

CITY OF GLOUCESTER, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CITY OF GLOUCESTER, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	4
Basic Financial Statements.....	14
Statement of net assets.....	15
Statement of activities.....	16
Governmental funds - balance sheet.....	18
Governmental funds - statement of revenues, expenditures and changes in fund balances.....	19
Reconciliation of the governmental funds balance sheet total fund balances to the statement of net assets.....	20
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	21
Proprietary funds - statement of net assets.....	22
Proprietary funds - statement of revenues, expenses and changes in net assets.....	23
Proprietary funds - statement of cash flows.....	24
Fiduciary funds - statement of fiduciary net assets.....	25
Fiduciary funds - statement of changes in fiduciary net assets.....	26
Notes to basic financial statements.....	27
Required Supplementary Information.....	67
General fund - schedule of revenues, expenditures and changes in fund balance - budget and actual.....	68
Pension plan schedules.....	70
Schedules of funding progress.....	70
Schedule of employer contributions.....	70
City share of system ARC.....	70
Other postemployment benefits schedules.....	71
Schedules of funding progress.....	71
Notes to Required Supplementary Information.....	72

This page left intentionally blank.

Independent Auditors' Report



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, the discretely presented component unit, 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, 2011 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2010), 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 did not audit the financial statements of the Gloucester Lyceum and Sawyer Free Library, Inc. (the Library), a discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts of the Library, is based on the report of the other auditor.

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. The financial statements of the Library, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. 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 and the report of the other auditor provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gloucester, Massachusetts, as of June 30, 2011 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2010), 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.

As more fully described in Note 1C, the City has implemented Governmental Accounting Standards Board Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As more fully described in Note 15, the City has restated the beginning net assets of its discretely presented component unit. We did not audit the adjustment as described in Note 15 that was applied to restate the fiscal year 2010 basic financial statements. The adjustment was audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the adjustment, is based on the report of the other auditor.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2012, 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 certain pension and other postemployment benefits information (located on pages 67 through 72) 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.

Sullivan, Roy & Company, LLC

March 22, 2012

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, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$144,856,943 (net assets). The City's governmental activities has negative unrestricted net assets of (\$13,458,533) and \$24,528,662 in its business-type activities unrestricted net assets.
- The City's total net assets decreased by \$4,090,954.
- At the end of the fiscal year, the general fund unassigned fund balance totaled \$6,241,339, or 6.9 percent of total general fund expenditures and transfers out.
- The City's total bonded debt increased by \$17,455,827 during the fiscal year. The City issued \$29,214,621 of new debt during the year for the advanced refunding of bonds, departmental equipment, sewer projects, and water 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 sewer, water, waterways and rink 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 513 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 512 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 sewer, water, waterways and Talbot rink operations, for which sewer and water 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 27-65 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 and other postemployment benefits information, which can be found on pages 67-72.

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 \$144,856,943 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2011	2010*	2011	2010*	2011	2010*
Assets						
Current assets.....	\$ 29,622,134	\$ 22,313,118	\$ 18,919,312	\$ 21,267,464	\$ 48,541,446	\$ 43,580,582
Noncurrent assets (excluding capital assets).....	11,134,684	11,738,819	14,520,205	15,439,483	25,654,889	27,178,302
Capital assets (net).....	68,787,642	70,560,564	169,359,041	155,950,573	238,146,683	226,511,137
Total assets.....	109,544,460	104,612,501	202,798,558	192,657,520	312,343,018	297,270,021
Liabilities						
Current liabilities (excluding debt).....	4,922,235	4,776,494	1,306,980	1,346,690	6,229,215	6,123,184
Noncurrent liabilities (excluding debt).....	26,857,024	18,864,149	1,108,248	737,095	27,965,272	19,601,244
Current debt.....	10,728,765	5,558,338	19,324,609	30,470,402	30,053,374	36,028,740
Noncurrent debt.....	32,984,153	36,264,827	70,254,061	50,304,129	103,238,214	86,568,956
Total liabilities.....	75,492,177	65,463,808	91,993,898	82,858,316	167,486,075	148,322,124
Net Assets						
Invested in capital assets (net of related debt).....	30,275,698	41,810,591	82,476,284	78,138,873	112,751,982	119,949,464
Restricted.....	17,235,118	10,095,410	3,799,714	7,955,280	21,034,832	18,050,690
Unrestricted.....	(13,458,533)	(12,757,308)	24,528,662	23,705,051	11,070,129	10,947,743
Total net assets.....	\$ 34,052,283	\$ 39,148,693	\$ 110,804,660	\$ 109,799,204	\$ 144,856,943	\$ 148,947,897

* Reflects reclassification of certain net asset components.

The largest portion of the City's net assets (77.8%) 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 (14.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets (7.7% or \$11,070,129) may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$24,528,662 may be used to support business-type activities and (\$13,458,533) 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, 2011, the City's total net assets decreased by \$4,090,954 and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 10,519,021	\$ 10,951,248	\$ 14,580,630	\$ 12,953,425	\$ 25,099,651	\$ 23,904,673
Operating grants and contributions.....	23,658,517	23,018,484	580,041	673,021	24,238,558	23,691,505
Capital grants and contributions.....	985,212	1,245,970	-	1,602,899	985,212	2,848,869
<i>General Revenues:</i>						
Real estate and personal property taxes.....	60,667,389	56,715,942	-	-	60,667,389	56,715,942
Motor vehicle and other excise taxes.....	3,043,658	2,817,416	-	-	3,043,658	2,817,416
Hotel/motel taxes.....	426,069	256,530	-	-	426,069	256,530
Penalties and interest on taxes.....	580,182	771,830	-	-	580,182	771,830
Payments in lieu of taxes.....	18,790	18,572	-	-	18,790	18,572
Community preservation surcharges.....	457,425	435,643	-	-	457,425	435,643
Grants and contributions not restricted to specific programs.....	3,400,946	3,546,018	-	-	3,400,946	3,546,018
Unrestricted investment income.....	81,153	177,915	-	-	81,153	177,915
Gain on sale of capital assets.....	-	8,026	-	-	-	8,026
Total revenues.....	103,838,362	99,963,594	15,160,671	15,229,345	118,999,033	115,192,939
Expenses						
General government.....	7,590,541	6,687,783	-	-	7,590,541	6,687,783
Public safety.....	21,378,976	19,891,820	-	-	21,378,976	19,891,820
Education.....	60,613,207	61,389,047	-	-	60,613,207	61,389,047
Public works.....	12,903,774	7,604,686	-	-	12,903,774	7,604,686
Health and human services.....	2,897,092	3,093,944	-	-	2,897,092	3,093,944
Culture and recreation.....	1,228,440	1,306,697	-	-	1,228,440	1,306,697
Debt service - interest.....	1,489,621	1,365,600	-	-	1,489,621	1,365,600
Sewer.....	-	-	9,188,687	9,574,904	9,188,687	9,574,904
Water.....	-	-	5,169,099	5,628,213	5,169,099	5,628,213
Waterways.....	-	-	415,062	351,991	415,062	351,991
Talbot rink.....	-	-	215,488	-	215,488	-
Total expenses.....	108,101,651	101,339,577	14,988,336	15,555,108	123,089,987	116,894,685
Change in net assets before transfers and special items.....	(4,263,289)	(1,375,983)	172,335	(325,763)	(4,090,954)	(1,701,746)
Transfers, net.....	(691,716)	(89,764)	691,716	89,764	-	-
Special item - transfer of capital assets.....	(141,405)	-	141,405	-	-	-
Change in net assets.....	(5,096,410)	(1,465,747)	1,005,456	(235,999)	(4,090,954)	(1,701,746)
Net assets - beginning of year.....	39,148,693	40,614,440	109,799,204	110,035,203	148,947,897	150,649,643
Net assets - end of year.....	\$ 34,052,283	\$ 39,148,693	\$ 110,804,660	\$ 109,799,204	\$ 144,856,943	\$ 148,947,897

Governmental activities decreased the City's net assets by \$5,096,410. In the prior year, governmental activities decreased the City's net assets by \$1,465,747. The key element of this change relates to the general fund budget. In fiscal year 2010 the general fund budget anticipated an increase of revenues over expenditures of approximately \$500,000, primarily as a result of the City having to raise a significant snow and ice deficit from fiscal year 2009. In fiscal year 2011 the general fund budget anticipated expenditures greater than revenues of approximately \$2,200,000, primarily resulting from the City's use of reserves to fund the budget.

Business-type activities increased the City's net assets by \$1,005,456. In the prior year, business-type activities decreased the City's net assets by \$235,999. The key element of this change is in increase in water enterprise operating revenues of approximately \$1,100,000, primarily as a result of an increase in user charge rates of approximately 16%.

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.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$13,732,645, an increase of \$2,268,799 in comparison with the prior year. Approximately \$3,937,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Restricted (\$8,869,837)
- Committed (\$109,793)
- Assigned (\$815,750)

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund's unassigned fund balance totaled \$6,241,339, while total fund balance was \$7,176,882. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 6.9% of total general fund expenditures and transfers out, while total fund balance represents 7.9% of that same amount.

The balance of the City's general fund increased by \$1,546,273 during fiscal year 2011. The key element of this change is a positive budget to actual variance totaling approximately \$3,401,000 (excluding encumbrances and continuing appropriations), offset by the use of reserves of approximately \$2,258,000 to fund the budget.

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 sewer, water, waterways and Talbot rink enterprise funds at the end of the year amounted to \$20,381,552, \$3,663,812, \$443,748 and \$39,550, respectively. The sewer and waterways enterprise funds had a decrease in net assets for the year of \$561,370 and \$142,724, respectively, whereas the water and Talbot rink enterprise funds had an increase in net assets for the year of \$1,516,341 and \$193,209, 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 \$85,044,737 was increased by \$1,769,331 (2.1%) during the year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Transfer to the stabilization fund.....	\$ 700,000	Unassigned fund balance
Public works snow and ice expenses.....	300,000	Transfer from the stabilization fund
Public works snow and ice expenses.....	259,999	Unassigned fund balance
Public works repairs to school buildings.....	177,000	Unassigned fund balance
Transfer to the capital stabilization fund.....	109,793	Unassigned fund balance
Police department personnel expenses.....	74,242	Unassigned fund balance
Public works paving.....	50,000	Transfer from nonmajor governmental fund
School department main office contingency.....	50,000	Unassigned fund balance
Public works emergency school maintenance.....	22,797	Transfer from nonmajor governmental fund
City clerk equipment.....	15,500	Unassigned fund balance
Transfer to the OPEB trust fund.....	<u>10,000</u>	Unassigned fund balance
Total increase.....	<u>\$ 1,769,331</u>	

During the year, general fund revenues and other financing sources 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 \$2,585,000. Encumbrances and continuing appropriations total approximately \$816,000 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 \$238,146,683 (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 \$11,635,546, or 5.1% (a 5.9% increase for business-type activities and a 0.8% decrease for governmental activities).

