>
-	-	2,468,835
-	3,003,207	3,003,207
-	22,392	22,392
-	2,313,099	2,313,099
-	-	2,604,141
-	-	5,986,814
-	7,939,431	11,953,009
-	-	9,758,015
(15,011,901)	5,889,630	(9,122,271)
-	86,989	86,989
<u>(15,011,901)</u>	<u>19,254,748</u>	<u>29,074,230</u>
<u>\$ 988,099</u>	<u>\$ 20,722,779</u>	<u>\$ 98,848,243</u>



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Total governmental fund balances (page 32).....	\$	29,074,230
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		126,877,553
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		47,301,386
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(316,741)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable, net of unamortized premiums and deferred losses on refundings.....		(69,010,814)
Compensated absences.....		(2,083,000)
Internal service funds are used by management to account for retirees' health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are reported as governmental activities in the statement of net assets.....		<u>(389,046)</u>
Net assets of governmental activities (page 28).....	\$	<u><u>131,453,568</u></u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	Stabilization	Debt Service
REVENUES			
Real estate and personal property taxes.....	\$ 24,656,790	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,431,353	-	-
Tax and trash liens.....	899,262	-	-
Payments in lieu of taxes.....	1,099,111	-	-
Charges for services.....	-	-	-
Trash disposal.....	1,034,814	-	-
Intergovernmental.....	62,167,537	-	-
Penalties and interest on taxes.....	661,775	-	-
Licenses, permits and fees.....	1,413,425	-	-
Fines and forfeitures.....	1,417,772	-	-
Departmental.....	117,465	-	-
Contributions.....	-	-	-
Investment income (loss).....	392,026	111,663	(383,869)
TOTAL REVENUES.....	96,291,330	111,663	(383,869)
EXPENDITURES			
Current:			
General government.....	2,616,555	3,517	-
Public safety.....	13,402,063	-	-
Education.....	46,344,508	-	-
Public works.....	4,359,728	-	-
Health and human services.....	983,426	-	-
Culture and recreation.....	311,609	-	-
Community development.....	-	8,207	-
Pension benefits.....	8,357,720	-	-
Employee benefits.....	8,801,256	-	-
Property and liability insurance.....	457,240	-	-
Claims and judgments.....	15,835	-	-
State and county charges.....	2,552,188	-	-
Debt service:			
Principal.....	6,751,706	-	-
Interest.....	4,607,567	-	-
TOTAL EXPENDITURES.....	99,561,401	11,724	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,270,071)	99,939	(383,869)
OTHER FINANCING SOURCES (USES)			
Transfers in.....	2,757,987	-	-
Proceeds of bonds and notes.....	-	-	-
Premium from issuance of bonds and notes.....	1,706	-	-
Sale of capital assets.....	490	-	-
Transfers out.....	(1,723,754)	-	(560,970)
TOTAL OTHER FINANCING SOURCES (USES).....	1,036,429	-	(560,970)
NET CHANGE IN FUND BALANCES.....	(2,233,642)	99,939	(944,839)
FUND BALANCES AT BEGINNING OF YEAR.....	13,293,432	3,913,639	10,702,854
FUND BALANCES AT END OF YEAR.....	\$ 11,059,790	\$ 4,013,578	\$ 9,758,015

See notes to basic financial statements.

School Facilities	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 24,656,790
-	-	2,431,353
-	-	899,262
-	33,687	1,132,798
-	1,641,003	1,641,003
-	-	1,034,814
-	14,216,228	76,383,765
-	-	661,775
-	44,046	1,457,471
-	-	1,417,772
-	633,571	751,036
-	133,509	133,509
-	96,316	216,136
-	16,798,360	112,817,484
-	622,895	3,242,967
-	1,543,062	14,945,125
459,653	10,938,785	57,742,946
-	637,479	4,997,207
-	1,016,532	1,999,958
-	78,130	389,739
-	3,080,358	3,088,565
-	-	8,357,720
-	-	8,801,256
-	-	457,240
-	-	15,835
-	-	2,552,188
-	-	6,751,706
-	-	4,607,567
459,653	17,917,241	117,950,019
(459,653)	(1,118,881)	(5,132,535)
-	1,768,922	4,526,909
1,600,000	-	1,600,000
-	-	1,706
-	2,400,206	2,400,696
-	(1,244,549)	(3,529,273)
1,600,000	2,924,579	5,000,038
1,140,347	1,805,698	(132,497)
(16,152,248)	17,449,050	29,206,727
\$ (15,011,901)	\$ 19,254,748	\$ 29,074,230



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds (page 36).....	\$	(132,497)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		2,360,339
Depreciation.....		(4,220,522)
<p>In the statement of activities, only the <i>gain</i> or <i>loss</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.....</p>		
		(4,036,797)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(8,865,833)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(1,600,000)
Bond maturities.....		6,751,706
Amortization of bond premiums.....		(3,730,935)
Amortization of deferred losses on refundings.....		1,322,015
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		15,804
<p>Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. This amount represents the net change:</p>		
Compensated absences.....		(10,000)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of the internal service funds is reported with governmental activities.....</p>		
		(37,685)
Changes in net assets of governmental activities (page 30).....	\$	<u>(12,184,405)</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 24,986,830	\$ 24,986,830	\$ 25,158,790	\$ 171,960
Motor vehicle and other excise taxes.....	2,900,000	2,900,000	2,431,353	(468,647)
Tax and trash liens.....	-	-	899,262	899,262
Payments in lieu of taxes.....	1,592,945	1,592,945	1,099,111	(493,834)
Trash disposal.....	1,140,175	1,140,175	1,034,814	(105,361)
Intergovernmental.....	58,803,995	58,803,995	59,181,537	377,542
Penalties and interest on taxes.....	160,000	160,000	661,775	501,775
Licenses, permits and fees.....	1,384,260	1,384,260	1,413,425	29,165
Fines and forfeitures.....	1,597,600	1,597,600	1,417,772	(179,828)
Departmental.....	-	-	117,465	117,465
Investment income.....	1,500,000	1,500,000	973,275	(526,725)
TOTAL REVENUES.....	94,065,805	94,065,805	94,388,579	322,774
EXPENDITURES				
Current:				
General government.....	2,914,597	2,926,658	2,616,555	310,103
Public safety.....	13,436,669	13,600,543	13,402,063	198,480
Education.....	50,195,471	49,943,925	46,727,917	3,216,008
Public works.....	4,756,824	4,776,239	4,359,728	416,511
Health and human services.....	944,005	980,056	983,426	(3,370)
Culture and recreation.....	312,531	312,531	311,609	922
Pension benefits.....	5,886,066	5,886,066	5,371,720	514,346
Employee benefits.....	9,016,654	8,980,654	8,801,256	179,398
Property and liability insurance.....	432,241	457,240	457,240	-
Claims and judgments.....	25,000	25,000	15,835	9,165
State and county charges.....	2,505,595	2,492,532	2,552,188	(59,656)
Debt service:				
Principal.....	6,751,706	6,751,706	6,751,706	-
Interest.....	3,780,715	4,842,084	4,612,476	229,608
TOTAL EXPENDITURES.....	100,958,074	101,975,234	96,963,719	5,011,515
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(6,892,269)	(7,909,429)	(2,575,140)	5,334,289
OTHER FINANCING SOURCES (USES)				
Transfers in.....	1,275,890	2,176,738	2,176,738	-
Premium from issuance of bonds and notes.....	-	-	1,706	1,706
Sale of capital assets.....	-	-	490	490
Transfers out.....	-	(1,723,754)	(1,723,754)	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,275,890	452,984	455,180	2,196
NET CHANGE IN FUND BALANCE.....	(5,616,379)	(7,456,445)	(2,119,960)	5,336,485
FUND BALANCE AT BEGINNING OF YEAR.....	13,732,764	13,732,764	13,732,764	-
FUND BALANCE AT END OF YEAR.....	\$ 8,116,385	\$ 6,276,319	\$ 11,612,804	\$ 5,336,485

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS

JUNE 30, 2004

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
ASSETS		
Current assets:		
Cash and short-term investments.....	\$ 139,616	\$ 524,934
Restricted cash and short-term investments.....	554,569	-
Receivables, net of allowance for uncollectible amounts:		
User charges.....	2,690,064	-
Utility liens.....	174,950	-
Total current assets.....	<u>3,559,199</u>	<u>524,934</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation.....	12,465,541	-
Total assets.....	<u>16,024,740</u>	<u>524,934</u>
LIABILITIES		
Current liabilities:		
Warrants payable.....	422,817	-
Abandoned property.....	-	980
Liabilities due depositors.....	36,080	-
Accrued interest.....	84,881	-
Accrued health claims payable.....	-	109,000
Workers' compensation claims.....	-	232,000
Long-term bonds and notes payable.....	827,134	-
Total current liabilities.....	<u>1,370,912</u>	<u>341,980</u>
Noncurrent liabilities:		
Workers' compensation claims.....	-	572,000
Long-term bonds and notes payable.....	7,104,015	-
Total noncurrent liabilities.....	<u>7,104,015</u>	<u>572,000</u>
Total liabilities.....	<u>8,474,927</u>	<u>913,980</u>
FUND NET ASSETS		
Invested in capital assets, net of related debt.....	4,534,392	-
Unrestricted.....	3,015,421	(389,046)
Total net assets.....	<u>\$ 7,549,813</u>	<u>\$ (389,046)</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
OPERATING REVENUES		
Charges for services.....	\$ 10,533,244	\$ -
Utility liens.....	604,493	-
Employer contributions.....	-	1,123,083
Employee contributions.....	-	210,784
TOTAL OPERATING REVENUES.....	11,137,737	1,333,867
OPERATING EXPENSES		
Cost of service and administration.....	1,760,240	-
MWRA assessment.....	6,587,326	-
Repairs and maintenance.....	379,112	-
Depreciation.....	318,226	-
Employee benefits.....	-	1,371,993
TOTAL OPERATING EXPENSES.....	9,044,904	1,371,993
OPERATING INCOME (LOSS).....	2,092,833	(38,126)
NONOPERATING REVENUES (EXPENSES)		
Investment income.....	14,132	6,590
Interest expense.....	(320,556)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(306,424)	6,590
INCOME (LOSS) BEFORE TRANSFERS.....	1,786,409	(31,536)
TRANSFERS		
Transfers out.....	(991,487)	(6,149)
CHANGE IN FUND NET ASSETS.....	794,922	(37,685)
FUND NET ASSETS AT BEGINNING OF YEAR.....	6,754,891	(351,361)
FUND NET ASSETS AT END OF YEAR.....	\$ 7,549,813	\$ (389,046)

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Water and Sewer</u>	<u>Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$ 10,791,984	\$ 210,784
Receipts from interfund services provided.....	-	1,123,083
Payments to vendors.....	(8,333,118)	-
Payments to employees.....	(169,220)	-
Payments for interfund services used.....	-	(1,120,206)
NET CASH FROM OPERATING ACTIVITIES.....	<u>2,289,646</u>	<u>213,661</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out.....	(991,487)	(6,149)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the issuance of bonds and notes.....	1,432,920	-
Acquisition and construction of capital assets.....	(1,451,726)	-
Principal payments on bonds and notes.....	(1,466,074)	-
Interest expense.....	(319,949)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(1,804,829)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income.....	14,132	6,590
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	<u>(492,538)</u>	<u>214,102</u>
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR (Includes \$35,480 reported as restricted in the Water and Sewer Enterprise Fund).....	<u>1,186,723</u>	<u>310,832</u>
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR (Includes \$554,569 reported as restricted in the Water and Sewer Enterprise Fund).....	<u>\$ 694,185</u>	<u>\$ 524,934</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss).....	\$ 2,092,833	\$ (38,126)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....	318,226	-
Changes in assets and liabilities:		
Utility liens.....	(36,505)	-
User charges.....	(309,248)	-
Warrants payable.....	224,968	(1,193)
Accrued payroll.....	(1,228)	(36,000)
Other liabilities.....	-	980
Liabilities due depositors.....	600	-
Accrued health claims payable.....	-	(11,000)
Workers' compensation.....	-	299,000
Total adjustments.....	<u>196,813</u>	<u>251,787</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 2,289,646</u>	<u>\$ 213,661</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

