

**CITY OF GLOUCESTER, MASSACHUSETTS**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



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# *Independent Auditors' Report*



*Certified Public Accountants*

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## **Independent Auditors' Report**

To the Honorable City Council  
City of Gloucester, Massachusetts

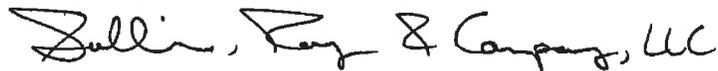
We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gloucester, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2011), 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 for 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, 2012 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2013, 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 general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 65 through 70) 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.

A handwritten signature in cursive script that reads "Sullivan, King & Company, LLC".

January 14, 2013

# *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, 2012.

### *Financial Highlights*

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$144,646,480 (net assets). The City's governmental activities has an unrestricted net deficit of \$23,443,933 and its business-type activities unrestricted net assets total \$23,299,662.
- The City's total net assets decreased by \$210,463.
- At the end of the fiscal year, the general fund unassigned fund balance totaled \$8,422,360, or 9.1 percent of total general fund expenditures and transfers out.
- The City's total bonded debt increased by \$5,379,139 during the fiscal year. The City issued \$15,398,000 of new debt during the year for building improvements, 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 required 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 570 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 569 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 18-21 of this report.

#### **Proprietary funds**

The City maintains one type of proprietary fund.

*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 funds 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 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 funds 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 27-63 of this report.

**Required Supplementary**

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 65-70.

**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 \$144,646,480 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2012	2011*	2012	2011*	2012	2011*
<b>Assets</b>						
Current assets.....	\$ 31,980,881	\$ 29,622,134	\$ 18,241,018	\$ 18,919,312	\$ 50,221,899	\$ 48,541,446
Noncurrent assets (excluding capital assets).....	10,172,429	11,134,684	11,501,357	14,520,205	21,673,786	25,654,889
Capital assets (net).....	73,918,602	68,787,642	178,031,564	169,359,041	251,950,166	238,146,683
<b>Total assets.....</b>	<b>116,071,912</b>	<b>109,544,460</b>	<b>207,773,939</b>	<b>202,798,558</b>	<b>323,845,851</b>	<b>312,343,018</b>
<b>Liabilities</b>						
Current liabilities (excluding debt).....	3,894,604	4,922,235	1,181,527	1,306,980	5,076,131	6,229,215
Noncurrent liabilities (excluding debt).....	35,610,961	26,857,024	1,478,909	1,108,248	37,089,870	27,965,272
Current debt.....	12,282,424	10,728,765	17,438,457	19,324,609	29,720,881	30,053,374
Noncurrent debt.....	30,964,886	32,984,153	76,347,603	70,254,061	107,312,489	103,238,214
<b>Total liabilities.....</b>	<b>82,752,875</b>	<b>75,492,177</b>	<b>96,446,496</b>	<b>91,993,898</b>	<b>179,199,371</b>	<b>167,486,075</b>
<b>Net Assets</b>						
Invested in capital assets (net of related debt).....	42,164,538	35,824,465	88,027,781	83,580,085	130,192,319	119,404,550
Restricted.....	14,598,432	11,686,351	-	-	14,598,432	11,686,351
Unrestricted.....	(23,443,933)	(13,458,533)	23,299,662	27,224,575	(144,271)	13,766,042
<b>Total net assets.....</b>	<b>\$ 33,319,037</b>	<b>\$ 34,052,283</b>	<b>\$ 111,327,443</b>	<b>\$ 110,804,660</b>	<b>\$ 144,646,480</b>	<b>\$ 144,856,943</b>

\* Reflects reclassification of certain net asset components.

The largest portion of the City's net assets (\$130,192,319) 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 (\$14,598,432) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents a net deficit of \$144,271. Of this amount, \$23,299,662 may be used to support business-type activities and (\$23,443,933) 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. Such resources have been consumed with the recognition of other postemployment benefit liabilities.

Changes in Net Assets

For the fiscal year ended June 30, 2012, the City's total net assets decreased by \$210,463 and are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services.....	\$ 11,179,812	\$ 10,519,021	\$ 13,399,135	\$ 14,580,630	\$ 24,578,947	\$ 25,099,651
Operating grants and contributions.....	23,651,184	23,658,517	133,507	580,041	23,784,691	24,238,558
Capital grants and contributions.....	2,295,805	985,212	1,235,968	-	3,531,773	985,212
<i>General Revenues:</i>						
Real estate and personal property taxes.....	63,077,695	60,667,389	-	-	63,077,695	60,667,389
Motor vehicle and other excise taxes.....	3,479,764	3,043,658	-	-	3,479,764	3,043,658
Hotel/motel taxes.....	411,738	426,069	-	-	411,738	426,069
Penalties and interest on taxes.....	605,280	580,182	-	-	605,280	580,182
Payments in lieu of taxes.....	29,294	18,790	-	-	29,294	18,790
Community preservation surcharges.....	473,254	457,425	-	-	473,254	457,425
Grants and contributions not restricted to specific programs.....	3,400,000	3,400,946	-	-	3,400,000	3,400,946
Unrestricted investment income.....	78,204	81,153	-	-	78,204	81,153
<b>Total revenues.....</b>	<b>108,682,030</b>	<b>103,838,362</b>	<b>14,768,610</b>	<b>15,160,671</b>	<b>123,450,640</b>	<b>118,999,033</b>
<b>Expenses</b>						
General government.....	8,065,325	7,590,541	-	-	8,065,325	7,590,541
Public safety.....	21,639,656	21,378,976	-	-	21,639,656	21,378,976
Education.....	61,434,195	60,613,207	-	-	61,434,195	60,613,207
Public works.....	11,520,406	12,903,774	-	-	11,520,406	12,903,774
Health and human services.....	2,760,670	2,897,092	-	-	2,760,670	2,897,092
Culture and recreation.....	1,338,998	1,228,440	-	-	1,338,998	1,228,440
Debt service - interest.....	1,570,886	1,489,621	-	-	1,570,886	1,489,621
Sewer.....	-	-	9,627,430	9,188,687	9,627,430	9,188,687
Water.....	-	-	5,068,206	5,169,099	5,068,206	5,169,099
Waterways.....	-	-	379,238	415,062	379,238	415,062
Talbot rink.....	-	-	256,093	215,488	256,093	215,488
<b>Total expenses.....</b>	<b>108,330,136</b>	<b>108,101,651</b>	<b>15,330,967</b>	<b>14,988,336</b>	<b>123,661,103</b>	<b>123,089,987</b>
Change in net assets before transfers and special items.....	351,894	(4,263,289)	(562,357)	172,335	(210,463)	(4,090,954)
Transfers, net.....	(1,085,140)	(691,716)	1,085,140	691,716	-	-
Special item - transfer of capital assets.....	-	(141,405)	-	141,405	-	-
<b>Change in net assets.....</b>	<b>(733,246)</b>	<b>(5,096,410)</b>	<b>522,783</b>	<b>1,005,456</b>	<b>(210,463)</b>	<b>(4,090,954)</b>
Net assets - beginning of year.....	34,052,283	39,148,693	110,804,660	109,799,204	144,856,943	148,947,897
<b>Net assets - end of year.....</b>	<b>\$ 33,319,037</b>	<b>\$ 34,052,283</b>	<b>\$ 111,327,443</b>	<b>\$ 110,804,660</b>	<b>\$ 144,646,480</b>	<b>\$ 144,856,943</b>

Governmental activities decreased the City's net assets by \$733,246. In the prior year, governmental activities decreased the City's net assets by \$5,096,410. The key elements of this change relates to favorable general fund budget results and an increase in capital grants and contributions

Business-type activities increased the City's net assets by \$522,783. In the prior year, business-type activities increased the City's net assets by \$1,005,456. The key element of this change is in increase in sewer enterprise expenses of approximately \$439,000.

### *Fund Financial Statement Analysis*

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

#### Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$15,853,763, an increase of \$2,121,118 in comparison with the prior year. Approximately \$3,273,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Restricted (\$10,440,834)
- Committed (\$762,351)
- Assigned (\$1,377,844)

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 \$8,422,360, while total fund balance was \$10,582,572. 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 9.1% of total general fund expenditures and transfers out, while total fund balance represents 11.4% of that same amount.

The balance of the City's general fund increased by \$3,405,690 during fiscal year 2012. The key element of this change is a positive budget to actual variance totaling approximately \$5,745,000 (excluding encumbrances and continuing appropriations), offset by the use of reserves of approximately \$3,144,000 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 \$19,516,735, \$3,214,329, \$472,082 and \$96,516, respectively. The sewer and waterways enterprise funds had a decrease in net assets for the year of \$730,826 and \$63,933, respectively, whereas the water and Talbot rink enterprise funds had an increase in net assets for the year of \$1,271,692 and \$45,850, respectively. Other factors concerning the finances of these 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 \$87,497,435 was increased by \$2,716,729 (3.1%) during the year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Transfer to the stabilization fund.....	\$ 790,000	Unassigned fund balance and intergovernmental revenue
School expenses.....	684,439	Unassigned fund balance
Public works expenses.....	180,300	Unassigned fund balance
Fire department expenses.....	148,124	Unassigned fund balance
Public works paving.....	130,000	Unassigned fund balance and transfer from nonmajor governmental fund
Transfer to the capital projects stabilization fund.....	117,980	Unassigned fund balance and intergovernmental revenue
Public works salaries and wages.....	100,000	Unassigned fund balance
Transfer to school food service special revenue fund.....	60,000	Unassigned fund balance
Treasurer/Collector capital equipment.....	59,750	Unassigned fund balance
Community development salaries and wages.....	56,000	Transfer from nonmajor governmental fund
Fire department salaries and wages.....	50,000	Unassigned fund balance
Library expenses.....	42,900	Unassigned fund balance
Police department expenses.....	38,000	Unassigned fund balance
MIS department expenses.....	35,000	Unassigned fund balance
Legal department expenses.....	33,770	Unassigned fund balance and intergovernmental revenue
Mayor's office expenses.....	26,200	Unassigned fund balance
Tourism department expenses.....	25,000	Unassigned fund balance
City council expenses.....	25,000	Unassigned fund balance
Veteran's department expenses.....	20,000	Unassigned fund balance
Police department for salaries and wages.....	20,000	Unassigned fund balance
Health department expenses.....	16,000	Unassigned fund balance
Transfer to the OPEB trust fund.....	10,000	Unassigned fund balance
Personnel department expenses.....	7,961	Unassigned fund balance
Treasurer/Collector expenses.....	7,500	Unassigned fund balance
MIS capital equipment.....	7,500	Unassigned fund balance
Assessors department expenses.....	6,300	Unassigned fund balance
Council on aging expenses.....	5,105	Unassigned fund balance
Police capital equipment.....	5,000	Unassigned fund balance
City clerk expenses.....	4,700	Unassigned fund balance
Community development expenses.....	3,000	Transfer from nonmajor governmental fund
Purchasing department expenses.....	1,200	Unassigned fund balance
<b>Total increase.....</b>	<b>\$ 2,716,729</b>	

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 \$4,367,000. Encumbrances and continuing appropriations total approximately \$1,378,000 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 \$251,950,166 (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 \$13,803,483, or 5.8% (a 2.2% increase for governmental activities and a 3.6% increase for business-type activities).

