City Hall
Nine Dale Avenue
Gloucester, MA. 01930

TEL 978 281 9730
FAX 978 281 8472

# CITY OF GLOUCESTER
## CITY AUDITOR'S OFFICE

**MEMORANDUM**

TO: Gloucester City Council
FROM: Kenny Costa, City Auditor
RE: City's FY 2010 Basic Financial Statements
Date: March 18, 2011

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I am pleased to transmit to you the City of Gloucester's Independent Auditors' Report on Basic Financial Statements and Required Supplementary Information Report for the fiscal year ended June 30, 2010. At the close of each fiscal year, state law requires the City of Gloucester to publish a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Independent Auditors' Report on Basic Financial Statements and Required Supplementary Information Report of the City of Gloucester, Massachusetts, for the for the fiscal year ending June 30, 2010 for your review.

The report is designed to be used by the elected and appointed officials of the City and others who are concerned with its management and progress such as bond analysts, banking institutions and rating agencies as well as the residents and taxpayers of Gloucester.

The report consists of management's representations concerning the finances of the City of Gloucester. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in the report.

The City's financial statements have been audited by Sullivan, Rogers & Company, LLC, a firm of licensed certified public accountants, who have been hired by and report to the City's City Council. The independent auditors' unqualified ("clean") opinion on the City's financial statements for the year ended June 30, 2010 is presented in the first component of the financial section of the report on pages 2 and 3.

Please refer this matter to the Budget and Finance subcommittee for review and discussion.

# CITY OF GLOUCESTER, MASSACHUSETTS

# INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

## FOR THE FISCAL YEAR ENDED JUNE 30, 2010

# CITY OF GLOUCESTER, MASSACHUSETTS

## INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

## FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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# *Independent Auditors' Report*

SULLIVAN ROGERS COMPANY

*Certified Public Accountants*

SULLIVAN, ROGERS & COMPANY, LLC
Corporate Place I, Suite 204 • 99 South Bedford Street
Burlington, Massachusetts 01803
P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

**Independent Auditors' Report**

To the Honorable City Council
City of Gloucester, 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 Gloucester, Massachusetts, as of and for the fiscal year ended June 30, 2010 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2009), 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 Gloucester, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Gloucester, Massachusetts, as of June 30, 2010 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2009), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2011, on our consideration of the City of Gloucester, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 13) and budgetary comparison and pension information (located on pages 63 through 67) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bulle, Tag & Gomez, LLC

March 11, 2011

# *Management's Discussion and Analysis*

As management of the City of Gloucester, 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, 2010.

*Financial Highlights*

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $148,947,897 (net assets). The City's governmental activities has negative unrestricted net assets of ($8,089,584) and $6,431,737 in its business-type activities unrestricted net assets.

- The City's total net assets decreased by $1,701,746.

- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances totaling $11,463,846, an increase of $7,447,375 in comparison with the prior year. Approximately $6,526,000 represents unreserved fund balance of the general fund, special revenue funds and permanent funds. The capital projects fund deficit of $329,192, will be funded by proceeds of long-term debt in future fiscal years.

- At the end of the fiscal year, the general fund undesignated fund balance totaled $3,226,619, or 3.8 percent of total general fund expenditures and transfers out. In the prior year, the general fund had an undesignated fund deficit totaling $616,258.

- The City's total bonded debt decreased by $4,597,539 during the fiscal year. The City issued $4,327,448 of new debt during the year for the Title V program, other governmental projects, and sewer projects.

*Overview of the Basic Financial Statements*

This discussion and analysis is 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 and debt service (interest). Business-type activities include the City's waterways, sewer and water operations.

The government-wide financial statements can be found on pages 15-17 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 funds 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 451 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 fund, which is considered to be a major fund. Data from the other 450 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental fund financial statements can be found on pages 18-21 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 enterprise funds to account for its waterways, sewer and water operations, all of which are considered to be major funds.

The basic proprietary fund financial statements can be found on pages 22-24 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 funds financial statements under the caption "private purpose trust funds".

The basic fiduciary fund financial statements can be found on pages 25-26 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 27-62 of this report.

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension information, which can be found on pages 63-67.

*Government-Wide Financial Analysis*

The following tables present current 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 $148,947,897 at the close of the fiscal year and are summarized as follows:

| | *Governmental Activities* | | *Business-Type Activities* | | *Total* | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **Assets** | | | | | | |
| Current assets | $ 22,313,118 | $ 20,377,563 | $ 21,267,464 | $ 31,512,845 | $ 43,580,582 | $ 51,890,408 |
| Noncurrent assets (excluding capital assets) | 11,738,819 | 13,043,107 | 15,439,483 | 17,277,446 | 27,178,302 | 30,320,553 |
| Capital assets (net) | 70,560,564 | 70,752,092 | 155,950,573 | 148,396,774 | 226,511,137 | 219,148,866 |
| Total assets | 104,612,501 | 104,172,762 | 192,657,520 | 197,187,065 | 297,270,021 | 301,359,827 |
| **Liabilities** | | | | | | |
| Current liabilities (excluding debt) | 4,776,494 | 7,283,166 | 1,346,690 | 1,929,010 | 6,123,184 | 9,212,176 |
| Noncurrent liabilities (excluding debt) | 18,864,149 | 11,393,320 | 737,095 | 390,547 | 19,601,244 | 11,783,867 |
| Current debt | 5,558,338 | 7,899,676 | 30,470,402 | 30,454,162 | 36,028,740 | 38,353,838 |
| Noncurrent debt | 36,264,827 | 36,982,160 | 50,304,129 | 54,378,143 | 86,568,956 | 91,360,303 |
| Total liabilities | 65,463,808 | 63,558,322 | 82,858,316 | 87,151,862 | 148,322,124 | 150,710,184 |
| **Net Assets** | | | | | | |
| Invested in capital assets (net of related debt) | 41,810,591 | 40,075,777 | 78,138,873 | 67,009,058 | 119,949,464 | 107,084,835 |
| Restricted | 5,427,686 | 5,042,678 | 25,228,594 | 36,111,184 | 30,656,280 | 41,153,862 |
| Unrestricted | (8,089,584) | (4,504,015) | 6,431,737 | 6,914,961 | (1,657,847) | 2,410,946 |
| Total net assets | $ 39,148,693 | $ 40,614,440 | $ 109,799,204 | $ 110,035,203 | $ 148,947,897 | $ 150,649,643 |

The largest portion of the City's net assets, $119,949,464, reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other 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, $30,656,280, represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets represents a deficit in unrestricted net assets ($1,657,847). Of this amount, $6,431,737 may be used to support business-type activities and ($8,089,584) represents an unrestricted net deficit in governmental activities.

At the end of the current fiscal year, the City reports positive balances in all three categories of net assets for business-type activities. For governmental activities, positive balances are reported in each category except for unrestricted net assets.

## Changes in Net Assets

For the fiscal year ended June 30, 2010, the City's total net assets decreased by $1,701,746 and are summarized as follows:

| | *Governmental Activities* | | *Business-Type Activities* | | *Total* | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| **Revenues** | | | | | | |
| *Program Revenues:* | | | | | | |
| Charges for services | $ 10,951,248 | $ 8,988,674 | $ 12,953,425 | $ 13,896,538 | $ 23,904,673 | $ 22,885,212 |
| Operating grants and contributions | 22,854,138 | 24,708,974 | 470,519 | 534,399 | 23,324,657 | 25,243,373 |
| Capital grants and contributions | 1,245,970 | 669,924 | 1,602,899 | - | 2,848,869 | 669,924 |
| *General Revenues:* | | | | | | |
| Real estate and personal property taxes | 56,715,942 | 54,775,708 | - | - | 56,715,942 | 54,775,708 |
| Motor vehicle and other excise taxes | 2,817,416 | 2,461,059 | - | - | 2,817,416 | 2,461,059 |
| Hotel/motel taxes | 256,530 | 277,052 | - | - | 256,530 | 277,052 |
| Penalties and interest on taxes | 771,830 | 404,219 | - | - | 771,830 | 404,219 |
| Payments in lieu of taxes | 18,572 | 20,654 | - | - | 18,572 | 20,654 |
| Community preservation surcharges | 435,643 | - | - | - | 435,643 | - |
| Grants and contributions not restricted to specific programs | 3,546,018 | 4,522,568 | - | - | 3,546,018 | 4,522,568 |
| Unrestricted investment income | 177,915 | 544,141 | - | - | 177,915 | 544,141 |
| Premium from issuance of bonds and notes | 164,346 | 304,401 | 202,502 | - | 366,848 | 304,401 |
| Gain on sale of capital assets | 8,026 | - | - | - | 8,026 | - |
| Total revenues | 99,963,594 | 97,677,374 | 15,229,345 | 14,430,937 | 115,192,939 | 112,108,311 |
| **Expenses** | | | | | | |
| General government | 6,687,783 | 8,221,549 | - | - | 6,687,783 | 8,221,549 |
| Public safety | 19,891,820 | 19,498,597 | - | - | 19,891,820 | 19,498,597 |
| Education | 61,389,047 | 60,834,332 | - | - | 61,389,047 | 60,834,332 |
| Public works | 7,604,686 | 9,127,735 | - | - | 7,604,686 | 9,127,735 |
| Health and human services | 3,093,944 | 2,377,069 | - | - | 3,093,944 | 2,377,069 |
| Culture and recreation | 1,306,697 | 1,320,640 | - | - | 1,306,697 | 1,320,640 |
| Debt service - interest | 1,365,600 | 1,520,347 | - | - | 1,365,600 | 1,520,347 |
| Waterways | - | - | 351,991 | 381,369 | 351,991 | 381,369 |
| Sewer | - | - | 9,574,904 | 10,520,880 | 9,574,904 | 10,520,880 |
| Water | - | - | 5,628,213 | 4,998,627 | 5,628,213 | 4,998,627 |
| Total expenses | 101,339,577 | 102,900,269 | 15,555,108 | 15,900,876 | 116,894,685 | 118,801,145 |
| Change in net assets before transfers | (1,375,983) | (5,222,895) | (325,763) | (1,469,939) | (1,701,746) | (6,692,834) |
| Transfers, net | (89,764) | (546,610) | 89,764 | 546,610 | - | - |
| Change in net assets | (1,465,747) | (5,769,505) | (235,999) | (923,329) | (1,701,746) | (6,692,834) |
| Net assets - beginning of year | 40,614,440 | 46,383,945 | 110,035,203 | 110,958,532 | 150,649,643 | 157,342,477 |
| Net assets - end of year | $ 39,148,693 | $ 40,614,440 | $ 109,799,204 | $ 110,035,203 | $ 148,947,897 | $ 150,649,643 |

Governmental activities decreased the City's net assets by $1,465,747. In the prior year, governmental activities decreased the City's net assets by $5,769,505. The key element of this change relates to general fund activities in fiscal year 2010 as compared to fiscal year 2009. Specifically:

- In fiscal year 2010, there was a positive variance in estimated and actual general fund revenues ($1,392,789) as compared to a negative variance in fiscal year 2009 ($1,240,129)

- In fiscal year 2010, there was a positive variance in estimated and actual general fund expenditures (excluding encumbrances and continuing appropriations) of approximately $2,300,000 as compared to a positive variance in fiscal year 2009 of approximately $800,000

Business-type activities decreased the City's net assets by $235,999. In the prior year, business-type activities decreased the City's net assets by $923,329. The key element of this change is an increase in capital grants and contributions of approximately $1,600,000.

***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 $11,463,846, an increase of $7,447,375 in comparison with the prior year. Approximately $6,526,000 represents undesignated fund balance of the general fund, special revenue funds and permanent funds. The capital projects fund deficit of $329,192, will be funded by proceeds of long-term debt in future fiscal years. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders ($861,269)
- Stabilization ($1,542,721)
- Community preservation ($407,692)
- Other specific purposes ($2,455,422)

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund's undesignated fund balance totaled $3,226,619, while total fund balance was $5,630,609. 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 and transfers out. Undesignated fund balance represents 3.8% of total general fund expenditures and transfers out, while total fund balance represents 6.7% of that same amount.

The balance of the City's general fund increased by $4,416,712 during fiscal year 2010. The key element of this change is a positive budget to actual variance totaling approximately $3,600,000 (excluding encumbrances and continuing appropriations).

