

**CITY OF GLOUCESTER, MASSACHUSETTS**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**



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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, 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, 2009 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2008), 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gloucester, Massachusetts, as of June 30, 2009 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2008), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 17, the City has restated the beginning net assets of its governmental activities, business-type activities, major and nonmajor governmental funds, and waterways, sewer and water enterprise funds. We have audited the adjustments as described in Note 17 that were applied to restate the fiscal year 2008 basic financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

As more fully described in Note 13, the City has implemented Governmental Accounting Standards Board Statement #45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2010, 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis (located on pages 4 through 12) and budgetary comparison information and certain pension information (located on pages 67 through 71), are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Seli, Tj & Co., LLC". The signature is written in a cursive, somewhat stylized font.

February 9, 2010

# *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, 2009.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$150,649,643 (net assets). Of this amount, \$2,410,946 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$6,692,834.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances totaling \$4,016,471, a decrease of \$687,211 in comparison with the prior year. Approximately \$3,074,000 represents unreserved fund balance of the modular classrooms capital projects fund (major), special revenue funds and permanent funds. The general fund and nonmajor capital projects fund deficits of \$616,258 and \$2,097,328, respectively, will be funded by the tax levy, other revenues and proceeds of long-term debt in future fiscal years.
- At the end of the fiscal year, the general fund undesignated fund deficit totaled \$616,258, while total balance was \$1,213,897.
- The City's total bonded debt increased by \$8,610,087 during the fiscal year. The City issued \$17,471,666 of new debt during the year for school projects, other governmental projects, sewer general obligation bonds, MWPAT bonds and water general obligation bonds.

### **Overview of the Basic Financial Statements**

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

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

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

#### Government-wide financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the City's waterways, sewer and water operations.

The government-wide financial statements can be found on pages 15-17 of this report.

### Fund financial statements

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

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

### **Governmental Funds**

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

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

The City maintains 400 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 and modular classrooms (capital project) funds, each of which are considered to be major funds. Data from the other 398 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

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

### **Proprietary funds**

The City maintains two types of proprietary funds.

*Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its waterways, sewer and water operations, all of which are considered to be major funds.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

**Fiduciary funds**

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

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

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

**Notes to the basic financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-66 of this report.

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension information, which can be found on pages 67-71.

***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 \$150,649,643 at the close of the fiscal year and are summarized as follows:

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets.....	\$ 20,377,563	\$ 31,512,845	\$ 51,890,408
Noncurrent assets (excluding capital assets).....	13,043,107	17,277,446	30,320,553
Capital assets (net).....	<u>70,752,092</u>	<u>148,396,774</u>	<u>219,148,866</u>
Total assets.....	<u>104,172,762</u>	<u>197,187,065</u>	<u>301,359,827</u>
<b>Liabilities</b>			
Current liabilities (excluding debt).....	7,283,166	1,929,010	9,212,176
Noncurrent liabilities (excluding debt).....	11,393,320	390,547	11,783,867
Current debt.....	7,899,676	30,454,162	38,353,838
Noncurrent debt.....	<u>36,982,160</u>	<u>54,378,143</u>	<u>91,360,303</u>
Total liabilities.....	<u>63,558,322</u>	<u>87,151,862</u>	<u>150,710,184</u>
<b>Net Assets</b>			
Invested in capital assets (net of related debt).....	40,075,777	67,009,058	107,084,835
Restricted.....	5,042,678	36,111,184	41,153,862
Unrestricted.....	<u>(4,504,015)</u>	<u>6,914,961</u>	<u>2,410,946</u>
Total net assets.....	<u>\$ 40,614,440</u>	<u>\$ 110,035,203</u>	<u>\$ 150,649,643</u>

The largest portion of the City's net assets (71.1%) 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 (27.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (1.6% or \$2,410,946) may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$6,914,961 may be used to support business-type activities and (\$4,504,015) 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 all three categories, except unrestricted.

Changes in Net Assets

For the fiscal year ended June 30, 2009, the City's total net assets decreased by \$6,692,834 and are summarized as follows:

	Governmental Activities	Business-type Activities	Total
<b>Revenues</b>			
<i>Program Revenues:</i>			
Charges for services.....	\$ 8,988,674	\$ 13,896,538	\$ 22,885,212
Operating grants and contributions.....	24,708,974	534,399	25,243,373
Capital grants and contributions.....	669,924	-	669,924
<i>General Revenues:</i>			
Real estate and personal property taxes.....	54,775,708	-	54,775,708
Motor vehicle and other excise taxes.....	2,461,059	-	2,461,059
Hotel/motel taxes.....	277,052	-	277,052
Penalties and interest on taxes.....	404,219	-	404,219
Payments in lieu of taxes.....	20,654	-	20,654
Grants and contributions not restricted to specific programs.....	4,522,568	-	4,522,568
Unrestricted investment income.....	544,141	-	544,141
Premium from issuance of bonds and notes.....	304,401	-	304,401
<b>Total revenues.....</b>	<b>97,677,374</b>	<b>14,430,937</b>	<b>112,108,311</b>
<b>Expenses</b>			
General government.....	8,221,549	-	8,221,549
Public safety.....	19,498,597	-	19,498,597
Education.....	60,834,332	-	60,834,332
Public works.....	9,127,735	-	9,127,735
Health and human services.....	2,377,069	-	2,377,069
Culture and recreation.....	1,320,640	-	1,320,640
Debt service - interest.....	1,520,347	-	1,520,347
Waterways.....	-	381,369	381,369
Sewer.....	-	10,520,880	10,520,880
Water.....	-	4,998,627	4,998,627
<b>Total expenses.....</b>	<b>102,900,269</b>	<b>15,900,876</b>	<b>118,801,145</b>
Change in net assets before transfers.....	(5,222,895)	(1,469,939)	(6,692,834)
Transfers, net.....	(546,610)	546,610	-
Change in net assets.....	(5,769,505)	(923,329)	(6,692,834)
Net assets - beginning of year (as restated).....	46,383,945	110,958,532	157,342,477
Net assets - end of year.....	\$ 40,614,440	\$ 110,035,203	\$ 150,649,643

Governmental activities decreased the City's net assets by \$5,769,505 and business-type activities decreased the City's net assets by \$923,329.

### *Fund Financial Statement Analysis*

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

#### Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$4,016,471, a decrease of \$687,211 in comparison with the prior year. Approximately \$3,074,000 represents unreserved fund balance of the modular classrooms capital projects fund (major), special revenue funds and permanent funds. The general fund and nonmajor capital projects fund deficits of \$616,258 and \$2,097,328, respectively, will be funded by the tax levy, other revenues and proceeds of long-term debt in future fiscal years. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders (\$306,568)
- Stabilization (\$1,523,587)
- Other specific purposes (\$1,825,767)

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund's undesignated fund deficit totaled \$616,258, while total fund balance was \$1,213,897.

The balance of the City's general fund decreased by \$1,395,925 during fiscal year 2009. Although the City recognized an approximate \$73,000 negative budgetary variance (excluding encumbrances and continuing appropriations), approximately \$1,290,000 of reserves was utilized for spending during the fiscal year.

Financial highlights of the City's other major governmental fund is as follows:

The fund balance of the modular classroom fund (special revenue) increased by \$732,941 during the current fiscal year. This is attributable to expenditures (\$2,307,259) and proceeds from the issuance of bonds and notes (\$3,040,200).

#### Proprietary funds

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

Unrestricted net assets of the waterways, sewer and water enterprise funds at the end of the year amounted to \$522,315, \$2,794,953 and \$3,597,693, respectively. The waterways and sewer funds had a decrease in net assets for the year of \$104,152 and \$1,765,071, respectively, whereas the water fund had an increase of \$945,894. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$81,571,148 was decreased by \$341,393 (0.4%) during the year. The following table summarizes the decrease:

<u>Purpose of Increase/Decrease</u>	<u>Amount</u>	<u>Funding Source</u>
Various department budget reductions.....	\$ (546,844)	Various budgeted revenue sources
School budget reduction.....	(300,000)	Various budgeted revenue sources
Public works pavement project.....	40,000	Public works special revenue fund
Snow and ice removal.....	102,000	Stabilization fund
Early retirement incentive.....	145,000	Overlay reserve
Sick buy-back.....	40,558	Health insurance internal service fund
Debt service.....	<u>177,893</u>	Sale of Blackburn property special revenue fund
Total decrease.....	<u>\$ (341,393)</u>	

During the year, other financing sources and uses exceeded budgetary estimates, while revenues, expenditures and encumbrances and continuing appropriations were less than budgeted amounts, resulting in a negative budget to actual variance of approximately \$379,000. Encumbrances and continuing appropriations total approximately \$307,000 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 \$219,148,866 (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 \$2,834,792, or 1.3% (a 1.4% increase for governmental activities and a 0.1% decrease for business-type activities).

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

- Gloucester crossing roadway construction (\$2,378,598)
- Modular classroom building (\$2,053,134)
- Sewer projects construction in progress (\$1,547,912)
- Sewer rehabilitation/Washington Street area (\$453,150)
- Washington Street drain and outfall project (\$399,701)
- Brier Neck sewer improvements (\$312,040)

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>	
	<u>2009</u>	<u>2008*</u>	<u>2009</u>	<u>2008*</u>	<u>2009</u>	<u>2008*</u>
Land.....	\$ 17,701,783	\$ 17,701,783	\$ 4,512,584	\$ 4,512,584	\$ 22,214,367	\$ 22,214,367
Buildings.....	31,609,260	31,403,144	335,799	431,741	31,945,059	31,834,885
Improvements.....	3,024,859	3,211,623	903,181	971,817	3,928,040	4,183,440
Machinery and equipment.....	940,737	1,021,358	217,171	188,090	1,157,908	1,209,448
Vehicles.....	3,173,270	3,456,338	209,319	259,406	3,382,589	3,715,744
Other.....	642,175	712,087	10,110	1,500	652,285	713,587
Infrastructure.....	12,801,853	10,050,092	140,660,698	142,330,518	153,462,551	152,380,610
Construction in progress.....	858,155	61,993	1,547,912	-	2,406,067	61,993
Total capital assets.....	<u>\$ 70,752,092</u>	<u>\$ 67,618,418</u>	<u>\$ 148,396,774</u>	<u>\$ 148,695,656</u>	<u>\$ 219,148,866</u>	<u>\$ 216,314,074</u>

\* As restated and described in Note 17

Additional information on the City's capital assets can be found in Note 5 on pages 44-47 of this report.

#### Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$100,285,289, 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>	
	<u>2009</u>	<u>2008*</u>	<u>2009</u>	<u>2008*</u>	<u>2009</u>	<u>2008*</u>
General obligation bonds.....	\$ 33,901,816	\$ 32,192,653	\$ 28,489,184	\$ 30,852,347	\$ 62,391,000	\$ 63,045,000
MWPAT notes.....	7,308,303	7,868,346	30,487,986	20,618,856	37,796,289	28,487,202
HUD loans.....	98,000	143,000	-	-	98,000	143,000
Total bonds and notes.....	<u>\$ 41,308,119</u>	<u>\$ 40,203,999</u>	<u>\$ 58,977,170</u>	<u>\$ 51,471,203</u>	<u>\$ 100,285,289</u>	<u>\$ 91,675,202</u>

\* As restated and described in Note 17

The City's total bonded debt increased by \$8,610,087 (9.4%) during the current fiscal year. \$17,471,666 of new debt was issued during the year for water, sewer, school and other governmental projects.