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

- Sewer projects construction in progress (\$6,775,197)
- School roof replacements (\$3,152,197)
- Water projects construction in progress (\$3,068,141)
- Streets paving (\$1,597,108)
- Talbot Rink improvements (\$714,992)
- Harborwalk design services construction in progress (\$685,193)
- CSO surface improvements construction in progress (\$677,978)
- Fire truck purchase (\$599,620)
- City Hall restoration construction in progress (\$370,816)
- Ambulance purchase (\$220,881)

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>	
	2012	2011	2012	2011	2012	2011
Land.....	\$ 19,201,783	\$ 19,201,783	\$ 4,512,584	\$ 4,512,584	\$ 23,714,367	\$ 23,714,367
Buildings.....	25,729,418	27,872,422	445,977	558,192	26,175,395	28,430,614
Improvements.....	5,554,599	2,572,215	1,394,389	765,908	6,948,988	3,338,123
Machinery and equipment.....	1,712,646	1,259,200	681,089	591,380	2,393,735	1,850,580
Vehicles.....	3,521,954	2,765,568	328,446	229,768	3,850,400	2,995,336
Other.....	540,331	521,896	266,956	51,851	807,287	573,747
Infrastructure.....	15,509,305	14,264,678	134,967,847	133,699,940	150,477,152	147,964,618
Construction in progress.....	2,148,566	329,880	35,434,276	28,949,418	37,582,842	29,279,298
<b>Total capital assets.....</b>	<b>\$ 73,918,602</b>	<b>\$ 68,787,642</b>	<b>\$ 178,031,564</b>	<b>\$ 169,359,041</b>	<b>\$ 251,950,166</b>	<b>\$ 238,146,683</b>

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 \$118,522,716, 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>	
	2012	2011	2012	2011	2012	2011
General obligation bonds.....	\$ 27,622,204	\$ 29,619,813	\$ 40,620,797	\$ 30,664,187	\$ 68,243,001	\$ 60,284,000
MWPAT notes.....	8,381,952	8,029,194	41,897,763	44,830,383	50,279,715	52,859,577
<b>Total bonds and notes.....</b>	<b>\$ 36,004,156</b>	<b>\$ 37,649,007</b>	<b>\$ 82,518,560</b>	<b>\$ 75,494,570</b>	<b>\$ 118,522,716</b>	<b>\$ 113,143,577</b>

The City's total bonded debt increased by \$5,379,139 (4.8%) during the current fiscal year. \$15,398,000 of new debt was issued during the year for the building improvements, Title V projects, 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 March 8, 2012.

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

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

The fiscal year 2013 general fund operating budget of \$91 million represents a \$3.5 million or 4.0% increase from the fiscal year 2012 budget. This is primarily due to approximately \$1.7 million or 4.8% increase in education expenses, approximately \$582,000 million or 6.8% increase in public works expenses, approximately \$105,000 or 1.8% increase in state and county assessments, approximately \$190,000 or 3.4% increase in pension benefits and approximately \$722,000 or 6.6% increase in public safety expenditures. The fiscal year 2013 operating budget includes approximately \$1,378,000 of appropriations carried forward from fiscal year 2012.

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 2012 to fiscal year 2013, exclusive of debt service excluded from Proposition 2 ½ and a water and sewer debt shift, will be approximately \$654,000. The City is scheduled to receive \$10.5 million in state aid in fiscal year 2013, net of school construction grants. This amount is \$157,000 or 1.5%, less than received in fiscal year 2012.

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 8.8 percent, which is a 0.4% increase from a rate of 8.4 percent a year ago. This compares unfavorably to the state's average unemployment rate of 6.6 percent and unfavorable to the national average of 7.8 percent.

According to the City's Board of Assessors, the average fiscal year 2012 single family home in the City is valued at \$452,553; the average two-family home is valued at \$345,829; the average 2012 commercial and industrial property is valued at \$656,366 - 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, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Gloucester Lyceum and Sawyer Free Library, Inc.
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents.....	\$ 13,253,938	\$ 5,546,170	\$ 18,800,108	\$ 290,326
Restricted cash and cash equivalents.....	10,773,426	6,741,314	17,514,740	-
Restricted investments.....	902,973	-	902,973	4,183,875
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	1,193,249	-	1,193,249	-
Tax and utility liens.....	1,895,319	336,088	2,231,407	-
Motor vehicle and other excise taxes.....	297,336	33,285	330,621	-
Community preservation surcharges.....	10,466	-	10,466	-
User charges.....	-	3,946,458	3,946,458	-
Special assessments.....	55,513	1,332,214	1,387,727	-
Departmental and other.....	1,456,163	20,057	1,476,220	-
Intergovernmental.....	2,078,571	285,432	2,364,003	-
Loans.....	63,927	-	63,927	-
Total current assets.....	31,980,881	18,241,018	50,221,899	4,474,201
Noncurrent assets:				
Receivables, net of allowance for uncollectible amounts:				
Real estate tax deferrals.....	137,831	-	137,831	-
Special assessments.....	3,965,978	9,370,178	13,336,156	-
Intergovernmental.....	4,684,890	2,131,179	6,816,069	-
Loans.....	917,887	-	917,887	-
Tax foreclosures.....	465,843	-	465,843	-
Capital assets not being depreciated.....	21,350,349	39,946,860	61,297,209	1,000
Capital assets, net of accumulated depreciation.....	52,568,253	138,084,704	190,652,957	2,152,485
Total noncurrent assets.....	84,091,031	189,532,921	273,623,952	2,153,485
Total assets.....	116,071,912	207,773,939	323,845,851	6,627,686
<b>LIABILITIES</b>				
Current liabilities:				
Warrants payable.....	630,473	214,062	844,535	-
Accrued payroll.....	1,765,977	4,237	1,770,214	-
Tax refunds payable.....	364,476	-	364,476	-
Other liabilities.....	344,071	12,746	356,817	21,421
Accrued interest.....	508,917	935,669	1,444,586	-
Workers' compensation claims.....	49,800	-	49,800	-
Landfill postclosure.....	36,617	-	36,617	-
Compensated absences.....	194,273	14,813	209,086	-
Short-term notes payable.....	7,243,154	11,267,500	18,510,654	-
Long-term bonds and notes payable.....	5,039,270	6,170,957	11,210,227	-
Total current liabilities.....	16,177,028	18,619,984	34,797,012	21,421
Noncurrent liabilities:				
Workers' compensation claims.....	282,203	-	282,203	-
Landfill postclosure.....	1,117,333	-	1,117,333	-
Compensated absences.....	1,748,458	133,326	1,881,784	-
Net OPEB obligation.....	32,462,967	1,345,583	33,808,550	-
Long-term bonds and notes payable.....	30,964,886	76,347,603	107,312,489	-
Total noncurrent liabilities.....	66,575,847	77,826,512	144,402,359	-
Total liabilities.....	82,752,875	96,446,496	179,199,371	21,421
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt.....	42,164,538	88,027,781	130,192,319	-
Restricted for:				
Other postemployment benefits.....	20,017	-	20,017	-
Community preservation.....	2,724,032	-	2,724,032	-
Loans.....	981,814	-	981,814	-
Permanent funds.....	1,010,809	-	1,010,809	-
Other specific purposes.....	9,861,760	-	9,861,760	3,945,579
Unrestricted.....	(23,443,933)	23,299,662	(144,271)	2,660,686
Total net assets.....	\$ 33,319,037	\$ 111,327,443	\$ 144,646,480	\$ 6,606,265

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
Governmental activities:					
General government.....	\$ 8,065,325	\$ 1,925,415	\$ 1,895,543	\$ -	\$ (4,244,367)
Public safety.....	21,639,656	4,242,730	892,819	-	(16,504,107)
Education.....	61,434,195	1,422,699	19,567,012	1,521,570	(38,922,914)
Public works.....	11,520,406	3,146,335	128,180	774,235	(7,471,656)
Health and human services.....	2,760,670	442,633	822,203	-	(1,495,834)
Culture and recreation.....	1,338,998	-	29,287	-	(1,309,711)
Debt service - interest.....	1,570,886	-	316,140	-	(1,254,746)
Total governmental activities.....	108,330,136	11,179,812	23,651,184	2,295,805	(71,203,335)
Business-type activities:					
Sewer.....	9,627,430	6,357,411	90,984	1,235,968	(1,943,067)
Water.....	5,068,206	6,447,059	17,840	-	1,396,693
Waterways.....	379,238	296,647	20,758	-	(61,833)
Talbot rink.....	256,093	298,018	3,925	-	45,850
Total business-type activities.....	15,330,967	13,399,135	133,507	1,235,968	(562,357)
Total primary government.....	\$ 123,661,103	\$ 24,578,947	\$ 23,784,691	\$ 3,531,773	\$ (71,765,692)
<b>Component units:</b>					
Gloucester Lyceum and Sawyer Free Library, Inc.....	\$ 1,124,550	\$ 40,714	\$ -	\$ 1,105,339	\$ 21,503