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 waterways, sewer and water enterprise funds at the end of the year amounted to $535,347, $3,094,471 and $2,801,919, respectively. The waterways, sewer and water enterprise funds had a decrease in net assets for the year of $60,393, $72,273 and $103,333, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of $81,076,753 was increased by $397,562 (0.5%) during the year. The following table summarizes the decrease:

| Purpose of Increase | Amount | Funding Source |
|---|---|---|
| Debt service | $ 202,820 | Transfer from sale of blackburn special revenue fund |
| Public works pavement project | 114,500 | Transfer from highway force special revenue fund |
| Assessing department's triennial recertification | 66,600 | Transfer from assessor triennial recertification special revenue fund |
| Cemetery mowing equipment | 13,642 | Transfer from sale of lots special revenue fund |
| Total increase | $ 397,562 | |

During the year, general fund revenues and other financing sources and uses exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately $2,700,000. Encumbrances and continuing appropriations total approximately $861,000 at year-end.

***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 $226,511,137 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled $7,362,271, or 3.4% (a 3.5% increase for business-type activities and a 0.1% decrease for governmental activities).

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

- Water projects construction in progress ($6,463,272)
- Sewer projects construction in progress ($4,277,041)
- Land purchase ($1,500,000)
- Ladder truck purchase ($845,556)
- Streets paving ($493,270)

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

| | *Governmental Activities* | | *Business-Type Activities* | | *Total* | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | $ 19,201,783 | $ 17,701,783 | $ 4,512,584 | $ 4,512,584 | $ 23,714,367 | $ 22,214,367 |
| Buildings | 30,154,068 | 31,609,260 | 239,856 | 335,799 | 30,393,924 | 31,945,059 |
| Improvements | 2,791,286 | 3,024,859 | 834,545 | 903,181 | 3,625,831 | 3,928,040 |
| Machinery and equipment | 1,108,653 | 940,737 | 568,782 | 217,171 | 1,677,435 | 1,157,908 |
| Vehicles | 3,681,270 | 3,173,270 | 164,888 | 209,319 | 3,846,158 | 3,382,589 |
| Other | 572,263 | 642,175 | 18,854 | 10,110 | 591,117 | 652,285 |
| Infrastructure | 13,051,241 | 12,801,853 | 137,322,839 | 140,660,698 | 150,374,080 | 153,462,551 |
| Construction in progress | - | 858,155 | 12,288,225 | 1,547,912 | 12,288,225 | 2,406,067 |
| Total capital assets | $ 70,560,564 | $ 70,752,092 | $ 155,950,573 | $ 148,396,774 | $ 226,511,137 | $ 219,148,866 |

Additional information on the City's capital assets can be found in Note 5 on pages 43-46 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was $95,687,750, which is backed by the full faith and credit of the City, and is summarized as follows:

| | *Governmental Activities* | | *Business-Type Activities* | | *Total* | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| General obligation bonds | $ 32,126,613 | $ 33,901,816 | $ 26,408,387 | $ 28,489,184 | $ 58,535,000 | $ 62,391,000 |
| MWPAT notes | 8,614,496 | 7,308,303 | 28,488,254 | 30,487,986 | 37,102,750 | 37,796,289 |
| HUD loans | 50,000 | 98,000 | - | - | 50,000 | 98,000 |
| Total bonds and notes | $ 40,791,109 | $ 41,308,119 | $ 54,896,641 | $ 58,977,170 | $ 95,687,750 | $ 100,285,289 |

The City's total bonded debt decreased by $4,597,539 (4.6%) during the current fiscal year. $4,327,448 of new debt was issued during the year for the Title V program, other governmental projects, and sewer projects.

The City received an Aa3 rating from Moody's Investors Service, Inc. for its most recent issuance of long-term debt on September 8, 2010.

Additional information on the City's long-term debt can be found in Note 9 on page 51-55 of this report.

***Economic Factors and Next Year's Budget Rates***

The fiscal year 2011 general fund operating budget of $85.1 million represents $3.6 million or 4.4% increase from the fiscal year 2010 budget. This is primarily due to approximately $1.0 million or 2.6% increase in education expenditures, approximately $1.0 million or 22.2% increase in state and county assessments and approximately $633,000 or 6.3% increase in public safety expenditures. The fiscal year 2011 operating budget includes $861,000 of appropriations carried forward from fiscal year 2010.

Property taxes in Massachusetts, municipalities are limited to a levy growth of 2 ½% plus a factor for a new construction, unless voters at an election approve an increase for operating expenses or debt service for a specific project (Proposition 2 ½). The City calculated that the tax levy growth from fiscal year 2010 to fiscal year 2011, exclusive of debt service excluded from Proposition 2 ½, will be approximately $1.0 million or 3.5%. The City is scheduled to receive $10.6 million in state aid in fiscal year 2011, net of school construction grants. This amount is $467,000 or 4.6%, more than received in fiscal year 2010.

According to the U.S. Census Bureau, the median family income for the City in 2000 was $58,459 compared with $61,664 for the Commonwealth and $50,046 for the nation. The per capita income was $25,595, compared with $25,952 for the commonwealth and $21,587 for the nation.

The unemployment rate for the City of Gloucester is approximately 11.2 percent, which is a 0.8% decrease from a rate of 12.0 percent a year ago. This compares unfavorable to the state's average unemployment rate of 9.0 percent and the national average of 9.0 percent.

According to the City's Board of Assessors, the average fiscal year 2010 single family home in the City is valued at $475,900; the average two-family home is valued at $369,700; the average 2009 commercial and industrial property is valued at $703,900 - all compared favorable with state and national property values.

*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 City Auditor, City Hall, 9 Dale Avenue, Gloucester, Massachusetts 01930.

# *Basic Financial Statements*

## STATEMENT OF NET ASSETS

JUNE 30, 2010

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 11,845,910 | $ 3,875,402 | $ 15,721,312 |
| Restricted cash and cash equivalents | 2,230,855 | 12,410,953 | 14,641,808 |
| Restricted investments | 823,124 | - | 823,124 |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Real estate and personal property taxes | 1,925,610 | - | 1,925,610 |
| Tax and utility liens | 1,937,545 | 512,354 | 2,449,899 |
| Motor vehicle and other excise taxes | 294,496 | 26,914 | 321,410 |
| Community preservation surcharges | 16,632 | - | 16,632 |
| User charges | - | 4,086,317 | 4,086,317 |
| Special assessments | 54,185 | 78,529 | 132,714 |
| Departmental and other | 771,616 | 14,535 | 786,151 |
| Intergovernmental | 1,827,321 | 262,460 | 2,089,781 |
| Loans | 94,943 | - | 94,943 |
| Tax foreclosures | 437,119 | - | 437,119 |
| Working capital deposit | 53,762 | - | 53,762 |
| Total current assets | 22,313,118 | 21,267,464 | 43,580,582 |
| Noncurrent assets: | | | |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Real estate tax deferrals | 216,860 | - | 216,860 |
| Special assessments | 3,502,720 | 12,739,112 | 16,241,832 |
| Intergovernmental | 7,164,754 | 2,700,371 | 9,865,125 |
| Loans | 854,485 | - | 854,485 |
| Capital assets not being depreciated | 19,201,783 | 16,800,809 | 36,002,592 |
| Capital assets, net of accumulated depreciation | 51,358,781 | 139,149,764 | 190,508,545 |
| Total noncurrent assets | 82,299,383 | 171,390,056 | 253,689,439 |
| Total assets | 104,612,501 | 192,657,520 | 297,270,021 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Warrants payable | 382,974 | 241,273 | 624,247 |
| Accrued payroll | 2,534,188 | 60,956 | 2,595,144 |
| Tax refunds payable | 502,918 | - | 502,918 |
| Other liabilities | 198,177 | - | 198,177 |
| Accrued interest | 654,622 | 1,028,044 | 1,682,666 |
| Capital lease obligations | 219,077 | - | 219,077 |
| Workers' compensation claims | 46,784 | - | 46,784 |
| Landfill closure | 35,543 | - | 35,543 |
| Compensated absences | 202,211 | 16,417 | 218,628 |
| Short-term notes payable | 1,032,056 | 25,877,890 | 26,909,946 |
| Long-term bonds and notes payable | 4,526,282 | 4,592,512 | 9,118,794 |
| Total current liabilities | 10,334,832 | 31,817,092 | 42,151,924 |
| Noncurrent liabilities: | | | |
| Capital lease obligations | 928,896 | - | 928,896 |
| Workers' compensation claims | 265,112 | - | 265,112 |
| Landfill closure | 1,190,024 | - | 1,190,024 |
| Compensated absences | 1,819,894 | 147,751 | 1,967,645 |
| Net OPEB obligation | 14,660,223 | 589,344 | 15,249,567 |
| Long-term bonds and notes payable | 36,264,827 | 50,304,129 | 86,568,956 |
| Total noncurrent liabilities | 55,128,976 | 51,041,224 | 106,170,200 |
| Total liabilities | 65,463,808 | 82,858,316 | 148,322,124 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 41,810,591 | 78,138,873 | 119,949,464 |
| Restricted for: | | | |
| Capital projects | 714,144 | 7,955,280 | 8,669,424 |
| Debt service | - | 17,273,314 | 17,273,314 |
| Community preservation | 424,324 | - | 424,324 |
| Loans | 949,428 | - | 949,428 |
| Permanent funds | 884,368 | - | 884,368 |
| Other specific purposes | 2,455,422 | - | 2,455,422 |
| Unrestricted | (8,089,584) | 6,431,737 | (1,657,847) |
| Total net assets | $ 39,148,693 | $ 109,799,204 | $ 148,947,897 |

See notes to basic financial statements.

## STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense)/ Revenue |
|---|---|---|---|---|---|
| **Primary government:** | | | | | |
| Governmental activities: | | | | | |
| General government | $ 6,687,783 | $ 1,453,924 | $ 1,691,969 | $ 800,000 | $ (2,741,890) |
| Public safety | 19,891,820 | 4,136,494 | 330,060 | - | (15,425,266) |
| Education | 61,389,047 | 1,908,344 | 18,832,579 | - | (40,648,124) |
| Public works | 7,604,686 | 2,954,283 | 447,841 | 445,970 | (3,756,592) |
| Health and human services | 3,093,944 | 498,203 | 1,322,956 | - | (1,272,785) |
| Culture and recreation | 1,306,697 | - | 44,824 | - | (1,261,873) |
| Debt service - interest | 1,365,600 | - | 183,909 | - | (1,181,691) |
| Total governmental activities | 101,339,577 | 10,951,248 | 22,854,138 | 1,245,970 | **(66,288,221)** |
| Business-type activities: | | | | | |
| Waterways | 351,991 | 282,480 | 9,118 | - | (60,393) |
| Sewer | 9,574,904 | 7,116,027 | 461,401 | 817,797 | (1,179,679) |
| Water | 5,628,213 | 5,554,918 | - | 785,102 | 711,807 |
| Total business-type activities | 15,555,108 | 12,953,425 | 470,519 | 1,602,899 | **(528,265)** |
| Total primary government | $ 116,894,685 | $ 23,904,673 | $ 23,324,657 | $ 2,848,869 | $ **(66,816,486)** |

See notes to basic financial statements.

## STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| **Changes in net assets:** | | | |
| Net (expense)/revenue (from previous page) | $ (66,288,221) | $ (528,265) | $ (66,816,486) |
| *General revenues:* | | | |
| Real estate and personal property taxes | 56,715,942 | - | 56,715,942 |
| Motor vehicle and other excise taxes | 2,817,416 | - | 2,817,416 |
| Hotel/motel taxes | 256,530 | - | 256,530 |
| Penalties and interest on taxes | 771,830 | - | 771,830 |
| Payments in lieu of taxes | 18,572 | - | 18,572 |
| Community preservation surcharges | 435,643 | - | 435,643 |
| Grants and contributions not restricted to specific programs | 3,546,018 | - | 3,546,018 |
| Unrestricted investment income | 177,915 | - | 177,915 |
| Premium from issuance of bonds and notes | 164,346 | 202,502 | 366,848 |
| Gain on sale of capital assets | 8,026 | - | 8,026 |
| *Transfers, net* | (89,764) | 89,764 | - |
| Total general revenues and transfers | 64,822,474 | 292,266 | 65,114,740 |
| Change in net assets | (1,465,747) | (235,999) | (1,701,746) |
| Net assets - beginning of year | 40,614,440 | 110,035,203 | 150,649,643 |
| Net assets - end of year | $ 39,148,693 | $ 109,799,204 | $ 148,947,897 |

## GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2010

| ASSETS | General | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| Cash and cash equivalents | $ 8,137,107 | $ 3,708,803 | $ 11,845,910 |
| Receivables, net of allowance for uncollectible amounts: | | | |
| Real estate and personal property taxes | 1,925,610 | - | 1,925,610 |
| Real estate tax deferrals | 216,860 | - | 216,860 |
| Tax liens | 1,934,446 | 3,099 | 1,937,545 |
| Motor vehicle and other excise taxes | 294,496 | - | 294,496 |
| Community preservation surcharges | - | 16,632 | 16,632 |
| Special assessments | 36,116 | 3,520,789 | 3,556,905 |
| Departmental and other | 614,211 | 157,405 | 771,616 |
| Intergovernmental | 8,448,139 | 543,936 | 8,992,075 |
| Loans | - | 949,428 | 949,428 |
| Due from other funds | 9,237 | - | 9,237 |
| Tax foreclosures | 437,119 | - | 437,119 |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 2,230,855 | 2,230,855 |
| Investments | - | 823,124 | 823,124 |
| TOTAL ASSETS | $ 22,053,341 | $ 11,954,071 | $ 34,007,412 |
| **LIABILITIES AND FUND BALANCES** | | | |
| LIABILITIES: | | | |
| Warrants payable | $ 253,638 | $ 129,336 | $ 382,974 |
| Accrued payroll | 2,253,248 | 280,940 | 2,534,188 |
| Tax refunds payable | 502,918 | - | 502,918 |
| Other liabilities | 187,399 | 10,778 | 198,177 |
| Deferred revenue | 12,907,387 | 4,667,724 | 17,575,111 |
| Accrued short-term interest | 6,246 | - | 6,246 |
| Workers' compensation claims | 311,896 | - | 311,896 |
| Short-term notes payable | - | 1,032,056 | 1,032,056 |
| TOTAL LIABILITIES | 16,422,732 | 6,120,834 | 22,543,566 |
| FUND BALANCES: | | | |
| Reserved for: | | | |
| Encumbrances and continuing appropriations | 861,269 | - | 861,269 |
| Stabilization | 1,542,721 | - | 1,542,721 |
| Community preversation | - | 407,692 | 407,692 |
| Other specific purposes | - | 2,455,422 | 2,455,422 |
| Unreserved: | | | |
| Undesignated, reported in: | | | |
| General fund | 3,226,619 | - | 3,226,619 |
| Special revenue funds | - | 2,414,947 | 2,414,947 |
| Capital projects funds | - | (329,192) | (329,192) |
| Permanent funds | - | 884,368 | 884,368 |
| TOTAL FUND BALANCES | 5,630,609 | 5,833,237 | 11,463,846 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 22,053,341 | $ 11,954,071 | $ 34,007,412 |

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | General | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **REVENUES** | | | |
| Real estate and personal property taxes | $ 56,299,533 | $ - | $ 56,299,533 |
| Motor vehicle and other excise taxes | 2,793,785 | - | 2,793,785 |
| Hotel/motel tax | 256,530 | - | 256,530 |
| Tax liens | 676,131 | - | 676,131 |
| Payments in lieu of taxes | 18,572 | - | 18,572 |
| Community preservation surcharges | - | 419,011 | 419,011 |
| Charges for services | 1,898,508 | 1,770,311 | 3,668,819 |
| Intergovernmental | 19,599,891 | 8,364,697 | 27,964,588 |
| Special assessments | 6,411 | 480,779 | 487,190 |
| Penalties and interest on taxes | 770,906 | 924 | 771,830 |
| Licenses and permits | 1,273,074 | - | 1,273,074 |
| Fines and forfeitures | 393,422 | - | 393,422 |
| Departmental | 2,741,262 | 2,338,112 | 5,079,374 |
| Contributions | - | 643,614 | 643,614 |
| Investment income | 177,657 | 74,125 | 251,782 |
| TOTAL REVENUES | 86,905,682 | 14,091,573 | 100,997,255 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | 2,892,234 | 3,012,837 | 5,905,071 |
| Public safety | 10,102,196 | 2,467,899 | 12,570,095 |
| Education | 36,450,047 | 6,426,309 | 42,876,356 |
| Public works | 5,553,469 | 688,400 | 6,241,869 |
| Health and human services | 626,546 | 1,617,405 | 2,243,951 |
| Culture and recreation | 669,927 | 49,084 | 719,011 |
| Pension benefits | 12,445,340 | - | 12,445,340 |
| Employee benefits | 5,058,800 | - | 5,058,800 |
| Property and liability insurance | 402,641 | - | 402,641 |
| State and county charges | 3,691,967 | - | 3,691,967 |
| Debt service: | | | |
| Principal | 4,277,958 | 48,000 | 4,325,958 |
| Interest | 1,358,785 | 2,992 | 1,361,777 |
| TOTAL EXPENDITURES | 83,529,910 | 14,312,926 | 97,842,836 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 3,375,772 | (221,353) | 3,154,419 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers in | 1,427,732 | 1,091,953 | 2,519,685 |
| Proceeds of bonds and notes | - | 3,808,948 | 3,808,948 |
| Premium from issuance of bonds and notes | 164,346 | - | 164,346 |
| Transfers out | (551,138) | (1,648,885) | (2,200,023) |
| TOTAL OTHER FINANCING SOURCES (USES) | 1,040,940 | 3,252,016 | 4,292,956 |
| NET CHANGE IN FUND BALANCES | 4,416,712 | 3,030,663 | 7,447,375 |
| FUND BALANCES AT BEGINNING OF YEAR (AS RESTATED) | 1,213,897 | 2,802,574 | 4,016,471 |
| FUND BALANCES AT END OF YEAR | $ 5,630,609 | $ 5,833,237 | $ 11,463,846 |

See notes to basic financial statements.

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

JUNE 30, 2010

| | | |
|---|---|---|
| Total governmental fund balances (page 18) | $ | 11,463,846 |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds | | 70,560,564 |
| Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds | | 17,575,111 |
| In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due | | (648,376) |
| 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 | | (40,791,109) |
| Capital lease obligations | | (1,147,973) |
| Net OPEB obligation | | (14,660,223) |
| Landfill closure | | (1,225,567) |
| Compensated absences | | (2,022,105) |
| Internal service funds are used by management to account for health insurance activities. The assets and liabilities of the internal service fund are reported as governmental activities in the statement of net assets | | 44,525 |
| Net assets of governmental activities (page 15) | $ | 39,148,693 |

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | |
|---|---|
| Net change in fund balances - total governmental funds (page 19) | $ 7,447,375 |
| 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. | |
| Capital outlays | 3,533,740 |
| Depreciation | (3,733,294) |
| In the statement of activities, the *gain/(loss)* on the disposal 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 cost of the capital assets sold | 8,026 |
| 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 | (1,290,625) |
| 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. | |
| Bond proceeds | (3,808,948) |
| Bond maturities | 4,325,958 |
| Capital lease maturities | 209,546 |
| 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 | (3,823) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes: | |
| Net OPEB obligation | (7,580,195) |
| Landfill closure | 35,018 |
| Compensated absences | (222,006) |
| The internal service fund is used by management to account for health insurance activities. The net activity of the internal service fund is reported with governmental activities | (386,519) |
| Changes in net assets of governmental activities (page 17) | $ (1,465,747) |

See notes to basic financial statements.

**PROPRIETARY FUNDS**
STATEMENT OF NET ASSETS

JUNE 30, 2010

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|---|---|---|---|---|---|
| | Waterways | Sewer | Water | Total | |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 580,772 | $ 1,946,046 | $ 1,348,584 | $ 3,875,402 | $ - |
| Restricted cash and cash equivalents | - | 10,293,577 | 2,117,376 | 12,410,953 | - |
| Receivables, net of allowance for uncollectible amounts: | | | | | |
| Utility liens | - | 272,678 | 239,676 | 512,354 | - |
| Excise taxes | 26,914 | - | - | 26,914 | - |
| User charges | - | 2,069,122 | 2,017,195 | 4,086,317 | - |
| Special assessments | - | 78,529 | - | 78,529 | - |
| Departmental and other | 11,254 | 3,281 | - | 14,535 | - |
| Intergovernmental | - | 262,460 | - | 262,460 | - |
| Working capital deposit | - | - | - | - | 53,762 |
| Total current assets | 618,940 | 14,925,693 | 5,722,831 | 21,267,464 | 53,762 |
| Noncurrent assets: | | | | | |
| Receivables, net of allowance for uncollectible amounts: | | | | | |
| Special assessments | - | 12,739,112 | - | 12,739,112 | - |
| Intergovernmental | - | 2,700,371 | - | 2,700,371 | - |
| Capital assets not being depreciated | 538,482 | 6,204,792 | 10,057,535 | 16,800,809 | - |
| Capital assets, net of accumulated depreciation | 1,634,250 | 112,053,122 | 25,462,392 | 139,149,764 | - |
| Total noncurrent assets | 2,172,732 | 133,697,397 | 35,519,927 | 171,390,056 | - |
| Total assets | 2,791,672 | 148,623,090 | 41,242,758 | 192,657,520 | 53,762 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Warrants payable | 3,643 | 215,998 | 21,632 | 241,273 | - |
| Accrued payroll | 5,300 | 29,135 | 26,521 | 60,956 | - |
| Due to other funds | - | - | - | - | 9,237 |
| Accrued interest | - | 683,555 | 344,489 | 1,028,044 | - |
| Compensated absences | 2,924 | 2,690 | 10,803 | 16,417 | - |
| Short-term notes payable | - | 16,070,280 | 9,807,610 | 25,877,890 | - |
| Long-term bonds and notes payable | - | 3,160,395 | 1,432,117 | 4,592,512 | - |
| Total current liabilities | 11,867 | 20,162,053 | 11,643,172 | 31,817,092 | 9,237 |
| Noncurrent liabilities: | | | | | |
| Compensated absences | 26,311 | 24,212 | 97,228 | 147,751 | - |
| Net OPEB obligation | 45,415 | 241,066 | 302,863 | 589,344 | - |
| Long-term bonds and notes payable | - | 34,770,932 | 15,533,197 | 50,304,129 | - |
| Total noncurrent liabilities | 71,726 | 35,036,210 | 15,933,288 | 51,041,224 | - |
| Total liabilities | 83,593 | 55,198,263 | 27,576,460 | 82,858,316 | 9,237 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | 2,172,732 | 67,219,138 | 8,747,003 | 78,138,873 | - |
| Restricted for: | | | | | |
| Capital projects | - | 5,837,904 | 2,117,376 | 7,955,280 | - |
| Debt service | - | 17,273,314 | - | 17,273,314 | - |
| Unrestricted | 535,347 | 3,094,471 | 2,801,919 | 6,431,737 | 44,525 |
| Total net assets | $ 2,708,079 | $ 93,424,827 | $ 13,666,298 | $ 109,799,204 | $ 44,525 |