ASSETS	Pension Trust Fund (As of 12/31/03)	Private Purpose Trust Funds	Agency Funds
Cash and short-term investments.....	\$ 624,577	\$ 462,869	\$ 285,895
Investments.....	39,962,681	-	-
Interest and dividends.....	309	-	-
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	2,880,533	-	-
Total assets.....	<u>43,468,100</u>	<u>462,869</u>	<u>285,895</u>
LIABILITIES			
Warrants payable.....	5,416	-	500
Liabilities due depositors.....	-	-	285,395
Total liabilities.....	<u>5,416</u>	<u>-</u>	<u>285,895</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 43,462,684</u>	<u>\$ 462,869</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Pension Trust Fund (As of 12/31/03)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Employer.....	\$ 5,761,066	\$ -
Plan member.....	2,079,380	-
Private donations.....	-	293,000
	<hr/>	<hr/>
Total contributions.....	7,840,446	293,000
	<hr/>	<hr/>
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	6,533,197	-
Interest.....	704,744	4,706
	<hr/>	<hr/>
Total investment income (loss).....	7,237,941	4,706
	<hr/>	<hr/>
Less investment expense.....	(121,659)	-
	<hr/>	<hr/>
Net investment income (loss).....	7,116,282	4,706
	<hr/>	<hr/>
Intergovernmental.....	534,271	-
	<hr/>	<hr/>
Transfers from other systems.....	151,921	-
	<hr/>	<hr/>
TOTAL ADDITIONS.....	15,642,920	297,706
	<hr/>	<hr/>
DEDUCTIONS		
Administration.....	145,743	-
Retirement benefits and refunds.....	7,321,170	-
Transfers to other systems.....	334,542	-
Scholarships awarded.....	-	37,750
	<hr/>	<hr/>
TOTAL DEDUCTIONS.....	7,801,455	37,750
	<hr/>	<hr/>
CHANGE IN NET ASSETS.....	7,841,465	259,956
	<hr/>	<hr/>
NET ASSETS AT BEGINNING OF YEAR.....	35,621,219	202,913
	<hr/>	<hr/>
NET ASSETS AT END OF YEAR.....	\$ 43,462,684	\$ 462,869
	<hr/> <hr/>	<hr/> <hr/>

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

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

B. Reporting Entity

The City of Chelsea, Massachusetts (City) is a municipal corporation that is governed by a City Manager and an 11-member elected City Council (Council).

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the City.

The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (primary government) and its component units.

The City has included one entity as a component unit (blended) in the reporting entity because of the significance of its operational and financial relationship with the City. Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City.

Blended Component Unit

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

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 500 Broadway, Chelsea, Massachusetts 02150.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The City participates in one joint venture with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the City's joint venture and related information:

Name	Purpose	Address	Fiscal Year 2004 Assessment
Northeast Metropolitan Regional Vocational School District	To provide vocational education services	100 Hemlock Road Wakefield, MA 01880	\$ 1,748,175

The City is indirectly liable for the Northeast Metropolitan Regional Vocational School District's (District) debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide and Fund Financial Statements

The government-wide and enterprise fund financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Government-Wide Financial Statements

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

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

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

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

Except for charges between the general fund and enterprise fund, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

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

The *debt service fund* is used to account for the accumulation of resources and payment of school construction long-term bond principal and interest (see Note 11).

The *school facilities fund* is a capital projects fund used to account for financial resources to expand and upgrade the school facilities.

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

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

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

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

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

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

The following major proprietary fund is reported:

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of performance bonds and bid deposits. Agency funds do not present the results of operations or have a measurement focus.

E. Cash and Investments

Government-Wide and Fund Financial Statements

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

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

Motor Vehicle Excise Taxes

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

Trash

Trash fees are levied monthly for each type of property that utilizes the collection service and are based upon a third party waste collection contract. Single-family residences are not charged a fee for the services provided. The contract is funded from multi-family residence billings, available funds and the tax levy. Trash fees are recorded as receivables in the fiscal year of the levy.

Water and Sewer

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

Departmental and Other

Departmental and other receivables consist primarily of police and fire details and are recorded as receivables in the fiscal year accrued.

Intergovernmental

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

Loans

The Department of Planning and Development administers loan programs that provide housing assistance to residents and capital needs for small businesses. Loans are recorded as receivables upon issuance.

G. Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle excise taxes
- Departmental and other
- Loans

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts is not reported.

- Real estate taxes
- Tax and trash liens
- Water and sewer

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

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

I. Restricted Assets

Government-Wide and Fund Financial Statements

The assets of the debt service fund (governmental activities) are classified as restricted since their use is limited by the terms of a Trust Agreement (see Note 11).

Certain assets of the enterprise fund are classified as restricted because their use is restricted by contract covenants.

J. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, buildings and improvements, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

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

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	8-40
Machinery and equipment.....	5-15
Infrastructure.....	10-50

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

Governmental Fund Financial Statements

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

K. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Deferred Revenue

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

*N. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net assets have been "restricted" for the following:

"Loans" represents outstanding community development loans receivable.

"Debt service" represents the amount accumulated for the future payment of long-term debt service costs (see Note 11).

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

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

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been "reserved for" the following:

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

"Loans" represents outstanding community development loans receivable.

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

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

Fund balances have been "designated for" the following:

"Subsequent year's expenditures" represents amounts appropriated for the fiscal year 2005 operating budget.

O. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

P. Investment Income

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

Investment income and realized gains/losses on investments from the debt service fund are transferred to the general fund. Unrealized gains/losses on investments are retained in the debt service fund.

Except for investment income of the workers' compensation internal service fund, Investment income from proprietary funds is voluntarily assigned and transferred to the general fund.

Q. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

R. *Post Retirement Benefits*

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees (eligibility requirement) and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's 75% - 90% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2004, this expenditure totaled approximately \$2,400,000. There were approximately 520 participants eligible to receive benefits at June 30, 2004.

S. *Use of Estimates*

Government-Wide and Fund Financial Statements

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

T. *Total Column*

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary Information*

Municipal Law requires the adoption of a balanced budget that is approved by the City Manager and the Council. The City Manager presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

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

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

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the City is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2004 approved budget for the general fund authorized approximately \$100,958,000 in appropriations and other amounts to be raised. During fiscal year 2004, supplemental appropriations totaling approximately \$2,741,000 were authorized.

The Auditor's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2004, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the statement of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 94,388,579	\$ 96,963,719	\$ 455,180
<u>Adjustments</u>			
Net change in recording 60-day receipts accrual.....	(194,000)	-	-
Net change in recording tax refunds payable.....	(308,000)	-	-
To reclassify investment income related to debt service fund to transfers in.....	(581,249)	-	581,249
To record revenue for MTRB on-behalf payments.....	2,986,000	-	-
To record expenditure for MTRB on-behalf payments.....	-	2,986,000	-
Net change in recording short-term interest accrual.....	-	(4,909)	-
Net change in recording other accrued expenditures.....	-	(383,409)	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 96,291,330</u>	<u>\$ 99,561,401</u>	<u>\$ 1,036,429</u>

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2004, expenditures exceeded appropriations for health and human services and state and county charges. These over-expenditures will be funded by available funds during fiscal year 2005.

D. Fund Deficits

At June 30, 2004, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Highway improvement special revenue.....	\$ (74,423)	State grants/ Available funds
School facilities capital project.....	(15,011,901)	Issuance of long-term debt
Workers' compensation internal service.....	(533,913)	Employer contributions

NOTE 3 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and short-term investments".

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

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

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

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

At fiscal year-end, the carrying amount of deposits totaled \$31,132,894 and the bank balance totaled \$34,762,597. Of the bank balance, \$1,199,653 was covered by Federal Depository Insurance and the Depositors Insurance Fund, and \$33,562,944 was uninsured and uncollateralized.

The following details the balance of cash and short-term investments and investments as reported on the basic financial statements at June 30, 2004:

	Cash and Short-term Investments	Investments	Total
Checking, savings and NOW accounts.....	\$ 798,434	\$ -	\$ 798,434
Certificates of deposit.....	5,003,350	-	5,003,350
Money market deposits.....	25,331,110	-	25,331,110
Total carrying amount of cash.....	31,132,894	-	31,132,894
<u>Investments not subject to categorization:</u>			
MMDT.....	839,634	-	839,634
Money market mutual funds.....	6,416,476	-	6,416,476
<u>Investments subject to categorization (Category 3):</u>			
U.S. government securities.....	-	10,336,725	10,336,725
Equity securities.....	-	22,591,711	22,591,711
Fixed income securities.....	-	12,542,375	12,542,375
International securities.....	-	6,401,194	6,401,194
Total investments.....	7,256,110	51,872,005	59,128,115
Total cash and short-term investments and investments as reported in the basic financial statements (includes \$1,713,959 and \$9,586,724 reported as restricted cash and short-term investments and investments, respectively).....	\$ 38,389,004	\$ 51,872,005	\$ 90,261,009

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2004, receivables for the individual major governmental funds and nonmajor governmental, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 655,358	\$ (107,000)	\$ 548,358
Tax and trash liens.....	754,374	-	754,374
Motor vehicle and other excise taxes.....	1,035,696	(604,000)	431,696
Trash.....	211,607	93,181	304,788
Departmental and other.....	81,000	(40,000)	41,000
Intergovernmental.....	48,659,032	-	48,659,032
Loans.....	3,050,417	(47,210)	3,003,207
	<u>\$ 54,447,484</u>	<u>\$ (705,029)</u>	<u>\$ 53,742,455</u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 2,690,064	\$ -	\$ 2,690,064
Utility liens.....	174,950	-	174,950
	<u>\$ 2,865,014</u>	<u>\$ -</u>	<u>\$ 2,865,014</u>

Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

<u>Receivable type:</u>	<u>General Fund</u>
Real estate and personal property taxes.....	\$ 458,358
Tax and utility liens.....	754,374
Motor vehicle and other excise taxes.....	431,696
User charges.....	304,788
Intergovernmental (state school construction).....	45,242,154
Tax foreclosures.....	110,016
Total.....	<u>\$ 47,301,386</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2004, approximately \$8,587,000 of such assistance was received. Approximately \$61,693,000 will be received in future fiscal years. Of this amount, approximately \$16,451,000 represents reimbursement of long-term interest costs, and approximately \$45,242,000 represents reimbursement of approved construction costs. Accordingly, a \$45,242,154 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance*	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 9,710,528	\$ -	\$ (4,036,797)	\$ 5,673,731
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	138,976,586	1,011,745	-	139,988,331
Machinery and equipment.....	6,706,661	905,746	(87,472)	7,524,935
Infrastructure.....	8,355,937	442,848	-	8,798,785
Total capital assets being depreciated.....	154,039,184	2,360,339	(87,472)	156,312,051
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(23,546,945)	(3,442,216)	-	(26,989,161)
Machinery and equipment.....	(4,122,748)	(581,669)	87,472	(4,616,945)
Infrastructure.....	(3,305,486)	(196,637)	-	(3,502,123)
Total accumulated depreciation.....	(30,975,179)	(4,220,522)	87,472	(35,108,229)
Total capital assets being depreciated, net.....	123,064,005	(1,860,183)	-	121,203,822
Total governmental activities capital assets, net.....	\$ 132,774,533	\$ (1,860,183)	\$ (4,036,797)	\$ 126,877,553
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets being depreciated:</u>				
Infrastructure.....	\$ 16,760,908	\$ 1,451,726	\$ (13,465)	\$ 18,199,169
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	(5,428,867)	(318,226)	13,465	(5,733,628)
Total business-type activities capital assets, net.....	\$ 11,332,041	\$ 1,133,500	\$ -	\$ 12,465,541

* As restated and more fully described in Note 16 on page 69 of this report.