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets:</b>				
Net (expense)/revenue (from previous page).....	\$ (71,203,335)	\$ (562,357)	\$ (71,765,692)	\$ 21,503
<i>General revenues:</i>				
Real estate personal property taxes.....	63,077,695	-	63,077,695	-
Motor vehicle and other excise taxes.....	3,479,764	-	3,479,764	-
Hotel/motel taxes.....	411,738	-	411,738	-
Penalties and interest on taxes.....	605,280	-	605,280	-
Payments in lieu of taxes.....	29,294	-	29,294	-
Community preservation surcharges.....	473,254	-	473,254	-
Grants and contributions not restricted to specific programs.....	3,400,000	-	3,400,000	-
Unrestricted investment income.....	78,204	-	78,204	64,118
<i>Transfers, net</i> .....	(1,085,140)	1,085,140	-	-
Total general revenues and transfers.....	70,470,089	1,085,140	71,555,229	64,118
Change in net assets.....	(733,246)	522,783	(210,463)	85,621
Net assets - beginning of year.....	34,052,283	110,804,660	144,856,943	6,520,644
Net assets - end of year.....	\$ 33,319,037	\$ 111,327,443	\$ 144,646,480	\$ 6,606,265

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2012

ASSETS	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 13,253,938	\$ -	\$ 13,253,938
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	1,193,249	-	1,193,249
Real estate tax deferrals.....	137,831	-	137,831
Tax liens.....	1,885,349	9,970	1,895,319
Motor vehicle and other excise taxes.....	297,336	-	297,336
Community preservation surcharges.....	-	10,466	10,466
Special assessments.....	47,284	3,974,207	4,021,491
Departmental and other.....	1,346,489	109,674	1,456,163
Intergovernmental.....	5,849,865	913,596	6,763,461
Loans.....	-	981,814	981,814
Tax foreclosures.....	465,843	-	465,843
Restricted assets:			
Cash and cash equivalents.....	20,017	10,753,409	10,773,426
Investments.....	-	902,973	902,973
<b>TOTAL ASSETS.....</b>	<b>\$ 24,497,201</b>	<b>\$ 17,656,109</b>	<b>\$ 42,153,310</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Warrants payable.....	\$ 628,558	\$ 1,915	\$ 630,473
Accrued payroll.....	1,613,585	152,392	1,765,977
Tax refunds payable.....	364,476	-	364,476
Other liabilities.....	333,072	10,999	344,071
Deferred revenue.....	10,642,935	4,976,458	15,619,393
Workers' compensation claims.....	332,003	-	332,003
Short-term notes payable.....	-	7,243,154	7,243,154
<b>TOTAL LIABILITIES.....</b>	<b>13,914,629</b>	<b>12,384,918</b>	<b>26,299,547</b>
<b>FUND BALANCES:</b>			
Restricted.....	20,017	10,420,817	10,440,834
Committed.....	762,351	-	762,351
Assigned.....	1,377,844	-	1,377,844
Unassigned.....	8,422,360	(5,149,626)	3,272,734
<b>TOTAL FUND BALANCES.....</b>	<b>10,582,572</b>	<b>5,271,191</b>	<b>15,853,763</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 24,497,201</b>	<b>\$ 17,656,109</b>	<b>\$ 42,153,310</b>

See notes to basic financial statements.

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Real estate and personal property taxes.....	\$ 62,754,348	\$ -	\$ 62,754,348
Motor vehicle and other excise taxes.....	3,463,782	-	3,463,782
Hotel/motel tax.....	411,738	-	411,738
Tax liens.....	1,006,581	-	1,006,581
Payments in lieu of taxes.....	29,294	-	29,294
Community preservation surcharges.....	-	472,528	472,528
Charges for services.....	1,946,009	1,246,947	3,192,956
Intergovernmental.....	20,511,319	9,194,995	29,706,314
Special assessments.....	3,704	447,088	450,792
Penalties and interest on taxes.....	603,599	7,207	610,806
Licenses and permits.....	1,382,935	-	1,382,935
Fines and forfeitures.....	606,414	-	606,414
Departmental and other.....	2,580,815	2,412,799	4,993,614
Contributions.....	-	582,757	582,757
Investment income.....	78,163	232	78,395
<b>TOTAL REVENUES.....</b>	<b>95,378,701</b>	<b>14,364,553</b>	<b>109,743,254</b>
<b>EXPENDITURES</b>			
Current:			
General government.....	3,713,786	3,020,903	6,734,689
Public safety.....	11,364,707	2,742,051	14,106,758
Education.....	35,143,707	8,663,983	43,807,690
Public works.....	8,242,966	2,603,941	10,846,907
Health and human services.....	810,366	1,337,168	2,147,534
Culture and recreation.....	728,770	8,975	737,745
Pension benefits.....	13,455,303	-	13,455,303
Employee benefits.....	6,024,906	-	6,024,906
Property and liability insurance.....	458,686	-	458,686
State and county charges.....	5,127,863	-	5,127,863
Debt service:			
Principal.....	4,664,851	-	4,664,851
Interest.....	1,613,112	-	1,613,112
<b>TOTAL EXPENDITURES.....</b>	<b>91,349,023</b>	<b>18,377,021</b>	<b>109,726,044</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>4,029,678</b>	<b>(4,012,468)</b>	<b>17,210</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in.....	817,281	99,587	916,868
Proceeds of bonds and notes.....	-	3,020,000	3,020,000
Premium from issuance of bonds and notes.....	161,553	7,495	169,048
Transfers out.....	(1,602,822)	(399,186)	(2,002,008)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>(623,988)</b>	<b>2,727,896</b>	<b>2,103,908</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>3,405,690</b>	<b>(1,284,572)</b>	<b>2,121,118</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>7,176,882</b>	<b>6,555,763</b>	<b>13,732,645</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 10,582,572</b>	<b>\$ 5,271,191</b>	<b>\$ 15,853,763</b>

See notes to basic financial statements.

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

JUNE 30, 2012

Total governmental fund balances (page 18).....	\$	15,853,763
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		73,918,602
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		15,619,393
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.....		(508,917)
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.....		(36,004,156)
Landfill postclosure.....		(1,153,950)
Compensated absences.....		(1,942,731)
Net OPEB obligation.....		<u>(32,462,967)</u>
Net assets of governmental activities (page 15).....	\$	<u><u>33,319,037</u></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, 2012

Net change in fund balances - total governmental funds (page 19).....	\$	2,121,118
<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.....		8,877,373
Depreciation.....		(3,692,859)
<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>		
		(53,554)
<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>		
		(1,008,966)
<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.....		(3,020,000)
Bond maturities.....		4,664,851
<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>		
		42,226
<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.....		36,074
Compensated absences.....		261,212
Net OPEB obligation.....		(8,960,721)
Changes in net assets of governmental activities (page 17).....	\$	<u>(733,246)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS  
STATEMENT OF FUND NET ASSETS

JUNE 30, 2012

Business-Type Activities - Enterprise Funds

ASSETS	Sewer	Water	Nonmajor Waterways	Nonmajor Talbot Rink	Total
<b>Current assets:</b>					
Cash and cash equivalents.....	\$ 2,713,491	\$ 2,140,455	\$ 572,866	\$ 119,358	\$ 5,546,170
Restricted cash and cash equivalents.....	5,864,710	813,398	-	63,206	6,741,314
Receivables, net of allowance for uncollectible amounts:					
Utility liens.....	184,056	152,032	-	-	336,088
Excise taxes.....	-	-	33,285	-	33,285
User charges.....	1,893,830	2,052,628	-	-	3,946,458
Special assessments.....	1,332,214	-	-	-	1,332,214
Departmental and other.....	1,054	-	19,003	-	20,057
Intergovernmental.....	285,432	-	-	-	285,432
Total current assets.....	<u>12,274,787</u>	<u>5,158,513</u>	<u>625,154</u>	<u>182,564</u>	<u>18,241,018</u>
<b>Noncurrent assets:</b>					
Receivables, net of allowance for uncollectible amounts:					
Special assessments.....	9,370,178	-	-	-	9,370,178
Intergovernmental.....	2,131,179	-	-	-	2,131,179
Capital assets not being depreciated.....	20,938,126	18,445,058	538,482	25,194	39,946,860
Capital assets, net of accumulated depreciation.....	<u>109,340,656</u>	<u>26,322,047</u>	<u>1,490,858</u>	<u>931,143</u>	<u>138,084,704</u>
Total noncurrent assets.....	<u>141,780,139</u>	<u>44,767,105</u>	<u>2,029,340</u>	<u>956,337</u>	<u>189,532,921</u>
Total assets.....	<u>154,054,926</u>	<u>49,925,618</u>	<u>2,654,494</u>	<u>1,138,901</u>	<u>207,773,939</u>
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Warrants payable.....	165,997	41,938	5,936	191	214,062
Accrued payroll.....	2,321	1,916	-	-	4,237
Other liabilities.....	-	12,158	588	-	12,746
Accrued interest.....	594,609	341,060	-	-	935,669
Compensated absences.....	2,720	9,325	2,698	70	14,813
Short-term notes payable.....	6,353,000	4,037,500	-	877,000	11,267,500
Long-term bonds and notes payable.....	4,035,819	2,135,138	-	-	6,170,957
Total current liabilities.....	<u>11,154,466</u>	<u>6,579,035</u>	<u>9,222</u>	<u>877,261</u>	<u>18,619,984</u>
<b>Noncurrent liabilities:</b>					
Compensated absences.....	24,484	83,923	24,286	633	133,326
Net OPEB obligation.....	563,605	640,466	119,564	21,948	1,345,583
Long-term bonds and notes payable.....	50,179,740	26,167,863	-	-	76,347,603
Total noncurrent liabilities.....	<u>50,767,829</u>	<u>26,892,252</u>	<u>143,850</u>	<u>22,581</u>	<u>77,826,512</u>
Total liabilities.....	<u>61,922,295</u>	<u>33,471,287</u>	<u>153,072</u>	<u>899,842</u>	<u>96,446,496</u>
<b>FUND NET ASSETS</b>					
Invested in capital assets, net of related debt.....	72,615,896	13,240,002	2,029,340	142,543	88,027,781
Unrestricted.....	19,516,735	3,214,329	472,082	96,516	23,299,662
Total net assets.....	<u>\$ 92,132,631</u>	<u>\$ 16,454,331</u>	<u>\$ 2,501,422</u>	<u>\$ 239,059</u>	<u>\$ 111,327,443</u>

See notes to basic financial statements.