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|---|---|---|---|---|---|
| | Waterways | Sewer | Water | Total | |
| **OPERATING REVENUES** | | | | | |
| Charges for services | $ 211,685 | $ 6,727,036 | $ 5,503,950 | $ 12,442,671 | $ - |
| Special assessments | - | 107,045 | - | 107,045 | - |
| Boat excise taxes | 70,795 | - | - | 70,795 | - |
| Penalties and interest | - | 281,946 | 50,968 | 332,914 | - |
| Other | 9,118 | - | - | 9,118 | - |
| TOTAL OPERATING REVENUES | 291,598 | 7,116,027 | 5,554,918 | 12,962,543 | - |
| **OPERATING EXPENSES** | | | | | |
| Cost of service and administration | 261,150 | 4,456,800 | 4,067,703 | 8,785,653 | - |
| Depreciation | 90,841 | 3,146,974 | 762,136 | 3,999,951 | - |
| Employee benefits | - | - | - | - | (1,364) |
| TOTAL OPERATING EXPENSES | 351,991 | 7,603,774 | 4,829,839 | 12,785,604 | (1,364) |
| OPERATING INCOME (LOSS) | (60,393) | (487,747) | 725,079 | 176,939 | 1,364 |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Intergovernmental | - | 1,279,198 | 785,102 | 2,064,300 | 7,211 |
| Investment income | - | - | - | - | 14,332 |
| Interest expense | - | (1,971,130) | (798,374) | (2,769,504) | - |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET | - | (691,932) | (13,272) | (705,204) | 21,543 |
| INCOME (LOSS) BEFORE TRANSFERS | (60,393) | (1,179,679) | 711,807 | (528,265) | 22,907 |
| **TRANSFERS** | | | | | |
| Transfers in | - | 1,275,782 | - | 1,275,782 | - |
| Premium from issuance of bonds and notes | - | 131,624 | 70,878 | 202,502 | - |
| Transfers out | - | (300,000) | (886,018) | (1,186,018) | (409,426) |
| TOTAL TRANSFERS | - | 1,107,406 | (815,140) | 292,266 | (409,426) |
| CHANGE IN NET ASSETS | (60,393) | (72,273) | (103,333) | (235,999) | (386,519) |
| NET ASSETS AT BEGINNING OF YEAR | 2,768,472 | 93,497,100 | 13,769,631 | 110,035,203 | 431,044 |
| NET ASSETS AT END OF YEAR | $ 2,708,079 | $ 93,424,827 | $ 13,666,298 | $ 109,799,204 | $ 44,525 |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|---|---|---|---|---|---|
| | Waterways | Sewer | Water | Total | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers and users | $ 306,120 | $ 9,185,388 | $ 5,582,834 | $ 15,074,342 | $ - |
| Payments to vendors | (115,939) | (3,642,584) | (3,098,653) | (6,857,176) | 58,264 |
| Payments to employees | (116,869) | (788,866) | (909,280) | (1,815,015) | - |
| NET CASH FROM OPERATING ACTIVITIES | 73,312 | 4,753,938 | 1,574,901 | 6,402,151 | 58,264 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | |
| Transfers in | - | 1,275,782 | - | 1,275,782 | - |
| Transfers out | - | (300,000) | (886,018) | (1,186,018) | (409,426) |
| Intergovernmental | - | 817,797 | 785,102 | 1,602,899 | 7,211 |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES | - | 1,793,579 | (100,916) | 1,692,663 | (402,215) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | |
| Proceeds from the issuance of bonds and notes | - | 17,107,280 | 9,807,610 | 26,914,890 | - |
| Premium from the issuance of bonds and notes | - | 131,624 | 70,878 | 202,502 | - |
| Acquisition and construction of capital assets | (17,416) | (4,650,270) | (6,886,064) | (11,553,750) | - |
| Principal payments on bonds and notes | - | (22,820,804) | (7,902,492) | (30,723,296) | - |
| Interest expense | - | (1,543,591) | (881,356) | (2,424,947) | - |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (17,416) | (11,775,761) | (5,791,424) | (17,584,601) | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Investment income | - | - | - | - | 14,332 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 55,896 | (5,228,244) | (4,317,439) | (9,489,787) | (329,619) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes $16,054,509 and $5,643,745 reported as restricted in the sewer and water enterprise funds, respectively) | 524,876 | 17,467,867 | 7,783,399 | 25,776,142 | 329,619 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes $10,293,577 and $2,117,376 reported as restricted in the sewer and water enterprise funds, respectively) | $ 580,772 | $ 12,239,623 | $ 3,465,960 | $ 16,286,355 | $ - |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES** | | | | | |
| Operating income (loss) | $ (60,393) | $ (487,747) | $ 725,079 | $ 176,939 | $ 1,364 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | | |
| Depreciation | 90,841 | 3,146,974 | 762,136 | 3,999,951 | - |
| Changes in assets and liabilities: | | | | | |
| Utility liens | - | 55,055 | 72,978 | 128,033 | - |
| Excise taxes | 14,522 | - | - | 14,522 | - |
| User charges | - | 402,017 | (45,062) | 356,955 | - |
| Special assessments | - | 1,595,289 | - | 1,595,289 | - |
| Departmental and other | - | 17,000 | - | 17,000 | - |
| Working capital deposit | - | - | - | - | 47,663 |
| Warrants payable | 935 | (131,721) | (120,536) | (251,322) | - |
| Accrued payroll | 2,506 | 9,852 | 2,974 | 15,332 | - |
| Due from other funds | - | - | - | - | 9,237 |
| Accrued compensated absences | 3,816 | 7,132 | 18,095 | 29,043 | - |
| Net OPEB obligations | 21,085 | 140,087 | 159,237 | 320,409 | - |
| Total adjustments | 133,705 | 5,241,685 | 849,822 | 6,225,212 | 56,900 |
| NET CASH FROM OPERATING ACTIVITIES | $ 73,312 | $ 4,753,938 | $ 1,574,901 | $ 6,402,151 | $ 58,264 |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES** | | | | | |
| Intergovernmental debt subsidies (MWPAT) | $ - | $ 710,769 | $ - | $ 710,769 | $ - |

See notes to basic financial statements.

**FIDUCIARY FUNDS**
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

| | Pension Trust Fund (As of 12/31/09) | Private Purpose Trust Funds |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 684,868 | $ 48,373 |
| Investments | 58,522,956 | 650,113 |
| Receivables, net of allowance for uncollectible amounts: | | |
| Departmental and other | 11,912 | - |
| Total assets | 59,219,736 | 698,486 |
| **LIABILITIES** | | |
| Warrants payable | 2,008 | - |
| **NET ASSETS** | | |
| Held in trust for pension benefits and other purposes | $ 59,217,728 | $ 698,486 |

See notes to basic financial statements.

**FIDUCIARY FUNDS**
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

| | Pension Trust Fund (As of 12/31/09) | Private Purpose Trust Funds |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Employer | $ 6,067,057 | $ - |
| Plan members | 2,117,213 | - |
| Private donations | - | 4,210 |
| Total contributions | 8,184,270 | 4,210 |
| Net investment income: | | |
| Net appreciation/(depreciation) in fair value of investments | 6,969,925 | - |
| Interest | 1,562,550 | 46,031 |
| Total investment income (loss) | 8,532,475 | 46,031 |
| Less investment expense | (304,534) | - |
| Net investment income (loss) | 8,227,941 | 46,031 |
| Intergovernmental | 263,481 | - |
| Transfers from other systems | 239,122 | - |
| TOTAL ADDITIONS | 16,914,814 | 50,241 |
| **DEDUCTIONS** | | |
| Administration | 262,720 | - |
| Retirement benefits and refunds | 8,508,465 | - |
| Transfers to other systems | 493,222 | - |
| Other | - | 36,188 |
| TOTAL DEDUCTIONS | 9,264,407 | 36,188 |
| CHANGE IN NET ASSETS | 7,650,407 | 14,053 |
| NET ASSETS AT BEGINNING OF YEAR | 51,567,321 | 684,433 |
| NET ASSETS AT END OF YEAR | $ 59,217,728 | $ 698,486 |

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 Gloucester, Massachusetts (City) is a municipal corporation that is governed by an elected City 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.

Blended Component Unit

The City has included the Gloucester Contributory Retirement System (System) 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.

The System was established to provide retirement benefits to City 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's Council and one member appointed by the System's four other Board 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 does 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 127 Eastern Avenue, Gloucester, Massachusetts 01931.

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 City is indirectly liable for the North Shore Regional Vocational School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The City's fiscal year 2010 assessment totaled $990,860. Separate audited financial statements may be obtained by contacting the District at 30 Log Bridge Road, Middleton, Massachusetts 01949.

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

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets and the statement of activities) report information on all non-fiduciary activities of the primary government and its discretely presented 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. Likewise, the primary government is reported separately from legally separate discretely presented component units for which the primary government is financially accountable.

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.

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 funds 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 funds, 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 fund is 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 nonmajor governmental funds consist of 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 funds** 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 funds are reported:

The *waterways* enterprise fund is used to account for harbor activities.

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

The *water* enterprise fund is used to account for water 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 (see Note 10).

**Fiduciary funds** 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 trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

### *E. Deposits and Investments*

Government-Wide and Fund Financial Statements

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

Investments are carried at fair value. Fair value is based on quotations from a national securities and exchange except for pooled funds, alternative investments and real estate, for which fair value is determined as follows:

Pooled Funds

The fair value of shares in managed investment pools is based on unit value reported by the funds.

Alternative Investments

Alternative investments are recorded at fair value as determined in good faith by the general partners of the venture capital firms after consideration of pertinent information, including current financial position and operating results, price-earnings multiples and available market prices of similar companies' securities, the nature of securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated.

Real Estate

The fair value of real estate funds is based on independent third-party appraisals. The investment managers of the funds are responsible for the reported value of those investments. However, the structure, risk profile, return potential and marketability of those investments differ from traditional equity and fixed income investments. Determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties to a sales transaction. As a result, the estimated values may differ significantly from the values that would have been used had a ready market for the real estate existed, and the differences could be material.

*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 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.

**Community Preservation Surcharges**

Community preservation surcharges are levied annually at a rate of 1% of residents' real estate tax bills with exemptions for the first $100,000 of residential property and property owned by qualified persons with low income and seniors with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on a quarterly basis each 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. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

**User Charges (Water and Sewer)**

User fees are levied quarterly 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 annually and are included as a lien on the property owner's tax bill. Water and sewer charges and liens are recorded as receivables upon issuance.

**Special Assessments**

Special assessments consist of sewer, street and Title V septic betterments and are recorded as receivables in the fiscal year accrued.

**Departmental and Other**

Departmental and other receivables consist primarily of ambulance, parking, police details, waterways and committed interest (related to sewer betterments) receivables and are recorded as receivables when 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.

### *G. Allowance for Uncollectible Amounts*

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

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

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

- Real estate taxes and tax liens
- User charges (water and sewer, including liens)
- Special assessments

Intergovernmental receivables are considered 100% collectible.

### *H. Inventories*

Government-Wide and Fund Financial Statements

Inventories of the governmental activities, governmental funds and proprietary funds are recorded as expenditures at the time of purchase. Such inventories are not material in total to the respective financial statements and therefore are not reported.

### *I. Restricted Assets*

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

### *J. Capital Assets*

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other 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.

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 and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

| Capital Asset Type | Estimated Useful Life (in years) |
|---|---|
| Buildings | 20-40 |
| Improvements | 20 |
| Machinery and equipment | 5-20 |
| Vehicles | 2-20 |
| Other | 5-50 |
| Infrastructure | 20-50 |

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

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 and Proprietary Funds 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:

"Capital projects" represents unspent proceeds of bonds and notes that are restricted for specific capital projects.

"Debt service" represents amounts accumulated from the repayment of sewer betterments and outstanding sewer betterment receivables that are restricted for the future payment of sewer betterment debt.

"Community Preservation" represents amounts restricted for the purpose of acquiring land for conservation, recreational, and affordable housing projects.

"Loans" represents outstanding community development and Brownfield's loans.

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

"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.

"Stabilization" represents amounts accumulated for general and/or capital purposes, which is subject to City Council approval.

"Community preservation" represents amounts reserved for open space, historic resource and affordable housing purposes.

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

### *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 derived from the waterways, sewer and water enterprise funds is voluntarily assigned 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 and as more fully described in Note 13, the City provides health insurance coverage for current and future retirees and their spouses.

### *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 City Council. The Mayor and Budget and Finance Committee present an annual budget to the City Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. City Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

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.

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 2010 approved budget for the general fund authorized approximately $81,077,000 in appropriations. During fiscal year 2010, total appropriations were increased by approximately $398,000.

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

### B. *Fund Deficits*

At June 30, 2010, the following governmental fund deficits (exclusive of deficits financed with outstanding short-term notes) exist:

| Fund | Amount | Funding Source |
|---|---|---|
| CIP07 (05A) - fire ladder truck | $ 99,999 | Issuance of long-term debt |
| CIP98 Board of Health - water pollution abatement | 78,839 | Issuance of long-term debt |
| Community development | 39,917 | Available funds |
| FY08-11 BOH substance abuse and intervention | 38,808 | Available funds |
| FY 10 ARRA MA fire services staffing grant | 29,322 | Federal grant |
| School choice | 18,441 | Available funds |
| FY 05 Emergency response and crisis | 13,893 | Available funds |
| FY 08 Board of Health - underage drinking | 11,845 | Available funds |
| FY 07 Preserve America | 7,372 | Available funds |
| FY 05 Perkins entitlement | 7,120 | Available funds |
| FY 10 - MAPC regional bike parking program | 6,695 | Available funds |
| FY07-08 Organized crime drug task force | 5,452 | Available funds |
| EPA Brownfields | 4,789 | Available funds |
| FY 04 Title II improving education | 4,203 | Available funds |
| Athletics & rink | 4,179 | Available funds |
| OSR-GIFT: COA friends | 2,863 | Available funds |
| National endowment for humanities | 2,500 | Available funds |
| FY 10 ARRA CDBG-R entitlement | 2,225 | Federal grant |
| FY09 More jobs grant | 1,989 | Available funds |
| FY 10 ARRA TITLE I grant 770 | 1,225 | Federal grant |
| Chapter 90 road program | 1,087 | Available funds |
| FY 05 Safe & drug free schools | 726 | Available funds |
| FY 99 Emergency immigration | 684 | Available funds |
| FY 10 ARRA early childhood 762 | 342 | Available funds |
| FY 10 Perkins act allocation | 293 | Available funds |
| RVL - City hall user | 231 | Available funds |
| FY 08 reprogram - mod class | 178 | Available funds |
| FY 04 comp school reform | 152 | Available funds |
| Total governmental fund deficits | $ 385,369 | |