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

- Sewer projects construction in progress (\$10,177,340)
- Water projects construction in progress (\$6,483,853)
- Streets paving (\$1,613,314)
- Public works truck purchase (\$281,801)
- Boat with trailer purchase (\$269,875)

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

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
Land.....	\$ 19,201,783	\$ 19,201,783	\$ 4,512,584	\$ 4,512,584	\$ 23,714,367	\$ 23,714,367
Buildings.....	27,872,422	30,154,068	558,192	239,856	28,430,614	30,393,924
Improvements.....	2,572,215	2,791,286	765,908	834,545	3,338,123	3,625,831
Machinery and equipment.....	1,259,200	1,108,653	591,380	568,782	1,850,580	1,677,435
Vehicles.....	2,765,568	3,681,270	229,768	164,888	2,995,336	3,846,158
Other.....	521,896	572,263	51,851	18,854	573,747	591,117
Infrastructure.....	14,264,678	13,051,241	133,699,940	137,322,839	147,964,618	150,374,080
Construction in progress.....	329,880	-	28,949,418	12,288,225	29,279,298	12,288,225
Total capital assets.....	\$ 68,787,642	\$ 70,560,564	\$ 169,359,041	\$ 155,950,573	\$ 238,146,683	\$ 226,511,137

Additional information on the City's capital assets can be found in Note 5 on pages 44-48 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$113,143,577, which is backed by the full faith and credit of the City, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
General obligation bonds.....	\$ 29,619,813	\$ 32,126,613	\$ 30,664,187	\$ 26,408,387	\$ 60,284,000	\$ 58,535,000
MWPAT notes.....	8,029,194	8,614,496	44,830,383	28,488,254	52,859,577	37,102,750
HUD loans.....	-	50,000	-	-	-	50,000
Total bonds and notes.....	\$ 37,649,007	\$ 40,791,109	\$ 75,494,570	\$ 54,896,641	\$ 113,143,577	\$ 95,687,750

The City's total bonded debt increased by \$17,455,827 (18.2%) during the current fiscal year. \$29,214,621 of new debt was issued during the year for the advanced refunding of bonds, departmental equipment, sewer projects, and water projects.

The City received an Aa3 rating from Moody's Investors Service, Inc. for its most recent issuance of long-term debt on August 23, 2011.

Additional information on the City's long-term debt can be found in Note 9 on page 51-56 of this report.

Economic Factors and Next Year's Budget Rates

The fiscal year 2012 the general fund operating budget of \$87.5 million represents a \$2.5 million or 2.9% increase from the fiscal year 2011 budget. This is primarily due to approximately \$1.1 million or 25.3% increase in state and county assessments, approximately \$364,000 or 6.9% increase in pension benefits and approximately \$237,000 or 2.2% increase in public safety expenditures. The fiscal year 2012 operating budget includes approximately \$816,000 of appropriations carried forward from fiscal year 2011.

Property taxes for 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 2011 to fiscal year 2012, exclusive of debt service excluded from Proposition 2 ½ and a water and sewer debt shift, will be approximately \$634,000. The City is scheduled to receive \$10.7 million in state aid in fiscal year 2012, net of school construction grants. This amount is \$87,000 or 0.8%, more than received in fiscal year 2011.

According to the U.S. Census Bureau, the median family income for the City in 2010 was \$60,506 compared with \$65,668 for the Commonwealth. The per capita income was \$34,337, compared with \$33,203 for the Commonwealth and \$26,059 for the nation.

The unemployment rate for the City of Gloucester is approximately 8.4 percent, which is a 2.8% decrease from a rate of 11.2 percent a year ago. This compares unfavorably to the state's average unemployment rate of 6.5 percent and favorable to the national average of 8.5 percent.

According to the City's Board of Assessors, the average fiscal year 2011 single family home in the City is valued at \$466,043; the average two-family home is valued at \$365,792; the average 2011 commercial and industrial property is valued at \$659,299 – all compared favorably 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, 2011

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Gloucester Lyceum and Sawyer Free Library, Inc.
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 10,447,611	\$ 5,531,636	\$ 15,979,247	\$ 448,789
Restricted cash and cash equivalents.....	10,912,596	7,483,294	18,395,890	-
Restricted investments.....	929,715	-	929,715	5,063,015
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	1,702,287	-	1,702,287	-
Tax and utility liens.....	2,146,872	405,477	2,552,349	-
Motor vehicle and other excise taxes.....	281,354	30,109	311,463	-
Community preservation surcharges.....	15,512	-	15,512	-
User charges.....	-	4,147,424	4,147,424	-
Special assessments.....	64,975	50,986	115,961	-
Departmental and other.....	904,645	1,370	906,015	-
Intergovernmental.....	2,127,187	1,269,016	3,396,203	-
Loans.....	89,380	-	89,380	-
Total current assets.....	29,622,134	18,919,312	48,541,446	5,511,804
Noncurrent assets:				
Receivables, net of allowance for uncollectible amounts:				
Real estate tax deferrals.....	196,796	-	196,796	-
Special assessments.....	3,740,422	12,099,247	15,839,669	-
Intergovernmental.....	5,804,703	2,420,958	8,225,661	-
Loans.....	804,418	-	804,418	-
Tax foreclosures.....	588,345	-	588,345	-
Capital assets not being depreciated.....	19,531,663	33,462,002	52,993,665	1,000
Capital assets, net of accumulated depreciation.....	49,255,979	135,897,039	185,153,018	1,014,866
Total noncurrent assets.....	79,922,326	183,879,246	263,801,572	1,015,866
Total assets.....	109,544,460	202,798,558	312,343,018	6,527,670
LIABILITIES				
Current liabilities:				
Warrants payable.....	426,883	173,962	600,845	3,991
Accrued payroll.....	2,740,623	64,262	2,804,885	-
Tax refunds payable.....	509,703	-	509,703	-
Other liabilities.....	423,545	5,170	428,715	3,035
Accrued interest.....	551,142	1,047,514	1,598,656	-
Workers' compensation claims.....	13,869	-	13,869	-
Landfill closure and post-closure.....	36,076	-	36,076	-
Compensated absences.....	220,394	16,072	236,466	-
Short-term notes payable.....	6,063,911	14,084,100	20,148,011	-
Long-term bonds and notes payable.....	4,664,854	5,240,509	9,905,363	-
Total current liabilities.....	15,651,000	20,631,589	36,282,589	7,026
Noncurrent liabilities:				
Workers' compensation claims.....	217,281	-	217,281	-
Landfill closure and post-closure.....	1,153,948	-	1,153,948	-
Compensated absences.....	1,983,549	144,644	2,128,193	-
Net OPEB obligation.....	23,502,246	963,604	24,465,850	-
Long-term bonds and notes payable.....	32,984,153	70,254,061	103,238,214	-
Total noncurrent liabilities.....	59,841,177	71,362,309	131,203,486	-
Total liabilities.....	75,492,177	91,993,898	167,486,075	7,026
NET ASSETS				
Invested in capital assets, net of related debt.....	30,275,698	82,476,284	112,751,982	-
Restricted for:				
Capital purposes.....	5,548,767	3,799,714	9,348,481	-
Other postemployment benefits.....	10,000	-	10,000	-
Community preservation.....	950,505	-	950,505	-
Loans.....	893,797	-	893,797	-
Permanent funds.....	1,009,937	-	1,009,937	-
Other specific purposes.....	8,822,112	-	8,822,112	5,007,501
Unrestricted.....	(13,458,533)	24,528,662	11,070,129	1,513,143
Total net assets.....	\$ 34,052,283	\$ 110,804,660	\$ 144,856,943	\$ 6,520,644

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 7,590,541	\$ 1,345,727	\$ 2,173,839	\$ -	\$ (4,070,975)
Public safety.....	21,378,976	4,026,394	869,543	-	(16,483,039)
Education.....	60,613,207	1,665,823	19,149,930	-	(39,797,454)
Public works.....	12,903,774	3,063,593	202,705	985,212	(8,652,264)
Health and human services.....	2,897,092	417,484	844,845	-	(1,634,763)
Culture and recreation.....	1,228,440	-	36,085	-	(1,192,355)
Debt service - interest.....	1,489,621	-	381,570	-	(1,108,051)
Total governmental activities.....	108,101,651	10,519,021	23,658,517	985,212	(72,938,901)
Business-type activities:					
Sewer.....	9,188,687	7,367,704	442,898	-	(1,378,085)
Water.....	5,169,099	6,683,935	126,505	-	1,641,341
Waterways.....	415,062	261,699	10,638	-	(142,725)
Talbot rink.....	215,488	267,292	-	-	51,804
Total business-type activities.....	14,988,336	14,580,630	580,041	-	172,335
Total primary government.....	\$ 123,089,987	\$ 25,099,651	\$ 24,238,558	\$ 985,212	\$ (72,766,566)
Component units:					
Gloucester Lyceum and Sawyer Free Library, Inc.....	\$ 1,294,321	\$ 44,542	\$ 1,070,836	\$ 7,264	\$ (171,679)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets:				
Net (expense)/revenue (from previous page).....	\$ (72,938,901)	\$ 172,335	\$ (72,766,566)	\$ (171,679)
<i>General revenues:</i>				
Real estate personal property taxes.....	60,667,389	-	60,667,389	-
Motor vehicle and other excise taxes.....	3,043,658	-	3,043,658	-
Hotel/motel taxes.....	426,069	-	426,069	-
Penalties and interest on taxes.....	580,182	-	580,182	-
Payments in lieu of taxes.....	18,790	-	18,790	-
Community preservation surcharges.....	457,425	-	457,425	-
Grants and contributions not restricted to specific programs.....	3,400,946	-	3,400,946	-
Unrestricted investment income.....	81,153	-	81,153	38,177
Special item - transfer of capital assets.....	(141,405)	141,405	-	-
Transfers, net.....	(691,716)	691,716	-	-
Total general revenues and transfers.....	67,842,491	833,121	68,675,612	38,177
Change in net assets.....	(5,096,410)	1,005,456	(4,090,954)	(133,502)
Net assets - beginning of year (as restated).....	39,148,693	109,799,204	148,947,897	6,654,146
Net assets - end of year.....	\$ 34,052,283	\$ 110,804,660	\$ 144,856,943	\$ 6,520,644