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Business-Type Activities - Enterprise Funds					
	Sewer	Water	Nonmajor Waterways	Nonmajor Talbot Rink	Total
<b>OPERATING REVENUES</b>					
Charges for services.....	\$ 6,080,079	\$ 6,387,601	\$ 218,443	\$ 298,018	\$ 12,984,141
Special assessments.....	44,118	-	-	-	44,118
Boat excise taxes.....	-	-	78,204	-	78,204
Penalties and interest.....	233,214	59,458	-	-	292,672
Other.....	-	-	20,758	-	20,758
<b>TOTAL OPERATING REVENUES.....</b>	<b>6,357,411</b>	<b>6,447,059</b>	<b>317,405</b>	<b>298,018</b>	<b>13,419,893</b>
<b>OPERATING EXPENSES</b>					
Cost of service and administration.....	3,614,159	3,135,586	272,576	222,265	7,244,586
Repairs and maintenance.....	1,433,744	263,424	14,395	-	1,711,563
Depreciation.....	3,240,803	833,535	92,267	33,828	4,200,433
<b>TOTAL OPERATING EXPENSES.....</b>	<b>8,288,706</b>	<b>4,232,545</b>	<b>379,238</b>	<b>256,093</b>	<b>13,156,582</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(1,931,295)</b>	<b>2,214,514</b>	<b>(61,833)</b>	<b>41,925</b>	<b>263,311</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Premium from issuance of bonds and notes.....	37,125	17,840	-	3,925	58,890
Intergovernmental.....	53,859	-	-	-	53,859
Interest expense.....	(1,338,723)	(835,662)	-	-	(2,174,385)
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(1,247,739)</b>	<b>(817,822)</b>	<b>-</b>	<b>3,925</b>	<b>(2,061,636)</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....</b>	<b>(3,179,034)</b>	<b>1,396,692</b>	<b>(61,833)</b>	<b>45,850</b>	<b>(1,798,325)</b>
Capital contributions.....	1,235,968	-	-	-	1,235,968
Transfers in.....	1,505,335	-	-	-	1,505,335
Transfers out.....	(293,095)	(125,000)	(2,100)	-	(420,195)
<b>CHANGE IN NET ASSETS.....</b>	<b>(730,826)</b>	<b>1,271,692</b>	<b>(63,933)</b>	<b>45,850</b>	<b>522,783</b>
<b>FUND NET ASSETS AT BEGINNING OF YEAR.....</b>	<b>92,863,457</b>	<b>15,182,639</b>	<b>2,565,355</b>	<b>193,209</b>	<b>110,804,660</b>
<b>FUND NET ASSETS AT END OF YEAR.....</b>	<b>\$ 92,132,631</b>	<b>\$ 16,454,331</b>	<b>\$ 2,501,422</b>	<b>\$ 239,059</b>	<b>\$ 111,327,443</b>

See notes to basic financial statements.

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				
	Sewer	Water	Nonmajor Waterways	Nonmajor Talbot Rink	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and users	\$ 7,972,887	\$ 6,549,956	\$ 295,366	\$ 298,018	\$ 15,116,227
Payments to vendors	(4,191,695)	(2,491,119)	(173,917)	(112,069)	(6,968,800)
Payments to employees	(695,328)	(729,718)	(109,830)	(95,421)	(1,630,297)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>3,085,864</b>	<b>3,329,119</b>	<b>11,619</b>	<b>90,528</b>	<b>6,517,130</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Capital contributions	1,235,968	-	-	-	1,235,968
Transfers in	1,505,335	-	-	-	1,505,335
Transfers out	(293,095)	(125,000)	(2,100)	-	(420,195)
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>2,448,208</b>	<b>(125,000)</b>	<b>(2,100)</b>	<b>-</b>	<b>2,321,108</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from the issuance of bonds and notes	20,857,890	14,728,927	-	877,000	36,463,817
Premium from issuance of bonds and notes	37,125	17,840	-	3,925	58,890
Intergovernmental grants	516,329	-	-	-	516,329
Acquisition and construction of capital assets	(7,835,372)	(4,201,078)	-	(836,506)	(12,872,956)
Principal payments on bonds and notes	(19,215,597)	(12,596,896)	-	-	(31,812,493)
Interest expense	(1,053,668)	(865,603)	-	-	(1,919,271)
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(6,693,293)</b>	<b>(2,916,810)</b>	<b>-</b>	<b>44,419</b>	<b>(9,565,684)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,159,221)</b>	<b>287,309</b>	<b>9,519</b>	<b>134,947</b>	<b>(727,446)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b> (Includes \$6,990,929 and \$492,366 reported as restricted in the sewer and water enterprise funds, respectively)	<b>9,737,422</b>	<b>2,666,544</b>	<b>563,347</b>	<b>47,617</b>	<b>13,014,930</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> (Includes \$5,864,710, \$813,398 and \$63,206 reported as restricted in the sewer, water and Talbot Rink enterprise funds, respectively)	<b>\$ 8,578,201</b>	<b>\$ 2,953,853</b>	<b>\$ 572,866</b>	<b>\$ 182,564</b>	<b>\$ 12,287,484</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ (1,931,295)	\$ 2,214,514	\$ (61,833)	\$ 41,925	\$ 263,311
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Changes in assets and liabilities not requiring current cash flows:					
Depreciation	3,240,803	833,535	92,267	33,828	4,200,433
Net OPEB obligation	164,027	170,681	25,323	21,948	381,979
Changes in assets and liabilities requiring current cash flows:					
Utility liens	52,036	17,353	-	-	69,389
Excise taxes	-	-	(3,176)	-	(3,176)
User charges	115,423	85,544	-	-	200,967
Special assessments	1,447,841	-	-	-	1,447,841
Departmental and other	176	-	(18,863)	-	(18,687)
Warrants payable	23,286	33,572	(15,506)	(1,253)	40,099
Accrued payroll	(24,341)	(26,877)	(5,857)	(2,950)	(60,025)
Other liabilities	-	7,607	(31)	-	7,576
Compensated absences	(2,092)	(6,810)	(705)	(2,970)	(12,577)
<b>Total adjustments</b>	<b>5,017,159</b>	<b>1,114,605</b>	<b>73,452</b>	<b>48,603</b>	<b>6,253,819</b>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 3,085,864</b>	<b>\$ 3,329,119</b>	<b>\$ 11,619</b>	<b>\$ 90,528</b>	<b>\$ 6,517,130</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>					
Intergovernmental debt subsidies (MWPAT)	\$ 646,264	\$ -	\$ -	\$ -	\$ 646,264

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**

JUNE 30, 2012

<b>ASSETS</b>	Pension Trust Fund <u>(As of 12/31/11)</u>	Private Purpose Trust Funds <u>Trust Funds</u>
Cash and cash equivalents.....	\$ 346,543	\$ 81,417
Investments (PRIT).....	65,267,297	-
Investments (Other).....	-	681,757
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	<u>7,721</u>	<u>-</u>
Total assets.....	<u>65,621,561</u>	<u>763,174</u>
 <b>LIABILITIES</b>		
Warrants payable.....	<u>2,191</u>	<u>-</u>
 <b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes.....	<u>\$ 65,619,370</u>	<u>\$ 763,174</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Pension Trust Fund (As of 12/31/11)	Private Purpose Trust Funds
<b>ADDITIONS</b>		
Contributions:		
Employer.....	\$ 6,543,097	\$ -
Plan members.....	2,097,745	-
Private donations.....	-	1,403
Total contributions.....	<u>8,640,842</u>	<u>1,403</u>
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	(1,411,658)	-
Interest.....	1,961,769	1,127
Total investment income.....	550,111	1,127
Less investment expense.....	<u>(319,707)</u>	<u>-</u>
Net investment income.....	<u>230,404</u>	<u>1,127</u>
Intergovernmental.....	211,338	-
Transfers from other systems.....	170,166	-
TOTAL ADDITIONS.....	<u>9,252,750</u>	<u>2,530</u>
<b>DEDUCTIONS</b>		
Administration.....	253,430	-
Retirement benefits and refunds.....	9,350,334	-
Transfers to other systems.....	266,511	-
Other.....	-	2,553
TOTAL DEDUCTIONS.....	<u>9,870,275</u>	<u>2,553</u>
CHANGE IN NET ASSETS.....	(617,525)	(23)
NET ASSETS AT BEGINNING OF YEAR.....	<u>66,236,895</u>	<u>763,197</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 65,619,370</u>	<u>\$ 763,174</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 2012 assessment totaled \$991,661. Separate audited financial statements may be obtained by contacting the District at 30 Log Bridge Road, Middleton, Massachusetts 01949.

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

#### Government-Wide Financial Statements

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

#### Fund Financial Statements

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

Fiduciary funds are reported by fund type.

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

#### Government-Wide and Fund Financial Statements

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

#### Government-Wide Financial Statements

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

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

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

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

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

### Fund Financial Statements

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

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

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

The following major governmental fund is reported:

The *general fund* is 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.

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

The following fiduciary fund types are reported:

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

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

#### ***E. Deposits and Investments***

##### ***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.

### *F. Accounts Receivable*

#### Government-Wide and Fund Financial Statements

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

#### **Real Estate Taxes, Personal Property Taxes and Tax Liens**

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> 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 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> 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 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup>, and May 1<sup>st</sup> 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.

**Loans**

The City administers various loan programs related to HUD and Brownfield programs. Loans are recorded as receivables upon issuance.

**Departmental and Other**

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

**Intergovernmental**

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

**G. Allowance for Uncollectible Amounts**

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

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

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

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

Intergovernmental receivables are considered 100% collectible.

#### *H. Inventories*

##### Government-Wide and Fund Financial Statements

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

#### *I. Restricted Assets*

##### Government-Wide and Fund Financial Statements

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

#### *J. Capital Assets*

##### Government-Wide and Proprietary Fund Financial Statements

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

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis (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.

**K. Interfund Receivables and Payables**

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

**L. Interfund Transfers**

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

*M. Deferred Revenue*

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

*N. Net Assets and Fund 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:

"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.

#### *O. Long-term Debt*

##### Government-Wide and Proprietary Fund Financial Statements

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

##### Governmental Fund Financial Statements

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

#### *P. Investment Income*

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

Investment income derived from the waterways, sewer and water enterprise funds is voluntarily assigned to the general fund.

#### *Q. Compensated Absences*

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

##### Government-Wide and Proprietary Fund Financial Statements

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

##### Governmental Fund Financial Statements

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

#### *R. Post Retirement Benefits*

##### Government-Wide and Fund Financial Statements

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

### *S. Use of Estimates*

#### Government-Wide and Fund Financial Statements

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

### *T. Total Column*

#### Government-Wide Financial Statements

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

#### Fund Financial Statements

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

## **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### *A. Budgetary Information*

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

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2012 approved budget for the general fund authorized approximately \$87,497,000 in appropriations. During fiscal year 2012, total appropriations were increased by approximately \$2,717,000.