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

Governmental Activities:

General government.....	\$	144,715
Public safety.....		322,953
Education.....		3,308,110
Public works.....		328,326
Health and human services.....		41,050
Culture and recreation.....		75,368

Total depreciation expense - governmental activities..... \$ 4,220,522

Business-Type Activities:

Water and sewer.....	\$	<u>318,226</u>
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NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and payables between funds at June 30, 2004, are summarized as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor governmental funds (Highway Improvement)	\$ <u>74,423</u> (1)

(1) Represents advance-funding of a state grant.

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

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 1,723,754	\$ 1,723,754 (1)
Debt Service Fund.....	560,970	-	560,970 (2)
Nonmajor Governmental Funds.....	1,199,381	45,168	1,244,549 (3)
Water and Sewer Enterprise Fund.....	991,487	-	991,487 (4)
Internal Service Fund.....	6,149	-	6,149 (5)
	<u>\$ 2,757,987</u>	<u>\$ 1,768,922</u>	<u>\$ 4,526,909</u>

- (1) Represents funding for the fiscal year 2004 Capital Improvements Program (\$528,000), Pillsbury loan (\$725,054), Voke Park project (\$437,000) and payment of a prior year bill (\$33,700).
- (2) Represents transfer of realized investment income.
- (3) Represents funding of the fiscal year 2004 operating budget (\$223,133); transfer from urban renewal to fund debt service on urban renewal bonds (\$841,248); transfer of indirect costs from various federal education grants (\$135,000); and a programmatic transfer within nonmajor governmental funds (\$45,168).
- (4) Represents transfer of indirect costs (\$977,357) and voluntary transfer of investment income (\$14,130).
- (5) Represents voluntary transfer of investment income.

NOTE 7 - CONDUIT DEBT

In fiscal year 1994, the City, acting by and through its Industrial Development Financing Authority, issued \$95,750,000 in Lease Revenue Bonds (Bonds) as part of a loan and trust agreement with the Massachusetts Industrial Finance Agency (MIFA) for the construction of the *Massachusetts Information Technology Center* (MITC). The proceeds of the Bonds were loaned to the MITC. Simultaneously with the issuance of the Bonds, the Commonwealth entered into a 30-year lease with MIFA that provides for the payment of debt service and other costs associated with the project to a bond trustee. The Commonwealth has pledged its full faith and credit as security for the Bonds. The Bonds are limited obligations of the City and do not represent debt or a pledge of the full faith and credit of the City. At June 30, 2004, the outstanding principal amount of the Bonds totaled \$78,150,000. The land and buildings are owned by MITC until the end of the lease term, at which time ownership is transferred to the Commonwealth.

NOTE 8 - SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2004, is as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2003	Increases	Decreases	Balance at 6/30/2004
BAN	School Construction.....	4/15/03	4/15/05	4.00%	\$ 16,000,000	\$ -	\$ -	\$ 16,000,000
BAN	School Construction.....	4/15/03	4/15/04	2.00%	1,600,000	-	(1,600,000)	-
Total.....					\$ 17,600,000	\$ -	\$ (1,600,000)	\$ 16,000,000

Notes Payable - Enterprise Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2003	Increases	Decreases	Balance at 6/30/2004
BAN	Water and sewer.....	4/15/03	4/15/04	2.00%	\$ 618,000	\$ -	\$ (618,000)	\$ -

NOTE 9 - LONG-TERM OBLIGATIONS

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 2 ½% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". However, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2004, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2003	Additions	Reductions	Outstanding at June 30, 2004
State loan.....	0.00%	\$ 880,490	\$ -	\$ (220,121)	\$ 660,369
Consolidation/Receivership.....	5.90 - 6.00%	295,000	-	(100,000)	195,000
Municipal purpose.....	4.30 - 5.75%	1,520,779	-	(151,909)	1,368,870
School buildings.....	4.80 - 5.80%	5,455,000	-	(5,455,000)	-
School buildings refunding.....	3.65 - 5.13%	40,710,000	-	(160,000)	40,550,000
Urban renewal*.....	6.15 - 6.35%	6,670,000	-	(420,000)	6,250,000
Urban renewal.....	4.50 - 4.70%	102,179	-	(11,695)	90,484
Municipal purpose.....	4.50 - 4.70%	890,962	-	(107,674)	783,288
Municipal purpose.....	4.10 - 5.00%	1,198,110	-	(125,307)	1,072,803
School buildings refunding.....	2.00 - 5.00%	16,440,000	-	-	16,440,000
School building remodeling.....	2.37 - 4.75%	-	1,600,000	-	1,600,000
Sub-total.....		74,162,520	1,600,000	(6,751,706)	69,010,814
Unamortized premium.....		1,322,015	-	(1,322,015)	-
Deferred loss on refundings.....		(3,730,935)	-	3,730,935	-
Total, net.....		\$ 71,753,600	\$ 1,600,000	\$ (4,342,786)	\$ 69,010,814

* Federally taxable general obligation bonds.

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

Fiscal Year	Principal	Interest	Total
2005.....	\$ 6,843,507	\$ 3,614,165	\$ 10,457,672
2006.....	6,823,921	3,280,758	10,104,679
2007.....	6,637,381	2,952,072	9,589,453
2008.....	6,483,559	2,630,084	9,113,643
2009.....	6,488,559	2,275,067	8,763,626
2010.....	6,457,523	1,919,595	8,377,118
2011.....	6,452,523	1,565,170	8,017,693
2012.....	6,412,859	1,211,428	7,624,287
2013.....	3,567,859	858,517	4,426,376
2014.....	1,721,172	676,286	2,397,458
2015.....	2,741,172	584,884	3,326,056
2016.....	6,011,172	440,693	6,451,865
2017.....	674,484	127,283	801,767
2018.....	620,472	88,784	709,256
2019.....	586,714	53,012	639,726
2020.....	123,967	19,017	142,984
2021.....	123,970	13,619	137,589
2022.....	80,000	9,260	89,260
2023.....	80,000	5,700	85,700
2024.....	80,000	3,800	83,800
Total.....	\$ <u>69,010,814</u>	\$ <u>22,329,194</u>	\$ <u>91,340,008</u>

During fiscal year 2004, the City issued \$1,600,000 of general obligation bonds to finance a portion of the Chelsea High School renovation project.

During fiscal year 1986, the Commonwealth issued an interest free loan to help finance general operating and maintenance costs. At June 30, 2004, the outstanding principal amount of this loan totaled \$660,369. All other outstanding governmental long-term debt represents general obligation bonds.

Bonds and Notes Payable - Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2003	Additions	Reductions	Outstanding at June 30, 2004
Water notes (MWRA).....	0.00%	\$ 63,429	\$ -	\$ (63,429)	\$ -
Sewer notes (MWRA).....	0.00%	37,290	-	(18,645)	18,645
Sewer notes (MWRA).....	0.00%	211,420	-	(42,284)	169,136
Sewer notes (MWRA).....	0.00%	201,197	-	(50,300)	150,897
Water notes (MWRA).....	0.00%	-	192,920	-	192,920
Water and sewer bonds.....	4.30 - 5.75%	2,984,220	-	(298,091)	2,686,129
Water and sewer bonds.....	4.50 - 4.70%	1,086,858	-	(130,632)	956,226
Water and sewer bonds.....	4.10 - 5.00%	1,526,889	-	(159,693)	1,367,196
Water and sewer bonds.....	4.80 - 5.20%	1,235,000	-	(85,000)	1,150,000
Water.....	2.37 - 4.75%	-	310,000	-	310,000
Sewer.....	2.37 - 4.75%	-	930,000	-	930,000
Total.....		\$ 7,346,303	\$ 1,432,920	\$ (848,074)	\$ 7,931,149

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

Fiscal Year	Principal	Interest	Total
2005.....	\$ 827,134	\$ 334,434	\$ 1,161,568
2006.....	803,075	303,665	1,106,740
2007.....	684,622	274,401	959,023
2008.....	558,017	249,611	807,628
2009.....	515,733	228,204	743,937
2010.....	481,769	206,507	688,276
2011.....	481,769	185,945	667,714
2012.....	436,433	165,959	602,392
2013.....	426,433	146,769	573,202
2014.....	423,120	127,698	550,818
2015.....	403,828	108,597	512,425
2016.....	403,828	89,111	492,939
2017.....	395,515	69,447	464,962
2018.....	289,525	50,147	339,672
2019.....	223,284	36,208	259,492
2020.....	171,032	25,731	196,763
2021.....	171,032	17,711	188,743
2022.....	115,000	11,050	126,050
2023.....	60,000	5,702	65,702
2024.....	60,000	2,850	62,850
Total.....	\$ 7,931,149	\$ 2,639,747	\$ 10,570,896

During fiscal year 2004, the City issued \$1,240,000 of general obligation bonds to finance water and sewer improvements.

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA typically consists of a grant and non-interest bearing loan (payable in five or ten equal annual installments). During fiscal year 2004, \$192,920 was received from the program. The entire amount received was a loan. At June 30, 2004, the outstanding principal amount of these loans totaled \$531,598. All other outstanding enterprise long-term debt represents general obligation bonds.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2004, the City had the following authorized and unissued debt:

Purpose	Amount
Unfunded pension liability.....	\$ 47,000,000
High school extension.....	17,150,000
Water and sewer projects.....	1,942,640
Departmental equipment.....	435,000
Public buildings and facilities.....	136,500
Public safety.....	70,000
Total.....	\$ 66,734,140

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2004, the following changes occurred in long-term liabilities:

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004	Current Portion
Governmental Activities:					
Bonds and notes payable, gross....	\$ 74,162,520	\$ 1,600,000	\$ (6,751,706)	\$ 69,010,814	\$ 6,843,507
Unamortized premium.....	1,322,015	-	(1,322,015)	-	-
Deferred loss on refundings.....	(3,730,935)	-	3,730,935	-	-
Bonds and notes payable, net.....	71,753,600	1,600,000	(4,342,786)	69,010,814	6,843,507
Workers' compensation claims.....	505,000	599,263	(300,263)	804,000	232,000
Compensated absences.....	2,073,000	55,000	(45,000)	2,083,000	616,000
Total.....	\$ 74,331,600	\$ 2,254,263	\$ (4,688,049)	\$ 71,897,814	\$ 7,691,507
Business-type Activities:					
Bonds and notes payable.....	\$ 7,346,303	\$ 1,432,920	\$ (848,074)	\$ 7,931,149	\$ 827,134

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above. At fiscal year-end, \$804,000 of the internal service funds accrued liabilities (workers' compensation claims) is included above. Except for the amounts related to the internal service funds, the governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 10 - STABILIZATION FUND

At June 30, 2004, \$4,013,578 has been set aside in a stabilization fund, which is classified as a major fund in the governmental funds financial statements. Of the total stabilization fund balance, \$2,892,596 can be used for general and/or capital purposes, \$698,970 for capital purposes, and \$422,012 for the Department of Planning and Development's ongoing and future operations, upon Council approval.