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

ASSETS	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 10,447,614	\$ -	\$ 10,447,614
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	1,702,287	-	1,702,287
Real estate tax deferrals.....	196,796	-	196,796
Tax liens.....	2,137,661	9,211	2,146,872
Motor vehicle and other excise taxes.....	281,354	-	281,354
Community preservation surcharges.....	-	15,512	15,512
Special assessments.....	51,010	3,754,386	3,805,396
Departmental and other.....	684,484	220,161	904,645
Intergovernmental.....	6,948,078	983,812	7,931,890
Loans.....	-	893,797	893,797
Tax foreclosures.....	588,345	-	588,345
Restricted assets:			
Cash and cash equivalents.....	-	10,912,595	10,912,595
Investments.....	-	929,715	929,715
TOTAL ASSETS.....	\$ 23,037,629	\$ 17,719,189	\$ 40,756,818
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 426,883	\$ -	\$ 426,883
Accrued payroll.....	2,446,967	293,655	2,740,622
Tax refunds payable.....	509,703	-	509,703
Other liabilities.....	412,554	10,991	423,545
Deferred revenue.....	11,833,490	4,794,869	16,628,359
Workers' compensation claims.....	231,150	-	231,150
Short-term notes payable.....	-	6,063,911	6,063,911
TOTAL LIABILITIES.....	15,860,747	11,163,426	27,024,173
FUND BALANCES:			
Restricted.....	10,000	8,859,837	8,869,837
Committed.....	109,793	-	109,793
Assigned.....	815,750	-	815,750
Unassigned.....	6,241,339	(2,304,074)	3,937,265
TOTAL FUND BALANCES.....	7,176,882	6,555,763	13,732,645
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 23,037,629	\$ 17,719,189	\$ 40,756,818

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Real estate and personal property taxes.....	\$ 59,867,987	\$ -	\$ 59,867,987
Motor vehicle and other excise taxes.....	3,056,802	-	3,056,802
Hotel/motel tax.....	426,069	-	426,069
Tax liens.....	469,387	-	469,387
Payments in lieu of taxes.....	18,790	-	18,790
Community preservation surcharges.....	-	453,601	453,601
Charges for services.....	2,132,545	1,447,595	3,580,140
Intergovernmental.....	20,059,110	8,657,927	28,717,037
Special assessments.....	12,099	345,703	357,802
Penalties and interest on taxes.....	578,177	4,265	582,442
Licenses and permits.....	1,388,405	-	1,388,405
Fines and forfeitures.....	394,975	-	394,975
Departmental and other.....	2,516,944	2,287,570	4,804,514
Contributions.....	-	475,130	475,130
Investment income.....	81,015	130,417	211,432
TOTAL REVENUES.....	91,002,305	13,802,208	104,804,513
EXPENDITURES			
Current:			
General government.....	3,318,224	1,947,791	5,266,015
Public safety.....	10,664,433	2,064,583	12,729,016
Education.....	34,481,211	6,126,010	40,607,221
Public works.....	9,458,948	2,302,070	11,761,018
Health and human services.....	726,575	1,625,103	2,351,678
Culture and recreation.....	684,964	37,505	722,469
Pension benefits.....	12,988,051	-	12,988,051
Employee benefits.....	6,033,613	-	6,033,613
Property and liability insurance.....	480,338	-	480,338
State and county charges.....	4,440,241	-	4,440,241
Debt service:			
Principal.....	4,476,283	50,000	4,526,283
Interest.....	1,497,032	1,038	1,498,070
TOTAL EXPENDITURES.....	89,249,913	14,154,100	103,404,013
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	1,752,392	(351,892)	1,400,500
OTHER FINANCING SOURCES (USES)			
Transfers in.....	758,879	69,956	828,835
Proceeds of bonds and notes.....	-	1,364,000	1,364,000
Premium from issuance of bonds and notes.....	112,374	-	112,374
Proceeds of refunding bonds.....	-	1,590,180	1,590,180
Premium from issuance of refunding bonds.....	-	104,121	104,121
Sale of capital assets.....	3,600	-	3,600
Transfers out.....	(1,080,972)	(395,054)	(1,476,026)
Payments to refunded bond escrow agent.....	-	(1,658,785)	(1,658,785)
TOTAL OTHER FINANCING SOURCES (USES).....	(206,119)	1,074,418	868,299
NET CHANGE IN FUND BALANCES.....	1,546,273	722,526	2,268,799
FUND BALANCES AT BEGINNING OF YEAR.....	5,630,609	5,833,237	11,463,846
FUND BALANCES AT END OF YEAR.....	\$ 7,176,882	\$ 6,555,763	\$ 13,732,645

See notes to basic financial statements.

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

JUNE 30, 2011

Total governmental fund balances (page 18).....	\$	13,732,645
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		68,787,642
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		16,628,359
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.....		(551,143)
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.....		(37,649,007)
Landfill closure and post-closure.....		(1,190,024)
Compensated absences.....		(2,203,943)
Net OPEB obligation.....		<u>(23,502,246)</u>
Net assets of governmental activities (page 15).....	\$	<u>34,052,283</u>

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, 2011

Net change in fund balances - total governmental funds (page 19).....	\$	2,268,799
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		3,310,124
Depreciation.....		(3,728,777)
<p>In the statement of activities, the effect on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed.....</p>		
		(64,891)
<p>In the statement of activities, the effect on the transfer of capital assets is reported, whereas in the governmental funds the transfers are not reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets transferred.....</p>		
		(141,405)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(946,755)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(1,364,000)
Proceeds of refunding bonds.....		(1,590,180)
Refunded bonds defeased.....		1,570,000
Bond maturities.....		4,526,283
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		97,235
<p>Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>		
Landfill closure.....		35,543
Compensated absences.....		(181,838)
Net OPEB obligation.....		(8,842,023)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of the internal service funds is reported with governmental activities.....</p>		
		<u>(44,525)</u>
Changes in net assets of governmental activities (page 17).....	\$	<u>(5,096,410)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

ASSETS	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Nonmajor Waterways	Nonmajor Talbot Rink	Total	
Current assets:						
Cash and cash equivalents	\$ 2,746,493	\$ 2,174,178	\$ 563,347	\$ 47,617	\$ 5,531,635	\$ -
Restricted cash and cash equivalents	6,990,929	492,366	-	-	7,483,295	-
Receivables, net of allowance for uncollectible amounts:						
Utility liens	236,092	169,385	-	-	405,477	-
Excise taxes	-	-	30,109	-	30,109	-
User charges	2,009,253	2,138,172	-	-	4,147,425	-
Special assessments	50,986	-	-	-	50,986	-
Departmental and other	1,230	-	140	-	1,370	-
Intergovernmental	1,104,385	164,631	-	-	1,269,016	-
Total current assets	13,139,368	5,138,732	593,596	47,617	18,919,313	-
Noncurrent assets:						
Receivables, net of allowance for uncollectible amounts:						
Special assessments	12,099,247	-	-	-	12,099,247	-
Intergovernmental	2,420,958	-	-	-	2,420,958	-
Capital assets not being depreciated	16,382,132	16,541,388	538,482	-	33,462,002	-
Capital assets, net of accumulated depreciation	109,302,081	24,858,174	1,583,125	153,659	135,897,039	-
Total noncurrent assets	140,204,418	41,399,562	2,121,607	153,659	183,879,246	-
Total assets	153,343,786	46,538,294	2,715,203	201,276	202,798,559	-
LIABILITIES						
Current liabilities:						
Warrants payable	142,711	8,366	21,442	1,444	173,963	-
Accrued payroll	26,662	28,793	5,857	2,950	64,262	-
Other liabilities	-	4,551	619	-	5,170	-
Accrued interest	676,513	371,001	-	-	1,047,514	-
Compensated absences	2,930	10,006	2,769	367	16,072	-
Short-term notes payable	8,531,374	5,552,726	-	-	14,084,100	-
Long-term bonds and notes payable	3,497,584	1,742,925	-	-	5,240,509	-
Total current liabilities	12,877,774	7,718,368	30,687	4,761	20,631,590	-
Noncurrent liabilities:						
Compensated absences	26,366	90,052	24,920	3,306	144,644	-
Net OPEB obligation	399,578	469,785	94,241	-	963,604	-
Long-term bonds and notes payable	47,176,611	23,077,450	-	-	70,254,061	-
Total noncurrent liabilities	47,602,555	23,637,287	119,161	3,306	71,362,309	-
Total liabilities	60,480,329	31,355,655	149,848	8,067	91,993,899	-
NET ASSETS						
Invested in capital assets, net of related debt	69,174,557	11,026,461	2,121,607	153,659	82,476,284	-
Restricted for:						
Capital purposes	3,307,348	492,366	-	-	3,799,714	-
Unrestricted	20,381,552	3,663,812	443,748	39,550	24,528,662	-
Total net assets	\$ 92,863,457	\$ 15,182,639	\$ 2,565,355	\$ 193,209	\$ 110,804,660	\$ -

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Nonmajor Waterways	Nonmajor Talbot Rink	Total	
OPERATING REVENUES						
Charges for services.....	\$ 6,157,007	\$ 6,629,421	\$ 188,804	\$ 267,292	\$ 13,242,524	\$ -
Special assessments.....	982,995	-	-	-	982,995	-
Boat excise taxes.....	-	-	72,895	-	72,895	-
Penalties and interest.....	227,701	54,514	-	-	282,215	-
Other.....	-	-	10,638	-	10,638	-
TOTAL OPERATING REVENUES.....	7,367,703	6,683,935	272,337	267,292	14,591,267	-
OPERATING EXPENSES						
Cost of service and administration.....	2,016,285	2,009,293	268,184	214,843	4,508,605	-
Repairs and maintenance.....	2,421,468	1,489,926	56,012	-	3,967,406	-
Depreciation.....	3,171,657	785,753	90,865	645	4,048,920	-
TOTAL OPERATING EXPENSES.....	7,609,410	4,284,972	415,061	215,488	12,524,931	-
OPERATING INCOME (LOSS).....	(241,707)	2,398,963	(142,724)	51,804	2,066,336	-
NONOPERATING REVENUES (EXPENSES)						
Premium from issuance of bonds and notes.....	20,119	65,688	-	-	85,807	-
Premium from issuance of refunding bonds.....	9,887	60,817	-	-	70,704	-
Intergovernmental.....	412,892	-	-	-	412,892	-
Interest expense.....	(1,579,277)	(884,127)	-	-	(2,463,404)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(1,136,379)	(757,622)	-	-	(1,894,001)	-
INCOME (LOSS) BEFORE TRANSFERS AND SPECIAL ITEMS....	(1,378,086)	1,641,341	(142,724)	51,804	172,335	-
TRANSFERS						
Transfers in.....	1,011,016	-	-	-	1,011,016	-
Transfers out.....	(194,300)	(125,000)	-	-	(319,300)	(44,525)
TOTAL TRANSFERS.....	816,716	(125,000)	-	-	691,716	(44,525)
SPECIAL ITEMS						
Capital assets transfer from governmental activities.....	-	-	-	141,405	141,405	-
CHANGE IN NET ASSETS.....	(561,370)	1,516,341	(142,724)	193,209	1,005,456	(44,525)
NET ASSETS AT BEGINNING OF YEAR.....	93,424,827	13,666,298	2,708,079	-	109,799,204	44,525
NET ASSETS AT END OF YEAR.....	\$ 92,863,457	\$ 15,182,639	\$ 2,565,355	\$ 193,209	\$ 110,804,660	\$ -