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, 2012, the following temporary fund deficits exist:

<u>Funds</u>	<u>Amount</u>	<u>Funding Source</u>
<b><u>Non-capital:</u></b>		
State 911 Support & Incentive Grant.....	\$ 90,773	State grant
Secure Our Schools Grant.....	35,709	Federal grant
	<u>126,482</u>	
<b><u>Capital:</u></b>		
Schools roof replacements.....	1,630,627	Issuance of long-term debt
Board of health water pollution.....	1,183,835	Issuance of long-term debt
Road improvement paving project.....	747,665	Issuance of long-term debt
CSO surface improvement.....	706,312	Issuance of long-term debt
Departmental equipment.....	551,241	Issuance of long-term debt
School telephone system.....	136,151	Issuance of long-term debt
Nate Ross field.....	35,079	Issuance of long-term debt
Fire station repairs.....	32,234	Issuance of long-term debt
	<u>5,023,144</u>	
Total governmental fund deficits.....	<u>\$ 5,149,626</u>	

**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, 2012, \$25,898,649 of the City's bank balance of \$36,085,251 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2012 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 (in Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
<u>Debt Securities:</u>				
U.S. Agencies.....	\$ 20,258	\$ -	\$ 20,258	\$ -
Corporate bonds.....	574,596	181,602	392,994	-
Money market mutual funds.....	178,409	178,409	-	-
Repurchase agreements.....	1,772,528	1,772,528	-	-
Fixed income securities.....	187,281	187,281	-	-
Certificates of deposit.....	226,356	50,000	160,751	15,605
External investment pools.....	16,817	16,817	-	-
Total debt securities.....	<u>2,976,245</u>	<u>\$ 2,386,637</u>	<u>\$ 574,003</u>	<u>\$ 15,605</u>
<u>Other Investments:</u>				
Equity mutual funds.....	547,555			
Alternative investments.....	<u>28,683</u>			
Total other investments.....	<u>576,238</u>			
Total investments.....	<u>\$ 3,552,483</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, 2012 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.....	\$ 20,258	\$ 20,258
Corporate bonds.....	574,596	574,596
Money market mutual funds.....	158,395	158,395
Cerificates of deposit.....	226,356	226,356
Fixed income securities.....	187,281	187,281
Equity mutual funds.....	547,555	547,555
Alternative investments.....	28,683	28,683
<b>Total.....</b>	<b>\$ 1,743,125</b>	<b>\$ 1,743,125</b>

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, 2012, the credit quality ratings of the City's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *							
		AAA	AA1	AA2	AA3	A1	A2	A3	Unrated
Corporate bonds.....	\$ 574,596	\$ 20,258	\$ 79,602	\$ 73,074	\$ 82,346	\$ 36,603	\$ 141,797	\$ 26,108	\$ 114,809
Money market mutual funds.....	178,409	-	-	-	-	-	-	-	178,409
Certificates of Deposit.....	226,356	-	-	-	-	-	-	-	226,356
Repurchase agreements.....	1,772,528	-	-	-	-	-	-	-	1,772,528
Fixed income securities.....	187,281	-	-	-	-	-	-	-	187,281
External investment pools.....	16,817	-	-	-	-	-	-	-	16,817
<b>Total.....</b>	<b>\$ 2,955,988</b>	<b>\$ 20,258</b>	<b>\$ 79,602</b>	<b>\$ 73,074</b>	<b>\$ 82,346</b>	<b>\$ 36,603</b>	<b>\$ 141,797</b>	<b>\$ 26,108</b>	<b>\$ 2,496,200</b>

\* 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.

The System participates in the Pension Reserve Investment Trust (PRIT), which 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 and provides regulatory oversight. The reported value of the pool is the same as the fair value of the System's position in pool shares.

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, 2011, the System is not exposed to custodial credit risk.

Investments Summary

The System's investments at December 31, 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>Investment Maturities Less than 1 Year</u>
<u>Debt Securities:</u>		
Money market mutual funds (PRIT)... \$	170,085	\$ 170,085
Debt security mutual funds (PRIT).....	<u>14,397,966</u>	<u>14,397,966</u>
Total debt securities.....	<u>14,568,051</u>	<u>\$ 14,568,051</u>
<u>Other Investments:</u>		
Equity mutual funds (PRIT).....	37,372,054	
Real estate investments (PRIT).....	6,102,492	
Alternative investments (PRIT).....	<u>7,394,785</u>	
Total other investments.....	<u>50,869,331</u>	
Total investments.....	<u>\$ 65,437,382</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, 2011, 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, 2011, 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, 2012 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value
Corporate bonds.....	\$ 25,710
Equity securities.....	8,374
Certificates of deposit and money market accounts.....	3,813,313
Equity mutual funds.....	225,815
Debt security mutual funds.....	99,201
Other mutual funds.....	11,462
Total investments.....	<u>\$ 4,183,875</u>

Investments are level 1 under the fair value framework described in Note 1.

**NOTE 4 - ACCOUNTS RECEIVABLE**

At June 30, 2012, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,446,883	\$ (253,634)	\$ 1,193,249
Real estate tax deferrals.....	137,831	-	137,831
Tax liens.....	1,895,319	-	1,895,319
Motor vehicle and other excise taxes.....	729,691	(432,355)	297,336
Community preservation surcharges.....	10,466	-	10,466
Special assessments.....	4,021,491	-	4,021,491
Departmental and other.....	1,631,354	(167,470)	1,463,884
Intergovernmental.....	6,763,461	-	6,763,461
Loans.....	981,814	-	981,814
	<u>\$ 17,618,310</u>	<u>\$ (853,459)</u>	<u>\$ 16,764,851</u>

At June 30, 2012, receivables for the enterprise funds consists of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Utility liens.....	\$ 336,088	\$ -	\$ 336,088
Boat excise taxes.....	246,482	(213,197)	33,285
User charges.....	3,946,458	-	3,946,458
Special assessments.....	10,702,392	-	10,702,392
Departmental and other.....	20,057	-	20,057
Intergovernmental.....	2,416,611	-	2,416,611
	<u>\$ 17,668,088</u>	<u>\$ (213,197)</u>	<u>\$ 17,454,891</u>

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

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 789,356	\$ -	\$ 789,356
Real estate tax deferrals.....	137,831	-	137,831
Tax liens.....	1,895,319	-	1,895,319
Motor vehicle and other excise taxes.....	297,336	-	297,336
Community preservation surcharges.....	-	13,558	13,558
Special assessments.....	-	3,981,086	3,981,086
Departmental and other.....	1,252,154	-	1,252,154
Intergovernmental (state school construction).....	5,008,927	-	5,008,927
Intergovernmental (other state and federal).....	796,169	-	796,169
Loans.....	-	981,814	981,814
Tax foreclosures.....	465,843	-	465,843
Total.....	<u>\$ 10,642,935</u>	<u>\$ 4,976,458</u>	<u>\$ 15,619,393</u>