The City received an AA- rating from Standard & Poor's for its most recent issuance of long-term debt on September 15, 2009.

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

#### *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.

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## *Basic Financial Statements*

## STATEMENT OF NET ASSETS

JUNE 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 8,486,042	\$ 4,077,888	\$ 12,563,930
Restricted cash and cash equivalents.....	2,723,244	21,698,254	24,421,498
Restricted investments.....	551,258	-	551,258
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	2,289,537	-	2,289,537
Tax and utility liens.....	1,947,442	640,387	2,587,829
Motor vehicle and other excise taxes.....	270,867	41,436	312,303
User charges.....	-	4,443,272	4,443,272
Special assessments.....	57,615	102,870	160,485
Departmental and other.....	641,804	31,535	673,339
Intergovernmental.....	2,810,005	477,203	3,287,208
Loans.....	93,159	-	93,159
Tax foreclosures.....	405,165	-	405,165
Working capital deposit.....	101,425	-	101,425
Total current assets.....	20,377,563	31,512,845	51,890,408
Noncurrent assets:			
Receivables, net of allowance for uncollectible amounts:			
Real estate tax deferrals.....	177,291	-	177,291
Special assessments.....	3,593,682	14,310,060	17,903,742
Intergovernmental.....	8,433,703	2,967,386	11,401,089
Loans.....	838,431	-	838,431
Capital assets not being depreciated.....	18,559,938	6,060,496	24,620,434
Capital assets, net of accumulated depreciation.....	52,192,154	142,336,278	194,528,432
Total noncurrent assets.....	83,795,199	165,674,220	249,469,419
Total assets.....	104,172,762	197,187,065	301,359,827
<b>LIABILITIES</b>			
Current liabilities:			
Warrants payable.....	2,139,869	492,595	2,632,464
Accrued payroll.....	2,259,978	45,624	2,305,602
Tax refunds payable.....	385,604	-	385,604
Other liabilities.....	1,094,259	-	1,094,259
Accrued interest.....	782,959	1,377,278	2,160,237
Capital lease obligations.....	209,546	-	209,546
Workers' compensation claims.....	195,923	-	195,923
Landfill closure.....	35,018	-	35,018
Compensated absences.....	180,010	13,513	193,523
Short-term notes payable.....	3,573,717	25,855,135	29,428,852
Long-term bonds and notes payable.....	4,325,959	4,599,027	8,924,986
Total current liabilities.....	15,182,842	32,383,172	47,566,014
Noncurrent liabilities:			
Capital lease obligations.....	1,147,973	-	1,147,973
Workers' compensation claims.....	319,663	-	319,663
Landfill closure.....	1,225,567	-	1,225,567
Compensated absences.....	1,620,089	121,612	1,741,701
Net OPEB obligation.....	7,080,028	268,935	7,348,963
Long-term bonds and notes payable.....	36,982,160	54,378,143	91,360,303
Total noncurrent liabilities.....	48,375,480	54,768,690	103,144,170
Total liabilities.....	63,558,322	87,151,862	150,710,184
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt.....	40,075,777	67,009,058	107,084,835
Restricted for:			
Capital projects.....	1,519,783	16,162,000	17,681,783
Debt service.....	-	19,949,184	19,949,184
Loans.....	931,590	-	931,590
Permanent funds.....	765,538	-	765,538
Other specific purposes.....	1,825,767	-	1,825,767
Unrestricted.....	(4,504,015)	6,914,961	2,410,946
Total net assets.....	\$ 40,614,440	\$ 110,035,203	\$ 150,649,643

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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.....	\$ 8,221,549	\$ 1,151,384	\$ 1,276,154	\$ -	\$ (5,794,011)
Public safety.....	19,498,597	2,852,071	366,204	-	(16,280,322)
Education.....	60,834,332	1,809,909	18,402,241	-	(40,622,182)
Public works.....	9,127,735	2,474,165	3,325,950	669,924	(2,657,696)
Health and human services.....	2,377,069	416,248	1,088,942	-	(871,879)
Culture and recreation.....	1,320,640	284,897	41,811	-	(993,932)
Debt service - interest.....	1,520,347	-	207,672	-	(1,312,675)
Total governmental activities.....	102,900,269	8,988,674	24,708,974	669,924	(68,532,697)
Business-type activities:					
Waterways.....	381,369	298,099	9,118	-	(74,152)
Sewer.....	10,520,880	7,648,137	525,281	-	(2,347,462)
Water.....	4,998,627	5,950,302	-	-	951,675
Total business-type activities.....	15,900,876	13,896,538	534,399	-	(1,469,939)
Total primary government.....	\$ 118,801,145	\$ 22,885,212	\$ 25,243,373	\$ 669,924	\$ (70,002,636)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Changes in net assets:</b>			
Net (expense)/revenue (from previous page).....	\$ (68,532,697)	\$ (1,469,939)	\$ (70,002,636)
<i>General revenues:</i>			
Real estate and personal property taxes.....	54,775,708	-	54,775,708
Motor vehicle and other excise taxes.....	2,461,059	-	2,461,059
Hotel/motel taxes.....	277,052	-	277,052
Penalties and interest on taxes.....	404,219	-	404,219
Payments in lieu of taxes.....	20,654	-	20,654
Grants and contributions not restricted to specific programs.....	4,522,568	-	4,522,568
Unrestricted investment income.....	544,141	-	544,141
Premium from issuance of bonds and notes.....	304,401	-	304,401
Transfers, net .....	(546,610)	546,610	-
Total general revenues and transfers.....	62,763,192	546,610	63,309,802
Change in net assets.....	(5,769,505)	(923,329)	(6,692,834)
Net assets - beginning of year (as restated).....	46,383,945	110,958,532	157,342,477
Net assets - end of year.....	\$ 40,614,440	\$ 110,035,203	\$ 150,649,643

GOVERNMENTAL FUNDS  
BALANCE SHEET

JUNE 30, 2009

ASSETS	General	Modular Classrooms	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 5,333,200	\$ -	\$ 2,823,223	\$ 8,156,423
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	2,289,537	-	-	2,289,537
Real estate tax deferrals.....	177,291	-	-	177,291
Tax liens.....	1,947,442	-	-	1,947,442
Motor vehicle and other excise taxes.....	270,867	-	-	270,867
Special assessments.....	42,816	-	3,608,481	3,651,297
Departmental and other.....	537,680	-	104,124	641,804
Intergovernmental.....	9,473,992	-	1,769,716	11,243,708
Loans.....	-	-	931,590	931,590
Tax foreclosures.....	405,165	-	-	405,165
Restricted assets:				
Cash and cash equivalents.....	-	453,191	2,270,053	2,723,244
Investments.....	-	-	551,258	551,258
<b>TOTAL ASSETS.....</b>	<b>\$ 20,477,990</b>	<b>\$ 453,191</b>	<b>\$ 12,058,445</b>	<b>\$ 32,989,626</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Warrants payable.....	\$ 836,807	\$ 17,125	\$ 1,285,937	\$ 2,139,869
Accrued payroll.....	2,088,930	-	171,048	2,259,978
Tax refunds payable.....	385,604	-	-	385,604
Other liabilities.....	1,077,219	-	17,040	1,094,259
Deferred revenue.....	14,221,541	-	4,644,195	18,865,736
Accrued short-term interest.....	138,406	-	-	138,406
Workers' compensation claims.....	515,586	-	-	515,586
Short-term notes payable.....	-	409,800	3,163,917	3,573,717
<b>TOTAL LIABILITIES.....</b>	<b>19,264,093</b>	<b>426,925</b>	<b>9,282,137</b>	<b>28,973,155</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances and continuing appropriations.....	306,568	-	-	306,568
Stabilization.....	1,523,587	-	-	1,523,587
Other specific purposes.....	-	-	1,825,767	1,825,767
Unreserved:				
Undesignated, reported in:				
General fund.....	(616,258)	-	-	(616,258)
Special revenue funds.....	-	-	2,282,331	2,282,331
Capital projects funds.....	-	26,266	(2,097,328)	(2,071,062)
Permanent funds.....	-	-	765,538	765,538
<b>TOTAL FUND BALANCES.....</b>	<b>1,213,897</b>	<b>26,266</b>	<b>2,776,308</b>	<b>4,016,471</b>
<b>TOTAL LIABILITIES AND FUND BALANCES.....</b>	<b>\$ 20,477,990</b>	<b>\$ 453,191</b>	<b>\$ 12,058,445</b>	<b>\$ 32,989,626</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, 2009

	General	Modular Classrooms	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Real estate and personal property taxes.....	\$ 53,687,316	\$ -	\$ -	\$ 53,687,316
Motor vehicle and other excise taxes.....	2,922,711	-	-	2,922,711
Hotel/motel tax.....	277,052	-	-	277,052
Tax liens.....	398,627	-	-	398,627
Payments in lieu of taxes.....	20,654	-	-	20,654
Charges for services.....	1,815,858	-	1,978,286	3,794,144
Intergovernmental.....	19,702,310	-	9,528,769	29,231,079
Special assessments.....	5,933	-	214,653	220,586
Penalties and interest on taxes.....	404,219	-	-	404,219
Licenses and permits.....	1,142,515	-	-	1,142,515
Fines and forfeitures.....	269,703	-	-	269,703
Departmental.....	2,114,943	-	1,626,946	3,741,889
Contributions.....	-	-	1,829,018	1,829,018
Investment income.....	543,715	-	(107,577)	436,138
<b>TOTAL REVENUES.....</b>	<b>83,305,556</b>	<b>-</b>	<b>15,070,095</b>	<b>98,375,651</b>
<b>EXPENDITURES</b>				
Current:				
General government.....	3,331,465	-	1,542,346	4,873,811
Public safety.....	10,862,632	-	1,567,346	12,429,978
Education.....	36,386,168	2,307,259	7,054,950	45,748,377
Public works.....	6,454,126	-	4,602,786	11,056,912
Health and human services.....	760,330	-	1,363,362	2,123,692
Culture and recreation.....	738,871	-	41,748	780,619
Pension benefits.....	11,758,207	-	-	11,758,207
Employee benefits.....	5,254,405	-	-	5,254,405
Property and liability insurance.....	417,225	-	-	417,225
State and county charges.....	3,592,803	-	-	3,592,803
Debt service:				
Principal.....	4,339,015	-	-	4,339,015
Interest.....	1,929,302	-	-	1,929,302
<b>TOTAL EXPENDITURES.....</b>	<b>85,824,549</b>	<b>2,307,259</b>	<b>16,172,538</b>	<b>104,304,346</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(2,518,993)</b>	<b>(2,307,259)</b>	<b>(1,102,443)</b>	<b>(5,928,695)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	1,160,257	-	269,573	1,429,830
Proceeds of bonds and notes.....	-	3,040,200	2,402,935	5,443,135
Premium from issuance of bonds and notes.....	304,401	-	-	304,401
Transfers out.....	(341,590)	-	(1,594,292)	(1,935,882)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>1,123,068</b>	<b>3,040,200</b>	<b>1,078,216</b>	<b>5,241,484</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>(1,395,925)</b>	<b>732,941</b>	<b>(24,227)</b>	<b>(687,211)</b>
<b>FUND BALANCES AT BEGINNING OF YEAR (AS RESTATED).....</b>	<b>2,609,822</b>	<b>(706,675)</b>	<b>2,800,535</b>	<b>4,703,682</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 1,213,897</b>	<b>\$ 26,266</b>	<b>\$ 2,776,308</b>	<b>\$ 4,016,471</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, 2009