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Sewer	Water	Nonmajor Waterways	Nonmajor Talbot Rink	Total	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users.....	\$ 8,133,617	\$ 6,633,249	\$ 280,256	\$ 267,292	\$ 15,314,414	\$ 53,762
Payments to vendors.....	(3,698,952)	(2,652,760)	(184,651)	(84,379)	(6,620,742)	-
Payments to employees.....	(653,655)	(693,953)	(73,290)	(122,397)	(1,543,295)	-
Payments for interfund services used.....	-	-	-	-	-	(9,237)
NET CASH FROM OPERATING ACTIVITIES.....	3,781,010	3,286,536	22,315	60,516	7,150,377	44,525
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in.....	1,011,016	-	-	-	1,011,016	-
Transfers out.....	(194,300)	(125,000)	-	-	(319,300)	(44,525)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	816,716	(125,000)	-	-	691,716	(44,525)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from the issuance of bonds and notes.....	37,304,812	20,813,873	-	-	58,118,685	-
Proceeds from the issuance of refunding bonds.....	151,000	928,820	-	-	1,079,820	-
Premium from issuance of bonds and notes.....	20,119	65,688	-	-	85,807	-
Premium from issuance of refunding bonds.....	9,887	60,817	-	-	70,704	-
Acquisition and construction of capital assets.....	(10,597,956)	(6,665,388)	(39,740)	(12,899)	(17,315,983)	-
Principal payments on bonds and notes.....	(32,664,362)	(17,387,147)	-	-	(50,051,509)	-
Refunded bonds redeemed.....	(150,000)	(920,000)	-	-	(1,070,000)	-
Interest expense.....	(1,173,427)	(857,615)	-	-	(2,031,042)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(7,099,927)	(3,960,952)	(39,740)	(12,899)	(11,113,518)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(2,502,201)	(799,416)	(17,425)	47,617	(3,271,425)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$10,293,577 and \$2,117,376 reported as restricted in the sewer and water enterprise funds, respectively).....	12,239,623	3,465,960	580,772	-	16,286,355	-
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$6,990,929 and \$492,366 reported as restricted in the sewer and water enterprise funds, respectively).....	\$ 9,737,422	\$ 2,666,544	\$ 563,347	\$ 47,617	\$ 13,014,930	\$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES						
Operating income (loss).....	\$ (241,707)	\$ 2,398,963	\$ (142,724)	\$ 51,804	\$ 2,066,336	\$ -
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Changes in assets and liabilities not requiring current expenditure of cash:						
Depreciation.....	3,171,657	785,753	90,865	645	4,048,920	-
Net OPEB obligation.....	158,512	166,922	48,826	-	374,260	-
Changes in assets and liabilities requiring current expenditure of cash:						
Utility liens.....	36,586	70,291	-	-	106,877	-
Excise taxes.....	-	-	(3,195)	-	(3,195)	-
User charges.....	59,869	(120,977)	-	-	(61,108)	-
Special assessments.....	667,408	-	-	-	667,408	-
Departmental and other.....	2,051	-	11,114	-	13,165	-
Working capital deposit.....	-	-	-	-	-	53,762
Warrants payable.....	(73,287)	(13,266)	17,799	1,444	(67,310)	-
Accrued payroll.....	(2,473)	2,272	557	2,950	3,306	-
Other liabilities.....	-	4,551	619	-	5,170	-
Due to other funds.....	-	-	-	-	-	(9,237)
Compensated absences.....	2,394	(7,973)	(1,546)	3,673	(3,452)	-
Total adjustments.....	4,022,717	887,573	165,039	8,712	5,084,041	44,525
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,781,010	\$ 3,286,536	\$ 22,315	\$ 60,516	\$ 7,150,377	\$ 44,525
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
Intergovernmental debt subsidies (MWPAT).....	\$ 679,810	\$ -	\$ -	\$ -	\$ 679,810	\$ -
Capital assets transfer from governmental activities.....	-	-	-	141,405	141,405	-

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

ASSETS	<u>Pension Trust Fund (As of 12/31/10)</u>	<u>Private Purpose Trust Funds</u>
Cash and cash equivalents.....	\$ 467,406	\$ 60,623
Investments.....	65,756,824	702,574
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	16,153	-
Total assets.....	66,240,383	763,197
 LIABILITIES		
Warrants payable.....	3,488	-
 NET ASSETS		
Held in trust for pension benefits and other purposes.....	\$ 66,236,895	\$ 763,197

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Pension Trust Fund (As of 12/31/10)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Employer.....	\$ 6,293,396	\$ -
Plan members.....	2,077,781	-
Private donations.....	-	2,806
	<u>8,371,177</u>	<u>2,806</u>
Total contributions.....		
	8,371,177	2,806
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	6,230,711	-
Interest.....	1,724,622	74,390
	<u>7,955,333</u>	<u>74,390</u>
Total investment income (loss).....		
	7,955,333	74,390
Less investment expense.....		
	(280,916)	-
	<u>7,674,417</u>	<u>74,390</u>
Net investment income (loss).....		
	7,674,417	74,390
Intergovernmental.....	234,859	-
Transfers from other systems.....	278,648	-
	<u>16,559,101</u>	<u>77,196</u>
TOTAL ADDITIONS.....		
	16,559,101	77,196
DEDUCTIONS		
Administration.....	282,916	-
Retirement benefits and refunds.....	9,004,316	-
Transfers to other systems.....	252,702	-
Other.....	-	12,485
	<u>9,539,934</u>	<u>12,485</u>
TOTAL DEDUCTIONS.....		
	9,539,934	12,485
CHANGE IN NET ASSETS.....		
	7,019,167	64,711
NET ASSETS AT BEGINNING OF YEAR.....	<u>59,217,728</u>	<u>698,486</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 66,236,895</u>	<u>\$ 763,197</u>

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.

Discretely Presented Component Unit

Discretely presented component units are entities that are legally separate from the City, but the nature and/or significance of their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The City has included the Gloucester Lyceum and Sawyer Free Library, Inc. (Library) as a discretely presented component unit. The Library is a non-profit corporation, established in 1830 pursuant to Chapter 180 of the Massachusetts General Laws, governed by a Board of Directors. The Library's primary operating support is City appropriations and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Complete financial statements of the Library, audited by another auditor, can be obtained directly from the Library by contacting the Director at 2 Dale Avenue, Gloucester, Massachusetts 01930.

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 2011 assessment totaled \$937,982. Separate audited financial statements may be obtained by contacting the District at 30 Log Bridge Road, Middleton, Massachusetts 01949.

C. Implementation of New Accounting Principles

For the year ending June 30, 2011, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- GASB Statement No. 59, *Financial Instruments Omnibus*

GASB Statement No. 54 established standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund, capital projects fund, debt service fund, and permanent fund types are clarified by the provisions in this Statement.

The implementation of GASB Statement No. 57 and Statement No. 59 had no reporting impact for the City.

D. 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.

E. 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 used to account for and report all financial resources not accounted for and reported 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:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

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 *sewer* enterprise fund is used to account for the City's sewer activities.

The *water* enterprise fund is used to account for the City's water activities.

The following nonmajor proprietary funds are reported:

The *waterways* enterprise fund is used to account for the City's harbor activities.

The *Talbot rink* enterprise fund is used to account for the City's skating rink 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. This fund was closed out in fiscal year 2011 (see Note 12).

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.

F. Deposits and Investments

City

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.

Library (Discretely Presented Component Unit)

Investments are carried at fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*. The three levels of the fair value framework under Statement No. 157 are as follows:

- Level 1 - Reflect unadjusted quoted prices in active markets at the measurement date
- Level 2 - Reflects values other than quoted prices in active markets that are observable either directly or indirectly, including markets that are not considered active

- Level 3 – Reflects values of pricing inputs that are unobservable and include situations where there is little, if any, market activity. The determination of fair value require management judgment or estimation.

G. 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.

H. 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.

I. 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.

J. 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.

K. 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 (or an accelerated basis for certain Library component unit capital assets). The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
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.

L. 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.

M. 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.

N. 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).

*O. Net Assets and Fund Balances*Government-Wide Financial Statements 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 purposes" represents unspent proceeds of bonds and notes that are restricted for specific capital projects.

"Other postemployment benefits" represents amounts restricted for retirees' benefits (see Note 11).

"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 the City's assets from outside parties and donor restrictions on the Library's assets.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – represents amounts that can be used only for specific purposes imposed by a formal action of City Council, which is the highest level of decision-making authority for the City. Committed amounts may be established, modified, or rescinded only through actions approved by City Council.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the City's structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

P. 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.

Q. 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.

R. 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.

S. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits and as more fully described in Note 11, the City provides health insurance coverage for current and future retirees and their spouses.

T. 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.

U. 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 2011 approved budget for the general fund authorized approximately \$85,045,000 in appropriations. During fiscal year 2011, total appropriations were increased by approximately \$1,769,000.