NOTE 11 - DEBT SERVICE FUND

During fiscal year 1995, the City issued \$109,975,000 in school construction general obligation bonds (Bonds). Simultaneously with the issuance of the Bonds, the City entered into a Trust Agreement (Agreement) to further secure the City's obligation related to the repayment of the Bonds. The Agreement provided that the City establish a Debt Service Fund (Fund) in the amount of the MSBA's (formerly the School Building Assistance Bureau) first payment to the City. This payment was received during fiscal year 1995 in the amount of \$8,433,352. The purpose of the Fund is to provide for any deficiencies on bond principal and interest payments throughout the loan period and to make final payment on the Bonds in fiscal year 2016. Investment income and realized gains (losses) on investments of the Fund are transferred to the general fund. Unrealized gains (losses) on investments are reported in the Fund.

NOTE 12 - RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City participates in a premium-based health care plan for its active employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The City is self-insured for its retirees' health insurance and workers' compensation activities. These activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when incurred.

A. Retiree Health Insurance

The estimated "Incurred But Not Reported (IBNR)" claims are based on a three month claims paid average. The liability at June 30, 2004 totaled \$109,000. Changes in the reported liability since July 1, 2002, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-end
Fiscal year 2003.....	\$ 108,093	\$	785,744	\$	(773,837)	\$	120,000
Fiscal year 2004.....	\$ 120,000	\$	772,941	\$	(783,941)	\$	109,000

B. Workers' Compensation

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type.

The liability at June 30, 2004, totaled \$804,000. Changes in the reported liability since July 1, 2002, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2003.....	\$ 600,000	\$ 381,222	\$ (476,222)	\$ 505,000
Fiscal year 2004.....	\$ 505,000	\$ 599,263	\$ (300,263)	\$ 804,000

NOTE 13 - PENSION PLAN

Plan Description – The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Chelsea Contributory Retirement Board. Substantially all employees of the City are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts's Teachers Retirement System (MTRS), to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$2,986,000 for the fiscal year ended June 30, 2004, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Chelsea Contributory Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 500 Broadway, Chelsea, Massachusetts 02150.

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

Active members.....	627
Inactive members.....	113
Disabled members.....	97
Retirees and beneficiaries currently receiving benenefits.....	<u>331</u>
Total.....	<u><u>1,168</u></u>

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32 of MGL governs the contributions of plan members. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute 91%, 92% and 93%, respectively, of the total.

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2004, 2003, and 2002 were \$5,271,131, \$5,686,370, and \$5,177,000, respectively. At June 30, 2004, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.25% rate of return and projected salary increases ranging from 4.75% to 8.00% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2004, was 24 years. This remaining amortization period is closed.

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/03	\$ 40,964	\$ 105,624	\$ 64,660	38.8%	\$ 23,843	271.2%
01/01/01	39,748	88,940	49,192	44.7%	20,266	242.7%
01/01/99	39,899	84,532	44,633	47.2%	17,364	257.0%
01/01/97	31,509	67,398	35,889	46.8%	16,135	222.4%
01/01/95	23,417	59,902	36,485	39.1%	14,254	256.0%
01/01/92	23,353	57,001	33,648	41.0%	10,278	327.4%

Funding progress is reported based on the biennial actuarial valuation performed by the System and is being accumulated on a biennial basis. The City is responsible for approximately 91% of the unfunded liability.

Noncontributory Retirement Allowance - The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2004 totaled approximately \$100,000.

NOTE 14 - COMMITMENTS

The City is currently in the process of rehabilitating its water distribution and sewer collection system. As a result, the City has entered into, or is planning to enter into, contracts totaling approximately \$5,500,000 to complete the planned projects.

The City has also entered into, or is planning to enter into, contracts totaling approximately \$10,500,000 for roadway, public building, and other governmental projects in accordance with its five-year capital improvement plan.

NOTE 15 - CONTINGENCIES

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2004, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2004.

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2004, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 16 - IMPLEMENTATION OF GASB PRONOUNCEMENTS/PRIOR PERIOD ADJUSTMENT

During fiscal year 2004, the City implemented GASB Statement #39 - *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14, which did not affect the basic financial statements.

The beginning net assets of the governmental activities have been restated from \$137,485,125 to \$143,637,973 to reflect the purchase of land related to the Everett Avenue Urban Renewal Project.

NOTE 17 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #40, *Deposit and Investment Risk Disclosures*, which is required to be implemented during fiscal year 2005.
- Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented during fiscal year 2006.
- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2007.
- Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented during fiscal year 2006.
- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2008.

These pronouncements will be implemented on their respective due dates.

Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds

Narrative

Special Revenue Funds

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

Highway Improvement – accounts for roadway improvements for which expenditures are reimbursed 100% by the Commonwealth.

Community Development – accounts for all federal, state and locally funded community development projects.

City Revolving – excluding the school department, accounts for the activity of revolving funds established in accordance with MGL Chapter 44, Section 53E ½.

Receipts Reserved – accounts for receipts that are designated to fund and supplement specific operating budgets of various departments.

City Gifts – accounts for revenues received from various residents and organizations that are to be used to provide a specific benefit to governmental programs.

City State Grants – accounts for grant funds received from the Commonwealth that are designated for specific programs, excluding school education grants which are accounted for in the School State Grants Special Revenue Fund.

City Federal Grants – accounts for grant funds received from the federal government that are designated for specific programs, excluding school education grants which are accounted for in the School Federal Grants Special Revenue Fund.

School Lunch – accounts for the activity of the school lunch program, which includes charges for services and state and federal reimbursements for meals served.

School Revolving – accounts for the activity of the school lunch department's revolving funds established in accordance with MGL Chapter 44, Section 53E ½.

School Gifts - accounts for revenues received from various residents and organizations that are to be used to provide a specific benefit to the Chelsea schools.

School State Grants – accounts for grant funds received from the Commonwealth that are designated for specific education programs.

School Federal Grants – accounts for grant funds received from the federal government that are designated for specific education programs.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds). The capital projects funds are grouped into the following categories:

Urban Renewal - accounts for the proceeds of bonds sold, intergovernmental grants and operating transfers in, which finance the cost of the Everett Avenue Urban Revitalization Project.

Other Building Improvements - accounts for the proceeds of bonds sold, intergovernmental grants and operating transfers in to finance the renovation of various buildings.

Public Works Improvements - accounts for the proceeds of bonds sold, intergovernmental grants and operating transfers in to finance open space improvements and construction and roadway improvements that are not funded by the Highway Improvement special revenue fund.

Permanent Funds

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

Health and Human Services - accounts for various gifts, bequests and contributions held for which only earnings may be expended for purposes specified by the donor in relation to health and human service activities.

Culture and Recreation - accounts for various gifts, bequests and contributions held for which only earnings may be expended for purposes specified by the donor in relation to culture and recreational activities.

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2004

ASSETS	<i>Special Revenue Funds</i>			
	Highway Improvement	Community Development	City Revolving	Receipts Reserved
Cash and short-term investments.....	\$ -	\$ 3,570,364	\$ 82,243	\$ 3,231,527
Receivables, net of allowance for uncollectible amounts:				
Departmental and other.....	-	-	41,000	-
Intergovernmental.....	-	403,000	-	-
Loans.....	-	3,003,207	-	-
TOTAL ASSETS.....	\$ -	\$ 6,976,571	\$ 123,243	\$ 3,231,527
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ -	\$ 933,216	\$ 100	\$ 4,477
Due to other funds.....	74,423	-	-	-
TOTAL LIABILITIES.....	74,423	933,216	100	4,477
FUND BALANCES:				
Reserved for:				
Loans.....	-	3,003,207	-	-
Perpetual permanent funds.....	-	-	-	-
Other specific purposes.....	-	-	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds.....	(74,423)	3,040,148	123,143	3,227,050
Capital projects funds.....	-	-	-	-
Permanent funds.....	-	-	-	-
TOTAL FUND BALANCES.....	(74,423)	6,043,355	123,143	3,227,050
TOTAL LIABILITIES AND FUND BALANCES.....	\$ -	\$ 6,976,571	\$ 123,243	\$ 3,231,527

Special Revenue Funds

City Gifts	City State Grants	City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants
\$ 63,057	\$ 654,759	\$ 119,539	\$ 714,309	\$ 256,914	\$ 670,158	\$ 494,591
-	-	-	-	-	-	-
-	-	-	133,345	-	-	-
-	-	-	-	-	-	-
<u>\$ 63,057</u>	<u>\$ 654,759</u>	<u>\$ 119,539</u>	<u>\$ 847,654</u>	<u>\$ 256,914</u>	<u>\$ 670,158</u>	<u>\$ 494,591</u>
\$ 1,164	\$ 18,654	\$ 41,466	\$ 205,406	\$ 2,758	\$ 4,942	\$ 94,670
-	-	-	-	-	-	-
1,164	18,654	41,466	205,406	2,758	4,942	94,670
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	636,105	78,073	-	-	-	399,921
61,893	-	-	642,248	254,156	665,216	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>61,893</u>	<u>636,105</u>	<u>78,073</u>	<u>642,248</u>	<u>254,156</u>	<u>665,216</u>	<u>399,921</u>
<u>\$ 63,057</u>	<u>\$ 654,759</u>	<u>\$ 119,539</u>	<u>\$ 847,654</u>	<u>\$ 256,914</u>	<u>\$ 670,158</u>	<u>\$ 494,591</u>

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2004

ASSETS	Special Revenue Funds		Capital Projects Funds	
	School Federal Grants	Sub-total	Urban Renewal	Other Building Improvements
Cash and short-term investments.....	\$ 1,241,348	\$ 11,098,809	\$ 315,338	\$ 5,008,005
Receivables, net of allowance for uncollectible amounts:				
Departmental and other.....	-	41,000	-	-
Intergovernmental.....	-	536,345	-	-
Loans.....	-	3,003,207	-	-
TOTAL ASSETS.....	\$ 1,241,348	\$ 14,679,361	\$ 315,338	\$ 5,008,005
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 42,348	\$ 1,349,201	\$ -	\$ 9,369
Due to other funds.....	-	74,423	-	-
TOTAL LIABILITIES.....	42,348	1,423,624	-	9,369
FUND BALANCES:				
Reserved for:				
Loans.....	-	3,003,207	-	-
Perpetual permanent funds.....	-	-	-	-
Other specific purposes.....	1,199,000	2,313,099	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds.....	-	7,939,431	-	-
Capital projects funds.....	-	-	315,338	4,998,636
Permanent funds.....	-	-	-	-
TOTAL FUND BALANCES.....	1,199,000	13,255,737	315,338	4,998,636
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 1,241,348	\$ 14,679,361	\$ 315,338	\$ 5,008,005

<i>Capital Projects Funds</i>			<i>Permanent Funds</i>			Total Nonmajor Governmental Funds
Public Works Improvements	Sub-total	Health and Human Services	Culture and Recreation	Sub-total		
\$ 610,369	\$ 5,933,712	\$ 12,745	\$ 96,961	\$ 109,706	\$ 17,142,227	
-	-	-	-	-	41,000	
-	-	-	-	-	536,345	
-	-	-	-	-	3,003,207	
<u>\$ 610,369</u>	<u>\$ 5,933,712</u>	<u>\$ 12,745</u>	<u>\$ 96,961</u>	<u>\$ 109,706</u>	<u>\$ 20,722,779</u>	
\$ 34,713	\$ 44,082	\$ -	\$ 325	\$ 325	1,393,608	
-	-	-	-	-	74,423	
<u>34,713</u>	<u>44,082</u>	<u>-</u>	<u>325</u>	<u>325</u>	<u>1,468,031</u>	
-	-	-	-	-	3,003,207	
-	-	11,996	10,396	22,392	22,392	
-	-	-	-	-	2,313,099	
-	-	-	-	-	7,939,431	
575,656	5,889,630	-	-	-	5,889,630	
-	-	749	86,240	86,989	86,989	
<u>575,656</u>	<u>5,889,630</u>	<u>12,745</u>	<u>96,636</u>	<u>109,381</u>	<u>19,254,748</u>	
<u>\$ 610,369</u>	<u>\$ 5,933,712</u>	<u>\$ 12,745</u>	<u>\$ 96,961</u>	<u>\$ 109,706</u>	<u>\$ 20,722,779</u>	