Total governmental fund balances (page 18).....	\$	4,016,471
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		70,752,092
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		18,865,736
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.....		(644,553)
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.....		(41,308,119)
Capital lease obligations.....		(1,357,519)
Net OPEB obligation.....		(7,080,028)
Landfill closure.....		(1,260,585)
Compensated absences.....		(1,800,099)
Internal service funds are used by management to account for health insurance activities. The assets and liabilities of the internal service fund are reported as governmental activities in the statement of net assets.....		431,044
Net assets of governmental activities (page 15).....	\$	40,614,440

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, 2009

Net change in fund balances - total governmental funds (page 19).....	\$ (687,211)
<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.....	6,853,389
Depreciation.....	(3,650,407)
<p>In the statement of activities, the <i>gain/loss</i> on the disposal of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....</p>	
	(69,308)
<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>	
	(448,348)
<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.....	(5,443,135)
Bond maturities.....	4,339,015
Capital lease maturities.....	200,429
<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>	
	408,955
<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>	
Net OPEB obligation.....	(7,080,028)
Landfill closure.....	35,400
Compensated absences.....	(33,164)
<p>The internal service fund is used by management to account for health insurance activities. The net activity of the internal service fund is reported with governmental activities.....</p>	
	<u>(195,092)</u>
Changes in net assets of governmental activities (page 17).....	<u>\$ (5,769,505)</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS**

JUNE 30, 2009

ASSETS	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Waterways	Sewer	Water	Total	
<b>Current assets:</b>					
Cash and cash equivalents.....	\$ 524,876	\$ 1,413,358	\$ 2,139,654	\$ 4,077,888	\$ 329,619
Restricted cash and cash equivalents.....	-	16,054,509	5,643,745	21,698,254	-
Receivables, net of allowance for uncollectible amounts:					
Utility liens.....	-	327,733	312,654	640,387	-
Excise taxes.....	41,436	-	-	41,436	-
User charges.....	-	2,471,139	1,972,133	4,443,272	-
Special assessments.....	-	102,870	-	102,870	-
Departmental and other.....	11,254	20,281	-	31,535	-
Intergovernmental.....	-	477,203	-	477,203	-
Working capital deposit.....	-	-	-	-	101,425
Total current assets.....	<u>577,566</u>	<u>20,867,093</u>	<u>10,068,186</u>	<u>31,512,845</u>	<u>431,044</u>
<b>Noncurrent assets:</b>					
Receivables, net of allowance for uncollectible amounts:					
Special assessments.....	-	14,310,060	-	14,310,060	-
Intergovernmental.....	-	2,967,386	-	2,967,386	-
Capital assets not being depreciated.....	538,482	1,927,751	3,594,263	6,060,496	-
Capital assets, net of accumulated depreciation.....	<u>1,707,675</u>	<u>114,826,867</u>	<u>25,801,736</u>	<u>142,336,278</u>	<u>-</u>
Total noncurrent assets.....	<u>2,246,157</u>	<u>134,032,064</u>	<u>29,395,999</u>	<u>165,674,220</u>	<u>-</u>
Total assets.....	<u>2,823,723</u>	<u>154,899,157</u>	<u>39,464,185</u>	<u>197,187,065</u>	<u>431,044</u>
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Warrants payable.....	2,708	347,719	142,168	492,595	-
Accrued payroll.....	2,794	19,283	23,547	45,624	-
Accrued interest.....	-	949,807	427,471	1,377,278	-
Compensated absences.....	2,542	1,977	8,994	13,513	-
Short-term notes payable.....	-	19,387,795	6,467,340	25,855,135	-
Long-term bonds and notes payable.....	-	3,163,876	1,435,151	4,599,027	-
Total current liabilities.....	<u>8,044</u>	<u>23,870,457</u>	<u>8,504,671</u>	<u>32,383,172</u>	<u>-</u>
<b>Noncurrent liabilities:</b>					
Compensated absences.....	22,877	17,793	80,942	121,612	-
Net OPEB obligation.....	24,330	100,979	143,626	268,935	-
Long-term bonds and notes payable.....	-	37,412,828	16,965,315	54,378,143	-
Total noncurrent liabilities.....	<u>47,207</u>	<u>37,531,600</u>	<u>17,189,883</u>	<u>54,768,690</u>	<u>-</u>
Total liabilities.....	<u>55,251</u>	<u>61,402,057</u>	<u>25,694,554</u>	<u>87,151,862</u>	<u>-</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt.....	2,246,157	60,234,708	4,528,193	67,009,058	-
Restricted for:					
Capital projects.....	-	10,518,255	5,643,745	16,162,000	-
Debt service.....	-	19,949,184	-	19,949,184	-
Unrestricted.....	<u>522,315</u>	<u>2,794,953</u>	<u>3,597,693</u>	<u>6,914,961</u>	<u>431,044</u>
Total net assets.....	<u>\$ 2,768,472</u>	<u>\$ 93,497,100</u>	<u>\$ 13,769,631</u>	<u>\$ 110,035,203</u>	<u>\$ 431,044</u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Waterways	Sewer	Water	Total	
<b>OPERATING REVENUES</b>					
Charges for services.....	\$ 221,962	\$ 7,217,646	\$ 5,883,837	\$ 13,323,445	\$ -
Special assessments.....	-	67,147	-	67,147	-
Boat excise taxes.....	76,137	-	-	76,137	-
Penalties and interest.....	-	363,344	66,465	429,809	-
Other.....	9,118	-	-	9,118	-
<b>TOTAL OPERATING REVENUES.....</b>	<b>307,217</b>	<b>7,648,137</b>	<b>5,950,302</b>	<b>13,905,656</b>	<b>-</b>
<b>OPERATING EXPENSES</b>					
Cost of service and administration.....	289,149	4,253,755	3,099,513	7,642,417	-
Depreciation.....	92,220	3,122,195	740,066	3,954,481	-
Employee benefits.....	-	-	-	-	375,765
<b>TOTAL OPERATING EXPENSES.....</b>	<b>381,369</b>	<b>7,375,950</b>	<b>3,839,579</b>	<b>11,596,898</b>	<b>375,765</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>(74,152)</b>	<b>272,187</b>	<b>2,110,723</b>	<b>2,308,758</b>	<b>(375,765)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Intergovernmental.....	-	525,281	-	525,281	194,062
Investment income.....	-	-	-	-	27,169
Interest expense.....	-	(3,144,930)	(1,159,048)	(4,303,978)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>-</b>	<b>(2,619,649)</b>	<b>(1,159,048)</b>	<b>(3,778,697)</b>	<b>221,231</b>
<b>INCOME (LOSS) BEFORE TRANSFERS.....</b>	<b>(74,152)</b>	<b>(2,347,462)</b>	<b>951,675</b>	<b>(1,469,939)</b>	<b>(154,534)</b>
<b>TRANSFERS</b>					
Transfers in.....	-	765,927	2,469	768,396	-
Transfers out.....	(30,000)	(183,536)	(8,250)	(221,786)	(40,558)
<b>TOTAL TRANSFERS.....</b>	<b>(30,000)</b>	<b>582,391</b>	<b>(5,781)</b>	<b>546,610</b>	<b>(40,558)</b>
<b>CHANGE IN NET ASSETS.....</b>	<b>(104,152)</b>	<b>(1,765,071)</b>	<b>945,894</b>	<b>(923,329)</b>	<b>(195,092)</b>
<b>NET ASSETS AT BEGINNING OF YEAR (AS RESTATED).....</b>	<b>2,872,624</b>	<b>95,262,171</b>	<b>12,823,737</b>	<b>110,958,532</b>	<b>626,136</b>
<b>NET ASSETS AT END OF YEAR.....</b>	<b>\$ 2,768,472</b>	<b>\$ 93,497,100</b>	<b>\$ 13,769,631</b>	<b>\$ 110,035,203</b>	<b>\$ 431,044</b>

See notes to basic financial statements.

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Waterways	Sewer	Water	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and users.....	\$ 309,480	\$ 9,131,978	\$ 6,040,740	\$ 15,482,198	\$
Payments to vendors.....	(109,555)	(3,171,910)	(1,913,157)	(5,194,622)	(497,412)
Payments to employees.....	(148,515)	(670,616)	(890,411)	(1,709,542)	
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>51,410</b>	<b>5,289,452</b>	<b>3,237,172</b>	<b>8,578,034</b>	<b>(497,412)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in.....	-	765,927	2,469	768,396	
Transfers out.....	(30,000)	(183,536)	(8,250)	(221,786)	(40,558)
Intergovernmental subsidy.....	-	-	-	-	194,062
<b>NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....</b>	<b>(30,000)</b>	<b>582,391</b>	<b>(5,781)</b>	<b>546,610</b>	<b>153,504</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from the issuance of bonds and notes.....	-	31,070,192	6,622,340	37,692,532	
Acquisition and construction of capital assets.....	-	(3,275,906)	(379,693)	(3,655,599)	
Principal payments on bonds and notes.....	-	(32,767,910)	(8,099,234)	(40,867,144)	
Interest expense.....	-	(1,199,307)	(931,795)	(2,131,102)	
<b>NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....</b>	<b>-</b>	<b>(6,172,931)</b>	<b>(2,788,382)</b>	<b>(8,961,313)</b>	<b></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment income.....	-	-	-	-	27,169
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>21,410</b>	<b>(301,088)</b>	<b>443,009</b>	<b>163,331</b>	<b>(316,739)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (AS RESTATED).....</b>	<b>503,466</b>	<b>17,768,955</b>	<b>7,340,390</b>	<b>25,612,811</b>	<b>646,358</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> (Includes \$16,054,509 and \$5,643,745 reported as restricted in the sewer and water enterprise funds, respectively).....	<b>\$ 524,876</b>	<b>\$ 17,467,867</b>	<b>\$ 7,783,399</b>	<b>\$ 25,776,142</b>	<b>\$ 329,619</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>					
Operating income (loss).....	\$ (74,152)	\$ 272,187	\$ 2,110,723	\$ 2,308,758	\$ (375,765)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation.....	92,220	3,122,195	740,066	3,954,481	
Changes in assets and liabilities:					
Utility liens.....	-	(131,592)	(66,829)	(198,421)	
Excise taxes.....	2,262	-	-	2,262	
User charges.....	-	(23,400)	157,267	133,867	
Special assessments.....	-	1,659,114	-	1,659,114	
Departmental and other.....	1	(20,281)	-	(20,280)	
Working capital deposit.....	-	-	-	-	(21,825)
Warrants payable.....	2,708	347,719	142,168	492,595	
Accrued payroll.....	(1,272)	(10,706)	(2,969)	(14,947)	
Other liabilities.....	-	(18)	(12)	(30)	
Accrued health claims payable.....	-	-	-	-	(99,822)
Accrued compensated absences.....	5,313	(26,745)	13,132	(8,300)	
Net OPEB obligations.....	24,330	100,979	143,626	268,935	
<b>Total adjustments.....</b>	<b>125,562</b>	<b>5,017,265</b>	<b>1,126,449</b>	<b>6,269,276</b>	<b>(121,647)</b>
<b>NET CASH FROM OPERATING ACTIVITIES.....</b>	<b>\$ 51,410</b>	<b>\$ 5,289,452</b>	<b>\$ 3,237,172</b>	<b>\$ 8,578,034</b>	<b>\$ (497,412)</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>					
Intergovernmental debt subsidies (MWPAT).....	\$ -	\$ 742,446	\$ -	\$ 742,446	\$

See notes to basic financial statements.