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, 2011, the following governmental fund deficits (exclusive of deficits financed with outstanding short-term notes) exist:

Fund	Amount	Funding Source
FY 07 Preserve America.....	\$ <u>10,700</u>	Available funds

At June 30, 2011, the following water enterprise fund's capital project deficit (exclusive of deficits financed with outstanding short-term notes) exists:

CIP10-water treatment plant and distribution system.....	\$ <u>76,999</u>	Available funds
--	------------------	-----------------

NOTE 3 - DEPOSITS AND INVESTMENTS*City (excluding the Pension Trust Fund and Library)*

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, 2011, \$16,163,982 of the City's bank balance of \$32,692,039 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2011 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	6 - 10
<u>Debt Securities:</u>				
U.S. Agencies.....	\$ 20,626	\$ -	\$ 20,626	\$ -
Corporate bonds.....	611,313	143,725	467,588	-
Money market mutual funds.....	142,446	142,446	-	-
Repurchase agreements.....	2,290,922	2,290,922	-	-
Fixed income securities.....	196,347	196,347	-	-
Certificates of deposit.....	184,928	35,000	134,836	15,092
External investment pools.....	16,771	16,771	-	-
Total debt securities.....	<u>3,463,353</u>	<u>\$ 2,825,211</u>	<u>\$ 623,050</u>	<u>\$ 15,092</u>
<u>Other Investments:</u>				
Equity mutual funds.....	595,915			
Alternative investments.....	<u>23,160</u>			
Total other investments.....	<u>619,075</u>			
Total investments.....	<u>\$ 4,082,428</u>			

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, 2011 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.....	\$ 20,626	\$ 20,626
Corporate bonds.....	611,313	611,313
Money market mutual funds.....	142,446	142,446
Cerificates of deposit.....	184,928	184,928
Fixed income securities.....	196,347	196,347
Equity mutual funds.....	595,915	595,915
Alternative investments.....	<u>23,160</u>	<u>23,160</u>
Total.....	<u>\$ 1,774,735</u>	<u>\$ 1,774,735</u>

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, 2011, the credit quality ratings of the City's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *				
		AA1	AA2	AA3	A2	Unrated
Corporate bonds.....	\$ 611,313	\$ 78,265	\$ 146,254	\$ 83,956	\$ 231,167	\$ 71,671
Money market mutual funds.....	142,446	-	-	-	-	142,446
Repurchase agreements.....	2,290,922	-	-	-	-	2,290,922
Fixed income securities.....	196,347	-	-	-	-	196,347
Certificates of deposit.....	184,928	-	-	-	-	184,928
External investment pools.....	16,771	-	-	-	-	16,771
Total.....	\$ 3,442,727	\$ 78,265	\$ 146,254	\$ 83,956	\$ 231,167	\$ 2,903,085

* 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, 2010, the System is not exposed to custodial credit risk.

Investments Summary

The System's investments at December 31, 2010 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less than 1 Year</u>
<u>Debt Securities:</u>		
Money market mutual funds....	\$ 250,140	\$ 250,140
Debt security mutual funds.....	<u>12,460,919</u>	<u>12,460,919</u>
Total debt securities.....	<u>12,711,059</u>	<u>\$ 12,711,059</u>
<u>Other Investments:</u>		
Equity mutual funds.....	40,821,836	
Real estate investments.....	5,267,122	
Alternative investments.....	<u>7,206,947</u>	
Total other investments.....	<u>53,295,905</u>	
Total investments.....	<u>\$ 66,006,964</u>	

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, 2010, 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, 2010, the System's investments in debt securities were unrated by a national credit rating organization.

Library (Discretely Presented Component Unit)

The Library's investments as of June 30, 2011 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>
U.S. Agencies.....	\$ 174,416
Corporate bonds.....	9,055
Bond funds.....	23,335
Equity securities.....	277,218
Certificates of deposit and money market accounts.....	3,496,524
Land and development costs.....	<u>1,082,467</u>
Total investments.....	<u>\$ 5,063,015</u>

Investments are level 1 under the fair value framework described in Note 1. Land and development costs are level 3.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2011, 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:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
Real estate and personal property taxes....	\$ 1,943,872	\$ (241,585)	\$ 1,702,287
Real estate tax deferrals.....	196,796	-	196,796
Tax liens.....	2,146,872	-	2,146,872
Motor vehicle and other excise taxes.....	700,505	(419,151)	281,354
Community preservation surcharges.....	15,512	-	15,512
Special assessments.....	3,805,396	-	3,805,396
Departmental and other.....	1,438,504	(517,706)	920,798
Intergovernmental.....	7,931,890	-	7,931,890
Loans.....	<u>893,797</u>	<u>-</u>	<u>893,797</u>
Total.....	<u>\$ 19,073,144</u>	<u>\$ (1,178,442)</u>	<u>\$ 17,894,702</u>

At June 30, 2011, receivables for the enterprise funds consists of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Utility liens.....	\$ 405,477	\$ -	\$ 405,477
Boat excise taxes.....	237,717	(207,608)	30,109
User charges.....	4,147,425	-	4,147,425
Special assessments.....	12,150,233	-	12,150,233
Departmental and other.....	1,370	-	1,370
Intergovernmental.....	3,689,974	-	3,689,974
Total.....	\$ 20,632,196	\$ (207,608)	\$ 20,424,588

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
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 1,042,661	\$ -	\$ 1,042,661
Real estate tax deferrals.....	196,796	-	196,796
Tax liens.....	2,146,872	-	2,146,872
Motor vehicle and other excise taxes.....	281,354	-	281,354
Community preservation surcharges.....	-	15,512	15,512
Special assessments.....	-	3,759,782	3,759,782
Departmental and other.....	656,045	125,778	781,823
Intergovernmental (state school construction)....	6,033,989	-	6,033,989
Loans.....	-	893,797	893,797
Tax foreclosures.....	588,345	-	588,345
Total.....	\$ 11,833,490	\$ 4,794,869	\$ 16,628,359

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 2011, approximately \$1,564,000 of such assistance was received. Approximately \$9,268,000 will be received in future fiscal years. Of this amount, approximately \$3,234,000 represents reimbursement of long-term interest costs, and approximately \$6,034,000 represents reimbursement of approved construction costs. Accordingly, a \$6,033,989 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, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 19,201,783	\$ -	\$ -	\$ 19,201,783
Construction in progress.....	-	329,880	-	329,880
Total capital assets not being depreciated.....	<u>19,201,783</u>	<u>329,880</u>	<u>-</u>	<u>19,531,663</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	60,508,912	88,490	(125,460)	60,471,942
Improvements.....	5,481,318	10,000	-	5,491,318
Machinery and equipment.....	6,573,714	404,624	(197,285)	6,781,053
Vehicles.....	8,601,250	842,956	(2,866,859)	6,577,347
Other.....	1,058,015	20,860	-	1,078,875
Infrastructure.....	15,802,978	1,613,314	-	17,416,292
Total capital assets being depreciated.....	<u>98,026,187</u>	<u>2,980,244</u>	<u>(3,189,604)</u>	<u>97,816,827</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(30,354,844)	(2,244,676)	-	(32,599,520)
Improvements.....	(2,690,032)	(229,071)	-	(2,919,103)
Machinery and equipment.....	(5,465,061)	(238,132)	181,340	(5,521,853)
Vehicles.....	(4,919,980)	(545,794)	1,653,995	(3,811,779)
Other.....	(485,752)	(71,227)	-	(556,979)
Infrastructure.....	(2,751,737)	(399,877)	-	(3,151,614)
Total accumulated depreciation.....	<u>(46,667,406)</u>	<u>(3,728,777)</u>	<u>1,835,335</u>	<u>(48,560,848)</u>
Total capital assets being depreciated, net.....	<u>51,358,781</u>	<u>(748,533)</u>	<u>(1,354,269)</u>	<u>49,255,979</u>
Total governmental activities capital assets, net.....	<u>\$ 70,560,564</u>	<u>\$ (418,653)</u>	<u>\$ (1,354,269)</u>	<u>\$ 68,787,642</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Enterprise Fund:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 379,839	\$ -	\$ -	\$ 379,839
Construction in progress.....	5,824,953	10,177,340	-	16,002,293
Total capital assets not being depreciated.....	6,204,792	10,177,340	-	16,382,132
<u>Capital assets being depreciated:</u>				
Buildings.....	4,077,784	292,474	-	4,370,258
Improvements.....	52,702	-	-	52,702
Machinery and equipment.....	339,896	9,550	-	349,446
Vehicles.....	469,099	52,944	-	522,043
Other.....	24,617	41,874	-	66,491
Infrastructure.....	149,172,180	23,774	-	149,195,954
Total capital assets being depreciated.....	154,136,278	420,616	-	154,556,894
<u>Less accumulated depreciation for:</u>				
Buildings.....	(3,837,928)	(99,598)	-	(3,937,526)
Improvements.....	(23,188)	(3,751)	-	(26,939)
Machinery and equipment.....	(253,963)	(26,534)	-	(280,497)
Vehicles.....	(321,358)	(45,208)	-	(366,566)
Other.....	(17,085)	(6,111)	-	(23,196)
Infrastructure.....	(37,629,634)	(2,990,455)	-	(40,620,089)
Total accumulated depreciation.....	(42,083,156)	(3,171,657)	-	(45,254,813)
Total capital assets being depreciated, net.....	112,053,122	(2,751,041)	-	109,302,081
Total sewer capital assets, net.....	\$ 118,257,914	\$ 7,426,299	\$ -	\$ 125,684,213

	Beginning Balance	Increases	Decreases	Ending Balance
Water Enterprise Fund:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,594,263	\$ -	\$ -	\$ 3,594,263
Construction in progress.....	6,463,272	6,483,853	-	12,947,125
Total capital assets not being depreciated.....	<u>10,057,535</u>	<u>6,483,853</u>	<u>-</u>	<u>16,541,388</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	160,023	-	-	160,023
Machinery and equipment.....	1,039,835	40,332	-	1,080,167
Vehicles.....	327,072	52,944	(55,874)	324,142
Other.....	13,828	-	-	13,828
Infrastructure.....	34,823,461	88,259	-	34,911,720
Total capital assets being depreciated.....	<u>36,364,219</u>	<u>181,535</u>	<u>(55,874)</u>	<u>36,489,880</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(160,023)	-	-	(160,023)
Machinery and equipment.....	(575,631)	(40,419)	-	(616,050)
Vehicles.....	(309,925)	(16,725)	55,874	(270,776)
Other.....	(2,506)	(2,766)	-	(5,272)
Infrastructure.....	(9,853,742)	(725,843)	-	(10,579,585)
Total accumulated depreciation.....	<u>(10,901,827)</u>	<u>(785,753)</u>	<u>55,874</u>	<u>(11,631,706)</u>
Total capital assets being depreciated, net.....	<u>25,462,392</u>	<u>(604,218)</u>	<u>-</u>	<u>24,858,174</u>
Total water capital assets, net.....	<u>\$ 35,519,927</u>	<u>\$ 5,879,635</u>	<u>\$ -</u>	<u>\$ 41,399,562</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Waterways Nonmajor Enterprise Fund:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 538,482	\$ -	\$ -	\$ 538,482
<u>Capital assets being depreciated:</u>				
Improvements.....	1,297,714	-	-	1,297,714
Machinery and equipment.....	141,623	16,490	-	158,113
Vehicles.....	19,982	23,250	(19,982)	23,250
Infrastructure.....	931,694	-	-	931,694
Total capital assets being depreciated.....	2,391,013	39,740	(19,982)	2,410,771
<u>Less accumulated depreciation for:</u>				
Improvements.....	(492,683)	(64,886)	-	(557,569)
Machinery and equipment.....	(122,978)	(5,020)	-	(127,998)
Vehicles.....	(19,982)	(2,325)	19,982	(2,325)
Infrastructure.....	(121,120)	(18,634)	-	(139,754)
Total accumulated depreciation.....	(756,763)	(90,865)	19,982	(827,646)
Total capital assets being depreciated, net.....	1,634,250	(51,125)	-	1,583,125
Total waterways nonmajor enterprise capital assets, net.....	\$ 2,172,732	\$ (51,125)	\$ -	\$ 2,121,607
Talbot Rink Nonmajor Enterprise Fund:				
<u>Capital assets being depreciated:</u>				
Buildings.....	\$ -	\$ 125,460	\$ -	\$ 125,460
Machinery and equipment.....	-	28,844	-	28,844
Total capital assets being depreciated.....	-	154,304	-	154,304
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	-	(645)	-	(645)
Total capital assets being depreciated, net.....	-	153,659	-	153,659
Total talbot rink nonmajor enterprise capital assets, net.....	\$ -	\$ 153,659	\$ -	\$ 153,659