(Concluded)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Special Revenue Funds

	Highway Improvement	Community Development	City Revolving	Receipts Reserved
REVENUES				
Payments in lieu of taxes.....	\$ -	\$ 33,687	\$ -	\$ -
Charges for services.....	-	-	639,935	149,472
Intergovernmental.....	362,141	2,303,626	15,149	-
Licenses, permits and fees.....	-	-	-	44,046
Departmental.....	-	522,000	30,248	58,419
Contributions.....	-	-	-	-
Investment income.....	-	77,171	-	-
TOTAL REVENUES.....	362,141	2,936,484	685,332	251,937
EXPENDITURES				
Current:				
General government.....	-	-	4,312	58,838
Public safety.....	-	-	711,306	-
Education.....	-	-	-	-
Public works.....	300,383	-	-	-
Health and human services.....	-	163	425	-
Culture and recreation.....	-	-	14,455	-
Community development.....	-	2,848,260	-	-
TOTAL EXPENDITURES.....	300,383	2,848,423	730,498	58,838
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	61,758	88,061	(45,166)	193,099
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	725,054	-	-
Sale of capital assets.....	-	-	-	2,400,206
Transfers out.....	-	-	-	(1,096,016)
TOTAL OTHER FINANCING SOURCES (USES).....	-	725,054	-	1,304,190
NET CHANGE IN FUND BALANCES.....	61,758	813,115	(45,166)	1,497,289
FUND BALANCES AT BEGINNING OF YEAR.....	(136,181)	5,230,240	168,309	1,729,761
FUND BALANCES AT END OF YEAR.....	\$ (74,423)	\$ 6,043,355	\$ 123,143	\$ 3,227,050

Special Revenue Funds

City Gifts	City State Grants	City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15,400	842,786	894,188	559,472 1,904,955	252,124	42,975	1,412,582
-	-	-	-	-	133,274	-
<u>15,400</u>	<u>842,786</u>	<u>894,188</u>	<u>2,464,427</u>	<u>252,124</u>	<u>176,249</u>	<u>1,412,582</u>
-	7,388	-	-	-	-	-
293	508,853	292,992	-	-	-	-
-	-	-	2,698,267	182,223	180,361	1,522,422
20,334	311,852	681,208	-	-	-	-
3,983	58,424	-	-	-	-	-
-	18,958	-	-	-	-	-
<u>24,610</u>	<u>905,475</u>	<u>974,200</u>	<u>2,698,267</u>	<u>182,223</u>	<u>180,361</u>	<u>1,522,422</u>
<u>(9,210)</u>	<u>(62,689)</u>	<u>(80,012)</u>	<u>(233,840)</u>	<u>69,901</u>	<u>(4,112)</u>	<u>(109,840)</u>
-	-	-	-	-	-	-
-	(13,533)	-	-	-	-	(27,946)
-	(13,533)	-	-	-	-	(27,946)
<u>(9,210)</u>	<u>(76,222)</u>	<u>(80,012)</u>	<u>(233,840)</u>	<u>69,901</u>	<u>(4,112)</u>	<u>(137,786)</u>
71,103	712,327	158,085	876,088	184,255	669,328	537,707
<u>\$ 61,893</u>	<u>\$ 636,105</u>	<u>\$ 78,073</u>	<u>\$ 642,248</u>	<u>\$ 254,156</u>	<u>\$ 665,216</u>	<u>\$ 399,921</u>

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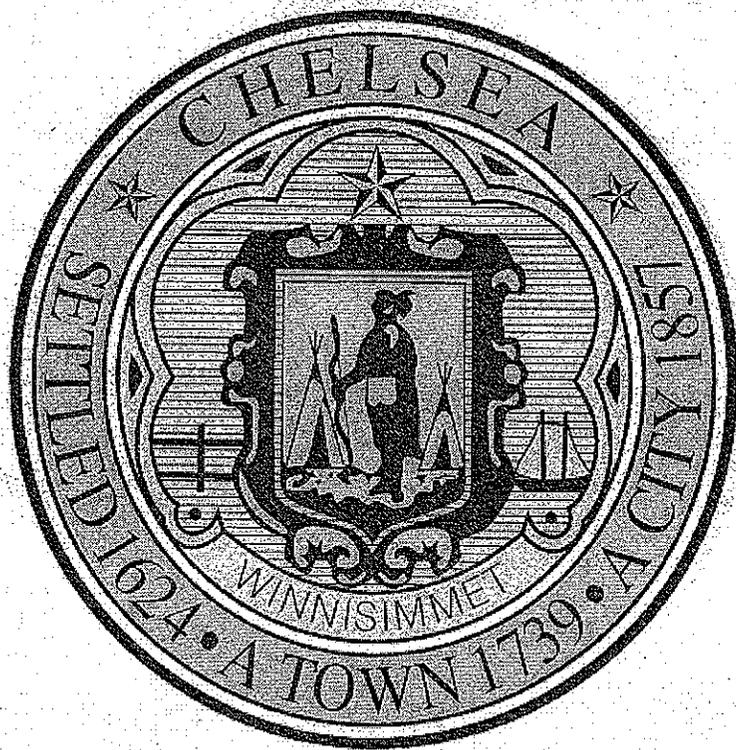
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<i>Special Revenue Funds</i>		<i>Capital Projects Funds</i>	
	School Federal Grants	Sub-total	Urban Renewal	Other Building Improvements
REVENUES				
Payments in lieu of taxes.....	\$ -	\$ 33,687	\$ -	\$ -
Charges for services.....	-	1,601,003	-	-
Intergovernmental.....	6,422,426	14,216,228	-	-
Licenses, permits and fees.....	-	44,046	-	-
Departmental.....	-	610,667	22,904	-
Contributions.....	-	133,274	-	-
Investment income.....	-	77,171	17,603	-
TOTAL REVENUES.....	6,422,426	16,716,076	40,507	-
EXPENDITURES				
Current:				
General government.....	-	70,538	-	73,672
Public safety.....	-	1,513,444	-	29,618
Education.....	6,355,512	10,938,785	-	-
Public works.....	-	300,383	-	151,716
Health and human services.....	-	1,013,982	-	2,550
Culture and recreation.....	-	76,862	-	-
Community development.....	-	2,867,218	102,478	-
TOTAL EXPENDITURES.....	6,355,512	16,781,212	102,478	257,556
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	66,914	(65,136)	(61,971)	(257,556)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	725,054	45,168	90,000
Sale of capital assets.....	-	2,400,206	-	-
Transfers out.....	(107,054)	(1,244,549)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	(107,054)	1,880,711	45,168	90,000
NET CHANGE IN FUND BALANCES.....	(40,140)	1,815,575	(16,803)	(167,556)
FUND BALANCES AT BEGINNING OF YEAR.....	1,239,140	11,440,162	332,141	5,166,192
FUND BALANCES AT END OF YEAR.....	\$ 1,199,000	\$ 13,255,737	\$ 315,338	\$ 4,998,636

<i>Capital Projects Funds</i>		<i>Permanent Funds</i>			Total Nonmajor Governmental Funds
Public Works Improvements	Sub-total	Health and Human Services	Culture and Recreation	Sub-total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,687
40,000	40,000	-	-	-	1,641,003
-	-	-	-	-	14,216,228
-	-	-	-	-	44,046
-	22,904	-	-	-	633,571
-	-	-	235	235	133,509
-	17,603	-	1,542	1,542	96,316
<u>40,000</u>	<u>80,507</u>	<u>-</u>	<u>1,777</u>	<u>1,777</u>	<u>16,798,360</u>
478,685	552,357	-	-	-	622,895
-	29,618	-	-	-	1,543,062
-	-	-	-	-	10,938,785
185,380	337,096	-	-	-	637,479
-	2,550	-	-	-	1,016,532
-	-	-	1,268	1,268	78,130
110,662	213,140	-	-	-	3,080,358
<u>774,727</u>	<u>1,134,761</u>	<u>-</u>	<u>1,268</u>	<u>1,268</u>	<u>17,917,241</u>
<u>(734,727)</u>	<u>(1,054,254)</u>	<u>-</u>	<u>509</u>	<u>509</u>	<u>(1,118,881)</u>
908,700	1,043,868	-	-	-	1,768,922
-	-	-	-	-	2,400,206
-	-	-	-	-	(1,244,549)
<u>908,700</u>	<u>1,043,868</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,924,579</u>
173,973	(10,386)	-	509	509	1,805,698
401,683	5,900,016	12,745	96,127	108,872	17,449,050
<u>\$ 575,656</u>	<u>\$ 5,889,630</u>	<u>\$ 12,745</u>	<u>\$ 96,636</u>	<u>\$ 109,381</u>	<u>\$ 19,254,748</u>

(Concluded)



Internal Service Funds

Narrative

Internal service funds are used to account for the financing of services provided by one department to other departments or governmental units. The risk financing activities related to retirees' health insurance and workers' compensation are accounted for in the internal service fund and are categorized as follows:

Retirees' Health Insurance – accounts for the health insurance activities of retirees' who are eligible to participate in the Blue Cross Blue Shield MEDEX plan.

Workers' Compensation – accounts for the activities of employees who are eligible to receive workers' compensation benefits.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF FUND NET ASSETS

JUNE 30, 2004

ASSETS	<u>Retirees' Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Current assets:			
Cash and short-term investments.....	\$ 253,866	\$ 271,068	\$ 524,934
 LIABILITIES			
Current liabilities:			
Abandoned property.....	-	980	980
Accrued health claims payable.....	109,000	-	109,000
Workers' compensation claims.....	-	232,000	232,000
Total current liabilities.....	<u>109,000</u>	<u>232,980</u>	<u>341,980</u>
 Noncurrent liabilities:			
Workers' compensation claims.....	-	572,000	572,000
Total liabilities.....	<u>109,000</u>	<u>804,980</u>	<u>913,980</u>
 FUND NET ASSETS			
Unrestricted.....	<u>\$ 144,867</u>	<u>\$ (533,913)</u>	<u>\$ (389,046)</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Retirees' Health Insurance	Workers' Compensation	Total
OPERATING REVENUES			
Employer contributions.....	\$ 748,760	\$ 374,323	\$ 1,123,083
Employee contributions.....	210,784	-	210,784
TOTAL OPERATING REVENUES.....	959,544	374,323	1,333,867
OPERATING EXPENSES			
Employee benefits.....	772,941	599,052	1,371,993
OPERATING INCOME (LOSS).....	186,603	(224,729)	(38,126)
NONOPERATING REVENUES (EXPENSES)			
Investment income.....	6,149	441	6,590
INCOME (LOSS) BEFORE TRANSFERS.....	192,752	(224,288)	(31,536)
TRANSFERS			
Transfers out.....	(6,149)	-	(6,149)
CHANGE IN FUND NET ASSETS.....	186,603	(224,288)	(37,685)
FUND NET ASSETS AT BEGINNING OF YEAR.....	(41,736)	(309,625)	(351,361)
FUND NET ASSETS AT END OF YEAR.....	\$ 144,867	\$ (533,913)	\$ (389,046)