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 2012, approximately \$1,564,000 of such assistance was received. Approximately \$7,704,000 will be received in future fiscal years. Of this amount, approximately \$2,695,000 represents reimbursement of long-term interest costs, and approximately \$5,009,000 represents reimbursement of approved construction costs. Accordingly, a \$5,008,927 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, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 19,201,783	\$ -	\$ -	\$ 19,201,783
Construction in progress.....	329,880	1,911,870	(93,184)	2,148,566
Total capital assets not being depreciated.....	<u>19,531,663</u>	<u>1,911,870</u>	<u>(93,184)</u>	<u>21,350,349</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	60,471,942	-	-	60,471,942
Improvements.....	5,491,318	3,289,182	-	8,780,500
Machinery and equipment.....	6,781,053	769,421	(273,839)	7,276,635
Vehicles.....	6,577,347	1,191,231	-	7,768,578
Other.....	1,078,875	94,376	-	1,173,251
Infrastructure.....	17,416,292	1,714,477	-	19,130,769
Total capital assets being depreciated.....	<u>97,816,827</u>	<u>7,058,687</u>	<u>(273,839)</u>	<u>104,601,675</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(32,599,520)	(2,143,004)	-	(34,742,524)
Improvements.....	(2,919,103)	(306,798)	-	(3,225,901)
Machinery and equipment.....	(5,521,853)	(262,421)	220,285	(5,563,989)
Vehicles.....	(3,811,779)	(434,845)	-	(4,246,624)
Other.....	(556,979)	(75,941)	-	(632,920)
Infrastructure.....	(3,151,614)	(469,850)	-	(3,621,464)
Total accumulated depreciation.....	<u>(48,560,848)</u>	<u>(3,692,859)</u>	<u>220,285</u>	<u>(52,033,422)</u>
Total capital assets being depreciated, net.....	<u>49,255,979</u>	<u>3,365,828</u>	<u>(53,554)</u>	<u>52,568,253</u>
Total governmental activities capital assets, net.....	<u>\$ 68,787,642</u>	<u>\$ 5,277,698</u>	<u>\$ (146,738)</u>	<u>\$ 73,918,602</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Sewer Enterprise Fund:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 379,839	\$ -	\$ -	\$ 379,839
Construction in progress.....	16,002,293	6,775,197	(2,219,203)	20,558,287
Total capital assets not being depreciated.....	<u>16,382,132</u>	<u>6,775,197</u>	<u>(2,219,203)</u>	<u>20,938,126</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	4,370,258	-	-	4,370,258
Improvements.....	52,702	-	-	52,702
Machinery and equipment.....	349,446	-	-	349,446
Vehicles.....	522,043	54,406	-	576,449
Other.....	66,491	189,371	-	255,862
Infrastructure.....	149,195,954	3,035,601	-	152,231,555
Total capital assets being depreciated.....	<u>154,556,894</u>	<u>3,279,378</u>	<u>-</u>	<u>157,836,272</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(3,937,526)	(103,254)	-	(4,040,780)
Improvements.....	(26,939)	(3,750)	-	(30,689)
Machinery and equipment.....	(280,497)	(26,991)	-	(307,488)
Vehicles.....	(366,566)	(55,943)	-	(422,509)
Other.....	(23,196)	(29,235)	-	(52,431)
Infrastructure.....	(40,620,089)	(3,021,630)	-	(43,641,719)
Total accumulated depreciation.....	<u>(45,254,813)</u>	<u>(3,240,803)</u>	<u>-</u>	<u>(48,495,616)</u>
Total capital assets being depreciated, net.....	<u>109,302,081</u>	<u>38,575</u>	<u>-</u>	<u>109,340,656</u>
Total sewer capital assets, net.....	<u>\$ 125,684,213</u>	<u>\$ 6,813,772</u>	<u>\$ (2,219,203)</u>	<u>\$ 130,278,782</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water Enterprise Fund:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,594,263	\$ -	\$ -	\$ 3,594,263
Construction in progress.....	12,947,125	3,068,141	(1,164,471)	14,850,795
Total capital assets not being depreciated.....	<u>16,541,388</u>	<u>3,068,141</u>	<u>(1,164,471)</u>	<u>18,445,058</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	160,023	-	-	160,023
Machinery and equipment.....	1,080,167	77,270	-	1,157,437
Vehicles.....	324,142	134,632	-	458,774
Other.....	13,828	64,149	-	77,977
Infrastructure.....	34,911,720	2,021,357	-	36,933,077
Total capital assets being depreciated.....	<u>36,489,880</u>	<u>2,297,408</u>	<u>-</u>	<u>38,787,288</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(160,023)	-	-	(160,023)
Machinery and equipment.....	(616,050)	(45,801)	-	(661,851)
Vehicles.....	(270,776)	(29,767)	-	(300,543)
Other.....	(5,272)	(9,180)	-	(14,452)
Infrastructure.....	(10,579,585)	(748,787)	-	(11,328,372)
Total accumulated depreciation.....	<u>(11,631,706)</u>	<u>(833,535)</u>	<u>-</u>	<u>(12,465,241)</u>
Total capital assets being depreciated, net.....	<u>24,858,174</u>	<u>1,463,873</u>	<u>-</u>	<u>26,322,047</u>
Total water capital assets, net.....	<u>\$ 41,399,562</u>	<u>\$ 4,532,014</u>	<u>\$ (1,164,471)</u>	<u>\$ 44,767,105</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Waterways Nonmajor Enterprise Fund:</b>				
<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.....	158,113	-	-	158,113
Vehicles.....	23,250	-	-	23,250
Infrastructure.....	931,694	-	-	931,694
Total capital assets being depreciated.....	2,410,771	-	-	2,410,771
<u>Less accumulated depreciation for:</u>				
Improvements.....	(557,569)	(64,886)	-	(622,455)
Machinery and equipment.....	(127,998)	(4,097)	-	(132,095)
Vehicles.....	(2,325)	(4,650)	-	(6,975)
Infrastructure.....	(139,754)	(18,634)	-	(158,388)
Total accumulated depreciation.....	(827,646)	(92,267)	-	(919,913)
Total capital assets being depreciated, net.....	1,583,125	(92,267)	-	1,490,858
Total waterways nonmajor enterprise capital assets, net.....	\$ 2,121,607	\$ (92,267)	\$ -	\$ 2,029,340
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Talbot Rink Nonmajor Enterprise Fund:</b>				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ -	\$ 25,194	\$ -	\$ 25,194
<u>Capital assets being depreciated:</u>				
Buildings.....	125,460	-	-	125,460
Improvements.....	-	714,992	-	714,992
Machinery and equipment.....	28,844	96,320	-	125,164
Total capital assets being depreciated.....	154,304	811,312	-	965,616
<u>Less accumulated depreciation for:</u>				
Buildings.....	-	(8,961)	-	(8,961)
Improvements.....	-	(17,875)	-	(17,875)
Machinery and equipment.....	(645)	(6,992)	-	(7,637)
Total accumulated depreciation.....	(645)	(33,828)	-	(34,473)
Total capital assets being depreciated, net.....	153,659	777,484	-	931,143
Total talbot rink nonmajor enterprise capital assets, net.....	\$ 153,659	\$ 802,678	\$ -	\$ 956,337
Total business-type activities capital assets, net.....	\$ 169,359,041	\$ 12,056,197	\$ (3,383,674)	\$ 178,031,564

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Component Unit:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,000	\$ -	\$ -	\$ 1,000
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	2,099,315	1,183,205	-	3,282,520
Equipment.....	201,683	21,866	-	223,549
Total capital assets being depreciated.....	<u>2,300,998</u>	<u>1,205,071</u>	<u>-</u>	<u>3,506,069</u>
<u>Less accumulated depreciation for:</u>				
Buildings, improvements and equipment.....	(1,286,132)	(67,452)	-	(1,353,584)
Total capital assets being depreciated, net.....	<u>1,014,866</u>	<u>1,137,619</u>	<u>-</u>	<u>2,152,485</u>
Total component unit capital assets, net.....	<u>\$ 1,015,866</u>	<u>\$ 1,137,619</u>	<u>\$ -</u>	<u>\$ 2,153,485</u>

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

**Governmental Activities:**

General government.....	\$ 144,454
Public safety.....	452,721
Education.....	2,172,294
Public works.....	816,355
Culture and recreation.....	<u>107,035</u>

Total depreciation expense - governmental activities..... \$ 3,692,859

**Business-Type Activities:**

Sewer.....	\$ 3,240,803
Water.....	833,535
Waterways.....	92,267
Talbot rink.....	<u>33,828</u>

Total depreciation expense - business-type activities..... \$ 4,200,433

**Component Unit:**

Library.....	<u>\$ 67,452</u>
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**NOTE 6 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2012, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 97,487	\$ 1,505,335	\$ 1,602,822 (1)
Nonmajor Governmental Funds.....	399,186	-	-	399,186 (2)
Sewer Enterprise Fund.....	293,095	-	-	293,095 (3)
Water Enterprise Fund.....	125,000	-	-	125,000 (4)
Waterways Enterprise Fund.....	-	2,100	-	2,100 (5)
	<u>\$ 817,281</u>	<u>\$ 99,587</u>	<u>\$ 1,505,335</u>	<u>\$ 2,422,203</u>

(1) Represents transfers to the sewer enterprise fund for long-term debt service costs (\$1,010,125) and BAN paydowns (\$495,210), and budgeted transfers to numerous special revenue funds (\$97,487)

(2) Represents budgeted transfers from the septic betterment reserves fund (\$255,186), the highway force special revenue fund (\$85,000) and the conservation fees fund (\$59,000)

(3) Represents budgeted transfers to the general fund for indirect costs (\$125,000) and debt service (\$168,095)

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

(5) Represents transfer from the waterways enterprise fund to the Lanes Cove fish shack repair revolving 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, 2012, is as follows:

### Notes Payable – Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
ILN*	MWPAT .....	Various dates	Interim loan	0.00%	\$ 1,777,911	\$ 479,243	\$ (1,050,000)	\$ 1,207,154
BAN	Fire station repair.....	6/30/11	9/16/11	1.30%	36,000	-	(36,000)	-
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)	-
BAN	Fire station repair.....	9/16/11	9/14/12	1.50%	-	36,000	-	36,000
BAN	Remodeling school roofs.....	9/16/11	9/14/12	1.50%	-	1,659,000	-	1,659,000
BAN	Paving.....	9/16/11	9/14/12	1.50%	-	750,000	-	750,000
BAN	Newell stadium.....	9/16/11	9/14/12	1.50%	-	200,000	-	200,000
BAN	Recreational facility.....	9/16/11	9/14/12	1.50%	-	50,000	-	50,000
BAN	City hall remodeling.....	9/16/11	9/14/12	1.50%	-	200,000	-	200,000
BAN	Paving.....	6/29/12	9/14/12	1.00%	-	1,600,000	-	1,600,000
BAN	School telephone system.....	6/29/12	9/14/12	1.00%	-	137,000	-	137,000
BAN	Departmental equipment.....	6/29/12	9/14/12	1.00%	-	1,404,000	-	1,404,000
	Total.....				\$ 6,063,911	\$ 6,515,243	\$ (5,336,000)	\$ 7,243,154

### \* Interim Loan Notes

### Notes Payable – Enterprise Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
<i>Sewer Enterprise</i>								
BAN	Wastewater treatment facility.....	9/17/10	9/16/11	0.75-1.50%	\$ 7,408	\$ -	\$ (7,408)	\$ -
BAN	CSO consent.....	9/17/10	9/16/11	0.75-1.50%	7,534,155	-	(7,534,155)	-
BAN	Sewer betterment (Moorland Way).....	9/17/10	9/16/11	0.75-1.50%	239,811	-	(239,811)	-
BAN	CSO long term control plan.....	6/30/11	9/16/11	1.30%	750,000	-	(750,000)	-
BAN	CSO long term control plan.....	9/16/11	9/14/12	1.50%	-	750,000	-	750,000
BAN	CSO consent.....	9/16/11	3/16/12	1.00%	-	7,465,945	(7,465,945)	-
BAN	CSO long term control plan.....	6/29/12	9/14/12	1.00%	-	5,603,000	-	5,603,000
	Sub-total (sewer enterprise).....				8,531,374	13,818,945	(15,997,319)	6,353,000
<i>Water Enterprise</i>								
BAN	Water valve replacement.....	9/17/10	9/16/11	0.75-1.50%	3,052	-	(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%	164,074	-	(164,074)	-
BAN	Water improvements.....	9/16/11	3/16/12	1.00%	-	1,941,646	(1,941,646)	-
BAN	Water systems improvements.....	9/16/11	3/16/12	1.00%	-	3,410,726	(3,410,726)	-
BAN	Water systems improvements.....	9/16/11	9/14/12	1.50%	-	567,500	-	567,500
BAN	WTP and distribution system.....	6/29/12	9/14/12	1.00%	-	863,000	-	863,000
BAN	Water systems improvements.....	6/29/12	9/14/12	1.00%	-	2,607,000	-	2,607,000
	Sub-total (water enterprise).....				5,552,726	9,389,872	(10,905,098)	4,037,500
<i>Talbot Rink Enterprise</i>								
BAN	Talbot rink improvements.....	9/16/11	9/14/12	1.50%	-	400,000	-	400,000
BAN	Remodeling rink roof.....	9/16/11	9/14/12	1.50%	-	477,000	-	477,000
	Sub-total (talbot rink enterprise).....				-	877,000	-	877,000
	Total enterprise funds.....				\$ 14,084,100	\$ 24,085,817	\$ (26,902,417)	\$ 11,267,500