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,000	\$ -	\$ -	\$ 1,000
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	1,851,970	247,345	-	2,099,315
Equipment.....	200,673	1,010	-	201,683
Total capital assets being depreciated.....	2,052,643	248,355	-	2,300,998
<u>Less accumulated depreciation for:</u>				
Buildings, improvements and equipment.....	(1,225,270)	(60,862)	-	(1,286,132)
Total capital assets being depreciated, net.....	827,373	187,493	-	1,014,866
Total component unit capital assets, net.....	\$ 828,373	\$ 187,493	\$ -	\$ 1,015,866

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

Governmental Activities:

General government.....	\$ 170,876
Public safety.....	359,248
Education.....	2,353,999
Public works.....	738,398
Culture and recreation.....	106,256

Total depreciation expense - governmental activities..... \$ 3,728,777

Business-Type Activities:

Sewer.....	\$ 3,171,657
Water.....	785,753
Waterways.....	90,865
Talbot rink.....	645

Total depreciation expense - business-type activities..... \$ 4,048,920

Component Unit:

Library.....	\$ <u>60,862</u>
--------------	------------------

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2011, are summarized as follows:

Transfers Out:	Transfers In:			Total	
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund		
General Fund.....	\$ -	\$ 69,956	\$ 1,011,016	\$ 1,080,972	(1)
Nonmajor Governmental Funds.....	395,054	-	-	395,054	(2)
Sewer Enterprise Fund.....	194,300	-	-	194,300	(3)
Water Enterprise Fund.....	125,000	-	-	125,000	(4)
Internal Service Fund.....	44,525	-	-	44,525	(5)
	<u>\$ 758,879</u>	<u>\$ 69,956</u>	<u>\$ 1,011,016</u>	<u>\$ 1,839,851</u>	

(1) Represents budgeted transfers to numerous special revenue funds (\$14,891), the 2008 modular classroom capital project fund (\$178), various capital project funds to retire BANs (\$54,887) and the sewer enterprise fund to fund debt service (\$1,011,016).

(2) Represents budgeted transfers from the septic betterment reserve fund (\$285,000), the highway force special revenue fund (\$50,000) and the building use special revenue fund (\$22,797). Also represents transfers from numerous special revenue funds (\$37,257).

(3) Represents budgeted transfers to the general fund for indirect costs (\$125,000) and debt service (\$69,300)

(4) Represents budgeted transfer to the general fund for indirect costs (\$125,000)

(5) Represents transfer to the general fund to close out the internal service fund

NOTE 7 - 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, 2011, is as follows:

Notes Payable – Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
ILN*	MWPAT Title V septic loans.....	Various dates	Interim loan	0.00%	\$ 977,169	\$ 800,742	\$ -	\$ 1,777,911
BAN	CSO surface paving.....	9/18/09	9/17/10	1.50%	52,387	-	(52,387)	-
BAN	Beach rakes.....	9/18/09	9/17/10	1.50%	2,500	-	(2,500)	-
BAN	Fire station repair.....	6/30/11	9/16/11	1.30%	-	36,000	-	36,000
BAN	Fire department equipment.....	6/30/11	9/16/11	1.30%	-	1,264,000	(1,264,000)	-
BAN	Remodeling school roofs.....	6/30/11	9/16/11	1.30%	-	3,500,000	-	3,500,000
BAN	Paving.....	6/30/11	9/16/11	1.30%	-	750,000	-	750,000
	Total.....				\$ 1,032,056	\$ 6,350,742	\$ (1,318,887)	\$ 6,063,911

* Interim Loan Notes

Notes Payable – Enterprise Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
<i>Sewer Enterprise</i>								
BAN	Wastewater treatment facility.....	9/18/09	9/17/10	1.50%	\$ 1,239,245	\$ -	\$ (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	7,072,838	(9,274,497)	-
BAN	Wastewater treatment facility.....	9/17/10	9/16/11	0.75-1.50%	-	1,200,600	(1,193,192)	7,408
BAN	CSO consent.....	9/17/10	9/16/11	0.75-1.50%	-	11,055,300	(3,521,145)	7,534,155
BAN	Sewer betterment (Moorland Way).....	9/17/10	9/16/11	0.75-1.50%	-	1,323,811	(1,084,000)	239,811
BAN	CSO long term control plan.....	6/30/11	9/16/11	1.30%	-	750,000	-	750,000
	Sub-total (sewer enterprise).....				16,070,280	21,402,549	(28,941,455)	8,531,374
<i>Water Enterprise</i>								
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	4,955,126	(8,086,063)	-
BAN	Water valve replacement.....	9/17/10	9/16/11	0.75-1.50%	-	494,500	(491,448)	3,052
BAN	Water improvements.....	9/17/10	9/16/11	0.75-1.50%	-	1,953,700	-	1,953,700
BAN	Water systems improvements.....	9/17/10	9/16/11	0.75-1.50%	-	3,431,900	-	3,431,900
BAN	Water mains.....	9/17/10	9/16/11	0.75-1.50%	-	700,289	(536,215)	164,074
	Sub-total (water enterprise).....				9,807,610	11,535,515	(15,790,399)	5,552,726
	Total enterprise funds.....				\$ 25,877,890	\$ 32,938,064	\$ (44,731,854)	\$ 14,084,100

* Interim Loan Notes

Subsequent Events

On September 17, 2011, the City issued \$8,090,000 of general obligation bonds. The entire amount of this issuance was used to retire BANs outstanding at June 30, 2011. Accordingly, the \$8,090,000 is recorded as a long-term debt obligation at June 30, 2011.

On September 16, 2011, the City issued BANs in the amount of \$5,089,500. The BANs accrue interest at a rate of 1.50% and mature on September 14, 2012. The BANs renew \$3,672,000 of BANs outstanding as of June 30, 2011 and also represent \$1,417,500 of new BANs for Newell stadium, recreational facility, water system improvements and city hall remodeling.

On September 16, 2011, the City issued BANs in the amount of \$12,818,317. The BANs accrue interest at a rate of 1.00% and mature on March 16, 2012. The BANs renew BANs outstanding as of June 30, 2011.

On September 16, 2011, the City paid down \$1,364,000, \$315,429 and \$200,354 of governmental, sewer and water BANs, respectively, from available funds.

NOTE 8 - LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 40,791,109	\$ 2,954,180	\$ (6,096,282)	\$ 37,649,007	\$ 4,664,854
Net OPEB obligations.....	14,660,223	13,231,146	(4,389,123)	23,502,246	-
Capital lease obligations.....	1,147,973	-	(1,147,973)	-	-
Workers' compensation claims....	311,896	-	(80,746)	231,150	13,869
Landfill closure.....	1,225,567	-	(35,543)	1,190,024	36,076
Compensated absences.....	2,022,105	181,838	-	2,203,943	220,394
Total.....	<u>\$ 60,158,873</u>	<u>\$ 16,367,164</u>	<u>\$ (11,749,666)</u>	<u>\$ 64,776,370</u>	<u>\$ 4,935,193</u>
Business-type Activities:					
Bonds and notes payable.....	\$ 54,896,641	\$ 26,260,441	\$ (5,662,512)	\$ 75,494,570	\$ 5,240,509
Net OPEB obligations.....	589,344	560,041	(185,781)	963,604	-
Compensated absences.....	164,168	-	(3,452)	160,716	16,072
Total.....	<u>\$ 55,650,153</u>	<u>\$ 26,820,482</u>	<u>\$ (5,851,745)</u>	<u>\$ 76,618,890</u>	<u>\$ 5,256,581</u>

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

NOTE 9 - LONG-TERM DEBT

Details related to the outstanding indebtedness at June 30, 2011, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
General obligation bonds - school.....	3.00 - 5.00%	\$ 18,069,154	\$ 567,180	\$ (2,732,236)	\$ 15,904,098
General obligation bonds - other governmental....	4.00 - 5.00%	11,871,857	2,387,000	(2,457,077)	11,801,780
Special assessment debt - sewer GOB.....	3.50 - 5.00%	2,185,602	-	(271,667)	1,913,935
Special assessment debt - sewer MWPAT.....	0.00 - 5.70%	4,905,742	-	(455,658)	4,450,084
MWPAT - Title V program.....	3.00 - 5.50%	3,708,754	-	(129,644)	3,579,110
HUD loan.....	3.40%	50,000	-	(50,000)	-
Total governmental funds.....		<u>\$ 40,791,109</u>	<u>\$ 2,954,180</u>	<u>\$ (6,096,282)</u>	<u>\$ 37,649,007</u>

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
2012.....	\$ 4,664,854	\$ 1,296,408	\$ 5,961,262
2013.....	4,840,003	1,146,176	5,986,179
2014.....	4,418,138	965,580	5,383,718
2015.....	4,472,558	791,019	5,263,577
2016.....	4,295,479	601,445	4,896,924
2017.....	3,294,128	440,974	3,735,102
2018.....	1,960,189	336,011	2,296,200
2019.....	1,880,798	266,868	2,147,666
2020.....	1,590,401	204,830	1,795,231
2021.....	1,380,518	152,654	1,533,172
2022.....	989,883	113,072	1,102,955
2023.....	811,882	86,731	898,613
2024.....	717,223	66,062	783,285
2025.....	707,222	47,380	754,602
2026.....	642,222	30,216	672,438
2027.....	430,914	15,465	446,379
2028.....	354,865	5,119	359,984
2029.....	98,865	-	98,865
2030.....	98,865	-	98,865
Total.....	\$ 37,649,007	\$ 6,566,010	\$ 44,215,017

During fiscal year 2011, the City issued \$1,364,000 for a fire truck and departmental equipment. The City also issued \$1,590,180 of refunding bonds.