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Retirees' Health Insurance	Workers' Compensation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 210,784	\$ -	\$ 210,784
Receipts from interfund services provided.....	748,760	374,323	1,123,083
Payments for interfund services used.....	(783,942)	(336,264)	(1,120,206)
NET CASH FROM OPERATING ACTIVITIES.....	175,602	38,059	213,661
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out.....	(6,149)	-	(6,149)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	6,149	441	6,590
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	175,602	38,500	214,102
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	78,264	232,568	310,832
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 253,866	\$ 271,068	\$ 524,934
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 186,603	\$ (224,729)	\$ (38,126)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Changes in assets and liabilities:			
Warrants payable.....	(1)	(1,192)	(1,193)
Accrued payroll.....	-	(36,000)	(36,000)
Other liabilities.....	-	980	980
Accrued health claims payable.....	(11,000)	-	(11,000)
Workers' compensation.....	-	299,000	299,000
Total adjustments.....	(11,001)	262,788	251,787
NET CASH FROM OPERATING ACTIVITIES.....	\$ 175,602	\$ 38,059	\$ 213,661

Agency Funds

Narrative

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

AGENCY FUNDS
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>
ASSETS				
Cash and short-term investments.....	\$ 285,578	\$ 153,710	\$ (153,393)	\$ 285,895
LIABILITIES				
Warrants payable.....	\$ -	\$ 52,742	\$ (52,242)	\$ 500
Liabilities due depositors.....	285,578	100,968	(101,151)	285,395
Total liabilities.....	\$ 285,578	\$ 153,710	\$ (153,393)	\$ 285,895

General Fund

Narrative

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

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 24,986,830	\$ 24,986,830	\$ 25,158,790	\$ 171,960
Motor vehicle and other excise taxes.....	2,900,000	2,900,000	2,431,353	(468,647)
Tax and trash liens.....	-	-	899,262	899,262
Payments in lieu of taxes.....	1,592,945	1,592,945	1,099,111	(493,834)
Trash disposal.....	1,140,175	1,140,175	1,034,814	(105,361)
Intergovernmental.....	58,803,995	58,803,995	59,181,537	377,542
Penalties and interest on taxes.....	160,000	160,000	661,775	501,775
Licenses, permits and fees.....	1,384,260	1,384,260	1,413,425	29,165
Fines and forfeitures.....	1,597,600	1,597,600	1,417,772	(179,828)
Departmental.....	-	-	117,465	117,465
Investment income.....	1,500,000	1,500,000	973,275	(526,725)
TOTAL REVENUES.....	94,065,805	94,065,805	94,388,579	322,774
EXPENDITURES				
GENERAL GOVERNMENT				
LEGISLATIVE				
Salaries.....	144,613	144,613	144,007	606
Expenses.....	49,893	53,206	52,483	723
TOTAL.....	194,506	197,819	196,490	1,329
EXECUTIVE OFFICE				
Salaries.....	226,326	226,326	220,200	6,126
Expenses.....	36,579	36,579	16,175	20,404
TOTAL.....	262,905	262,905	236,375	26,530
AUDITOR'S OFFICE				
Salaries.....	199,217	212,852	212,711	141
Expenses.....	9,370	9,370	7,788	1,582
TOTAL.....	208,587	222,222	220,499	1,723
TREASURER'S/COLLECTOR'S OFFICE				
Salaries.....	373,047	393,047	371,811	21,236
Expenses.....	285,609	287,809	177,672	110,137
TOTAL.....	658,656	680,856	549,483	131,373
ASSESSING				
Salaries.....	158,436	158,436	157,873	563
Expenses.....	95,072	95,072	75,042	20,030
TOTAL.....	253,508	253,508	232,915	20,593
PROCUREMENT				
Salaries.....	88,382	88,382	88,382	-
Expenses.....	1,267	1,267	998	269
Capital.....	2,608	2,608	2,608	-
TOTAL.....	92,257	92,257	91,988	269

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
CENTRAL BILLING				
Salaries.....	93,257	93,257	94,083	(826)
Expenses.....	101,365	99,366	52,151	47,215
TOTAL.....	194,622	192,623	146,234	46,389
LAW DEPARTMENT				
Salaries.....	115,789	105,789	105,019	770
Expenses.....	85,932	95,932	84,582	11,350
TOTAL.....	201,721	201,721	189,601	12,120
PERSONNEL DEPARTMENT				
Salaries.....	111,183	111,183	110,482	701
Expenses.....	19,242	30,242	19,704	10,538
TOTAL.....	130,425	141,425	130,186	11,239
INFORMATION SYSTEMS				
Salaries.....	109,450	109,450	103,141	6,309
Expenses.....	101,720	101,721	91,006	10,715
Capital.....	27,000	27,000	25,722	1,278
TOTAL.....	238,170	238,171	219,869	18,302
CITY CLERK				
Salaries.....	225,636	225,636	210,020	15,616
Expenses.....	35,607	38,683	29,223	9,460
Capital.....	3,050	3,050	3,045	5
TOTAL.....	264,293	267,369	242,288	25,081
OFFICE OF PLANNING AND DEVELOPMENT				
Expenses.....	29,007	29,007	28,908	99
LICENSING				
Salaries.....	57,661	57,661	57,661	-
Expenses.....	3,279	203	-	203
TOTAL.....	60,940	57,864	57,661	203
SALARY RESERVE.....	125,000	88,911	74,058	14,853
TOTAL GENERAL GOVERNMENT.....	2,914,597	2,926,658	2,616,555	310,103
PUBLIC SAFETY				
POLICE DEPARTMENT				
Salaries.....	5,935,915	5,946,164	5,833,778	112,386
Expenses.....	441,924	441,274	404,111	37,163
TOTAL.....	6,377,839	6,387,438	6,237,889	149,549

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
FIRE DEPARTMENT				
Salaries.....	5,560,245	5,688,445	5,688,178	267
Expenses.....	330,043	316,318	290,734	25,584
TOTAL.....	5,890,288	6,004,763	5,978,912	25,851
INSPECTIONAL SERVICES				
Salaries.....	469,458	469,458	463,991	5,467
Expenses.....	21,989	21,789	17,055	4,734
TOTAL.....	491,447	491,247	481,046	10,201
TRAFFIC AND PARKING				
Salaries.....	40,727	40,727	41,804	(1,077)
Expenses.....	584,686	614,686	610,947	3,739
TOTAL.....	625,413	655,413	652,751	2,662
EMERGENCY MANAGEMENT				
Salaries.....	40,500	50,500	47,529	2,971
Expenses.....	11,182	11,182	3,936	7,246
TOTAL.....	51,682	61,682	51,465	10,217
TOTAL PUBLIC SAFETY.....	13,436,669	13,600,543	13,402,063	198,480
EDUCATION				
Operational.....	46,931,176	46,931,173	44,979,742	1,951,431
Northeast Regional Vocational High School Assessment.....	3,264,295	3,012,752	1,748,175	1,264,577
TOTAL EDUCATION.....	50,195,471	49,943,925	46,727,917	3,216,008
PUBLIC WORKS				
ADMINISTRATION				
Salaries.....	256,027	268,481	242,716	25,765
Expenses.....	7,860	7,860	6,580	1,280
TOTAL.....	263,887	276,341	249,296	27,045
STREETS AND SIDEWALKS				
Salaries.....	567,857	567,857	544,131	23,726
Expenses.....	982,186	950,641	879,339	71,302
TOTAL.....	1,550,043	1,518,498	1,423,470	95,028
SOLID WASTE/RECYCLING				
Expenses.....	1,815,128	1,812,198	1,730,333	81,865
TOTAL.....	1,815,128	1,812,198	1,730,333	81,865

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
STRUCTURES AND GROUNDS				
Salaries.....	307,735	288,635	214,181	74,454
Expenses.....	718,771	735,672	600,716	134,956
Capital.....	-	2,200	-	2,200
TOTAL.....	1,026,506	1,026,507	814,897	211,610
SNOW AND ICE REMOVAL				
Salaries.....	25,000	31,738	31,738	-
Expenses.....	66,260	100,957	100,957	-
Capital.....	10,000	10,000	9,037	963
TOTAL.....	101,260	142,695	141,732	963
TOTAL PUBLIC WORKS.....	4,756,824	4,776,239	4,359,728	416,511
HEALTH AND HUMAN SERVICES				
ADMINISTRATION				
Salaries.....	126,697	126,697	125,935	762
Expenses.....	7,275	7,655	6,769	886
TOTAL.....	133,972	134,352	132,704	1,648
HEALTH DIVISION				
Salaries.....	340,448	363,498	370,822	(7,324)
Expenses.....	380	-	-	-
TOTAL.....	340,828	363,498	370,822	(7,324)
VETERAN'S SERVICE				
Salaries.....	70,841	70,841	70,841	-
Expenses.....	209,524	222,524	224,995	(2,471)
TOTAL.....	280,365	293,365	295,836	(2,471)
ELDER AFFAIRS				
Salaries.....	167,591	167,591	167,591	-
Expenses.....	20,749	18,968	16,473	2,495
Capital.....	500	2,282	-	2,282
TOTAL.....	188,840	188,841	184,064	4,777
TOTAL HEALTH AND HUMAN SERVICES.....	944,005	980,056	983,426	(3,370)
CULTURE AND RECREATION				
RECREATION AND CULTURAL AFFAIRS				
Salaries.....	49,811	49,811	49,811	-
Expenses.....	8,000	8,000	7,804	196
TOTAL.....	57,811	57,811	57,615	196
PUBLIC LIBRARY				
Salaries.....	234,977	235,681	235,403	278
Expenses.....	19,743	19,039	18,591	448
TOTAL.....	254,720	254,720	253,994	726
TOTAL CULTURE AND RECREATION.....	312,531	312,531	311,609	922

(Continued)