At June 30, 2010, the following water enterprise fund's capital project deficit (exclusive of deficits financed with outstanding short-term notes) exists:

*Water Enterprise*

| | | |
|---|---|---|
| CIP10- Water treatment plant and distribution system | $ 12,336 | Issuance of long-term debt |

## NOTE 3 - DEPOSITS AND INVESTMENTS

*City (excluding the Pension Trust Fund)*

The municipal finance laws of the Commonwealth authorize the City to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool - the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of private purpose trust funds and the pension trust fund are held separately from other City funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. The City does not have a policy for custodial credit risk of deposits. As of June 30, 2010, $11,246,854 of the City's bank balance of $28,436,175 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2010 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| | | Investment Maturities (in Years) | | |
|---|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 |
| Debt Securities: | | | | |
| U.S. Agencies | $ 272,675 | $ 145,412 | $ 91,410 | $ 35,853 |
| Corporate bonds | 370,164 | 40,959 | 252,899 | 76,306 |
| Money market mutual funds | 122,630 | 122,630 | - | - |
| Repurchase agreements | 2,283,529 | 2,283,529 | - | - |
| Fixed income securities | 76,395 | 76,395 | - | - |
| Certificates of deposit | 259,953 | 150,000 | 109,953 | - |
| External investment pools | 16,720 | 16,720 | - | - |
| Total debt securities | 3,402,066 | $ 2,835,645 | $ 454,262 | $ 112,159 |
| Other Investments: | | | | |
| Equity mutual funds | 473,797 | | | |
| Alternative investments | 20,253 | | | |
| Total other investments | 494,050 | | | |
| Total investments | $ 3,896,116 | | | |

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The City does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk of investments. As of June 30, 2010 the City's investments were exposed to custodial credit risk as follows:

| Investment Type | Fair Value | Held by Counterparty's Trust or Agent |
|---|---|---|
| U.S. Agencies | $ 272,675 | $ 272,675 |
| Corporate bonds | 370,164 | 370,164 |
| Money market mutual funds | 122,630 | 122,630 |
| Cerificates of deposit | 259,953 | 259,953 |
| Fixed income securities | 76,395 | 76,395 |
| Equity mutual funds | 473,797 | 473,797 |
| Alternative investments | 20,253 | 20,253 |
| Total | $ 1,595,867 | $ 1,595,867 |

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The City does not have a policy for credit risk of debt securities. As of June 30, 2010, the credit quality ratings of the City's debt securities are as follows:

| | | Quality Ratings * | | | | |
|---|---|---|---|---|---|---|
| Investment Type | Fair Value | AA1 | AA2 | A1 | A2 | Unrated |
| Corporate bonds | $ 370,164 | $ 76,306 | $ 122,430 | $ 48,713 | $ 81,756 | $ 40,959 |
| Money market mutual funds | 122,630 | - | - | - | - | 122,630 |
| Repurchase agreements | 2,283,529 | - | - | - | - | 2,283,529 |
| Fixed income securities | 76,395 | - | - | - | - | 76,395 |
| Certificates of deposit | 259,953 | - | - | - | - | 259,953 |
| External investment pools | 16,720 | - | - | - | - | 16,720 |
| Total | $ 3,129,391 | $ 76,306 | $ 122,430 | $ 48,713 | $ 81,756 | $ 2,800,186 |

* Per the rating scale of Standard and Poor's (a national credit rating organization)

***Pension Trust Fund (The System)***

The System has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System does not have a policy for custodial credit risk of deposits. As of December 31, 2009, the System is not exposed to custodial credit risk.

Investments Summary

The System's investments at December 31, 2009 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| Investment Type | Fair Value | Investment Maturities Less than 1 Year |
|---|---|---|
| Debt Securities: | | |
| Money market mutual funds | $ 250,420 | $ 250,420 |
| Debt security mutual funds | 10,996,463 | 10,996,463 |
| Total debt securities | 11,246,883 | $ 11,246,883 |
| Other Investments: | | |
| Equity mutual funds | 37,009,918 | |
| Real estate investments | 5,542,124 | |
| Alternative investments | 4,974,451 | |
| Total other investments | 47,526,493 | |
| Total investments | $ 58,773,376 | |

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2009, the System's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. As of December 31, 2009, the System's investments in debt securities were unrated by a national credit rating organization.

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a policy for foreign currency risk. As of December 31, 2009, the System was not exposed to foreign currency risk.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System does not have a policy for concentration of credit risk. As of December 31, 2009, the System was not exposed to concentration of credit risk.

## NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2010, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---|---|---|---|
| Receivables: | | | |
| Real estate and personal property taxes.... | $ 2,157,589 | $ (231,979) | $ 1,925,610 |
| Real estate tax deferrals..... | 216,860 | - | 216,860 |
| Tax liens..... | 1,937,545 | - | 1,937,545 |
| Motor vehicle and other excise taxes..... | 661,434 | (366,938) | 294,496 |
| Community preservation surcharges..... | 16,632 | - | 16,632 |
| Special assessments..... | 3,556,905 | - | 3,556,905 |
| Departmental and other..... | 1,581,072 | (797,544) | 783,528 |
| Intergovernmental..... | 8,992,075 | - | 8,992,075 |
| Loans..... | 949,428 | - | 949,428 |
| Total..... | $ 20,069,540 | $ (1,396,461) | $ 18,673,079 |

At June 30, 2010, receivables for the waterways, water and sewer enterprise funds consists of the following:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|---|---|---|---|
| Receivables: | | | |
| Utility liens..... | $ 512,354 | $ - | $ 512,354 |
| Boat excise taxes..... | 228,318 | (201,404) | 26,914 |
| User charges..... | 4,086,317 | - | 4,086,317 |
| Special assessments..... | 12,817,641 | - | 12,817,641 |
| Departmental and other..... | 14,535 | - | 14,535 |
| Intergovernmental..... | 2,962,831 | - | 2,962,831 |
| Total..... | $ 20,621,996 | $ (201,404) | $ 20,420,592 |

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:

| | General Fund | Nonmajor Governmental Funds | Total |
|---|---|---|---|
| Receivable type: | | | |
| Real estate and personal property taxes | $ 1,053,138 | $ - | $ 1,053,138 |
| Real estate tax deferrals | 216,860 | - | 216,860 |
| Tax liens | 1,937,545 | - | 1,937,545 |
| Motor vehicle and other excise taxes | 294,496 | - | 294,496 |
| Community preservation surcharges | - | 16,632 | 16,632 |
| Special assessments | - | 3,523,889 | 3,523,889 |
| Departmental and other | 650,328 | 77,296 | 727,624 |
| Intergovernmental (state school construction) | 7,343,237 | - | 7,343,237 |
| Intergovernmental (other state and federal) | 974,664 | 100,479 | 1,075,143 |
| Loans | - | 949,428 | 949,428 |
| Tax foreclosures | 437,119 | - | 437,119 |
| Total | $ 12,907,387 | $ 4,667,724 | $ 17,575,111 |

The Commonwealth has approved school construction assistance to the City. 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 2010, approximately $1,627,000 of such assistance was received. Approximately $11,275,000 will be received in future fiscal years. Of this amount, approximately $3,932,000 represents reimbursement of long-term interest costs, and approximately $7,343,000 represents reimbursement of approved construction costs. Accordingly, a $7,343,237 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds 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, 2010, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 17,701,783 | $ 1,500,000 | $ - | $ 19,201,783 |
| Construction in progress | 858,155 | - | (858,155) | - |
| Total capital assets not being depreciated | 18,559,938 | 1,500,000 | (858,155) | 19,201,783 |
| Capital assets being depreciated: | | | | |
| Buildings | 59,653,355 | 855,557 | - | 60,508,912 |
| Improvements | 5,481,318 | - | - | 5,481,318 |
| Machinery and equipment | 6,242,021 | 415,453 | (83,760) | 6,573,714 |
| Vehicles | 7,787,657 | 1,008,225 | (194,632) | 8,601,250 |
| Other | 1,058,015 | - | - | 1,058,015 |
| Infrastructure | 15,190,318 | 612,660 | - | 15,802,978 |
| Total capital assets being depreciated | 95,412,684 | 2,891,895 | (278,392) | 98,026,187 |
| Less accumulated depreciation for: | | | | |
| Buildings | (28,044,095) | (2,310,749) | - | (30,354,844) |
| Improvements | (2,456,459) | (233,573) | - | (2,690,032) |
| Machinery and equipment | (5,301,284) | (247,537) | 83,760 | (5,465,061) |
| Vehicles | (4,614,387) | (508,251) | 202,658 | (4,919,980) |
| Other | (415,840) | (69,912) | - | (485,752) |
| Infrastructure | (2,388,465) | (363,272) | - | (2,751,737) |
| Total accumulated depreciation | (43,220,530) | (3,733,294) | 286,418 | (46,667,406) |
| Total capital assets being depreciated, net | 52,192,154 | (841,399) | 8,026 | 51,358,781 |
| Total governmental activities capital assets, net | $ 70,752,092 | $ 658,601 | $ (850,129) | $ 70,560,564 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Waterways Enterprise Fund:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 538,482 | $ - | $ - | $ 538,482 |
| Capital assets being depreciated: | | | | |
| Improvements | 1,297,714 | - | - | 1,297,714 |
| Machinery and equipment | 124,207 | 17,416 | - | 141,623 |
| Vehicles | 19,982 | - | - | 19,982 |
| Infrastructure | 931,694 | - | - | 931,694 |
| Total capital assets being depreciated | 2,373,597 | 17,416 | - | 2,391,013 |
| Less accumulated depreciation for: | | | | |
| Improvements | (427,797) | (64,886) | - | (492,683) |
| Machinery and equipment | (115,657) | (7,321) | - | (122,978) |
| Vehicles | (19,982) | - | - | (19,982) |
| Infrastructure | (102,486) | (18,634) | - | (121,120) |
| Total accumulated depreciation | (665,922) | (90,841) | - | (756,763) |
| Total capital assets being depreciated, net | 1,707,675 | (73,425) | - | 1,634,250 |
| Total business-type activities capital assets, net | $ 2,246,157 | $ (73,425) | $ - | $ 2,172,732 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Sewer Enterprise Fund:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 379,839 | $ - | $ - | $ 379,839 |
| Construction in progress | 1,547,912 | 4,277,041 | - | 5,824,953 |
| Total capital assets not being depreciated | 1,927,751 | 4,277,041 | - | 6,204,792 |
| Capital assets being depreciated: | | | | |
| Buildings | 4,077,784 | - | - | 4,077,784 |
| Improvements | 52,702 | - | - | 52,702 |
| Machinery and equipment | 324,196 | 15,700 | - | 339,896 |
| Vehicles | 462,814 | 6,285 | - | 469,099 |
| Other | 20,617 | 4,000 | - | 24,617 |
| Infrastructure | 148,824,936 | 347,244 | - | 149,172,180 |
| Total capital assets being depreciated | 153,763,049 | 373,229 | - | 154,136,278 |
| Less accumulated depreciation for: | | | | |
| Buildings | (3,741,985) | (95,943) | - | (3,837,928) |
| Improvements | (19,438) | (3,750) | - | (23,188) |
| Machinery and equipment | (228,670) | (25,293) | - | (253,963) |
| Vehicles | (282,073) | (39,285) | - | (321,358) |
| Other | (15,562) | (1,523) | - | (17,085) |
| Infrastructure | (34,648,454) | (2,981,180) | - | (37,629,634) |
| Total accumulated depreciation | (38,936,182) | (3,146,974) | - | (42,083,156) |
| Total capital assets being depreciated, net | 114,826,867 | (2,773,745) | - | 112,053,122 |
| Total business-type activities capital assets, net | $ 116,754,618 | $ 1,503,296 | $ - | $ 118,257,914 |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Water Enterprise Fund:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 3,594,263 | $ - | $ - | $ 3,594,263 |
| Construction in progress | - | 6,463,272 | - | 6,463,272 |
| Total capital assets not being depreciated | 3,594,263 | 6,463,272 | - | 10,057,535 |
| Capital assets being depreciated: | | | | |
| Buildings | 160,023 | - | - | 160,023 |
| Machinery and equipment | 662,666 | 377,169 | - | 1,039,835 |
| Vehicles | 327,072 | - | - | 327,072 |
| Other | 5,617 | 8,211 | - | 13,828 |
| Infrastructure | 34,786,049 | 37,412 | - | 34,823,461 |
| Total capital assets being depreciated | 35,941,427 | 422,792 | - | 36,364,219 |
| Less accumulated depreciation for: | | | | |
| Buildings | (160,023) | - | - | (160,023) |
| Machinery and equipment | (549,571) | (26,060) | - | (575,631) |
| Vehicles | (298,494) | (11,431) | - | (309,925) |
| Other | (562) | (1,944) | - | (2,506) |
| Infrastructure | (9,131,041) | (722,701) | - | (9,853,742) |
| Total accumulated depreciation | (10,139,691) | (762,136) | - | (10,901,827) |
| Total capital assets being depreciated, net | 25,801,736 | (339,344) | - | 25,462,392 |
| Total business-type activities capital assets, net | $ 29,395,999 | $ 6,123,928 | $ - | $ 35,519,927 |

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

| | |
|---|---|
| **Governmental Activities:** | |
| General government | $ 206,872 |
| Public safety | 315,512 |
| Education | 2,407,697 |
| Public works | 697,736 |
| Culture and recreation | 105,477 |
| Total depreciation expense - governmental activities | $ 3,733,294 |
| **Business-Type Activities:** | |
| Waterways | $ 90,841 |
| Sewer | 3,146,974 |
| Water | 762,136 |
| Total depreciation expense - business-type activities | $ 3,999,951 |

## NOTE 6 - CAPITAL LEASES

The City has entered into certain lease agreements for school buses that will become property of the City when all terms of the lease agreements are met.