### Subsequent Events

On September 14, 2012, the City issued BANs in the amount of \$17,055,594. The BANs accrue interest at a rate of 1.00% and mature on February 8, 2013. The BANs were issued to renew BANs outstanding as of June 30, 2012. The remaining \$247,906 of BANs outstanding at year end were paid down with 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, 2012:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable.....	\$ 37,649,007	\$ 3,020,000	\$ (4,664,851)	\$ 36,004,156	\$ 5,039,270
Net OPEB obligations.....	23,502,246	13,585,349	(4,624,628)	32,462,967	-
Workers' compensation claims....	231,150	282,756	(181,903)	332,003	49,800
Landfill closure.....	1,190,024	-	(36,074)	1,153,950	36,617
Compensated absences.....	2,203,943	-	(261,212)	1,942,731	194,273
<b>Total.....</b>	<b>\$ 64,776,370</b>	<b>\$ 16,888,105</b>	<b>\$ (9,768,668)</b>	<b>\$ 71,895,807</b>	<b>\$ 5,319,960</b>
<b>Business-type Activities:</b>					
Bonds and notes payable.....	\$ 75,494,570	\$ 12,378,000	\$ (5,354,010)	\$ 82,518,560	\$ 6,170,957
Net OPEB obligations.....	963,604	579,118	(197,139)	1,345,583	-
Compensated absences.....	160,716	-	(12,577)	148,139	14,813
<b>Total.....</b>	<b>\$ 76,618,890</b>	<b>\$ 12,957,118</b>	<b>\$ (5,563,726)</b>	<b>\$ 84,012,282</b>	<b>\$ 6,185,770</b>

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, 2012, and the debt service requirements are as follows:

***Bonds and Notes Payable - Governmental Funds***

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
General obligation bonds - school.....	3.00 - 5.00%	\$ 15,904,098	\$ -	\$ (2,209,011)	\$ 13,695,087
General obligation bonds - other governmental....	4.00 - 5.00%	11,801,780	1,970,000	(1,527,800)	12,243,980
Special assessment debt - sewer GOB.....	3.50 - 5.00%	1,913,935	-	(230,798)	1,683,137
Special assessment debt - sewer MWPAT.....	0.00 - 5.70%	4,450,084	-	(468,732)	3,981,352
MWPAT.....	3.00 - 5.50%	3,579,110	1,050,000	(228,510)	4,400,600
<b>Total governmental funds.....</b>		<b>\$ 37,649,007</b>	<b>\$ 3,020,000</b>	<b>\$ (4,664,851)</b>	<b>\$ 36,004,156</b>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013.....	\$ 5,039,270	\$ 1,198,376	\$ 6,237,646
2014.....	4,622,509	1,015,180	5,637,689
2015.....	4,677,034	837,919	5,514,953
2016.....	4,505,059	644,295	5,149,354
2017.....	3,508,812	481,024	3,989,836
2018.....	2,174,978	373,161	2,548,139
2019.....	2,100,692	301,118	2,401,810
2020.....	1,815,400	234,580	2,049,980
2021.....	1,605,622	179,304	1,784,926
2022.....	1,220,092	135,072	1,355,164
2023.....	1,047,196	102,331	1,149,527
2024.....	962,643	76,712	1,039,355
2025.....	957,747	52,780	1,010,527
2026.....	712,853	30,216	743,069
2027.....	501,651	15,465	517,116
2028.....	354,865	5,119	359,984
2029.....	98,865	-	98,865
2030.....	98,868	-	98,868
Total.....	\$ <u>36,004,156</u>	\$ <u>5,682,652</u>	\$ <u>41,686,808</u>

During fiscal year 2012, the City issued \$1,970,000 of general obligation bonds for City Hall building improvements and \$1,050,000 in MWPAT bonds for the Title V Program.

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

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Sewer projects (funded by sewer rates):					
General obligation bonds.....	2.63 - 5.70%	\$ 10,994,848	\$ 7,038,945	\$ (477,521)	\$ 17,556,272
MWPAT.....	2.00%	20,587,292	-	(921,472)	19,665,820
Total sewer debt funded by sewer rates		31,582,140	7,038,945	(1,398,993)	37,222,092
Sewer betterment projects (Gross):					
General obligation bonds.....	3.50 - 5.00%	7,655,736	-	(923,191)	6,732,545
MWPAT.....	0.00 - 5.70%	17,800,337	-	(1,874,927)	15,925,410
Sub-total.....		25,456,073	-	(2,798,118)	22,657,955
Less sewer betterment projects funded by the general fund:					
General obligation bonds.....	3.50 - 5.00%	(1,913,934)	-	230,798	(1,683,136)
MWPAT.....	0.00 - 5.70%	(4,450,084)	-	468,732	(3,981,352)
Sub-total.....		(6,364,018)	-	699,530	(5,664,488)
Total sewer debt funded by sewer betterments.....		19,092,055	-	(2,098,588)	16,993,467
Total sewer enterprise (net).....		\$ 50,674,195	\$ 7,038,945	\$ (3,497,581)	\$ 54,215,559

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

Fiscal Year	Principal	Interest	Total
2013.....	\$ 4,035,819	\$ 1,612,790	\$ 5,648,609
2014.....	4,076,951	1,485,538	5,562,489
2015.....	4,016,866	1,339,097	5,355,963
2016.....	3,706,919	1,195,004	4,901,923
2017.....	3,658,233	1,067,576	4,725,809
2018.....	3,364,579	941,532	4,306,111
2019.....	3,415,749	833,444	4,249,193
2020.....	3,444,685	723,942	4,168,627
2021.....	3,414,130	616,495	4,030,625
2022.....	2,375,541	529,738	2,905,279
2023.....	2,360,686	466,432	2,827,118
2024.....	2,312,531	408,561	2,721,092
2025.....	2,175,578	354,313	2,529,891
2026.....	2,184,094	304,060	2,488,154
2027.....	1,970,520	254,616	2,225,136
2028.....	2,009,993	205,054	2,215,047
2029.....	2,020,964	154,094	2,175,058
2030.....	1,389,851	109,111	1,498,962
2031.....	1,426,868	68,523	1,495,391
2032.....	855,002	31,838	886,840
Total.....	\$ 54,215,559	\$ 12,701,758	\$ 66,917,317

During fiscal year 2012, the City issued \$7,038,945 of general obligation bonds related to sewer projects.

Water Enterprise

Project	Interest Rate	Outstanding at June 30, 2011	Issued	Redeemed	Outstanding at June 30, 2012
Water projects - general obligation bonds.....	2.63 - 5.00%	\$ 13,927,537	\$ 5,339,055	\$ (1,251,476)	\$ 18,015,116
Water projects - MWPAT.....	2.00%	10,892,838	-	(604,953)	10,287,885
Total water enterprise.....		\$ 24,820,375	\$ 5,339,055	\$ (1,856,429)	\$ 28,303,001

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
2013.....	\$ 2,135,138	\$ 849,181	\$ 2,984,319
2014.....	1,992,529	783,050	2,775,579
2015.....	1,875,035	721,084	2,596,119
2016.....	1,882,217	655,433	2,537,650
2017.....	1,901,110	591,536	2,492,646
2018.....	1,908,666	527,545	2,436,211
2019.....	1,923,542	462,789	2,386,331
2020.....	1,696,041	402,145	2,098,186
2021.....	1,672,569	351,352	2,023,921
2022.....	1,409,329	303,928	1,713,257
2023.....	1,356,325	260,526	1,616,851
2024.....	1,323,567	221,705	1,545,272
2025.....	1,331,053	183,594	1,514,647
2026.....	1,173,792	149,155	1,322,947
2027.....	905,851	121,661	1,027,512
2028.....	824,949	99,042	923,991
2029.....	844,231	78,019	922,250
2030.....	863,699	56,030	919,729
2031.....	878,359	33,361	911,720
2031.....	404,999	14,467	419,466
Total.....	\$ 28,303,001	\$ 6,865,603	\$ 35,168,604

During fiscal year 2012, the City issued \$5,339,055 of general obligation bonds related to water projects.

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, 2012, the City had the following authorized and unissued debt:

Purpose	Amount
Water projects.....	\$ 24,039,452
Governmental projects.....	13,329,400
Sewer projects.....	7,016,778
Talbot rink improvements/machinery.....	530,000
<b>Total.....</b>	<b>\$ 44,915,630</b>

**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 \$1,153,950 as the estimated landfill post-closure care liability at June 30, 2012. 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, 2011, the latest actuarial valuation, is as follows:

Active employees.....	654
Retired employees and surviving spouses.....	895
<b>Total.....</b>	<b>1,549</b>

*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.....	\$ 14,109,143
Interest on net OPEB obligation.....	856,305
Adjustment to annual required contribution.....	<u>(800,981)</u>
Annual OPEB cost.....	14,164,467
Contributions made.....	<u>(4,821,767)</u>
Increase in net OPEB obligation.....	9,342,700
Net OPEB obligation at beginning of year.....	<u>24,465,850</u>
Net OPEB obligation at end of year.....	<u><u>\$ 33,808,550</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010.....	\$ 12,683,069	37.7%	\$ 15,249,567
June 30, 2011.....	13,791,187	33.2%	24,465,850
June 30, 2012.....	14,164,467	34.0%	33,808,550

**Funded Status and Funding Progress** - The funded status of the Plan at June 30, 2011, the most recent actuarial valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial 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>
06/30/11	\$ -	\$ 204,228,540	\$ 204,228,540	-	\$ 38,360,017	532.4%

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 schedules 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, 2011
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:	9.0% decreasing by 0.5% for 8 years 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:

<b>Governmental Activities:</b>	
General government.....	\$ 831,557
Public safety.....	3,521,294
Education.....	7,823,791
Public works.....	960,836
Health and human services.....	272,254
Culture and recreation.....	<u>175,617</u>
Total AOPEBC - governmental activities.....	<u>13,585,349</u>
<b>Business-Type Activities:</b>	
Sewer.....	248,681
Water.....	258,769
Waterways.....	38,393
Talbot Rink.....	<u>33,275</u>
Total AOPEBC - business-type activities.....	<u>579,118</u>
Total AOPEBC.....	<u>\$ 14,164,467</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 2012.