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

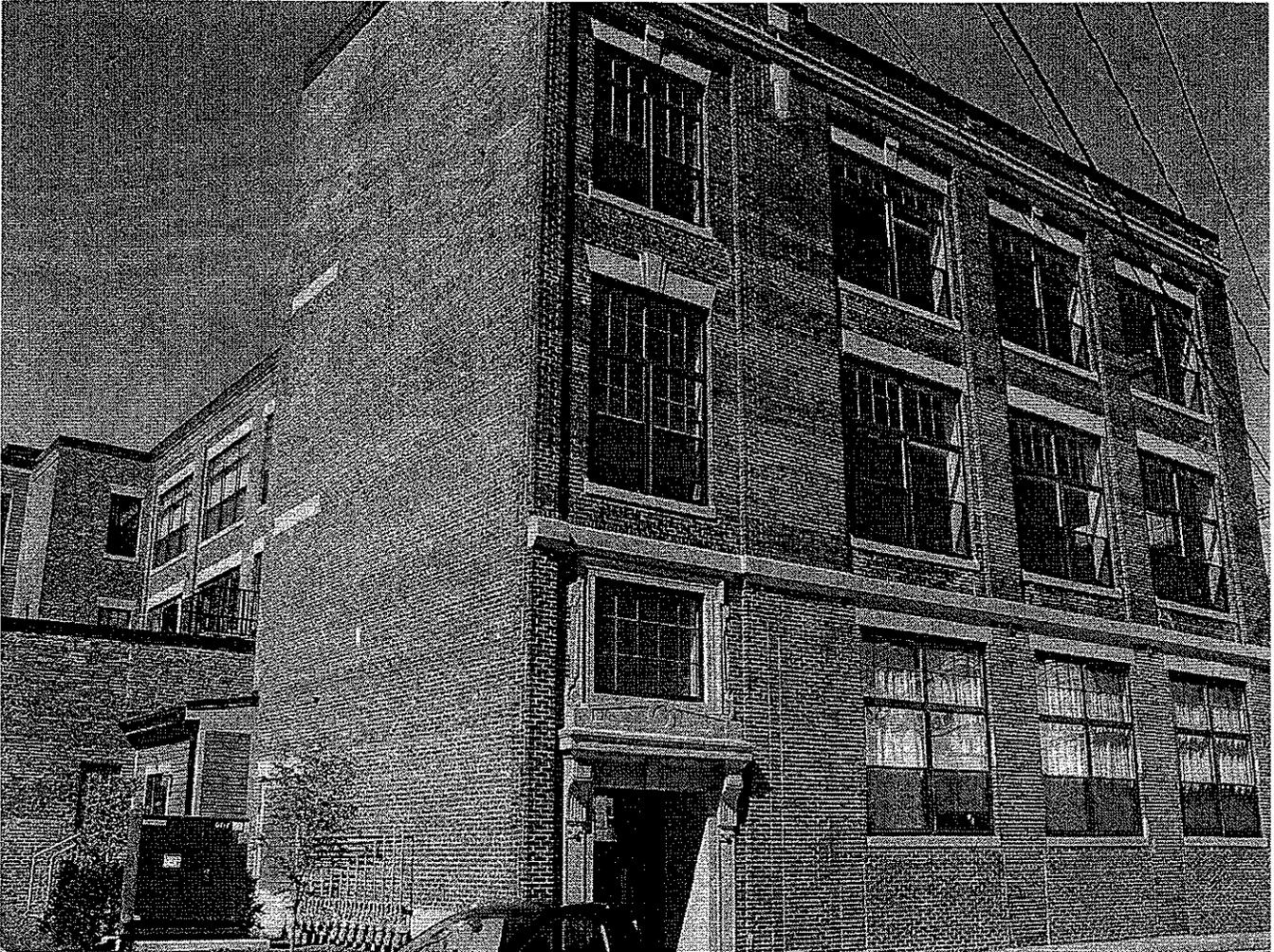
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
PENSION BENEFITS				
CONTRIBUTORY RETIREMENT SYSTEM				
Expenses.....	5,761,066	5,761,066	5,270,131	490,935
NON-CONTRIBUTORY PENSION BENEFITS				
Expenses.....	125,000	125,000	101,589	23,411
TOTAL PENSION BENEFITS.....	5,886,066	5,886,066	5,371,720	514,346
EMPLOYEE BENEFITS				
UNEMPLOYMENT COMPENSATION				
Expenses.....	274,527	238,527	75,388	163,139
HEALTH INSURANCE				
Expenses.....	7,873,774	7,874,982	7,864,219	10,763
WORKER'S COMPENSATION				
Expenses.....	313,000	313,000	313,000	-
PAYROLL TAXES				
Expenses.....	504,145	504,145	500,023	4,122
LIFE INSURANCE				
Expenses.....	51,208	50,000	48,626	1,374
TOTAL EMPLOYEE BENEFITS.....	9,016,654	8,980,654	8,801,256	179,398
PROPERTY AND LIABILITY INSURANCE				
Expenses.....	432,241	457,240	457,240	-
CLAIMS AND JUDGMENTS				
Expenses.....	25,000	25,000	15,835	9,165
STATE AND COUNTY CHARGES				
Expenses.....	2,505,595	2,492,532	2,552,188	(59,656)
DEBT SERVICE PRINCIPAL				
Expenses.....	6,751,706	6,751,706	6,751,706	-
DEBT SERVICE INTEREST				
Expenses.....	3,780,715	4,842,084	4,612,476	229,608
TOTAL EXPENDITURES.....	100,958,074	101,975,234	96,963,719	5,011,515
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....				
	(6,892,269)	(7,909,429)	(2,575,140)	5,334,289
OTHER FINANCING SOURCES (USES):				
Transfers in.....	1,275,890	2,176,738	2,176,738	-
Premium from issuance of short-term notes.....	-	-	1,706	1,706
Sale of capital assets.....	-	-	490	490
Transfers out.....	-	(1,723,754)	(1,723,754)	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,275,890	452,984	455,180	2,196
NET CHANGE IN FUND BALANCE.....	(5,616,379)	(7,456,445)	(2,119,960)	5,336,485
BUDGETARY FUND BALANCE, Beginning of year.....	13,732,764	13,732,764	13,732,764	-
BUDGETARY FUND BALANCE, End of year.....	\$ 8,116,385	\$ 6,276,319	\$ 11,612,804	\$ 5,336,485

(Concluded)

Statistical Section

Statistical tables differ from financial statements since they cover more than one fiscal year and may present non-accounting data. The following tables reflect social and economic data, financial trends and fiscal capacity.



Spencer Lofts

A former manufacturing facility housed in a complex of late 19th century mill buildings was converted and rehabilitated into 100 units of residential "live-work" loft residences. The three building brick complex, renamed as the "Spencer Lofts", will serve as an anchor in that neighborhood, strengthen the tax base and spur additional investment. This "live-work" space is also intended to retain and attract artists to Chelsea.

GENERAL FUND REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

LAST TEN FISCAL YEARS

	2004	2003	2002	2001
REVENUES:				
Real estate and personal property taxes (7)(9).....	\$ 24,656,790	\$ 22,669,580	\$ 21,728,833	\$ 23,686,270
Motor vehicle and other excise taxes (1).....	2,431,353	3,251,518	2,170,362	1,905,700
Tax and trash liens (7)(9).....	899,262	489,714	457,252	-
Payments in lieu of taxes (5)(11).....	1,099,111	1,597,415	1,080,738	1,591,385
Charges for services (10)(13).....	-	-	359,359	1,273,282
Trash disposal (10).....	1,034,814	907,205	866,277	-
Intergovernmental (2)(4).....	62,167,537	64,125,429	62,640,026	62,482,138
Penalties and interest on taxes (7).....	661,775	272,770	371,265	1,520,929
Licenses, permits and fees (6)(13).....	1,413,425	1,240,984	813,695	830,130
Fines and forfeitures.....	1,417,772	1,578,661	1,764,984	1,483,634
Departmental.....	117,465	179,829	231,689	297,413
Investment income (12).....	392,026	790,470	748,709	1,535,568
TOTAL REVENUES	\$ 96,291,330	\$ 97,103,575	\$ 93,233,189	\$ 96,606,449
EXPENDITURES:				
Current:				
General government.....	\$ 2,616,555	\$ 2,771,088	\$ 2,699,294	\$ 2,601,668
Public safety.....	13,402,063	13,564,766	13,389,663	12,634,136
Education (2).....	46,344,508	46,489,174	46,233,585	41,874,221
Public works.....	4,359,728	4,709,250	4,218,241	3,914,886
Health and human services.....	983,426	1,031,065	923,385	792,497
Culture and recreation.....	311,609	326,690	352,032	370,650
Community development (3).....	-	-	-	-
Pension (4)(8)(14).....	8,357,720	7,897,955	12,222,896	13,315,994
Employee benefits(14).....	8,801,256	7,401,070	-	-
Property and liability insurance.....	457,240	369,692	305,040	217,579
Claims and judgments.....	15,835	18,377	9,699	22,421
State and county charges.....	2,552,188	2,208,706	1,775,003	1,807,938
Debt service.....	11,359,273	11,572,256	11,806,613	11,665,868
TOTAL EXPENDITURES	\$ 99,561,401	\$ 98,360,089	\$ 93,935,451	\$ 89,217,858

- (1) Changes between fiscal years 1995 through 2004 are primarily the result of the number of rental cars registered in the City.
- (2) Large annual increases are due to the passage of the Commonwealth's Education Reform Act.
- (3) Beginning in fiscal year 1997 the expenditure is being funded by Special Revenue revenues.
- (4) Large increase in fiscal year 2000 is the availability and recognition of on-behalf pension payments from the Commonwealth totaling approximately \$2,095,000.
- (5) Large increase in fiscal year 2000 and fiscal year 2003 is the result of an increase in Massport's payment.
- (6) Large increase in fiscal year 2000 is the result of increased building activity associated with the construction of Wyndham Hotel and revitalization of Everett Avenue.
- (7) Large increase in fiscal year 2001 and fiscal year 2004 is the result of increased collections of tax liens.
- (8) Large increase in fiscal year 2001 is the result of increased health insurance premiums.
- (9) The City began reporting trash and tax liens separately from real estate and personal property taxes in fiscal year 2002.
- (10) The City began reporting trash disposal charges separately from other charges for services in fiscal year 2002.
- (11) Large decrease in fiscal year 2002 and fiscal year 2004 is the result of a decrease in Massport's payment.
- (12) Large decrease in fiscal year 2002 and fiscal year 2004 is the result of poor market conditions.
- (13) The City combined licenses, permits and fees in fiscal year 2003.
- (14) The City began reporting employee benefits separately from pension benefits in fiscal year 2003.

	2000	1999	1998	1997	1996	1995
\$	19,464,358	\$ 19,645,555	\$ 17,729,437	\$ 17,944,204	\$ 16,203,328	\$ 14,802,660
	2,307,286	1,422,042	2,538,763	1,344,464	1,157,965	1,221,615
	-	-	-	-	-	-
	1,549,819	1,075,828	1,058,633	1,022,227	869,465	520,424
	1,360,921	1,380,367	1,337,389	1,282,267	1,212,077	913,768
	-	-	-	-	-	-
	58,315,883	52,953,149	48,807,370	43,325,710	38,951,760	35,347,823
	414,379	546,923	335,862	674,305	319,101	302,738
	1,056,159	697,589	674,166	657,218	696,025	627,164
	1,319,264	1,247,149	1,081,955	1,028,138	940,708	961,831
	29,500	202,441	24,460	23,497	65,463	545,076
	1,318,625	1,287,492	1,048,530	2,197,352	3,751,615	6,264,153
\$	<u>87,136,194</u>	<u>\$ 80,458,535</u>	<u>\$ 74,636,565</u>	<u>\$ 69,499,382</u>	<u>\$ 64,167,507</u>	<u>\$ 61,507,252</u>
\$	2,397,043	\$ 2,078,627	\$ 2,483,691	\$ 1,509,808	\$ 2,019,147	\$ 2,053,014
	11,356,277	10,731,029	10,432,808	9,611,805	9,450,254	8,961,508
	39,575,510	36,644,689	32,662,995	28,025,309	25,485,883	21,766,766
	3,825,959	3,431,681	3,676,887	3,939,166	3,823,912	3,681,528
	748,104	694,330	665,556	633,220	589,548	605,045
	294,139	292,502	329,527	325,613	267,809	279,471
	-	-	-	-	215,342	402,937
	12,004,836	9,855,481	9,039,205	8,421,238	8,495,964	8,504,062
	-	-	-	-	-	-
	183,357	197,233	244,485	256,015	219,239	211,844
	6,831	11,303	76,500	38,659	34,670	26,164
	1,718,175	1,713,285	1,652,526	1,550,405	1,494,606	1,471,362
	12,050,543	11,381,191	12,011,829	11,755,331	11,693,431	11,905,466
\$	<u>84,160,774</u>	<u>\$ 77,031,351</u>	<u>\$ 73,276,009</u>	<u>\$ 66,066,569</u>	<u>\$ 63,789,805</u>	<u>\$ 59,869,167</u>