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

JUNE 30, 2009

<b>ASSETS</b>	<u>Pension Trust Fund (As of 12/31/08)</u>	<u>Private Purpose Trust Funds</u>
Cash and cash equivalents.....	\$ 438,311	\$ 189,756
Investments.....	51,129,093	492,854
Receivables, net of allowance for uncollectible amounts:		
Departmental and other.....	-	1,823
Total assets.....	<u>51,567,404</u>	<u>684,433</u>
<b>LIABILITIES</b>		
Warrants payable.....	<u>83</u>	<u>-</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes.....	<u>\$ 51,567,321</u>	<u>\$ 684,433</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Pension Trust Fund (As of 12/31/08)	Private Purpose Trust Funds
<b>ADDITIONS</b>		
Contributions:		
Employer.....	\$ 5,808,066	\$ -
Plan members.....	2,095,300	-
Private donations.....	-	448
	<u>7,903,366</u>	<u>448</u>
Total contributions.....	7,903,366	448
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	(23,745,411)	-
Interest.....	2,147,534	(46,516)
	<u>(21,597,877)</u>	<u>(46,516)</u>
Total investment income (loss).....	(21,597,877)	(46,516)
Less investment expense.....	(313,990)	-
	<u>(21,911,867)</u>	<u>(46,516)</u>
Net investment income (loss).....	(21,911,867)	(46,516)
Intergovernmental.....	275,805	-
Transfers from other systems.....	123,454	-
	<u>275,805</u>	<u>-</u>
	<u>123,454</u>	<u>-</u>
TOTAL ADDITIONS.....	(13,609,242)	(46,068)
<b>DEDUCTIONS</b>		
Administration.....	263,496	-
Retirement benefits and refunds.....	7,770,434	-
Transfers to other systems.....	551,218	-
Other.....	-	2,881
	<u>8,585,148</u>	<u>2,881</u>
TOTAL DEDUCTIONS.....	8,585,148	2,881
CHANGE IN NET ASSETS.....	(22,194,390)	(48,949)
NET ASSETS AT BEGINNING OF YEAR.....	73,761,711	733,382
NET ASSETS AT END OF YEAR.....	<u>\$ 51,567,321</u>	<u>\$ 684,433</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 11-15 Parker Street, Suite 202, Gloucester, Massachusetts 01931.

**Joint Venture**

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

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

The City is indirectly liable for the North Shore Regional Vocational School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The City's fiscal year 2009 assessment totaled \$930,792. 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 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 funds are reported:

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

The *modular classrooms* is a capital projects fund used to account for the accumulation of resources to construct modular classrooms for the City's schools.

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to retirees' health insurance (see Note 10).

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

The following fiduciary fund types are reported:

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

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

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

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

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

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

##### Pooled Funds

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

##### Alternative Investments

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

### Real Estate

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

### *F. Accounts Receivable*

#### Government-Wide and Fund Financial Statements

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

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

Real estate and personal property taxes are levied and based on values assessed on January 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.

#### **User Charges (Water and Sewer)**

User fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed annually and are included as a lien on the property owner's tax bill. Water and sewer charges and liens are recorded as receivables upon issuance.

#### **Special Assessments**

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

#### **Departmental and Other**

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

## Intergovernmental

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

### *G. Allowance for Uncollectible Amounts*

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

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

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

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

Intergovernmental receivables are considered 100% collectible.

### *H. Inventories*

#### Government-Wide and Fund Financial Statements

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

### *I. Restricted Assets*

#### Government-Wide and Fund Financial Statements

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

### *J. Capital Assets*

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

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

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

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

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

<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 Equity*Government-Wide and Proprietary Funds Financial Statements (Net Assets)

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

Net assets have been "restricted" for the following:

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

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

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

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

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been "reserved for" the following:

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

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

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

*O. Long-term Debt*Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

*P. Investment Income*

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

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

*Q. Compensated Absences*

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

*R. Post Retirement Benefits*Government-Wide and Fund Financial Statements

In addition to providing pension benefits and as more fully described in Note 13, the City provides health insurance coverage for current and future retirees and their spouses.

*S. Use of Estimates*Government-Wide and Fund Financial Statements

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

## *T. Total Column*

### Government-Wide Financial Statements

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

### Fund Financial Statements

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

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

### *A. Budgetary Information*

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2009 approved budget for the general fund authorized approximately \$81,571,000 in appropriations. During fiscal year 2009, total appropriations were reduced by approximately \$341,000.

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, 2009, the following governmental fund deficits (exclusive of deficits financed with outstanding short-term notes) exist:

Fund	Amount	Funding Source
School food service.....	\$ 190,870	Available funds
Board of Health- MWPAT Title V.....	114,301	Issuance of long-term debt
CIP00 Harbor improvements.....	83,299	Available funds
09 Title I 305.....	53,167	Available funds
CIP 08-05 beach rakes.....	51,372	Issuance of long-term debt
09 420 Sped.....	38,227	Available funds
06 Seaport council- Blynman canal.....	27,885	Available funds
School restitution.....	24,480	Available funds
Community development.....	21,673	Available funds
Chapter 90 road program.....	21,541	Available funds
FY08-11 BOH substance abuse and intervention.....	21,268	Available funds
08 Reprogram- boiler replacement.....	1,076	Available funds
CIP03 municipal building renovation.....	17,919	Available funds
Preschool.....	17,790	Available funds
05 Emergency response and crisis.....	13,893	Available funds
07 Preserve America.....	13,312	Available funds
FY08 Board of Health- Underage drinking.....	13,068	Available funds
CIP07-03 fire stations- design and repair.....	11,390	Available funds
CIP02 city hall windows.....	11,101	Available funds
Sawyer music.....	9,655	Available funds
07 Police bulletproof vest partnership.....	7,933	Available funds
05 Perkins entitlement.....	7,120	Available funds
FY08 South Essex County shannon grant- gang violence.....	5,801	Available funds
Board of Health North Shore/Cape Ann community health care.....	5,000	Available funds
04 Title II improving education.....	4,203	Available funds
00 I.E.P. grant.....	4,200	Available funds
FY07-08 Organized crime drug task force.....	3,628	Available funds
EPA Brownfields.....	3,311	Available funds
Advertising.....	3,000	Available funds
Donations- veterans.....	2,931	Available funds
CIP00 GHS litigation.....	2,155	Available funds
OSR- donations library.....	2,011	Available funds
FY09 Shannon grant.....	1,926	Available funds
FY 09 derelict vessel.....	1,670	Available funds
09 Title IV 331 safe and drug free.....	1,448	Available funds
DEP water assessment.....	1,398	Available funds
Drug enforcement police.....	1,136	Available funds
Total governmental fund deficits.....	<u>\$ 816,158</u>	

At June 30, 2009, the following water and sewer enterprise funds' capital project deficits (exclusive of deficits financed with outstanding short-term notes) exist:

*Sewer Enterprise*

CIP01 Lower Essex Avenue upgrade.....	\$	91,263	Available funds
CIP 04 Little river.....		59,774	Available funds
CIP 04 Lower Essex/Gibbs Hill.....		46,061	Available funds
CIP 04 CSO Wash basin.....		44,020	Available funds
CIP 03 Essex sewer.....		32,225	Available funds
CIP 04 Asset management program.....		6,587	Available funds
CIP 01 Little river.....		2,469	Available funds
CIP04 Infiltration/Inflow.....		1,376	Available funds
GIS enhancements.....		1,040	Available funds
		<u>284,815</u>	
Total sewer enterprise.....	\$	<u>284,815</u>	

*Water Enterprise*

CIP 02 Klondike reservoir design.....	\$	<u>38,032</u>	Available funds
---------------------------------------	----	---------------	-----------------

**C. Excess of Expenditures Over Appropriations**

For the fiscal year ended June 30, 2009, expenditures exceeded appropriations for public works (snow and ice) and employee benefits (Medicare tax) expenditures. These over-expenditures will be funded by available funds during fiscal year 2010.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

*City (excluding the Pension Trust Fund)*

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

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

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. The City does not have a policy for custodial credit risk of deposits. As of June 30, 2009, \$8,979,867 of the City's bank balance of \$35,336,785 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2009 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 - 5
<u>Debt Securities:</u>			
U.S. Agencies.....	\$ 175,264	\$ 43,196	\$ 132,068
Corporate bonds.....	216,628	18,472	198,156
Money market mutual funds.....	420,761	420,761	-
Fixed income securities.....	70,573	70,573	-
Repurchase agreements.....	2,344,814	2,344,814	-
Certificates of deposit.....	175,409	100,409	75,000
External investment pools.....	16,647	16,647	-
Total debt securities.....	<u>3,420,096</u>	<u>\$ 3,014,872</u>	<u>\$ 405,224</u>
<u>Other Investments:</u>			
Equity mutual funds.....	390,014		
Real estate investments.....	10,759		
Alternative investments.....	<u>5,465</u>		
Total other investments.....	<u>406,238</u>		
Total investments.....	<u>\$ 3,826,334</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, 2009 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.....	\$ 175,264	\$ 175,264
Corporate bonds.....	216,628	216,628
Money market mutual funds.....	420,761	420,761
Certificates of deposit.....	175,409	175,409
Fixed income securities.....	70,573	70,573
Equity mutual funds.....	390,014	390,014
Real estate investments.....	10,759	10,759
Alternative investments.....	5,465	5,465
<b>Total.....</b>	<b>\$ 1,464,873</b>	<b>\$ 1,464,873</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, 2009, the credit quality ratings of the City's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *		
		AA	A	Unrated
Corporate bonds.....	\$ 216,628	\$ 216,628	\$ -	\$ -
Money market mutual funds.....	420,761	-	-	420,761
Repurchase agreements.....	2,344,814	-	-	2,344,814
Fixed income securities.....	70,573	-	70,573	-
Certificates of deposit.....	175,409	-	-	175,409
External investment pools.....	16,647	-	-	16,647
<b>Total.....</b>	<b>\$ 3,244,832</b>	<b>\$ 216,628</b>	<b>\$ 70,573</b>	<b>\$ 2,957,631</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.

#### 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, 2008, the System is not exposed to custodial credit risk.

Investments Summary

The System's investments at December 31, 2008 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.....	\$ 75,293	\$ 75,293
Debt security mutual funds.....	<u>10,123,560</u>	<u>10,123,560</u>
Total debt securities.....	<u>10,198,853</u>	<u>\$ 10,198,853</u>
<u>Other Investments:</u>		
Equity mutual funds.....	24,255,642	
Real estate investments.....	6,115,040	
Alternative investments.....	<u>10,634,851</u>	
Total other investments.....	<u>41,005,533</u>	
Total investments.....	<u>\$ 51,204,386</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, 2008, 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, 2008, the System's investments in debt securities were unrated by a national credit rating organization.