Bonds and Notes Payable - Enterprise Funds**Sewer Enterprise**

Project	Interest Rate	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Sewer projects (funded by sewer rates):					
General obligation bonds.....	2.63 - 5.70%	\$ 5,677,951	\$ 5,949,337	\$ (632,440)	\$ 10,994,848
MWPAT.....	2.00%	10,979,346	10,103,926	(495,980)	20,587,292
Total sewer debt funded by sewer rates		16,657,297	16,053,263	(1,128,420)	31,582,140
Sewer betterment projects (Gross):					
General obligation bonds.....	3.50 - 5.00%	8,742,405	-	(1,086,669)	7,655,736
MWPAT.....	0.00 - 5.70%	19,622,968	-	(1,822,631)	17,800,337
Sub-total.....		28,365,373	-	(2,909,300)	25,456,073
Less sewer betterment projects funded by the general fund:					
General obligation bonds.....	3.50 - 5.00%	(2,185,601)	-	271,667	(1,913,934)
MWPAT.....	0.00 - 5.70%	(4,905,742)	-	455,658	(4,450,084)
Sub-total.....		(7,091,343)	-	727,325	(6,364,018)
Total sewer debt funded by sewer betterments.....		21,274,030	-	(2,181,975)	19,092,055
Total sewer enterprise (net).....		\$ 37,931,327	\$ 16,053,263	\$ (3,310,395)	\$ 50,674,195

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012.....	\$ 3,497,584	\$ 1,484,329	\$ 4,981,913
2013.....	3,761,874	1,408,250	5,170,124
2014.....	3,801,951	1,286,474	5,088,425
2015.....	3,731,866	1,145,533	4,877,399
2016.....	3,416,919	1,009,990	4,426,909
2017.....	3,358,233	888,362	4,246,595
2018.....	3,059,579	768,318	3,827,897
2019.....	3,105,749	666,330	3,772,079
2020.....	3,124,685	566,128	3,690,813
2021.....	3,084,130	465,081	3,549,211
2022.....	2,040,541	388,224	2,428,765
2023.....	2,015,686	338,318	2,354,004
2024.....	1,952,531	290,797	2,243,328
2025.....	1,805,578	247,349	2,052,927
2026.....	1,799,094	208,196	2,007,290
2027.....	1,575,520	170,302	1,745,822
2028.....	1,604,993	133,084	1,738,077
2029.....	1,605,964	94,782	1,700,746
2030.....	959,851	63,285	1,023,136
2031.....	981,868	36,673	1,018,541
2032.....	389,999	15,584	405,583
Total.....	\$ <u>50,674,195</u>	\$ <u>11,675,389</u>	\$ <u>62,349,584</u>

During fiscal year 2011, the City issued \$10,103,926 of bonds related to MWPAT projects and \$5,798,337 of bonds related to sewer projects and the wastewater treatment facility. The City also issued \$151,000 of refunding bonds.

Water Enterprise

Project	Interest Rate	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Water projects - general obligation bonds.....	2.63 - 5.00%	\$ 14,173,632	\$ 1,956,483	\$ (2,202,578)	\$ 13,927,537
Water projects - MWPAT.....	2.00%	2,791,682	8,250,695	(149,539)	10,892,838
Total water enterprise.....		\$ 16,965,314	\$ 10,207,178	\$ (2,352,117)	\$ 24,820,375

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
2012.....	\$ 1,742,925	\$ 743,025	\$ 2,485,950
2013.....	1,795,972	696,739	2,492,711
2014.....	1,792,524	638,279	2,430,803
2015.....	1,670,139	580,311	2,250,450
2016.....	1,672,432	520,857	2,193,289
2017.....	1,686,438	461,154	2,147,592
2018.....	1,689,110	401,455	2,090,565
2019.....	1,699,104	341,090	2,040,194
2020.....	1,461,724	287,232	1,748,956
2021.....	1,438,375	241,124	1,679,499
2022.....	1,170,262	200,785	1,371,047
2023.....	1,107,387	167,063	1,274,450
2024.....	1,064,760	135,769	1,200,529
2025.....	1,067,381	105,482	1,172,863
2026.....	895,257	79,015	974,272
2027.....	617,457	59,941	677,398
2028.....	531,699	46,406	578,105
2029.....	541,127	34,623	575,750
2030.....	550,745	22,569	573,314
2031.....	560,558	10,160	570,718
2031.....	64,999	2,574	67,573
Total.....	\$ 24,820,375	\$ 5,775,653	\$ 30,596,028

During fiscal year 2011, the City issued \$8,250,695 of bonds related to MWPAT projects and \$1,027,663 of bonds related to water projects. The City also issued \$928,820 of refunding bonds.

Advanced Refunding - September 15, 2010

The City issued \$2,670,000 of general obligation refunding bonds, along with a premium of \$174,825, to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$2,640,000 of general obligation bonds related to landfill closure, school remodeling, water and sewer. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the government-wide financial statements and proprietary fund financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$145,192. This amount was expensed in the current fiscal year. This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$284,386 and resulted in an economic gain of \$258,155.

Details of the advanced refunding are as follows:

Description	Nonmajor Governmental	Water Enterprise	Sewer Enterprise	Total
Refunding bonds issued.....	\$ 1,590,180	\$ 928,820	\$ 151,000	\$ 2,670,000
Refunding bonds premium.....	104,121	60,817	9,887	174,825
Refunded bonds defeased.....	(1,570,000)	(920,000)	(150,000)	(2,640,000)
Bond issuance costs.....	(35,516)	(20,745)	(3,373)	(59,633)
Net loss on refunding.....	<u>\$ 88,785</u>	<u>\$ 48,892</u>	<u>\$ 7,515</u>	<u>\$ 145,192</u>

Description				
Net change in debt service payments.....	<u>\$ 169,373</u>	<u>\$ 98,930</u>	<u>\$ 16,083</u>	<u>\$ 284,386</u>

Description				
Economic gain.....	<u>\$ 153,750</u>	<u>\$ 89,805</u>	<u>\$ 14,600</u>	<u>\$ 258,155</u>

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, 2011, the City had the following authorized and unissued debt:

Purpose	Amount
Water projects.....	\$ 19,859,389
Sewer projects.....	15,498,480
Governmental projects.....	14,370,400
Refunding.....	10,980,000
Total.....	<u>\$ 60,708,269</u>

NOTE 10 - 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 \$1,190,024 as the estimated landfill post-closure care liability at June 30, 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 11 - 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 June 30, 2009, the latest actuarial valuation, is as follows:

Active employees.....	656
Retired employees and surviving spouses.....	<u>887</u>
 Total.....	 <u><u>1,543</u></u>

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:

	<u>Amount</u>
Annual required contribution.....	\$ 13,756,703
Interest on net OPEB obligation.....	533,735
Adjustment to annual required contribution.....	<u>(499,251)</u>
Annual OPEB cost.....	13,791,187
Contributions made.....	<u>(4,574,904)</u>
Increase in net OPEB obligation.....	9,216,283
Net OPEB obligation at beginning of year.....	<u>15,249,567</u>
Net OPEB obligation at end of year.....	<u>\$ 24,465,850</u>

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

Dollar Amounts in Thousands

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2009*.....	\$ 11,818,624	37.8%	\$ 7,348,963
June 30, 2010.....	12,683,069	37.7%	15,249,567
June 30, 2011.....	13,791,187	33.2%	24,465,850

* Transition year

Funded Status and Funding Progress – The funded status of the Plan at June 30, 2009, the most recent actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
06/30/09	\$ -	\$ 220,755,787	\$ 220,755,787	-	\$ 47,216,775	467.5%

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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:	June 30, 2009
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level percentage of projected payroll
Remaining amortization period:	30 years (open)
Interest discount rate:	3.5%
Healthcare/Medical cost trend rate:	10.0% decreasing by 0.7% for 6 years and by 0.5% for 1 year to an ultimate level of 5.0% per year
Projected salary increases:	3.75%

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

Governmental Activities:	
General government.....	\$ 832,659
Public safety.....	3,309,084
Education.....	7,727,471
Public works.....	916,656
Health and human services.....	273,597
Culture and recreation.....	<u>171,679</u>
Total AOPEBC - governmental activities.....	<u>13,231,146</u>
Business-Type Activities:	
Sewer.....	249,781
Water.....	237,197
Other enterprise.....	<u>73,063</u>
Total AOPEBC - business-type activities.....	<u>560,041</u>
Total AOPEBC.....	<u>\$ 13,791,187</u>

NOTE 12 - 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 2011. Prior to fiscal year 2009, the City was self-insured for its retiree health insurance activities and was liable for the payment of "run off" claims related to the activity. As of June 30, 2011, these claims have been paid in full. During fiscal year 2011, the City closed out the related internal service fund and transferred the remaining balance of \$44,525 to the general fund.

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, 2011, totaled \$231,150. Changes in the reported liability since July 1, 2009 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 2010.....	\$ 515,586	\$	(54,715)	\$	(148,975)	\$	311,896
Fiscal year 2011.....	\$ 311,896	\$	35,884	\$	(116,630)	\$	231,150

Unemployment Insurance

The City is self-insured for its unemployment compensation. The City's liability for unemployment claims is immaterial at June 30, 2011, and therefore is not reported.

NOTE 13 - FUND BALANCES

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	General	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:			
Other post employment benefits.....	\$ 10,000	\$ -	\$ 10,000
Affordable housing.....	-	313,443	313,443
School lunch.....	-	79,073	79,073
Capital - equipment.....	-	1,263,990	1,263,990
Septic betterment fund.....	-	911,104	911,104
Comcast fund.....	-	305,354	305,354
Cemetery perpetual care.....	-	785,413	785,413
Capital - high school gym.....	-	347,845	347,845
Capital - harbor improvements.....	-	171,102	171,102
Capital - Blackburn expansion.....	-	179,013	179,013
Capital - harborwalk grant.....	-	190,230	190,230
Kent circle.....	-	169,400	169,400
General government.....	-	793,841	793,841
Public safety.....	-	333,951	333,951
Education.....	-	794,636	794,636
Public works.....	-	962,356	962,356
Health and human services.....	-	285,582	285,582
Culture and recreation.....	-	27,111	27,111
Community preservation.....	-	931,178	931,178
Other.....	-	15,215	15,215
Sub-total - Restricted.....	<u>10,000</u>	<u>8,859,837</u>	<u>8,869,837</u>
Committed:			
Capital stabilization.....	<u>109,793</u>	<u>-</u>	<u>109,793</u>
Assigned:			
Encumbrances.....	<u>815,750</u>	<u>-</u>	<u>815,750</u>
Unassigned.....	<u>6,241,339</u>	<u>(2,304,074)</u>	<u>3,937,265</u>
Total fund balances.....	<u>\$ 7,176,882</u>	<u>\$ 6,555,763</u>	<u>\$ 13,732,645</u>

NOTE 14 - STABILIZATION FUNDS

The City maintains a general stabilization fund and a capital stabilization fund that were established under MGL Chapter 40, Section 5B. Appropriations in and out of these stabilization funds require two-thirds vote of City Council. Investment income is retained by the funds.