*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, 2012, totaled \$332,003. Changes in the reported liability since July 1, 2010 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 2011.....	\$ 311,896	\$	35,884	\$	(116,630)	\$	231,150
Fiscal year 2012.....	\$ 231,150	\$	282,756	\$	(181,903)	\$	332,003

*Unemployment Insurance*

The City is self-insured for its unemployment compensation. The City's liability for unemployment claims is immaterial at June 30, 2012, 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
<b>Restricted:</b>			
Other post employment benefits.....	\$ 20,017	\$ -	\$ 20,017
Affordable housing.....	-	281,143	281,143
School lunch.....	-	91,048	91,048
Capital - equipment.....	-	36,625	36,625
Septic betterment fund.....	-	1,108,533	1,108,533
Comcast fund.....	-	146,546	146,546
Cemetery perpetual care.....	-	786,734	786,734
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.....	-	34,257	34,257
Kent circle.....	-	169,400	169,400
Federal asset forfeiture.....	-	663,336	663,336
General government.....	-	1,094,463	1,094,463
Public safety.....	-	241,521	241,521
Education.....	-	1,171,009	1,171,009
Public works.....	-	863,292	863,292
Health and human services.....	-	263,966	263,966
Culture and recreation.....	-	47,424	47,424
Community preservation.....	-	2,710,475	2,710,475
Other.....	-	13,085	13,085
Sub-total - Restricted.....	<u>20,017</u>	<u>10,420,817</u>	<u>10,440,834</u>
<b>Committed:</b>			
Subsequent year's expenditures.....	450,000	-	450,000
Capital stabilization.....	80,578	-	80,578
Ambulance stabilization.....	227,773	-	227,773
Port maintenance/improvement stabilization.....	4,000	-	4,000
Sub-total - Committed.....	<u>762,351</u>	<u>-</u>	<u>762,351</u>
<b>Assigned:</b>			
Encumbrances.....	<u>1,377,844</u>	<u>-</u>	<u>1,377,844</u>
<b>Unassigned.....</b>	<u>8,422,360</u>	<u>(5,149,626)</u>	<u>3,272,734</u>
<b>Total fund balances.....</b>	<u>\$ 10,582,572</u>	<u>\$ 5,271,191</u>	<u>\$ 15,853,763</u>

**NOTE 14 – STABILIZATION FUNDS**

The City maintains a general stabilization fund, a capital stabilization fund, an ambulance stabilization fund and a port maintenance and improvement mitigation 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 balances of the general stabilization fund, capital stabilization fund, ambulance stabilization fund and port maintenance and improvement mitigation stabilization fund at June 30, 2012 total \$2,748,639, \$80,578, \$227,773 and \$4,000, respectively. The general stabilization fund balance is reported in the general fund as unassigned and the remaining stabilization funds are reported as committed fund balance in the general fund.

**NOTE 15 – 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, 2011, the System's membership consists of the following:

Active members.....	506
Inactive members.....	68
Retirees and beneficiaries currently receiving benefits....	<u>429</u>
<b>Total.....</b>	<b><u>1,003</u></b>

*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, 2012, 2011, and 2010 were \$6,139,153, \$5,884,564, and \$5,705,314, 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, 2012, 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
<u>Actuarial assumptions:</u>	
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, 2011 are as follows:

Description	Amount	Purpose
Annuity Savings Fund....	\$ 23,244,061	Active members' contribution balance
Annuity Reserve Fund....	8,771,473	Retired members' contribution account
Military Service Fund.....	17,130	Military leave of absence contribution balance
Pension Reserve Fund.....	32,040,436	Amounts appropriated to fund future retirement
Pension Fund.....	1,546,270	Remaining net assets
Total.....	\$ <u>65,619,370</u>	

*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 2012 totaled approximately \$32,000.

#### NOTE 16 – 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 \$7,820,390 for the fiscal year ended June 30, 2012, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

#### NOTE 17 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$45,000,000 for various governmental, water, sewer and Talbot rink projects.

#### NOTE 18 - 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, 2012, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2012.

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, 2012, 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 19 – 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. Management does not believe the implementation of this Statement will impact the 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. Management does not believe the implementation of this Statement will impact the 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. Management does not believe the implementation of this Statement will impact the 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 implementation of this Statement will require a change to the title of the Statement of Net Assets to the Statement of Net Position.
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is required to be implemented during fiscal year 2014. The implementation of this Statement will require a change to the title of the Statement of Fiduciary Net Assets to the Statement of Fiduciary Net Position, as well as expanded note disclosures and required supplementary information.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the City will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.

These pronouncements will be implemented by their respective implementation dates.

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*Required Supplementary Information*

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real estate and personal property taxes.....	\$ -	\$ 62,627,048	\$ -	\$ 62,627,048
Motor vehicle and other excise taxes.....	-	3,030,000	-	3,030,000
Hotel/motel tax.....	-	400,000	-	400,000
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	18,000	-	18,000
Charges for services.....	-	1,787,500	-	1,787,500
Intergovernmental.....	-	12,448,144	244,250	12,692,394
Special assessments.....	-	-	-	-
Penalties and interest on taxes.....	-	422,000	-	422,000
Licenses and permits.....	-	1,095,800	-	1,095,800
Fines and forfeitures.....	-	494,429	-	494,429
Departmental.....	-	2,119,514	-	2,119,514
Investment income.....	-	55,000	-	55,000
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>84,497,435</b>	<b>244,250</b>	<b>84,741,685</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government.....	232,727	3,861,888	104,569	4,199,184
Public safety.....	31,823	10,941,016	580,865	11,553,704
Education.....	198,890	34,686,982	671,791	35,557,663
Public works.....	348,373	8,566,206	637,883	9,552,462
Health and human services.....	3,937	756,870	94,433	855,240
Culture and recreation.....	-	718,142	42,900	761,042
Pension benefits.....	-	5,642,980	(7,500)	5,635,480
Employee benefits.....	-	5,927,856	-	5,927,856
Property and liability insurance.....	-	488,547	-	488,547
State and county charges.....	-	5,629,918	-	5,629,918
<b>Debt service:</b>				
Principal.....	-	6,225,200	173,210	6,398,410
Interest.....	-	2,546,494	(676,738)	1,869,756
<b>TOTAL EXPENDITURES.....</b>	<b>815,750</b>	<b>85,992,099</b>	<b>1,621,413</b>	<b>88,429,262</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(815,750)</b>	<b>(1,494,664)</b>	<b>(1,377,163)</b>	<b>(3,687,577)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	-	2,900,000	144,000	3,044,000
Premium from issuance of bonds and notes.....	-	100,000	-	100,000
Transfers out.....	-	(1,505,336)	(1,095,316)	(2,600,652)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>1,494,664</b>	<b>(951,316)</b>	<b>543,348</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(815,750)</b>	<b>-</b>	<b>(2,328,479)</b>	<b>(3,144,229)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR.....</b>	<b>4,931,315</b>	<b>4,931,315</b>	<b>4,931,315</b>	<b>4,931,315</b>
<b>FUND BALANCE AT END OF YEAR.....</b>	<b>\$ 4,115,565</b>	<b>\$ 4,931,315</b>	<b>\$ 2,602,836</b>	<b>\$ 1,787,086</b>

See notes to required supplementary information.

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
\$ 62,926,901	\$ -	\$ 62,926,901	\$ 299,853
3,463,782	-	3,463,782	433,782
411,738	-	411,738	11,738
1,006,581	-	1,006,581	1,006,581
29,294	-	29,294	11,294
1,873,489	-	1,873,489	85,989
12,452,579	-	12,452,579	(239,815)
3,704	-	3,704	3,704
603,599	-	603,599	181,599
1,382,935	-	1,382,935	287,135
606,414	-	606,414	111,985
2,580,815	-	2,580,815	461,301
69,887	-	69,887	14,887
<u>87,411,718</u>	<u>-</u>	<u>87,411,718</u>	<u>2,670,033</u>
3,713,786	287,547	4,001,333	197,851
11,364,707	87,610	11,452,317	101,387
35,143,707	403,713	35,547,420	10,243
8,242,966	570,913	8,813,879	738,583
810,366	28,061	838,427	16,813
728,770	-	728,770	32,272
5,634,913	-	5,634,913	567
5,924,053	-	5,924,053	3,803
458,686	-	458,686	29,861
5,127,863	-	5,127,863	502,055
6,398,410	-	6,398,410	-
1,867,922	-	1,867,922	1,834
<u>85,416,149</u>	<u>1,377,844</u>	<u>86,793,993</u>	<u>1,635,269</u>
<u>1,995,569</u>	<u>(1,377,844)</u>	<u>617,725</u>	<u>4,305,302</u>
3,044,000	-	3,044,000	-
161,553	-	161,553	61,553
(2,600,652)	-	(2,600,652)	-
<u>604,901</u>	<u>-</u>	<u>604,901</u>	<u>61,553</u>
2,600,470	(1,377,844)	1,222,626	4,366,855
<u>4,931,315</u>	<u>4,931,315</u>	<u>4,931,315</u>	<u>-</u>
<u>\$ 7,531,785</u>	<u>\$ 3,553,471</u>	<u>\$ 6,153,941</u>	<u>\$ 4,366,855</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

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%
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

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
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
2011	6,543,097	100

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

### CITY SHARE OF SYSTEM ARC

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	City ARC as a Percentage of System ARC (%)
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%
2012	6,139,153	100	93.8%

**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)
06/30/11	\$ -	\$ 204,228,540	\$ 204,228,540	-	\$ 38,360,017	532%
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 from 01/01/08 to 06/30/09 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, 2012, 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.....	\$ 87,411,718	\$ 86,793,993	\$ 604,901
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	(259,584)	-	-
Net change in recording tax refunds payable.....	87,032	-	-
Net change in recording departmental receivable.....	68,520	-	-
To record MTRS on-behalf payments.....	7,820,390	7,820,390	-
To record MWPAT interest subsidy.....	238,350	238,350	-
Net change in recording workers' compensation claims.....	-	100,853	-
To record encumbrances and continuing appropriations.....	-	(1,377,844)	-
Total on GAAP basis of accounting.....	95,366,426	93,575,742	604,901
<u>Reclassifications</u>			
To reclassify sewer betterment principal.....	-	(1,806,855)	(1,806,855)
To reclassify sewer betterment interest.....	-	(419,864)	(419,864)
To reclassify the stabilization fund to the general fund.....	7,530	-	790,000
To reclassify the capital stabilization fund to the general fund.....	728	-	(29,943)
To reclassify the port mitigation stabilization fund to the general fund.....	4,000	-	-
To reclassify the ambulance stabilization fund to the general fund.....	-	-	227,773
To reclassify the OPEB fund to the general fund.....	17	-	10,000
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 95,378,701</u>	<u>\$ 91,349,023</u>	<u>\$ (623,988)</u>