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a policy for foreign currency risk. As of December 31, 2008, the System was not exposed to foreign currency risk.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System does not have a policy for concentration of credit risk. As of December 31, 2008, the System was not exposed to concentration of credit risk.

**NOTE 4 - ACCOUNTS RECEIVABLE**

At June 30, 2009, 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.....	\$ 2,508,373	\$ (218,836)	\$ 2,289,537
Real estate tax deferrals.....	177,291	-	177,291
Tax liens.....	1,947,442	-	1,947,442
Motor vehicle and other excise taxes.....	616,522	(345,655)	270,867
Special assessments.....	3,651,297	-	3,651,297
Departmental and other.....	1,288,812	(645,185)	643,627
Intergovernmental.....	11,243,708	-	11,243,708
Loans.....	931,590	-	931,590
Total.....	<u>\$ 22,365,035</u>	<u>\$ (1,209,676)</u>	<u>\$ 21,155,359</u>

At June 30, 2009, receivables for the waterways, water and sewer enterprise funds consists of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Utility liens.....	\$ 640,387	\$ -	\$ 640,387
Boat excise taxes.....	232,318	(190,882)	41,436
User charges.....	4,443,272	-	4,443,272
Special assessments.....	14,412,930	-	14,412,930
Departmental and other.....	31,535	-	31,535
Intergovernmental.....	3,444,589	-	3,444,589
Total.....	<u>\$ 23,205,031</u>	<u>\$ (190,882)</u>	<u>\$ 23,014,149</u>

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

<u>Receivable type:</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Real estate and personal property taxes.....	\$ 1,779,649	\$ -	\$ 1,779,649
Real estate tax deferrals.....	177,291	-	177,291
Tax liens.....	1,947,442	-	1,947,442
Motor vehicle and other excise taxes.....	270,867	-	270,867
Special assessments.....	-	3,608,481	3,608,481
Departmental and other.....	580,496	104,124	684,620
Intergovernmental (state school construction).....	8,408,897	-	8,408,897
Intergovernmental (other state and federal).....	1,056,899	-	1,056,899
Loans.....	-	931,590	931,590
Total.....	<u>\$ 14,221,541</u>	<u>\$ 4,644,195</u>	<u>\$ 18,865,736</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 2009, approximately \$1,508,609 of such assistance was received. Approximately \$12,902,000 will be received in future fiscal years. Of this amount, approximately \$4,493,000 represents reimbursement of long-term interest costs, and approximately \$8,409,000 represents reimbursement of approved construction costs. Accordingly, an \$8,408,897 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, 2009, was as follows:

**Governmental Activities**

	Beginning Balance*	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 17,701,783	\$ -	\$ -	\$ 17,701,783
Construction in progress.....	61,993	796,162	-	858,155
Total capital assets not being depreciated.....	<u>17,763,776</u>	<u>796,162</u>	<u>-</u>	<u>18,559,938</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	57,138,380	2,514,975	-	59,653,355
Improvements.....	5,435,649	45,669	-	5,481,318
Machinery and equipment.....	6,765,351	166,779	(690,109)	6,242,021
Vehicles.....	8,844,380	262,778	(1,319,501)	7,787,657
Other.....	1,058,015	-	-	1,058,015
Infrastructure.....	12,123,292	3,067,026	-	15,190,318
Total capital assets being depreciated.....	<u>91,365,067</u>	<u>6,057,227</u>	<u>(2,009,610)</u>	<u>95,412,684</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(25,735,236)	(2,308,859)	-	(28,044,095)
Improvements.....	(2,224,026)	(232,433)	-	(2,456,459)
Machinery and equipment.....	(5,743,993)	(241,454)	684,163	(5,301,284)
Vehicles.....	(5,388,042)	(482,484)	1,256,139	(4,614,387)
Other.....	(345,928)	(69,912)	-	(415,840)
Infrastructure.....	(2,073,200)	(315,265)	-	(2,388,465)
Total accumulated depreciation.....	<u>(41,510,425)</u>	<u>(3,650,407)</u>	<u>1,940,302</u>	<u>(43,220,530)</u>
Total capital assets being depreciated, net.....	<u>49,854,642</u>	<u>2,406,820</u>	<u>(69,308)</u>	<u>52,192,154</u>
Total governmental activities capital assets, net.....	<u>\$ 67,618,418</u>	<u>\$ 3,202,982</u>	<u>\$ (69,308)</u>	<u>\$ 70,752,092</u>

\* As restated and described in Note 17

**Waterways Enterprise Fund**

	Beginning Balance*	Increases	Decreases	Ending Balance
<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.....	124,207	-	-	124,207
Vehicles.....	19,982	-	-	19,982
Infrastructure.....	931,694	-	-	931,694
Total capital assets being depreciated.....	2,373,597	-	-	2,373,597
<u>Less accumulated depreciation for:</u>				
Improvements.....	(362,911)	(64,886)	-	(427,797)
Machinery and equipment.....	(106,957)	(8,700)	-	(115,657)
Vehicles.....	(19,982)	-	-	(19,982)
Infrastructure.....	(83,852)	(18,634)	-	(102,486)
Total accumulated depreciation.....	(573,702)	(92,220)	-	(665,922)
Total capital assets being depreciated, net.....	1,799,895	(92,220)	-	1,707,675
Total waterways enterprise capital assets, net.....	\$ 2,338,377	\$ (92,220)	\$ -	\$ 2,246,157

\* As restated and described in Note 17

**Sewer Enterprise Fund**

	Beginning Balance*	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 379,839	\$ -	\$ -	\$ 379,839
Construction in progress.....	-	1,547,912	-	1,547,912
Total capital assets not being depreciated.....	<u>379,839</u>	<u>1,547,912</u>	<u>-</u>	<u>1,927,751</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	4,077,784	-	-	4,077,784
Improvements.....	52,702	-	-	52,702
Machinery and equipment.....	324,196	-	-	324,196
Vehicles.....	462,814	-	-	462,814
Other.....	15,000	5,617	-	20,617
Infrastructure.....	147,102,559	1,722,377	-	148,824,936
Total capital assets being depreciated.....	<u>152,035,055</u>	<u>1,727,994</u>	<u>-</u>	<u>153,763,049</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(3,646,043)	(95,942)	-	(3,741,985)
Improvements.....	(15,688)	(3,750)	-	(19,438)
Machinery and equipment.....	(204,162)	(24,508)	-	(228,670)
Vehicles.....	(243,416)	(38,657)	-	(282,073)
Other.....	(13,500)	(2,062)	-	(15,562)
Infrastructure.....	(31,691,178)	(2,957,276)	-	(34,648,454)
Total accumulated depreciation.....	<u>(35,813,987)</u>	<u>(3,122,195)</u>	<u>-</u>	<u>(38,936,182)</u>
Total capital assets being depreciated, net.....	<u>116,221,068</u>	<u>(1,394,201)</u>	<u>-</u>	<u>114,826,867</u>
Total sewer enterprise capital assets, net.....	<u>\$ 116,600,907</u>	<u>\$ 153,711</u>	<u>\$ -</u>	<u>\$ 116,754,618</u>

\* As restated and described in Note 17

**Water Enterprise Fund**

	Beginning Balance*	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,594,263	\$ -	\$ -	\$ 3,594,263
<u>Capital assets being depreciated:</u>				
Buildings.....	160,023	-	-	160,023
Machinery and equipment.....	591,045	71,621	-	662,666
Vehicles.....	424,755	-	(97,683)	327,072
Other.....	-	5,617	-	5,617
Infrastructure.....	34,483,594	302,455	-	34,786,049
Total capital assets being depreciated.....	35,659,417	379,693	(97,683)	35,941,427
<u>Less accumulated depreciation for:</u>				
Buildings.....	(160,023)	-	-	(160,023)
Machinery and equipment.....	(540,239)	(9,332)	-	(549,571)
Vehicles.....	(384,747)	(11,430)	97,683	(298,494)
Other.....	-	(562)	-	(562)
Infrastructure.....	(8,412,299)	(718,742)	-	(9,131,041)
Total accumulated depreciation.....	(9,497,308)	(740,066)	97,683	(10,139,691)
Total capital assets being depreciated, net.....	26,162,109	(360,373)	-	25,801,736
Total water enterprise capital assets, net.....	\$ 29,756,372	\$ (360,373)	\$ -	\$ 29,395,999

\* As restated and described in Note 17

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

**Governmental Activities:**

General government.....	\$ 204,169
Public safety.....	289,038
Education.....	2,408,796
Public works.....	643,369
Culture and recreation.....	105,035

Total depreciation expense - governmental activities..... \$ 3,650,407**Business-Type Activities:**

Waterways.....	\$ 92,220
Sewer.....	3,122,195
Water.....	740,066

Total depreciation expense - business-type activities..... \$ 3,954,481

**NOTE 6 - CAPITAL LEASES**

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

The following schedule presents future minimum lease payments as of June 30, 2009:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2010.....	\$ 271,320
2011.....	271,307
2012.....	271,307
2013.....	<u>731,710</u>
Total minimum lease payments.....	1,545,644
Less: amounts representing interest.....	<u>(188,125)</u>
Present value of minimum lease payments....	<u>\$ 1,357,519</u>

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

<u>Asset:</u>	<u>Governmental</u> <u>Activities</u>
Vehicles.....	\$ 1,829,252
Less: accumulated amortization.....	<u>(274,380)</u>
Total.....	<u>\$ 1,554,872</u>

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

**NOTE 7 - INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2009, are summarized as follows:

Transfers Out:	Transfers In:				Total
	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 84,006	\$ -	\$ 257,584	\$ 341,590 (1)
Nonmajor Governmental Funds.....	1,085,949	-	-	508,343	1,594,292 (2)
Waterways Enterprise Fund.....	30,000	-	-	-	30,000 (3)
Sewer Enterprise Fund.....	-	181,067	2,469	-	183,536 (4)
Water Enterprise Fund.....	3,750	4,500	-	-	8,250 (5)
Internal Service Fund.....	40,558	-	-	-	40,558 (6)
Totals.....	\$ 1,160,257	\$ 269,573	\$ 2,469	\$ 765,927	\$ 2,198,226

- (1) Represents budgeted transfers to paydown BAN's (\$52,000); to fund a permanent deficit in summer program revolving fund (\$21,386); to the City Hall Use fund (\$320); to the triennial certification special revenue fund (\$33,300); and to provide a subsidy to the sewer enterprise fund (\$234,584).
- (2) Represents budgeted transfers from the following funds to fund the general fund budget: (1) Title V septic betterment reserve funds to fund debt service (\$267,721); (2) Sale of Blackburn property special revenue fund to fund debt service (\$538,770); (3) DPW special revenue fund (\$115,000); (4) and the sale of city land special revenue fund (\$48,361). Also represents budgeted transfer from City donations special revenue fund to sewer enterprise fund (\$508,343) and transfer to close prior year FEMA special revenue fund (\$116,097).
- (3) Represents budgeted transfer to fund the general fund budget (\$30,000).
- (4) Represents transfer of drainage capital project (\$181,067) and sewer little river capital project (\$2,469).
- (5) Represents transfer of DPW asset management capital project (\$4,500) and transfer to fund litigation settlement (\$3,750).
- (6) Represents budgeted transfer to fund sick leave buyback (\$40,558).