The balance of the general stabilization fund and capital stabilization fund at June 30, 2011 totals \$1,951,108 and \$109,793, respectively. These balances are reported in the general fund as unassigned and committed fund balance, respectively.

NOTE 15 - PRIOR PERIOD ADJUSTMENT

The beginning net assets of the Library, a discretely presented component unit, have been restated from \$0 to \$6,654,146 to reflect the initial reporting of the Library as a discretely presented component unit.

NOTE 16 - 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, 2010, the System's membership consists of the following:

Active members.....	521
Inactive members.....	75
Retirees and beneficiaries currently receiving benefits....	<u>427</u>
Total.....	<u>1,023</u>

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, 2011, 2010, and 2009 were \$5,884,564, \$5,705,314, and \$5,495,974, 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, 2011, the City did not have a net pension obligation.

Funded Status and Funding Progress - The funded status of the plan at January 1, 2010, 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)
01/01/10	65,139,502	138,859,148	73,719,646	46.9%	23,227,715	317.4%

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, 2010
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar for the 2002 and 2003 ERIs and increasing amortization for the remaining unfunded liability
Remaining amortization period:	As of January 1, 2010, 8 years on 2002 and 2003 ERI and 27 years for remaining unfunded liability; the period is closed
Asset valuation method:	4-year smoothing of investment returns greater (less) than expected
Actuarial assumptions:	
Investment rate of return:	7.875%
Projected salary increases:	3.00% in 2010, 3.50% in 2011, 4.00% in 2012 and 4.5% for 2013 and later
Cost of living adjustments:	3.00% of first \$14,000 of retirement income

Legally Required Reserve Accounts - The balance in the System's legally required reserves as of December 31, 2010 are as follows:

Description	Amount	Purpose
Annuity Savings Fund.....	\$ 22,729,868	Active members' contribution balance
Annuity Reserve Fund.....	8,396,326	Retired members' contribution account
Military Service Fund.....	14,387	Military leave of absence contribution balance
Pension Reserve Fund.....	33,260,528	Amounts appropriated to fund future retirement
Pension Fund.....	1,835,786	Remaining net assets
Total.....	\$ 66,236,895	

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 2011 totaled approximately \$39,000.

NOTE 17 - 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 \$7,578,411 for the fiscal year ended June 30, 2011, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 18 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$50,000,000 for various governmental, water and sewer projects.

NOTE 19 - 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, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2011.

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, 2011, 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 20 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented during fiscal year 2013. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which is required to be implemented during fiscal year 2013. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented during fiscal year 2013. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented during fiscal year 2013. The City is currently evaluating the effect that this Statement will have on its basic financial statements.

- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, which is required to be implemented during fiscal year 2012. The implementation of this Statement will not impact the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

This page left intentionally blank

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 59,844,841	\$ -	\$ 59,844,841
Motor vehicle and other excise taxes.....	-	3,025,000	-	3,025,000
Hotel/motel tax.....	-	362,600	-	362,600
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	22,000	-	22,000
Charges for services.....	-	1,875,000	-	1,875,000
Intergovernmental.....	-	12,480,497	-	12,480,497
Special assessments.....	-	-	-	-
Penalties and interest on taxes.....	-	486,600	-	486,600
Licenses and permits.....	-	1,109,810	-	1,109,810
Fines and forfeitures.....	-	328,060	-	328,060
Departmental.....	-	2,185,329	-	2,185,329
Investment income.....	-	100,000	-	100,000
TOTAL REVENUES.....	-	81,819,737	-	81,819,737
EXPENDITURES				
Current:				
General government.....	310,481	3,872,998	(383,227)	3,800,252
Public safety.....	99,830	10,703,604	74,342	10,877,776
Education.....	234,992	34,654,289	(203,453)	34,685,828
Public works.....	208,503	8,528,046	1,250,014	9,986,563
Health and human services.....	7,463	668,901	66,574	742,938
Culture and recreation.....	-	714,696	-	714,696
Pension benefits.....	-	5,279,436	130,219	5,409,655
Employee benefits.....	-	6,285,319	-	6,285,319
Property and liability insurance.....	-	487,763	-	487,763
State and county charges.....	-	4,518,628	-	4,518,628
Debt service:				
Principal.....	-	6,309,311	-	6,309,311
Interest.....	-	1,955,843	-	1,955,843
TOTAL EXPENDITURES.....	861,269	83,978,834	934,469	85,774,572
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(861,269)	(2,159,097)	(934,469)	(3,954,835)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	3,125,000	372,797	3,497,797
Premium from issuance of bonds and notes.....	-	100,000	-	100,000
Sale of capital assets.....	-	-	-	-
Transfers out.....	-	(1,065,903)	(834,862)	(1,900,765)
TOTAL OTHER FINANCING SOURCES (USES).....	-	2,159,097	(462,065)	1,697,032
NET CHANGE IN FUND BALANCE.....	(861,269)	-	(1,396,534)	(2,257,803)
FUND BALANCE AT BEGINNING OF YEAR.....	3,788,444	3,788,444	3,788,444	3,788,444
FUND BALANCE AT END OF YEAR.....	\$ 2,927,175	\$ 3,788,444	\$ 2,391,910	\$ 1,530,641

See notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	59,783,504	\$ -	\$ 59,783,504	\$ (61,337)
	3,260,691	-	3,260,691	235,691
	426,069	-	426,069	63,469
	561,752	-	561,752	561,752
	18,790	-	18,790	(3,210)
	2,132,545	-	2,132,545	257,545
	12,228,387	-	12,228,387	(252,110)
	12,099	-	12,099	12,099
	578,177	-	578,177	91,577
	1,388,405	-	1,388,405	278,595
	394,975	-	394,975	66,915
	2,516,944	-	2,516,944	331,615
	72,627	-	72,627	(27,373)
	<u>83,374,965</u>	<u>-</u>	<u>83,374,965</u>	<u>1,555,228</u>
	3,318,224	232,727	3,550,951	249,301
	10,664,433	31,823	10,696,256	181,520
	34,481,211	198,890	34,680,101	5,727
	9,458,948	348,373	9,807,321	179,242
	726,575	3,937	730,512	12,426
	684,964	-	684,964	29,732
	5,409,640	-	5,409,640	15
	6,114,359	-	6,114,359	170,960
	480,338	-	480,338	7,425
	4,440,241	-	4,440,241	78,387
	6,309,311	-	6,309,311	-
	1,938,638	-	1,938,638	17,205
	<u>84,026,882</u>	<u>815,750</u>	<u>84,842,632</u>	<u>931,940</u>
	<u>(651,917)</u>	<u>(815,750)</u>	<u>(1,467,667)</u>	<u>2,487,168</u>
	3,579,579	-	3,579,579	81,782
	112,374	-	112,374	12,374
	3,600	-	3,600	3,600
	<u>(1,900,765)</u>	<u>-</u>	<u>(1,900,765)</u>	<u>-</u>
	<u>1,794,788</u>	<u>-</u>	<u>1,794,788</u>	<u>97,756</u>
	1,142,871	(815,750)	327,121	2,584,924
	<u>3,788,444</u>	<u>3,788,444</u>	<u>3,788,444</u>	<u>-</u>
\$	<u>4,931,315</u>	<u>2,972,694</u>	<u>4,115,565</u>	<u>2,584,924</u>

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
01/01/10	\$ 65,139,502	\$ 138,859,148	\$ 73,719,646	46.9%	\$ 23,227,715	317.4%
01/01/08	71,938,829	128,811,115	56,872,286	55.8%	22,787,184	249.6%
01/01/06	58,165,000	117,403,000	59,238,000	49.5%	20,903,000	283.4%
01/01/04	52,051,000	105,752,000	53,701,000	49.2%	20,532,000	261.5%
01/01/03	46,649,000	99,649,000	53,000,000	46.8%	20,985,000	252.6%
01/01/01	48,733,000	81,303,000	32,570,000	59.9%	19,439,000	167.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Annually Required Contributions (ARC)</u>	<u>Percentage of ARC Contributed (%)</u>
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
2010	6,292,539	100

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

CITY SHARE OF SYSTEM ARC

<u>Fiscal Year Ended</u>	<u>ARC</u>	<u>Percentage of ARC Contributed (%)</u>	<u>City ARC as a Percentage of System ARC (%)</u>
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%
2011	5,884,564	100	93.5%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE

The following schedule provides information related to the City's other postemployment benefits plan:

SCHEDULES OF FUNDING PROGRESS

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)
06/30/09	\$ -	\$ 220,755,787	\$ 220,755,787	-	\$ 47,216,775	468%
01/01/08	-	147,790,883	147,790,883	-	47,234,000	313%

The significant change to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress is the increase in the trend on medical and prescription drug costs.

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, 2011, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 83,374,965	\$ 84,842,632	\$ 1,794,788
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	(218,958)	-	-
Net change in recording tax refunds payable.....	7,187	-	-
To record MTRS on-behalf payments.....	7,578,411	7,578,411	-
Net change in recording short-term interest accrual.....	-	(6,246)	-
To record MWPAT interest subsidy.....	252,312	252,312	-
Net change in recording worker's compensation.....	-	(80,746)	-
To record encumbrances and continuing appropriations.....	-	(815,750)	-
Total on GAAP basis of accounting.....	90,993,917	91,770,613	1,794,788
<u>Reclassifications</u>			
To reclassify sewer betterment principal.....	-	(2,047,514)	(2,047,514)
To reclassify sewer betterment interest.....	-	(473,186)	(473,186)
To reclassify the stabilization fund to the general fund.....	8,388	-	400,000
To reclassify the capital stabilization fund to the general fund.....	-	-	109,793
To reclassify the OPEB fund to the general fund.....	-	-	10,000
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>91,002,305</u>	\$ <u>89,249,913</u>	\$ <u>(206,119)</u>