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year	Net Tax Levy	Current Tax Collections	Percent of Net Levy Collected	Actual Subsequent Collections	Total Tax Collections	Total Collections as a % of Net Levy	Transfers to Tax Title	Remaining Accounts Receivable
1995	\$ 15,433,611	\$ 14,579,432	94.47%	\$ 68,608	\$ 14,648,040	94.91%	\$ 785,571	\$ -
1996	16,489,492	15,597,811	94.59%	188,164	15,785,975	95.73%	703,517	-
1997	17,128,156	16,283,716	95.07%	72,650	16,356,366	95.49%	771,790	-
1998	18,036,139	17,102,086	94.82%	285,630	17,387,716	96.40%	648,423	-
1999	19,332,172	18,246,989	94.39%	179,967	18,426,956	95.32%	905,216	-
2000	20,297,536	18,960,365	93.41%	476,911	19,437,276	95.76%	860,260	-
2001	20,700,340	20,480,271	98.94%	14,313	20,494,584	99.01%	179,513	26,243
2002	21,990,260	20,450,338	93.00%	261,776	20,712,114	94.19%	1,259,587	18,559
2003	22,700,619	22,378,670	98.58%	37,911	22,416,581	98.75%	192,967	91,071
2004	25,183,741	24,745,235	98.26%	-	24,745,235	98.26%	-	438,506

ASSESSED VALUE AND EQUALIZED VALUATION OF TAXABLE PROPERTY (1)

LAST TEN FISCAL YEARS

Fiscal Year	Assessed Value (2)		Total Assessed Value	Equalized Valuation (3)	% of Total Assessed Value to Equalized
	Real Property	Personal Property			
1995	\$ 720,821,050	\$ 30,583,200	\$ 751,404,250	\$ 897,761,300	83.70%
1996	728,823,050	32,539,140	761,362,190	897,761,300	84.81%
1997	723,709,450	32,710,050	756,419,500	812,415,200	93.11%
1998	711,750,900	38,791,342	750,542,242	812,415,200	92.38%
1999	712,047,100	37,507,061	749,554,161	839,088,700	89.33%
2000	789,211,160	38,369,380	827,580,540	1,038,467,300	79.69%
2001	974,543,890	39,465,410	1,014,009,300	1,038,467,300	97.64%
2002	1,045,322,055	40,520,720	1,085,842,775	1,387,408,500	78.26%
2003	1,619,610,316	47,763,890	1,667,374,206	1,387,408,500	120.18%
2004	1,909,128,966	53,601,470	1,962,730,436	2,206,598,800	88.95%

(1) Does not include valuation affected by residential exemption.

(2) As of January 1st.

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

PROPERTY AND MOTOR VEHICLE EXCISE TAX RATES (1)

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Residential Real Property</u>	<u>Commercial and Industrial Real Property</u>	<u>Personal Property</u>	<u>Motor Vehicle</u>
1995	\$ 13.12	\$ 34.61	\$ 34.61	\$ 25.00
1996	13.57	36.25	36.25	25.00
1997	14.23	37.50	37.50	25.00
1998	14.58	39.97	39.97	25.00
1999	15.39	41.78	41.78	25.00
2000	14.65	39.73	39.73	25.00
2001	14.39	33.53	33.53	25.00
2002	14.52	33.18	33.18	25.00
2003	10.04	22.41	22.41	25.00
2004	9.28	20.72	20.72	25.00

(1) Real and personal property tax rate applicable to each \$1,000 of assessed value. Motor vehicle excise tax is assessed on a calendar year, applicable to each \$1,000 of assessed value.

COMPUTATION OF LEGAL DEBT MARGIN

JUNE 30, 2004

The following schedule presents the City's legal debt margin:

Fiscal Year 2004 equalized valuation.....	\$	<u>2,206,598,800</u>
Normal debt limit (2 1/2% of equalized valuation).....	\$	55,164,970
Amount of debt applicable to debt limit:		
Total bonded debt.....	\$	69,010,814
Less:		
General obligation bonds exempted by authority of state legislature.....		<u>65,590,853</u>
Amount within the debt limit.....		<u>3,419,961</u>
Legal debt margin.....	\$	<u>51,745,009</u>

RATIO OF NET BONDED DEBT TO ASSESSED VALUATION AND NET BONDED DEBT PER CAPITA

LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Assessed Value	Including School Debt			Excluding School Debt (2)		
			Net Bonded Debt Including School Debt	Ratio of Bonded Debt to Assessed Valuation	Net Bonded Debt per Capita	Net Bonded Debt Excluding School Debt	Ratio of Bonded Debt to Assessed Valuation	Net Bonded Debt per Capita
1995	27,741	\$ 751,404,250	\$ 107,426,458	14.30%	\$ 3,872	\$ 3,641,458	0.48%	\$ 131
1996	27,608	761,362,190	102,831,337	13.51%	3,725	4,166,337	0.55%	151
1997	27,608	756,419,500	96,921,216	12.81%	3,511	3,596,216	0.48%	130
1998	27,608	750,542,242	95,467,659	12.72%	3,458	5,537,659	0.74%	201
1999	28,710	749,554,161	99,109,746	13.22%	3,452	14,574,746	1.94%	508
2000	28,710	827,580,540	92,629,941	11.19%	3,226	13,499,941	1.63%	470
2001	35,080	1,014,009,300	87,555,092	8.63%	2,496	13,880,092	1.37%	396
2002	35,080	1,085,842,775	80,904,226	7.45%	2,306	12,694,226	1.17%	362
2003	35,080	1,667,374,206	74,162,520	4.45%	2,114	11,557,520	0.69%	329
2004	35,080	1,962,730,436	69,010,814	3.52%	1,967	10,420,814	0.53%	297

(1) Population estimates are from U.S. Department of Commerce, Bureau of Census, Current Population Reports and Local Population Estimates.

(2) The Commonwealth of Massachusetts is funding 95% of School debt principal and interest.

**RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO
GENERAL FUND EXPENDITURES**

LAST TEN FISCAL YEARS

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures	Ratio of Debt Service to Total Expenditures
1995	\$ 6,660,121	\$ 5,245,345	\$ 11,905,466	\$ 59,869,167 (1)	19.89%
1996	5,640,761	6,052,670	11,693,431	63,789,805	18.33%
1997	5,910,121	5,845,210	11,755,331	66,066,569	17.79%
1998	6,891,457	5,120,372	12,011,829	73,276,009	16.39%
1999	6,179,482	5,201,709	11,381,191	77,031,351	14.77%
2000	6,479,805	5,570,738	12,050,543	84,160,774	14.32%
2001	6,528,849	5,137,019	11,665,868	89,217,858	13.08%
2002	6,650,866	5,155,747	11,806,613	93,935,451	12.57%
2003	6,871,706	4,700,550	11,572,256	98,360,089	11.77%
2004	6,751,706	4,607,567	11,359,273	99,561,401	11.41%

(1) The Commonwealth is obligated to reimburse the City for 95% of all school construction bonds issued. The outstanding amount of these bonds at June 30, 2004 is \$58,590,000.

COMPUTATION OF OVERLAPPING DEBT

JUNE 30, 2004

	Outstanding Overlapping Debt	Overlapping City Share (%)	Overlapping City Share (\$)	Assessment
Massachusetts Water Resources Authority.....	5,280,908,000	1.61%	85,022,619	6,587,326
Northeast Metropolitan Regional Vocational School District.....	140,000	23.68%	33,152	1,748,175
Total overlapping debt.....	\$ 5,281,048,000		\$ 85,055,771	\$ 10,110,909

PRINCIPAL TAXPAYERS

JUNE 30, 2004 (1)

Name	Nature of Business	Assessed Valuation	Amount of Tax	% of Total Tax Levy
1 Anthony Simboli	Commercial	\$ 38,970,800	\$ 807,475	3.21%
2 Chelsea Development Associates	Commercial	35,118,500	727,655	2.89%
3 Griffin Way LLC / Howland Development	Utility	28,667,700	593,995	2.36%
4 NSTAR Services (Boston Edison)	Commercial	27,431,080	568,372	2.26%
5 Darman Sumner, Trustee	Commercial	22,799,300	472,401	1.88%
6 Stanton Black	Commercial	15,899,000	329,427	1.31%
7 Tobin, Mark et al	Commercial	15,571,200	322,635	1.28%
8 New England Produce Center	Commercial	14,637,200	303,283	1.20%
9 Catamount Petroleum L.P.	Manufacturing	14,618,200	302,889	1.20%
10 Patrick Glynn, Trustee	Commercial	11,754,600	243,555	0.97%
		<u>\$ 225,467,580</u>	<u>\$ 4,671,688</u>	<u>18.55%</u>

(1) Assessed valuations are as of January 1, 2004, for commercial entities and January 1, 2003, for utility entities.

SALARIES OF PRINCIPAL OFFICIALS

JUNE 30, 2004

City Council:	
President	\$ 8,000
Members	8,000
Executive:	
City Manager	107,635
Director of Administration	65,664
Director of Planning and Development	69,867
Inspectional Services Director	69,867
Director of Public Works	80,000
Corporate Counsel	77,000
Deputy City Manager	83,200
City Auditor	78,000
City Treasurer/Collector	69,341
Director of Health and Human Services	74,268
Superintendent of Schools *	125,000
Police Chief	104,458
Fire Chief	102,000
City Clerk	60,707

* The Superintendent position is partially funded by Boston University under a partnership agreement.

MISCELLANEOUS STATISTICS

JUNE 30, 2004

Characteristic	Chelsea	Boston PMSA	Massachusetts	United States	
Population (1):	35,080	589,141	6,349,097	287,958,237	
Median age:					
2003	31.3	37.3	36.5	36.0	
2000	31.3	31.1	36.5	35.3	
1990	29.9	33.4	33.6	32.9	
1980	32.7	31.3	31.2	30.0	
Median family income (2):					
2004 \$	\$ 32,430	\$ 58,971	\$ 50,502	\$ 43,564	
2003	37,039	60,009	50,502	49,600	
2001	34,849	57,749	49,367	41,944	
1999	33,088	54,289	48,740	40,800	
1997	31,699	45,204	42,017	35,172	
1989	29,039	49,266	44,367	37,919	
1979	14,481	22,848	21,166	19,917	
1969	8,973	11,485	10,833	9,586	
1989	11,559	23,746	22,236	17,592	
1987	9,728	20,355	18,296	15,472	
1985	8,259	17,391	16,324	13,908	
1983	7,228	14,612	13,306	11,687	
Unemployment rates (3):					
2004	6.4%	5.9%	5.3%	5.4%	
2003	5.5%	4.1%	5.8%	6.1%	
2002	3.9%	2.9%	2.6%	5.9%	
2001	4.6%	3.1%	3.4%	4.6%	
2000	4.1%	2.4%	2.6%	4.0%	
1999	5.3%	3.0%	3.1%	4.5%	
1998	5.2%	3.4%	3.4%	4.5%	
1997	6.3%	4.5%	3.9%	5.0%	
1996	7.6%	4.5%	4.3%	5.4%	
1995	8.0%	5.4%	5.4%	5.6%	
1994	7.9%	6.0%	6.0%	6.1%	
1993	8.8%	6.0%	6.9%	6.8%	
Public school enrollments (4):	PreK - K	1 - 8	9 - 12	Total	
Projected for 2005	2005	853	3,519	1,501	5,873
2004	779	3,640	1,366	5,785	
2003	780	3,646	1,379	5,805	
2002	769	3,869	1,238	5,876	
2001	833	3,841	1,174	5,848	
2000	694	3,931	1,134	5,759	
1999	861	3,831	1,144	5,836	
1998	804	3,607	1,112	5,523	
1997	870	3,408	1,010	5,288	
1996	893	3,073	888	4,854	
1995	865	2,807	903	4,575	
1994	848	2,641	834	4,323	
1993	699	2,608	793	4,100	

(1) Source: U.S. Department of Commerce, Bureau of Census, Current Population Reports and Local Population Estimates.

(2) Source: U.S. Department of Commerce, Bureau of Census and the Bureau of Economic Analysis.

(3) Source: Department of Labor, Bureau of Labor Statistics and Massachusetts Division of Employment Security, Mass.DET.

(4) Enrollments are as of October 1st for the given fiscal year.