**NOTE 8 - SHORT-TERM FINANCING**

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2009, is as follows:

### Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
BAN	Financial management system.....	9/21/07	9/19/08	4.00%	\$ 50,000	\$ -	\$ (50,000)	\$ -
BAN	School remodeling - fire alarms.....	9/21/07	9/19/08	4.00%	99,000	-	(99,000)	-
BAN	School remodeling - fire doors.....	9/21/07	9/19/08	4.00%	68,000	-	(68,000)	-
BAN	School remodeling - elevator.....	9/21/07	9/19/08	4.00%	33,000	-	(33,000)	-
BAN	Soil analysis.....	9/21/07	9/19/08	4.00%	33,000	-	(33,000)	-
BAN	CSO surface paving.....	9/21/07	9/19/08	4.00%	500,000	-	(500,000)	-
BAN	CSO construction vehicles.....	9/21/07	9/19/08	4.00%	205,000	-	(205,000)	-
BAN	City Hall renovations.....	9/21/07	9/19/08	4.00%	1,305,000	-	(1,305,000)	-
BAN	Fire stations.....	9/21/07	9/19/08	4.00%	300,000	-	(300,000)	-
BAN	Fire department - installations.....	9/21/07	9/19/08	2.00%	150,000	-	(150,000)	-
BAN	Ambulance purchase.....	9/21/07	9/19/08	2.00%	250,000	-	(250,000)	-
BAN	Fire department - SUV.....	9/21/07	9/19/08	2.00%	40,000	-	(40,000)	-
BAN	Modular classrooms.....	9/21/07	9/19/08	2.00%	3,450,000	-	(3,450,000)	-
BAN	Beach rakes.....	9/21/07	9/19/08	2.00%	38,000	-	(38,000)	-
ILN*	MWPAT Title V septic loans.....	Various dates	Interim loan	0.00%	849,323	1,675,529	-	2,524,852
BAN	Financial management system.....	9/19/08	9/18/09	2.74%	-	50,000	(44,739)	5,261
BAN	School remodeling - fire alarms.....	9/19/08	9/18/09	2.74%	-	93,000	(87,463)	5,537
BAN	School remodeling - fire doors.....	9/19/08	9/18/09	2.74%	-	64,000	(60,000)	4,000
BAN	School remodeling - elevator.....	9/19/08	9/18/09	2.74%	-	31,000	(10,000)	21,000
BAN	Soil analysis.....	9/19/08	9/18/09	2.74%	-	16,000	-	16,000
BAN	CSO surface paving.....	9/19/08	9/18/09	2.74%	-	500,000	-	500,000
BAN	CSO construction vehicles.....	9/19/08	9/18/09	2.74%	-	205,000	(155,828)	49,172
BAN	City Hall renovations.....	9/19/08	9/18/09	2.74%	-	1,305,000	(1,305,000)	-
BAN	Fire stations.....	9/19/08	9/18/09	2.74%	-	300,000	(300,000)	-
BAN	Fire department - installations.....	9/19/08	9/18/09	2.74%	-	150,000	(150,000)	-
BAN	Ambulance purchase.....	9/19/08	9/18/09	2.74%	-	250,000	(250,000)	-
BAN	Fire department - SUV.....	9/19/08	9/18/09	2.74%	-	40,000	(39,905)	95
BAN	Modular classrooms.....	9/19/08	9/18/09	2.74%	-	3,450,000	(3,040,200)	409,800
BAN	Beach rakes.....	9/19/08	9/18/09	2.74%	-	38,000	-	38,000
Total.....					\$ 7,370,323	\$ 8,167,529	\$ (11,964,135)	\$ 3,573,717

\* Interim Loan Notes

**Notes Payable - Enterprise Funds**

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
<i>Sewer Enterprise</i>								
BAN	Infiltration/Inflow.....	9/21/07	9/19/08	4.00%	\$ 290,096	\$ -	\$ (290,096)	\$ -
BAN	Sewer CW 00-53.....	9/21/07	9/19/08	4.00%	600,204	-	(600,204)	-
BAN	Wastewater treatment facility.....	9/21/07	9/19/08	4.00%	1,800,000	-	(1,800,000)	-
BAN	CSO consent.....	9/21/07	9/19/08	2.00%	26,465,038	-	(26,465,038)	-
BAN	Sewer betterment (Moorland Way).....	9/21/07	9/19/08	2.00%	1,597,465	-	(1,597,465)	-
BAN	Infiltration/Inflow.....	9/19/08	9/18/09	2.74%	-	281,696	(279,172)	2,524
BAN	Sewer CW 00-53.....	9/19/08	9/18/09	2.74%	-	577,204	(268,693)	308,511
BAN	Wastewater treatment facility.....	9/19/08	9/18/09	2.74%	-	1,780,000	-	1,780,000
BAN	CSO consent.....	9/19/08	9/18/09	2.74%	-	15,699,295	-	15,699,295
BAN	Sewer betterment (Moorland Way).....	9/19/08	9/18/09	2.74%	-	1,597,465	-	1,597,465
Sub-total (sewer enterprise).....					30,752,803	19,935,660	(31,300,668)	19,387,795
<i>Water Enterprise</i>								
BAN	Water valve replacement.....	9/21/07	9/19/08	4.00%	500,000	-	(500,000)	-
BAN	Water lines - Magnolia.....	9/21/07	9/19/08	4.00%	194,700	-	(194,700)	-
BAN	Water improvements.....	9/21/07	9/19/08	4.00%	1,975,000	-	(1,975,000)	-
BAN	Water system improvements.....	9/21/07	9/19/08	2.00%	3,500,000	-	(3,500,000)	-
BAN	Water mains.....	9/21/07	9/19/08	2.00%	458,045	-	(458,045)	-
BAN	Water valve replacement.....	9/19/08	9/18/09	2.74%	-	500,000	-	500,000
BAN	Water lines - Magnolia.....	9/19/08	9/18/09	2.74%	-	189,295	(155,000)	34,295
BAN	Water improvements.....	9/19/08	9/18/09	2.74%	-	1,975,000	-	1,975,000
BAN	Water system improvements.....	9/19/08	9/18/09	2.74%	-	3,500,000	-	3,500,000
BAN	Water mains.....	9/19/08	9/18/09	2.74%	-	458,045	-	458,045
Sub-total (water enterprise).....					6,627,745	6,622,340	(6,782,745)	6,467,340
Total enterprise funds.....					\$ 37,380,548	\$ 26,558,000	\$ (38,083,413)	\$ 25,855,135

**Subsequent Events**

On September 15, 2009, the City issued \$6,946,000 of state qualified general obligation bonds. A portion of the proceeds (\$6,146,000), in addition to \$840,195 of available funds, were used to retire \$6,986,195 of BAN's outstanding at June 30, 2009. Accordingly, \$6,146,000 of BAN's have been reclassified to long-term debt at June 30, 2009.

On September 18, 2009, the City issued BAN's in the amount \$21,549,181. The BAN's accrue interest at a rate of 1.5% and mature on September 17, 2010. The BAN's, in addition to \$4,498,624 of available funds, were issued to retire \$26,047,805 of BAN's outstanding at June 30, 2009.

On September 18, 2009, the City paid off the outstanding \$16,000 BAN for soil analysis with available funds.

**NOTE 9 - LONG-TERM DEBT**

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

Details related to the outstanding indebtedness at June 30, 2009, and the debt service requirements are as follows:

**Bonds and Notes Payable - Governmental Funds**

Project	Interest Rate	Outstanding at June 30, 2008*	Issued	Redeemed	Outstanding at June 30, 2009
General obligation bonds - school.....	3.00 - 5.00%	\$ 18,714,326	\$ 3,197,663	\$ (1,911,744)	\$ 20,000,245
General obligation bonds - other governmental.....	4.00 - 5.00%	10,703,985	2,245,472	(1,508,650)	11,440,807
Special assessment debt - sewer GOB.....	3.50 - 5.00%	2,774,342	-	(313,578)	2,460,764
Special assessment debt - sewer MWPAT.....	0.00 - 5.70%	5,778,980	-	(430,513)	5,348,467
MWPAT - Title V program.....	3.00 - 5.50%	2,089,366	-	(129,530)	1,959,836
HUD loan.....	3.40%	143,000	-	(45,000)	98,000
Total governmental funds.....		\$ 40,203,999	\$ 5,443,135	\$ (4,339,015)	\$ 41,308,119

\* As restated and described in Note 17

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

Fiscal Year	Principal	Interest	Total
2010.....	\$ 4,325,959	\$ 1,509,621	\$ 5,835,580
2011.....	4,471,282	1,429,477	5,900,759
2012.....	4,335,485	1,256,008	5,591,493
2013.....	4,411,458	1,093,670	5,505,127
2014.....	4,004,772	915,391	4,920,164
2015.....	4,063,691	743,063	4,806,754
2016.....	3,891,613	557,416	4,449,030
2017.....	2,920,262	400,902	3,321,164
2018.....	1,651,323	297,460	1,948,783
2019.....	1,576,932	229,831	1,806,763
2020.....	1,286,535	171,581	1,458,116
2021.....	1,076,652	125,208	1,201,860
2022.....	706,017	91,745	797,762
2023.....	583,016	70,405	653,421
2024.....	488,357	54,136	542,493
2025.....	473,357	40,254	513,611
2026.....	453,357	27,079	480,436
2027.....	332,049	15,465	347,514
2028.....	256,000	5,120	261,120
Total.....	\$ 41,308,119	\$ 9,033,831	\$ 50,341,950

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

Project	Interest Rate	Outstanding at June 30, 2008*	Issued	Redeemed	Outstanding at June 30, 2009
Sewer projects (funded by sewer rates):					
General obligation bonds.....	2.63 - 5.70%	\$ 5,894,304	\$ 547,865	\$ (797,481)	\$ 5,644,688
MWPAT.....	2.00%	199,981	11,325,666	(21,323)	11,504,324
Total sewer debt funded by sewer rates		<u>6,094,285</u>	<u>11,873,531</u>	<u>(818,804)</u>	<u>17,149,012</u>
Sewer betterment projects (Gross):					
General obligation bonds.....	3.50 - 5.00%	11,097,366	-	(1,254,313)	9,843,053
MWPAT.....	0.00 - 5.70%	23,115,919	-	(1,722,050)	21,393,869
Sub-total.....		34,213,285	-	(2,976,363)	31,236,922
Less sewer betterment projects funded by the general fund:					
General obligation bonds.....	3.50 - 5.00%	(2,774,342)	-	313,578	(2,460,763)
MWPAT.....	0.00 - 5.70%	(5,778,980)	-	430,513	(5,348,467)
Sub-total.....		<u>(8,553,322)</u>	<u>-</u>	<u>744,091</u>	<u>(7,809,231)</u>
Total sewer debt funded by sewer betterments.....		<u>25,659,963</u>	<u>-</u>	<u>(2,232,272)</u>	<u>23,427,692</u>
Deferred losses on refundings.....		<u>(28,544)</u>	<u>-</u>	<u>28,544</u>	<u>-</u>
Total sewer enterprise (net).....		<u>\$ 31,725,704</u>	<u>\$ 11,873,531</u>	<u>\$ (3,022,532)</u>	<u>\$ 40,576,704</u>