The following schedule presents future minimum lease payments as of June 30, 2010:

| Fiscal Years Ending June 30 | | Governmental Activities |
|---|---|---|
| 2011 | $ | 271,307 |
| 2012 | | 271,307 |
| 2013 | | 731,710 |
| Total minimum lease payments | | 1,274,324 |
| Less: amounts representing interest | | (126,351) |
| Present value of minimum lease payments | $ | 1,147,973 |

Vehicles and related accumulated amortization under capital lease are as follows:

| | | Governmental Activities |
|---|---|---|
| Asset: | | |
| Vehicles | $ | 1,829,252 |
| Less: accumulated amortization | | (457,314) |
| Total | $ | 1,371,938 |

Amortization of leased vehicles under capital assets is included with depreciation expense, which is allocated functionally.

## NOTE 7 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2010, are summarized as follows:

| | Transfers In: | | | | |
|---|---|---|---|---|---|
| Transfers Out: | General Fund | Nonmajor Governmental Funds | Sewer Enterprise Fund | Total | |
| General Fund | $ - | $ 547,629 | $ 3,509 | $ 551,138 | (1) |
| Nonmajor Governmental Funds | 718,306 | 542,926 | 387,653 | 1,648,885 | (2) |
| Water Enterprise Fund | - | 1,398 | 884,620 | 886,018 | (3) |
| Sewer Enterprise Fund | 300,000 | - | - | 300,000 | (4) |
| Internal Service Fund | 409,426 | - | - | 409,426 | (5) |
| | $ 1,427,732 | $ 1,091,953 | $ 1,275,782 | $ 3,795,467 | |

(1) Represents budgeted transfers to various capital projects funds ($199,006), special revenue funds ($288,751), permanent funds ($59,872) and sewer enterprise fund ($3,509).

(2) Represents transfers to the general fund from various special revenue funds ($713,833) and capital projects funds ($4,473). Also represents transfers between various special revenue and capital projects funds ($542,926) and transfers to the sewer enterprise fund ($387,653) from capital projects funds.

(3) Represents transfers to the water assessment special revenue fund ($1,398) from the water enterprise fund. Also represents transfers to the sewer enterprise fund ($884,620) from the water enterprise fund.

(4) Represents budgeted transfer to the general fund ($300,000) from the sewer enterprise fund.

(5) Represents budgeted transfer to the general fund ($409,426) from the internal service fund.

## 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, 2010, is as follows:

### *Notes Payable – Governmental Funds*

***Notes Payable - Governmental Funds***

| Type | Description | Origination Date | Maturity Date | Interest Rate | Balance at June 30, 2009 | Increases | Decreases | Balance at June 30, 2010 |
|---|---|---|---|---|---|---|---|---|
| ILN* | MWPAT Title V septic loans | Various dates | Interim loan | 0.00% | $ 2,524,852 | $ 330,765 | $ (1,878,448) | $ 977,169 |
| BAN | Financial management system | 9/19/08 | 9/18/09 | 2.74% | 5,261 | - | (5,261) | - |
| BAN | School remodeling - fire alarms | 9/19/08 | 9/18/09 | 2.74% | 5,537 | - | (5,537) | - |
| BAN | School remodeling - fire doors | 9/19/08 | 9/18/09 | 2.74% | 4,000 | - | (4,000) | - |
| BAN | School remodeling - elevator | 9/19/08 | 9/18/09 | 2.74% | 21,000 | - | (21,000) | - |
| BAN | Soil analysis | 9/19/08 | 9/18/09 | 2.74% | 16,000 | - | (16,000) | - |
| BAN | CSO surface paving | 9/19/08 | 9/18/09 | 2.74% | 500,000 | - | (500,000) | - |
| BAN | CSO construction vehicles | 9/19/08 | 9/18/09 | 2.74% | 49,172 | - | (49,172) | - |
| BAN | Fire department - SUV | 9/19/08 | 9/18/09 | 2.74% | 95 | - | (95) | - |
| BAN | Modular classrooms | 9/19/08 | 9/18/09 | 2.74% | 409,800 | - | (409,800) | - |
| BAN | Beach rakes | 9/19/08 | 9/18/09 | 2.74% | 38,000 | - | (38,000) | - |
| BAN | CSO surface paving | 9/18/09 | 9/17/10 | 1.50% | - | 447,387 | (395,000) | 52,387 |
| BAN | Beach rakes | 9/18/09 | 9/17/10 | 1.50% | - | 38,000 | (35,500) | 2,500 |
| BAN | Land Acquisition | 6/17/10 | 9/17/10 | 2.25% | - | 700,000 | (700,000) | - |
| | Total | | | | $ 3,573,717 | $ 1,516,152 | $ (4,057,813) | $ 1,032,056 |

* Interim Loan Notes

## *Notes Payable – Enterprise Funds*

***Notes Payable - Enterprise Funds***

| Type | Description | Origination Date | Maturity Date | Interest Rate | Balance at June 30, 2009 | Increases | Decreases | Balance at June 30, 2010 |
|---|---|---|---|---|---|---|---|---|
| *Sewer Enterprise* | | | | | | | | |
| BAN | Infiltration/Inflow | 9/19/08 | 9/18/09 | 2.74% | $ 2,524 | $ - | $ (2,524) | $ - |
| BAN | Sewer CW 00-53 | 9/19/08 | 9/18/09 | 2.74% | 308,511 | - | (308,511) | - |
| BAN | Wastewater treatment facility | 9/19/08 | 9/18/09 | 2.74% | 1,780,000 | - | (1,780,000) | - |
| BAN | CSO consent | 9/19/08 | 9/18/09 | 2.74% | 15,699,295 | - | (15,699,295) | - |
| BAN | Sewer betterment (Moorland Way) | 9/19/08 | 9/18/09 | 2.74% | 1,597,465 | - | (1,597,465) | - |
| BAN | Wastewater treatment facility | 9/18/09 | 9/17/10 | 1.50% | - | 1,757,745 | (518,500) | 1,239,245 |
| BAN | CSO consent | 9/18/09 | 9/17/10 | 1.50% | - | 11,277,300 | - | 11,277,300 |
| BAN | Sewer betterment (Moorland Way) | 9/18/09 | 9/17/10 | 1.50% | - | 1,352,076 | - | 1,352,076 |
| ILN* | MWPAT CSO loan | Various dates | Interim loan | 0.00% | - | 2,201,659 | - | 2,201,659 |
| | Sub-total (sewer enterprise) | | | | 19,387,795 | 16,588,780 | (19,906,295) | 16,070,280 |
| *Water Enterprise* | | | | | | | | |
| BAN | Water valve replacement | 9/19/08 | 9/18/09 | 2.74% | 500,000 | - | (500,000) | - |
| BAN | Water lines - Magnolia | 9/19/08 | 9/18/09 | 2.74% | 34,295 | - | (34,295) | - |
| BAN | Water improvements | 9/19/08 | 9/18/09 | 2.74% | 1,975,000 | - | (1,975,000) | - |
| BAN | Water system improvements | 9/19/08 | 9/18/09 | 2.74% | 3,500,000 | - | (3,500,000) | - |
| BAN | Water mains | 9/19/08 | 9/18/09 | 2.74% | 458,045 | - | (458,045) | - |
| BAN | Water Valve Replacement | 9/18/09 | 9/17/10 | 1.50% | - | 498,239 | - | 498,239 |
| BAN | Water Improvements | 9/18/09 | 9/17/10 | 1.50% | - | 1,975,000 | - | 1,975,000 |
| BAN | Water Systems Improvements | 9/18/09 | 9/17/10 | 1.50% | - | 3,500,000 | - | 3,500,000 |
| BAN | Water Mains | 9/18/09 | 9/17/10 | 1.50% | - | 703,434 | - | 703,434 |
| ILN* | MWPAT Water Treatment Plant | Various dates | Interim loan | 0.00% | | 3,130,937 | - | 3,130,937 |
| | Sub-total (water enterprise) | | | | 6,467,340 | 9,807,610 | (6,467,340) | 9,807,610 |
| | Total enterprise funds | | | | $ 25,855,135 | $ 26,396,390 | $ (26,373,635) | $ 25,877,890 |

## Subsequent Events

On September 8, 2010, the City issued $4,419,000 of general obligation bonds. Of this amount, $1,649,000 was used to retire BAN's outstanding at June 30, 2010. Accordingly, the $1,649,000 issued subsequent to year end is included as long-term debt at June 30, 2010.

On September 17, 2010, the City issued BAN's in the amount of $20,160,100. The BAN's accrue interest at a rate of 0.75 – 1.50% and mature on September 16, 2011. The BAN's, in addition to $440,081 of available funds, were issued to retire $20,600,181 of BAN's outstanding at June 30, 2010.

On November 22, 2010, the City issued $1,878,448 of MWPAT bonds. The proceeds of the bonds were used to retire a portion of the MWPAT Title V BAN outstanding at June 30, 2010. Accordingly, the $1,878,448 issued subsequent to year end is included as long-term debt at June 30, 2010.

## NOTE 9 - LONG-TERM DEBT

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, 2010, and the debt service requirements are as follows:

***Bonds and Notes Payable – Governmental Funds***

| Project | Interest Rate | Outstanding at June 30, 2009 | Issued | Redeemed | Outstanding at June 30, 2010 |
|---|---|---|---|---|---|
| General obligation bonds - school | 3.00 - 5.00% | $ 20,000,245 | $ - | $ (1,931,091) | $ 18,069,154 |
| General obligation bonds - other governmental | 4.00 - 5.00% | 11,440,807 | 1,930,500 | (1,499,450) | 11,871,857 |
| Special assessment debt - sewer GOB | 3.50 - 5.00% | 2,460,764 | - | (275,162) | 2,185,602 |
| Special assessment debt - sewer MWPAT | 0.00 - 5.70% | 5,348,467 | | (442,725) | 4,905,742 |
| MWPAT - Title V program | 3.00 - 5.50% | 1,959,836 | 1,878,448 | (129,530) | 3,708,754 |
| HUD loan | 3.40% | 98,000 | - | (48,000) | 50,000 |
| Total governmental funds | | $ 41,308,119 | $ 3,808,948 | $ (4,325,958) | $ 40,791,109 |

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 |
|---|---|---|---|
| 2011 | $ 4,526,282 | $ 1,452,423 | $ 5,978,705 |
| 2012 | 4,644,854 | 1,306,445 | 5,951,299 |
| 2013 | 4,710,323 | 1,140,001 | 5,850,324 |
| 2014 | 4,288,638 | 957,873 | 5,246,511 |
| 2015 | 4,347,558 | 781,570 | 5,129,128 |
| 2016 | 4,175,479 | 591,023 | 4,766,502 |
| 2017 | 3,204,128 | 429,446 | 3,633,574 |
| 2018 | 1,870,189 | 322,159 | 2,192,348 |
| 2019 | 1,795,798 | 251,102 | 2,046,900 |
| 2020 | 1,500,401 | 188,681 | 1,689,082 |
| 2021 | 1,285,518 | 137,808 | 1,423,326 |
| 2022 | 914,883 | 99,945 | 1,014,828 |
| 2023 | 731,882 | 75,405 | 807,287 |
| 2024 | 637,223 | 57,136 | 694,359 |
| 2025 | 622,222 | 41,254 | 663,476 |
| 2026 | 552,222 | 27,079 | 579,301 |
| 2027 | 430,914 | 15,465 | 446,379 |
| 2028 | 354,865 | 5,120 | 359,985 |
| 2029 | 98,865 | - | 98,865 |
| 2030 | 98,865 | - | 98,865 |
| Total | $ 40,791,109 | $ 7,879,935 | $ 48,671,044 |

During fiscal year 2010, the City issued $1,930,500 for various projects (i.e. fire truck, paving, departmental equipment and land acquisition) and $1,878,448 of Massachusetts Water Pollution Abatement Trust (MWPAT) bonds.