\* As restated and described in Note 17

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
2010.....	\$ 3,163,876	\$ 1,371,612	\$ 4,535,488
2011.....	3,160,395	1,296,757	4,457,152
2012.....	3,024,076	1,171,750	4,195,826
2013.....	3,074,644	1,024,305	4,098,949
2014.....	3,094,505	917,006	4,011,511
2015.....	3,011,193	789,879	3,801,072
2016.....	2,682,345	668,755	3,351,100
2017.....	2,614,576	561,886	3,176,462
2018.....	2,301,656	456,546	2,758,202
2019.....	2,333,373	370,802	2,704,175
2020.....	2,332,665	288,921	2,621,586
2021.....	2,272,273	207,164	2,479,437
2022.....	1,218,644	150,099	1,368,743
2023.....	1,208,549	119,353	1,327,902
2024.....	1,124,947	90,979	1,215,926
2025.....	962,337	68,691	1,031,028
2026.....	934,979	51,084	986,063
2027.....	690,311	35,310	725,621
2028.....	693,468	20,783	714,251
2029.....	677,892	6,779	684,671
<b>Total.....</b>	<b>\$ 40,576,704</b>	<b>\$ 9,668,461</b>	<b>\$ 50,245,165</b>

### Water Enterprise

Project	Interest Rate	Outstanding at June 30, 2008	Issued	Redeemed	Outstanding at June 30, 2009
Water projects - general obligation bonds.....	2.63 - 5.00%	\$ 16,635,019	\$ 155,000	\$ (1,327,813)	\$ 15,462,206
Water projects - MWPAT.....	2.00%	3,081,936	-	(143,676)	2,938,260
<b>Total water enterprise (gross).....</b>		<b>19,716,955</b>	<b>155,000</b>	<b>(1,471,489)</b>	<b>18,400,466</b>
Deferred losses on refundings.....		(90,181)	-	90,181	-
<b>Total water enterprise (net).....</b>		<b>\$ 19,626,774</b>	<b>\$ 155,000</b>	<b>\$ (1,381,308)</b>	<b>\$ 18,400,466</b>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010.....	\$ 1,435,151	\$ 686,720	\$ 2,121,871
2011.....	1,432,117	635,255	2,067,372
2012.....	1,404,036	580,964	1,985,000
2013.....	1,403,754	526,404	1,930,158
2014.....	1,389,804	473,583	1,863,387
2015.....	1,270,294	421,313	1,691,607
2016.....	1,265,317	367,981	1,633,298
2017.....	1,266,906	314,572	1,581,478
2018.....	1,262,012	260,965	1,522,977
2019.....	1,264,287	207,081	1,471,368
2020.....	1,019,032	160,872	1,179,904
2021.....	992,649	123,199	1,115,848
2022.....	721,339	91,256	812,595
2023.....	635,103	66,619	701,722
2024.....	578,944	45,356	624,300
2025.....	567,862	25,700	593,562
2026.....	386,859	10,210	397,069
2027.....	100,000	2,295	102,295
2028.....	5,000	100	5,100
<b>Total.....</b>	<b>\$ 18,400,466</b>	<b>\$ 5,000,445</b>	<b>\$ 23,400,911</b>

During fiscal year 2009, the City issued \$11,325,666 of Massachusetts Water Pollution Abatement Trust (MWPAT) bonds related to the combined sewer overflow project.

#### Subsequent Event

On September 15, 2009, the City issued 6,946,000 of state qualified general obligation bonds. Of this amount, \$6,146,000 was used to retire BAN's (related to city hall renovations, fire station renovations, modular classrooms, school remodeling, departmental equipment, sewer projects, water projects and other various governmental projects) that were outstanding at June 30, 2009 that are now appropriately considered long-term debt, and \$800,000 was used for the purchase of a fire truck.

The City receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the City in the repayment of this future debt. During fiscal year 2009, the City's subsidy totaled approximately \$1,021,000. Future subsidies total approximately \$8,095,000. The amount of MWPAT bonds outstanding at June 30, 2009, totaled \$37,796,289.

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, 2009, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Sewer projects.....	\$ 21,056,797
Sewer projects.....	19,387,795 *
Refunding.....	10,980,000
Water projects.....	6,214,295
Water projects.....	6,467,340 *
Governmental projects.....	7,993,400
Governmental projects.....	3,573,717 *
Departmental equipment.....	<u>1,633,000</u>
Total.....	\$ <u><u>77,306,344</u></u>

\* Represents current BAN's outstanding

#### Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2009, the following changes occurred in long-term liabilities:

	Balance June 30, 2008*	Increases	Decreases	Balance June 30, 2009	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable.....	\$ 40,203,999	\$ 5,443,135	\$ (4,339,015)	\$ 41,308,119	\$ 4,325,959
Net OPEB obligations.....	-	7,080,028	-	7,080,028	-
Capital lease obligations.....	1,557,948	-	(200,429)	1,357,519	209,546
Workers' compensation claims....	433,128	316,894	(234,436)	515,586	195,923
Landfill closure.....	1,295,085	-	(34,500)	1,260,585	35,018
Compensated absences.....	<u>1,766,935</u>	<u>33,164</u>	<u>-</u>	<u>1,800,099</u>	<u>180,010</u>
Total.....	\$ <u><u>45,257,095</u></u>	\$ <u><u>12,873,221</u></u>	\$ <u><u>(4,808,380)</u></u>	\$ <u><u>53,321,936</u></u>	\$ <u><u>4,946,456</u></u>
<b>Business-type Activities:</b>					
Bonds and notes payable.....	\$ 51,352,478	\$ 12,028,532	\$ (4,403,840)	\$ 58,977,170	\$ 4,599,027
Net OPEB obligations.....	-	268,935	-	268,935	-
Compensated absences.....	<u>143,425</u>	<u>-</u>	<u>(8,300)</u>	<u>135,125</u>	<u>13,513</u>
Total.....	\$ <u><u>51,495,903</u></u>	\$ <u><u>12,297,467</u></u>	\$ <u><u>(4,412,140)</u></u>	\$ <u><u>59,381,230</u></u>	\$ <u><u>4,612,540</u></u>

\* As restated and described in Note 17

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

**NOTE 10 - RISK FINANCING***General*

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

*Health Insurance*

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

*Workers' Compensation*

The City is self-insured for its workers' compensation activities. Claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type.

The estimated liability at June 30, 2009, totaled \$515,586. Changes in the reported liability since July 1, 2008 are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-end
Fiscal year 2009.....	\$ 433,128	\$	316,894	\$	(234,436)	\$	515,586

*Unemployment Insurance*

The City is self-insured for its unemployment compensation. The City's liability for unemployment claims is immaterial at June 30, 2009, and therefore is not reported.

**NOTE 11 - PENSION PLAN**

*Plan Description* - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Gloucester Contributory Retirement System. Substantially all employees of the City are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Gloucester Contributory Retirement System and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 11-15 Parker Street, Suite 202, Gloucester, Massachusetts 01931.

**Plan Membership** - At December 31, 2008, the System's membership consists of the following:

Active members.....	542
Inactive members.....	71
Retirees and beneficiaries currently receiving benefits	<u>413</u>
<b>Total.....</b>	<b><u>1,026</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, 2009, 2008, and 2007 were \$5,495,974, \$5,254,216, and \$4,872,362, 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, 2009, the City did not have a net pension obligation.

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/08	\$ 71,938,829	\$ 128,811,115	\$ 56,872,286	55.8%	\$ 22,787,184	249.6%

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

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

Valuation date:	January 1, 2008
Actuarial cost method:	Entry age normal
Amortization method:	Approximate level percent of payroll
Remaining amortization period:	19 years from January 1, 2008 for the fresh start retirement benefits schedule; 10 years for the 2002 and 2003 ERI; the period is closed
Asset valuation method:	Market value adjusted by accounts receivable and accounts payable adjusted to phase in over 4 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.

Actuarial assumptions:

Investment rate of return:	7.875%
Projected salary increases:	4.50%
Cost of living adjustments:	3.00% of first \$12,000 of retirement income

**Legally Required Reserve Accounts** - The balance in the System's legally required reserves as of December 31, 2008 are as follows:

Description	Amount	Purpose
Annuity Savings Fund.....	\$ 22,313,718	Active members' contribution balance
Annuity Reserve Fund.....	6,808,695	Retired members' contribution account
Military Service Fund.....	14,295	Military leave of absence contribution balance
Pension Reserve Fund.....	19,404,247	Amounts appropriated to fund future retirement
Pension Fund.....	<u>3,026,366</u>	Remaining net assets
Total.....	<u>\$ 51,567,321</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 2009 totaled approximately \$53,000.

**NOTE 12- MASSACHUSETTS TEACHERS RETIREMENT SYSTEM**

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$6,640,893 for the fiscal year ended June 30, 2009, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

**NOTE 13- OTHER POST EMPLOYMENT BENEFITS**

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

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

Active employees.....	738
Retired employees and surviving spouses.....	<u>816</u>
Total.....	<u>1,554</u>

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

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

	<u>Amount</u>
Annual required contribution.....	\$ 11,818,624
Interest on net OPEB obligation.....	-
Adjustment to annual required contribution.....	-
	<hr/>
Annual OPEB cost.....	11,818,624
Contributions made.....	(4,469,661)
	<hr/>
Increase in net OPEB obligation.....	7,348,963
Net OPEB obligation at beginning of year.....	-
	<hr/>
Net OPEB obligation at end of year.....	<u>\$ 7,348,963</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, 2009*.....	\$ 11,818,624	37.8%	\$ 7,348,963

\* Transition year

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

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

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

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

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

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

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

<b>Governmental Activities:</b>	
General government.....	\$ 727,546
Public safety.....	2,735,777
Education.....	7,051,763
Public works.....	457,073
Health and human services.....	251,334
Culture and recreation.....	162,630
	<hr/>
Total AOPEBC - governmental activities.....	\$ 11,386,123
	<hr/>
<b>Business-Type Activities:</b>	
Waterways.....	\$ 39,128
Sewer.....	162,394
Water.....	230,979
	<hr/>
Total AOPEBC - business-type activities.....	\$ 432,501
	<hr/>
Total AOPEBC	\$ 11,818,624
	<hr/>

#### NOTE 14- LANDFILL POST-CLOSURE CARE

State and federal laws and regulations required the City to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City had operated a solid waste landfill that ceased operations and was subsequently capped and funded via long-term debt in 2001. The City has reflected \$1,260,585 as the estimated landfill post-closure care liability at June 30, 2009. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

#### NOTE 15- COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$13,000,000 for water main projects, roadway projects, school construction projects and the purchase of departmental equipment.

#### NOTE 16- CONTINGENCIES

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2009, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2009.