### *Bonds and Notes Payable – Enterprise Funds*

Sewer Enterprise

| Project | Interest Rate | Outstanding at June 30, 2009 | Issued | Redeemed | Outstanding at June 30, 2010 |
|---|---|---|---|---|---|
| Sewer projects (funded by sewer rates): | | | | | |
| General obligation bonds | 2.63 - 5.70% | $ 5,644,688 | $ 518,500 | $ (485,237) | $ 5,677,951 |
| MWPAT | 2.00% | 11,504,324 | - | (524,978) | 10,979,346 |
| Total sewer debt funded by sewer rates | | 17,149,012 | 518,500 | (1,010,215) | 16,657,297 |
| Sewer betterment projects (Gross): | | | | | |
| General obligation bonds | 3.50 - 5.00% | 9,843,053 | - | (1,100,648) | 8,742,405 |
| MWPAT | 0.00 - 5.70% | 21,393,869 | - | (1,770,901) | 19,622,968 |
| Sub-total | | 31,236,922 | - | (2,871,549) | 28,365,373 |
| Less sewer betterment projects funded by the general fund: | | | | | |
| General obligation bonds | 3.50 - 5.00% | (2,460,763) | - | 275,162 | (2,185,601) |
| MWPAT | 0.00 - 5.70% | (5,348,467) | - | 442,725 | (4,905,742) |
| Sub-total | | (7,809,230) | - | 717,887 | - (7,091,343) |
| Total sewer debt funded by sewer betterments | | 23,427,692 | - | (2,153,662) | 21,274,030 |
| Total sewer enterprise (net) | | $ 40,576,704 | $ 518,500 | $ (3,163,877) | $ 37,931,327 |

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

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 3,160,395 | $ 1,302,013 | $ 4,462,408 |
| 2012 | 3,082,576 | 1,185,079 | 4,267,655 |
| 2013 | 3,124,644 | 1,037,549 | 4,162,193 |
| 2014 | 3,144,505 | 928,250 | 4,072,755 |
| 2015 | 3,056,193 | 800,172 | 3,856,365 |
| 2016 | 2,727,345 | 677,923 | 3,405,268 |
| 2017 | 2,659,576 | 569,874 | 3,229,450 |
| 2018 | 2,346,656 | 463,521 | 2,810,177 |
| 2019 | 2,378,373 | 376,736 | 2,755,109 |
| 2020 | 2,377,665 | 293,421 | 2,671,086 |
| 2021 | 2,317,273 | 209,864 | 2,527,137 |
| 2022 | 1,263,644 | 150,999 | 1,414,643 |
| 2023 | 1,208,549 | 119,353 | 1,327,902 |
| 2024 | 1,124,947 | 90,979 | 1,215,926 |
| 2025 | 962,337 | 68,691 | 1,031,028 |
| 2026 | 934,979 | 51,084 | 986,063 |
| 2027 | 690,311 | 35,310 | 725,621 |
| 2028 | 693,468 | 20,783 | 714,251 |
| 2029 | 677,891 | 6,779 | 684,670 |
| Total | $ 37,931,327 | $ 8,388,380 | $ 46,319,707 |

During fiscal year 2010, the City issued $518,500 of bonds related to wastewater treatment.

Water Enterprise

| Project | Interest Rate | Outstanding at June 30, 2009 | Issued | Redeemed | Outstanding at June 30, 2010 |
|---|---|---|---|---|---|
| Water projects - general obligation bonds | 2.63 - 5.00% | $ 15,462,206 | $ - | $ (1,288,574) | $ 14,173,632 |
| Water projects - MWPAT | 2.00% | 2,938,260 | - | (146,578) | 2,791,682 |
| Total water enterprise | | $ 18,400,466 | $ - | $ (1,435,152) | $ 16,965,314 |

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

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 1,432,117 | $ 635,255 | $ 2,067,372 |
| 2012 | 1,404,036 | 580,964 | 1,985,000 |
| 2013 | 1,403,754 | 526,404 | 1,930,158 |
| 2014 | 1,389,804 | 473,583 | 1,863,387 |
| 2015 | 1,270,294 | 421,313 | 1,691,607 |
| 2016 | 1,265,317 | 367,981 | 1,633,298 |
| 2017 | 1,266,906 | 314,572 | 1,581,478 |
| 2018 | 1,262,012 | 260,965 | 1,522,977 |
| 2019 | 1,264,287 | 207,081 | 1,471,368 |
| 2020 | 1,019,032 | 160,872 | 1,179,904 |
| 2021 | 992,649 | 123,199 | 1,115,848 |
| 2022 | 721,339 | 91,256 | 812,595 |
| 2023 | 635,103 | 66,619 | 701,722 |
| 2024 | 578,944 | 45,356 | 624,300 |
| 2025 | 567,862 | 25,700 | 593,562 |
| 2026 | 386,858 | 10,210 | 397,068 |
| 2027 | 100,000 | 2,295 | 102,295 |
| 2028 | 5,000 | 100 | 5,100 |
| Total | $ 16,965,314 | $ 4,313,725 | $ 21,279,039 |

Subsequent Event

On July 8, 2010, the City issued $18,354,621 of MWPAT bonds with an interest rate of 2.00%.

On September 8, 2010, the City issued $4,419,000 of general obligation bonds. Of this amount $1,649,000 was used to retire BAN's (related to CSO surface paving, beach rakes, land acquisition and wastewater treatment facility) that were outstanding at June 30, 2010 that are now appropriately considered long-term debt, and $2,770,000 was used for the purchase of a fire truck ($100,000) and to refund a portion of the Municipal Purpose Loan of 2001 ($2,670,000) related to school remodeling and landfill closure.

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, 2010, the City had the following authorized and unissued debt:

| Purpose | Amount |
|---|---|
| Sewer projects | $ 39,577,308 |
| Refunding | 10,980,000 |
| Water projects | 15,886,239 |
| Governmental projects | 4,172,839 |
| Departmental equipment | 138,904 |
| Total | $ 70,755,290 |

* Represents current BAN's outstanding

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2010, the following changes occurred in long-term liabilities:

| | Balance June 30, 2009 | Increases | Decreases | Balance June 30, 2010 | Current Portion |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Bonds and notes payable | $ 41,308,119 | $ 3,808,948 | $ (4,325,958) | $ 40,791,109 | $ 4,526,282 |
| Net OPEB obligations | 7,080,028 | 12,168,707 | (4,588,512) | 14,660,223 | - |
| Capital lease obligations | 1,357,519 | - | (209,546) | 1,147,973 | 219,077 |
| Workers' compensation claims | 515,586 | - | (203,690) | 311,896 | 46,784 |
| Landfill closure | 1,260,585 | - | (35,018) | 1,225,567 | 35,543 |
| Compensated absences | 1,800,099 | 222,006 | - | 2,022,105 | 202,211 |
| Total | $ 53,321,936 | $ 16,199,661 | $ (9,362,724) | $ 60,158,873 | $ 5,029,897 |
| **Business-type Activities:** | | | | | |
| Bonds and notes payable | $ 58,977,170 | $ 518,500 | $ (4,599,029) | $ 54,896,641 | $ 4,592,512 |
| Net OPEB obligations | 268,935 | 514,362 | (193,953) | 589,344 | - |
| Compensated absences | 135,125 | 29,043 | - | 164,168 | 16,417 |
| Total | $ 59,381,230 | $ 1,061,905 | $ (4,792,982) | $ 55,650,153 | $ 4,608,929 |

The governmental activities long-term liabilities are generally liquidated by the general fund.

## NOTE 10 - RISK FINANCING

### *General*

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.

### *Health Insurance*

The City participates in a premium-based health care plan for its active and retired employees. The amount of claim settlements did not exceed insurance coverage in fiscal year 2010. Prior to fiscal year 2009, the City was self-insured for its retiree health insurance activities and is liable for the payment of "run off" claims related to the activity. During the prior fiscal year the majority of these claims were paid. The City's liability for the remaining claims is immaterial at June 30, 2010, and therefore not reported.

### *Workers' Compensation*

The City is self-insured for its workers' compensation activities. 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 estimated liability at June 30, 2010, totaled $311,896. Changes in the reported liability since July 1, 2008 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 2009..... | $ 433,128 | $ 316,894 | $ (234,436) | $ 515,586 |
| Fiscal year 2010..... | $ 515,586 | $ (54,715) | $ (148,975) | $ 311,896 |

### *Unemployment Insurance*

The City is self-insured for its unemployment compensation. The City's liability for unemployment claims is immaterial at June 30, 2010, and therefore is not reported.

## NOTE 11 - PENSION PLAN

***Plan Description*** - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Gloucester Contributory Retirement System. 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 Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. 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 Gloucester Contributory Retirement System and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 127 Eastern Avenue, Gloucester, Massachusetts 01931.

*Plan Membership* - At December 31, 2009, the System's membership consists of the following:

| | |
|---|---|
| Active members | 522 |
| Inactive members | 78 |
| Retirees and beneficiaries currently receiving benenfi | 433 |
| Total | 1,033 |

*Funding Policy* - Chapter 32 of MGL governs the contributions of plan members and the City. 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 annual covered payroll.

Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements. Benefits and refunds are recognized as deductions when incurred and administrative expenses are funded through investment earnings.

*Annual Pension Cost* - The City's contributions to the System for the fiscal years ended June 30, 2010, 2009, and 2008 were $5,705,314, $5,495,974, and $5,254,216, respectively. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute approximately 94% of the total. At June 30, 2010, the City did not have a net pension obligation.

*Funded Status and Funding Progress* - The funded status of the plan at January 1, 2008, the most recent actuarial valuation date, is as follows:

| 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) |
|---|---|---|---|---|---|---|
| 01/01/08 | $ 71,938,829 | $ 128,811,115 | $ 56,872,286 | 55.8% | $ 22,787,184 | 249.6% |

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation is as follows:

| | |
|---|---|
| Valuation date: | January 1, 2008 |
| Actuarial cost method: | Entry age normal |
| Amortization method: | Approximate level percent of payroll |
| Remaining amortization period: | 19 years from January 1, 2008 for the fresh start retirement benefits schedule; 10 years for the 2002 and 2003 ERI; the period is closed |

| | |
|---|---|
| Asset valuation method: | Market value adjusted by accounts receivable and accounts payable adjusted to phase in over 4 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value. |
| Actuarial assumptions: | |
| Investment rate of return: | 7.875% |
| Projected salary increases: | 4.50% |
| Cost of living adjustments: | 3.00% of first $12,000 of retirement income |

***Legally Required Reserve Accounts*** - The balance in the System's legally required reserves as of December 31, 2009 are as follows:

| Description | Amount | Purpose |
|---|---|---|
| Annuity Savings Fund..... | $ 21,516,555 | Active members' contribution balance |
| Annuity Reserve Fund..... | 8,532,808 | Retired members' contribution account |
| Military Service Fund..... | 14,366 | Military leave of absence contribution balance |
| Pension Reserve Fund..... | 26,490,638 | Amounts appropriated to fund future retiremen |
| Pension Fund..... | 2,663,361 | Remaining net assets |
| Total..... | $ 59,217,728 | |

***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 2010 totaled approximately $43,000.

## NOTE 12- MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled $7,127,697 for the fiscal year ended June 30, 2010, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

## NOTE 13- OTHER POST EMPLOYMENT BENEFITS

***Plan Description*** - The City provides health insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of January 1, 2008, the latest actuarial valuation, is as follows:

| | |
|---|---|
| Active employees | 738 |
| Retired employees and surviving spouses | 816 |
| Total | 1,554 |

***Funding Policy*** - The contribution requirements of Plan members and the City are established and may be amended by the City. The required health insurance contribution rates of Plan members (excluding school department retirees that participate in the Commonwealth's Group Insurance Commission (GIC)) and the City are 25% and 75%, respectively. The health insurance contribution rates of school department retirees (that participate in the GIC) and the City range between 10 - 15% and 85 - 90%, respectively. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the City.