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, 2009, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**NOTE 17- PRIOR PERIOD ADJUSTMENTS**

The following changes have been made to beginning fund balances and net assets:

Governmental Funds Financial Statements

	<u>General Fund</u>	<u>Betterment Reserves</u>	<u>Modular Classrooms</u>	<u>Nonmajor Governmental Funds</u>
Fund balances at June 30, 2008, as previously reported.....	\$ 1,557,832	6,098,725	\$ -	\$ 5,145,624
To reclassify betterment reserves to sewer enterprise fund.....	-	(6,098,725)	-	-
To reclassify sewer betterment capital projects.....	-	-	-	(1,410,817)
To reclassify capital projects funds.....	-	-	-	(155,828)
To reclassify modular classrooms capital project to a major fund.....	-	-	(706,675)	706,675
To reclassify stabilization funds.....	1,485,119	-	-	(1,485,119)
To record workers' compensation liability.....	(433,129)	-	-	-
Fund balances at June 30, 2008, as restated.....	<u>\$ 2,609,822</u>	<u>\$ -</u>	<u>\$ (706,675)</u>	<u>\$ 2,800,535</u>

Enterprise Funds Financial Statements

	<u>Waterways Enterprise Fund</u>	<u>Sewer Enterprise Fund</u>	<u>Water Enterprise Fund</u>
Net assets at June 30, 2008, as previously reported..... \$	3,232,984	\$ 94,811,566	\$ 12,404,269
To reclassify betterment reserves to sewer enterprise fund.....	-	6,098,725	-
To reclassify sewer betterment capital projects.....	-	1,410,817	-
To reclassify capital projects funds.....	-	155,828	-
To record MWPAT principal subsidy.....	-	3,429,366	-
To record boat excise account receivables allowance.....	(182,353)	-	-
To accrue unbilled receivables.....	-	1,484,966	1,349,622
To reclassify special assessments.....	-	16,072,044	-
To restate capital assets.....	(178,007)	(2,541,177)	(930,154)
To reclassify outstanding long-term debt.....	-	(25,659,964)	-
Net assets at June 30, 2008, as restated..... \$	<u>2,872,624</u>	<u>\$ 95,262,171</u>	<u>\$ 12,823,737</u>

Government-Wide Financial Statements

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets at June 30, 2008, as previously reported.....	\$ 52,604,899	\$ 110,448,819
To reclassify betterment reserves to sewer enterprise fund.....	(6,098,725)	6,098,725
To reclassify sewer betterment capital projects.....	(1,410,817)	1,410,817
To reclassify capital projects funds.....	(155,828)	155,828
To record boat excise account receivables allowance.....	-	(182,353)
To record MWPAT subsidy.....	1,127,016	3,429,366
To accrue unbilled receivables.....	-	2,834,588
To restate Chapter 90 accounts receivable.....	(1,323,605)	-
To account for Title V (septic) betterments.....	480,186	-
To reclassify special assessments.....	(16,072,044)	16,072,044
To restate MSBA accounts receivable.....	(4,990,335)	-
To restate capital assets.....	(150,604)	(3,649,338)
To record landfill postclosure care liability.....	(1,295,085)	-
To record workers' compensation liability.....	(433,129)	-
To reclassify outstanding long-term debt.....	25,659,964	(25,659,964)
To record capital lease liability.....	(1,557,948)	-
Net assets at June 30, 2008, as restated.....	<u>\$ 46,383,945</u>	<u>\$ 110,958,532</u>

**NOTE 18- IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The City implemented the following GASB pronouncements during fiscal year 2009:

- Statement #45, Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions. This pronouncement requires the recording of an OPEB liability that relates to the City's future liability for current and future retirees and their spouses for benefits other than pensions, such as health insurance. The statement is recorded prospectively in the first year of implementation. Details relating to the City's OPEB liability and its calculation are provided at Note 13.
- Statement #49, Accounting and Financial Reporting for Pollution Remediation Obligations. The implementation of this Statement had no impact on the financial statements.
- Statement #52, Land and Other Real Estate Held as Investments by Endowments. The implementation of this Statement had no impact on the financial statements.

**NOTE 19- FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement #51, Accounting and Financial Reporting for Intangible Assets, which is required to be implemented during fiscal year 2010. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #53, Accounting and Financial Reporting for Derivative Investments, which is required to be implemented during fiscal year 2010. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #54, Fund Balance Reporting and Governmental Fund Type Definitions, which is required to be implemented during fiscal year 2011. The City is currently evaluating the effect that this Statement will have on its basic financial statements.

These pronouncements will be implemented on their respective due dates.

## *Required Supplementary Information*

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations	Final Budget
<b>REVENUES</b>				
Real estate and personal property taxes.....	\$ -	\$ 54,515,778	\$ -	\$ 54,515,778
Motor vehicle and other excise taxes.....	-	2,900,000	(50,000)	2,850,000
Hotel/motel tax.....	-	262,600	-	262,600
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	36,720	-	36,720
Charges for services.....	-	2,045,900	(50,000)	1,995,900
Intergovernmental.....	-	13,594,716	(369,008)	13,225,708
Special assessments.....	-	2,000	-	2,000
Penalties and interest on taxes.....	-	351,940	64,000	415,940
Licenses and permits.....	-	1,563,400	(365,750)	1,197,650
Fines and forfeitures.....	-	355,380	(25,500)	329,880
Departmental.....	-	2,203,617	51,503	2,255,120
Investment income.....	-	295,000	7,896	302,896
<b>TOTAL REVENUES.....</b>	<b>-</b>	<b>78,127,051</b>	<b>(736,859)</b>	<b>77,390,192</b>
<b>EXPENDITURES</b>				
Current:				
General government.....	180,622	3,635,167	(333,354)	3,482,435
Public safety.....	45,255	10,871,839	98,000	11,015,094
Education.....	405,632	37,069,538	(300,000)	37,175,170
Public works.....	351,749	5,568,501	142,000	6,062,250
Health and human services.....	10,971	709,771	76,973	797,715
Culture and recreation.....	-	745,978	-	745,978
Pension benefits.....	-	5,117,987	-	5,117,987
Employee benefits.....	154,420	4,927,350	30,558	5,112,328
Property and liability insurance.....	-	419,500	-	419,500
State and county charges.....	-	3,672,642	-	3,672,642
Debt service:				
Principal.....	-	6,197,165	97,688	6,294,853
Interest.....	-	2,265,506	(153,258)	2,112,248
<b>TOTAL EXPENDITURES.....</b>	<b>1,148,649</b>	<b>81,200,944</b>	<b>(341,393)</b>	<b>82,008,200</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....</b>	<b>(1,148,649)</b>	<b>(3,073,893)</b>	<b>(395,466)</b>	<b>(4,618,008)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in.....	-	3,262,812	435,450	3,698,262
Premium from issuance of bonds and notes.....	-	-	-	-
Transfers out.....	-	(370,204)	-	(370,204)
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>-</b>	<b>2,892,608</b>	<b>435,450</b>	<b>3,328,058</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>(1,148,649)</b>	<b>(181,285)</b>	<b>39,984</b>	<b>(1,289,950)</b>
<b>FUND BALANCE AT BEGINNING OF YEAR.....</b>	<b>1,047,398</b>	<b>1,047,398</b>	<b>1,047,398</b>	<b>1,047,398</b>
<b>FUND BALANCE AT END OF YEAR.....</b>	<b>\$ (101,251)</b>	<b>\$ 866,113</b>	<b>\$ 1,087,382</b>	<b>\$ (242,552)</b>

See notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	53,754,215	\$ -	\$ 53,754,215	\$ (761,563)
	2,860,580	-	2,860,580	10,580
	277,052	-	277,052	14,452
	196,259	-	196,259	196,259
	20,654	-	20,654	(16,066)
	1,815,858	-	1,815,858	(180,042)
	12,782,885	-	12,782,885	(442,823)
	5,933	-	5,933	3,933
	404,219	-	404,219	(11,721)
	1,142,515	-	1,142,515	(55,135)
	269,703	-	269,703	(60,177)
	2,114,943	-	2,114,943	(140,177)
	505,247	-	505,247	202,351
	<u>76,150,063</u>	<u>-</u>	<u>76,150,063</u>	<u>(1,240,129)</u>
	3,331,465	76,758	3,408,223	74,212
	10,862,632	62,819	10,925,451	89,643
	36,386,168	124,367	36,510,535	664,635
	6,454,126	40,455	6,494,581	(432,331)
	760,330	2,169	762,499	35,216
	738,871	-	738,871	7,107
	5,117,314	-	5,117,314	673
	5,171,948	-	5,171,948	(59,620)
	417,225	-	417,225	2,275
	3,592,803	-	3,592,803	79,839
	6,294,853	-	6,294,853	-
	2,112,247	-	2,112,247	1
	<u>81,239,982</u>	<u>306,568</u>	<u>81,546,550</u>	<u>461,650</u>
	<u>(5,089,919)</u>	<u>(306,568)</u>	<u>(5,396,487)</u>	<u>(778,479)</u>
	3,814,359	-	3,814,359	116,097
	304,401	-	304,401	304,401
	<u>(391,590)</u>	<u>-</u>	<u>(391,590)</u>	<u>(21,386)</u>
	<u>3,727,170</u>	<u>-</u>	<u>3,727,170</u>	<u>399,112</u>
	<u>(1,362,749)</u>	<u>(306,568)</u>	<u>(1,669,317)</u>	<u>(379,367)</u>
	<u>1,047,398</u>	<u>1,047,398</u>	<u>1,047,398</u>	<u>-</u>
\$	<u>(315,351)</u>	<u>\$ 740,830</u>	<u>\$ (621,919)</u>	<u>\$ (379,367)</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)
01/01/08	\$ 71,938,829	\$ 128,811,115	\$ 56,872,286	55.8%	\$ 22,787,184	249.6%
01/01/06	58,165,437	117,403,326	59,237,889	49.5%	20,903,152	283.4%
01/01/04	52,051,078	105,751,987	53,700,909	49.2%	20,532,000	261.5%
01/01/03	46,649,000	99,626,000	52,977,000	46.8%	20,985,000	252.5%
01/01/01	48,733,000	81,303,000	32,570,000	59.9%	19,439,000	167.5%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2003	\$ 3,578,000	100
2004	4,714,221	100
2005	4,930,042	100
2006	5,155,891	100
2007	5,560,462	100
2008	5,808,066	100

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 (%)
2004	\$ 3,395,880	100	94.9%
2005	4,458,555	100	94.6%
2006	4,639,133	100	94.1%
2007	4,872,362	100	94.5%
2008	5,254,216	100	94.5%
2009	5,495,974	100	94.6%

**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, 2009, 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.....	\$ 76,150,063	\$ 81,546,550	\$ 3,727,170
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	323,335	-	-
Net change in recording tax refunds payable.....	(162,300)	-	-
To record MTRS on-behalf payments.....	6,640,893	6,640,893	-
Net change in recording short-term interest accrual.....	-	186,788	-
Net change in recording other revenues.....	36,566	-	-
To record MWPAT interest subsidy.....	278,531	278,531	-
Net change in recording worker's compensation.....	-	82,457	-
To record encumbrances and continuing appropriations.....	-	(306,568)	-
Total on GAAP basis of accounting.....	83,267,088	88,428,651	3,727,170
<u>Reclassifications</u>			
To reclassify BAN paydowns.....	-	(52,000)	(52,000)
To reclassify sewer betterment principal.....	-	(2,019,695)	(2,019,695)
To reclassify sewer betterment interest.....	-	(532,407)	(532,407)
Stabilization fund interest reported as part of general fund (GAAP).....	38,468	-	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	\$ <u>83,305,556</u>	\$ <u>85,824,549</u>	\$ <u>1,123,068</u>