***Annual OPEB Cost and Net OPEB Obligation*** - The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the City's net OPEB obligation:

| | Amount |
|---|---|
| Annual required contribution | $ 12,605,779 |
| Interest on net OPEB obligation | 330,703 |
| Adjustment to annual required contribution | (253,413) |
| Annual OPEB cost | 12,683,069 |
| Contributions made | (4,782,465) |
| Increase in net OPEB obligation | 7,900,604 |
| Net OPEB obligation at beginning of year | 7,348,963 |
| Net OPEB obligation at end of year | $ 15,249,567 |

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

| Fiscal Year Ending | Annual OPEB Cost (AOPEBC) | Percentage of AOPEBC Contributed | Net OPEB Obligation |
|---|---|---|---|
| June 30, 2009* | $ 11,818,624 | 37.8% | $ 7,348,963 |
| June 30, 2010 | 12,683,069 | 37.7% | 15,249,567 |

* Transition year

***Funded Status and Funding Progress*** – The funded status of the Plan at January 1, 2008, the most recent actuarial valuation, was as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|---|---|---|---|---|---|---|
| 01/01/08 | $ - | $ 147,790,883 | $ 147,790,883 | - | $ 47,234,000 | 313% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

***Methods and Assumptions*** - Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

| | |
|---|---|
| Valuation date: | January 1, 2008 |
| Actuarial cost method: | Projected Unit Credit |
| Amortization method: | Level percentage of projected payroll |
| Remaining amortization period: | 30 years at January 1, 2008 |
| Interest discount rate: | 4.5% |
| Healthcare/Medical cost trend rate: | 4.5% |
| Projected salary increases: | 3.75% |

*Allocation of AOPEBC* – AOPEBC costs were allocated to the City's functions as follows:

| | | |
|---|---|---|
| **Governmental Activities:** | | |
| General government | $ | 684,157 |
| Public safety | | 2,973,601 |
| Education | | 7,621,027 |
| Public works | | 495,292 |
| Health and human services | | 238,078 |
| Culture and recreation | | 156,553 |
| Total AOPEBC - governmental activities | | 12,168,707 |
| **Business-Type Activities:** | | |
| Waterways | | 33,849 |
| Sewer | | 255,628 |
| Water | | 224,885 |
| Total AOPEBC - business-type activities | | 514,362 |
| Total AOPEBC | $ | 12,683,069 |

## NOTE 14– LANDFILL POST-CLOSURE CARE

State and federal laws and regulations required the City to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City had operated a solid waste landfill that ceased operations and was subsequently capped and funded via long-term debt in 2001. The City has reflected $1,225,567 as the estimated landfill post-closure care liability at June 30, 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

## NOTE 15- COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately $71,000,000 for water main projects, wastewater projects, roadway projects, school construction projects and the purchase of departmental equipment.

## NOTE 16– 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, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2010.

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, 2010, 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 17- PRIOR PERIOD RECLASSIFICATION

The beginning fund balances of the modular classrooms fund and nonmajor governmental funds have been restated from $26,266 and $2,776,308, to $0 and $2,802,574, respectively, to reflect the reclassification of the modular classrooms fund from a major fund to a nonmajor governmental fund.

## NOTE 18- IMPLEMENTATION OF GASB PRONOUNCEMENTS

The City implemented the following GASB pronouncements during fiscal year 2010:

- Statement #51, *Accounting and Financial Reporting for Intangible Assets.* The implementation of this Statement had no impact on the financial statements.
- Statement #53, *Accounting and Financial Reporting for Derivative Investments.* The implementation of this Statement had no impact on the financial statements.
- Statement #55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The implementation of this Statement had no impact on the financial statements.
- Statement #56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.* The implementation of this Statement had no impact on the financial statements.
- Statement #58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies.* The implementation of this Statement had no impact on the financial statements.

## NOTE 19- FUTURE IMPLEMENTATION OF GASB PRONOUCEMENTS

The GASB has issued the following statements:

- Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which is required to be implemented during fiscal year 2011. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* which is required to be implemented during fiscal year 2012. This pronouncement will not impact the basic financial statements.
- Statement #59, *Financial Instruments Omnibus,* which is required to be implemented during fiscal year 2011. The City is currently evaluating the effect that this Statement will have on its basic financial statements.

These pronouncements will be implemented on their respective due dates.

# *Required Supplementary Information*

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

FOR THE FISCAL YAER ENDED JUNE 30, 2010

| | Prior Year Encumbrances and Continuing Appropriations | Original Budget | Supplemental Appropriations | Final Budget |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Real estate and personal property taxes | $ - | $ 56,396,295 | $ - | $ 56,396,295 |
| Motor vehicle and other excise taxes | - | 2,967,210 | - | 2,967,210 |
| Hotel/motel tax | - | 356,440 | - | 356,440 |
| Tax liens | - | - | - | - |
| Payments in lieu of taxes | - | 36,720 | - | 36,720 |
| Charges for services | - | 2,218,750 | - | 2,218,750 |
| Intergovernmental | - | 11,841,251 | - | 11,841,251 |
| Special assessments | - | - | - | - |
| Penalties and interest on taxes | - | 507,961 | - | 507,961 |
| Licenses and permits | - | 1,074,570 | - | 1,074,570 |
| Fines and forfeitures | - | 309,880 | - | 309,880 |
| Departmental | - | 2,198,647 | - | 2,198,647 |
| Investment income | - | 235,000 | - | 235,000 |
| TOTAL REVENUES | - | 78,142,724 | - | 78,142,724 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 76,758 | 3,652,139 | (177,173) | 3,551,724 |
| Public safety | 62,819 | 10,069,707 | 147,031 | 10,279,557 |
| Education | 124,367 | 36,739,964 | (177,480) | 36,686,851 |
| Public works | 40,455 | 5,563,138 | 552,327 | 6,155,920 |
| Health and human services | 2,169 | 608,809 | 35,000 | 645,978 |
| Culture and recreation | - | 674,399 | (2,011) | 672,388 |
| Pension benefits | - | 5,327,920 | - | 5,327,920 |
| Employee benefits | - | 5,546,664 | - | 5,546,664 |
| Property and liability insurance | - | 420,171 | - | 420,171 |
| State and county charges | - | 3,697,981 | - | 3,697,981 |
| Debt service: | | | | |
| Principal | - | 6,221,625 | (2) | 6,221,623 |
| Interest | - | 2,477,936 | (278,970) | 2,198,966 |
| TOTAL EXPENDITURES | 306,568 | 81,000,453 | 98,722 | 81,405,743 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (306,568) | (2,857,729) | (98,722) | (3,263,019) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | - | 3,672,237 | 397,562 | 4,069,799 |
| Premium from issuance of bonds and notes | - | 75,000 | - | 75,000 |
| Transfers out | - | (76,300) | (298,840) | (375,140) |
| TOTAL OTHER FINANCING SOURCES (USES) | - | 3,670,937 | 98,722 | 3,769,659 |
| NET CHANGE IN FUND BALANCE | (306,568) | 813,208 | - | 506,640 |
| FUND BALANCE AT BEGINNING OF YEAR | (315,351) | (315,351) | (315,351) | (315,351) |
| FUND BALANCE AT END OF YEAR | $ (621,919) | $ 497,857 | $ (315,351) | $ 191,289 |

See notes to required supplementary information.

| Actual | Current Year Encumbrances and Continuing Appropriations | Actual and Encumbrances and Continuing Appropriations | Variance Positive/ (Negative) |
|---|---|---|---|
| $ 56,247,285 | $ - | $ 56,247,285 | $ (149,010) |
| 2,778,096 | - | 2,778,096 | (189,114) |
| 256,530 | - | 256,530 | (99,910) |
| 786,134 | - | 786,134 | 786,134 |
| 18,572 | - | 18,572 | (18,148) |
| 1,898,508 | - | 1,898,508 | (320,242) |
| 12,206,789 | - | 12,206,789 | 365,538 |
| 6,411 | - | 6,411 | 6,411 |
| 770,906 | - | 770,906 | 262,945 |
| 1,273,074 | - | 1,273,074 | 198,504 |
| 393,422 | - | 393,422 | 83,542 |
| 2,741,262 | - | 2,741,262 | 542,615 |
| 158,524 | - | 158,524 | (76,476) |
| 79,535,513 | - | 79,535,513 | 1,392,789 |
| 2,892,234 | 310,481 | 3,202,715 | 349,009 |
| 10,102,196 | 99,830 | 10,202,026 | 77,531 |
| 36,450,047 | 234,992 | 36,685,039 | 1,812 |
| 5,553,469 | 208,503 | 5,761,972 | 393,948 |
| 626,546 | 7,463 | 634,009 | 11,969 |
| 669,927 | - | 669,927 | 2,461 |
| 5,317,643 | - | 5,317,643 | 10,277 |
| 5,262,490 | - | 5,262,490 | 284,174 |
| 402,641 | - | 402,641 | 17,530 |
| 3,691,967 | - | 3,691,967 | 6,014 |
| 6,105,638 | - | 6,105,638 | 115,985 |
| 2,065,616 | - | 2,065,616 | 133,350 |
| 79,140,414 | 861,269 | 80,001,683 | 1,404,060 |
| 395,099 | (861,269) | (466,170) | 2,796,849 |
| 4,095,488 | - | 4,095,488 | 25,689 |
| 164,346 | - | 164,346 | 89,346 |
| (551,138) | - | (551,138) | (175,998) |
| 3,708,696 | - | 3,708,696 | (60,963) |
| 4,103,795 | (861,269) | 3,242,526 | 2,735,886 |
| (315,351) | (315,351) | (315,351) | - |
| $ 3,788,444 | $ (1,176,620) | $ 2,927,175 | $ 2,735,886 |

## PENSION PLAN SCHEDULES

The following schedules provide information related to the System as a whole, for which the City is one participating employer:

### SCHEDULES OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|---|---|---|---|---|---|---|
| 01/01/08 | $ 71,938,829 | $ 128,811,115 | $ 56,872,286 | 55.8% | $ 22,787,184 | 249.6% |
| 01/01/06 | 58,165,437 | 117,403,326 | 59,237,889 | 49.5% | 20,903,152 | 283.4% |
| 01/01/04 | 52,051,078 | 105,751,987 | 53,700,909 | 49.2% | 20,532,000 | 261.5% |
| 01/01/03 | 46,649,000 | 99,626,000 | 52,977,000 | 46.8% | 20,985,000 | 252.5% |
| 01/01/01 | 48,733,000 | 81,303,000 | 32,570,000 | 59.9% | 19,439,000 | 167.5% |

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | Annually Required Contributions (ARC) | Percentage of ARC Contributed (%) |
|---|---|---|
| 2004 | $ 4,714,221 | 100 |
| 2005 | 4,930,042 | 100 |
| 2006 | 5,155,891 | 100 |
| 2007 | 5,560,462 | 100 |
| 2008 | 5,808,066 | 100 |
| 2009 | 6,067,057 | 100 |

The following schedule provides information related to the City's portion of the System's ARC:

### CITY SHARE OF SYSTEM ARC

| Fiscal Year Ended | ARC | Percentage of ARC Contributed (%) | City ARC as a Percentage of System ARC (%) |
|---|---|---|---|
| 2005 | $ 4,458,555 | 100 | 94.6% |
| 2006 | 4,639,133 | 100 | 94.1% |
| 2007 | 4,872,362 | 100 | 94.5% |
| 2008 | 5,254,216 | 100 | 94.5% |
| 2009 | 5,495,974 | 100 | 94.6% |
| 2010 | 5,705,314 | 100 | 94.0% |

## NOTE A - 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, 2010, is presented below:

| | Revenues | Expenditures | Other Financing Sources (Uses) |
|---|---|---|---|
| Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual | $ 79,535,513 | $ 80,001,683 | $ 3,708,696 |
| Adjustments | | | |
| Net change in recording 60-day receipts | 47,421 | - | - |
| Net change in recording tax refunds payable | (89,487) | - | - |
| To record MTRS on-behalf payments | 7,127,697 | 7,127,697 | - |
| Net change in recording short-term interest accrual | - | (132,160) | - |
| To record MWPAT interest subsidy | 265,405 | 265,405 | - |
| Net change in recording worker's compensation | - | (203,690) | - |
| To record encumbrances and continuing appropriations | - | (861,269) | - |
| Total on GAAP basis of accounting | 86,886,549 | 86,197,666 | 3,708,696 |
| Reclassifications | | | |
| To reclassify sewer betterment principal | - | (2,145,920) | (2,145,920) |
| To reclassify sewer betterment interest | - | (521,836) | (521,836) |
| Stabilization fund interest reported as part of general fund (GAAP) | 19,133 | - | - |
| GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances | $ 86,905,682 | $ 83,529,910 | $ 1,040,940 |