

CITY OF GLOUCESTER, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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Independent Auditors' Report



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, 2010 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2009), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gloucester, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gloucester, Massachusetts, as of June 30, 2010 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2009), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

A handwritten signature in black ink that reads "Sullivan, King & Gross, LLC". The signature is written in a cursive, flowing style.

March 11, 2011

Management's Discussion and Analysis

As management of the City of Gloucester, Massachusetts (City), we offer readers of these financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$148,947,897 (net assets). The City's governmental activities has negative unrestricted net assets of (\$8,089,584) and \$6,431,737 in its business-type activities unrestricted net assets.
- The City's total net assets decreased by \$1,701,746.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances totaling \$11,463,846, an increase of \$7,447,375 in comparison with the prior year. Approximately \$6,526,000 represents unreserved fund balance of the general fund, special revenue funds and permanent funds. The capital projects fund deficit of \$329,192, will be funded by proceeds of long-term debt in future fiscal years.
- At the end of the fiscal year, the general fund undesignated fund balance totaled \$3,226,619, or 3.8 percent of total general fund expenditures and transfers out. In the prior year, the general fund had an undesignated fund deficit totaling \$616,258.
- The City's total bonded debt decreased by \$4,597,539 during the fiscal year. The City issued \$4,327,448 of new debt during the year for the Title V program, other governmental projects, and sewer projects.

Overview of the Basic Financial Statements

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

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

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

Government-wide financial statements

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

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

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

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

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

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

Fund financial statements

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

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

Governmental Funds

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

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

The City maintains 451 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other 450 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

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

Proprietary funds

The City maintains two types of proprietary funds.

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

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

Fiduciary funds

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

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

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-62 of this report.

Other information

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

Government-Wide Financial Analysis

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$148,947,897 at the close of the fiscal year and are summarized as follows:

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

The largest portion of the City's net assets, \$119,949,464, reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other and infrastructure) less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$30,656,280, represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets represents a deficit in unrestricted net assets (\$1,657,847). Of this amount, \$6,431,737 may be used to support business-type activities and (\$8,089,584) represents an unrestricted net deficit in governmental activities.

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

Changes in Net Assets

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

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

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

- In fiscal year 2010, there was a positive variance in estimated and actual general fund revenues (\$1,392,789) as compared to a negative variance in fiscal year 2009 (\$1,240,129)
- In fiscal year 2010, there was a positive variance in estimated and actual general fund expenditures (excluding encumbrances and continuing appropriations) of approximately \$2,300,000 as compared to a positive variance in fiscal year 2009 of approximately \$800,000

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

Fund Financial Statement Analysis

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

Governmental funds

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

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

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

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund's undesignated fund balance totaled \$3,226,619, while total fund balance was \$5,630,609. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures and transfers out. Undesignated fund balance represents 3.8% of total general fund expenditures and transfers out, while total fund balance represents 6.7% of that same amount.

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

Proprietary funds

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

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

General Fund Budgetary Highlights

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

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

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

Capital Asset and Debt Administration

Capital assets

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

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

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

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

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

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

Long-Term Debt

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

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

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

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

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

Economic Factors and Next Year's Budget Rates

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

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

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

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

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

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Auditor, City Hall, 9 Dale Avenue, Gloucester, Massachusetts 01930.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2010

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

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2010

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

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

See notes to basic financial statements.

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

JUNE 30, 2010

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

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds (page 19)..... \$ 7,447,375

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.

Capital outlays.....	3,533,740
Depreciation.....	(3,733,294)

In the statement of activities, the *gain/(loss)* on the disposal of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.....

8,026

Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

(1,290,625)

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.

Bond proceeds.....	(3,808,948)
Bond maturities.....	4,325,958
Capital lease maturities.....	209,546

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....

(3,823)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

These amounts represent the net changes:

Net OPEB obligation.....	(7,580,195)
Landfill closure.....	35,018
Compensated absences.....	(222,006)

The internal service fund is used by management to account for health insurance activities. The net activity of the internal service fund is reported with governmental activities.....

(386,519)

Changes in net assets of governmental activities (page 17)..... \$ (1,465,747)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2010

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

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

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

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

See notes to basic financial statements.

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

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

B. Reporting Entity

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

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

The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

Blended Component Unit

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

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

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 127 Eastern Avenue, Gloucester, Massachusetts 01931.

Joint Venture

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

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

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

C. *Government-Wide and Fund Financial Statements*

Government-Wide Financial Statements

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

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

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

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental fund is reported:

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

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

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

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

E. Deposits and Investments

Government-Wide and Fund Financial Statements

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

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

Pooled Funds

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

Alternative Investments

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

Real Estate

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

*F. Accounts Receivable*Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

Motor Vehicle Excise Taxes

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

Community Preservation Surcharges

Community preservation surcharges are levied annually at a rate of 1% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on a quarterly basis each August 1st, November 1st, February 1st, and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

User Charges (Water and Sewer)

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

Special Assessments

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

Departmental and Other

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

Intergovernmental

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

G. Allowance for Uncollectible Amounts

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

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

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

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

Intergovernmental receivables are considered 100% collectible.

H. Inventories

Government-Wide and Fund Financial Statements

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

I. Restricted Assets

Government-Wide and Fund Financial Statements

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

J. Capital AssetsGovernment-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.

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

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

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

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been “reserved for” the following:

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

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

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

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

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

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

Governmental Fund Financial Statements

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

P. Investment Income

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

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

Q. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

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

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

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

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

*T. Total Column*Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY*A. Budgetary Information*

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2010 approved budget for the general fund authorized approximately \$81,077,000 in appropriations. During fiscal year 2010, total appropriations were increased by approximately \$398,000.

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

B. Fund Deficits

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

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

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

Water Enterprise

CIP10- Water treatment plant and distribution system.....	\$ <u>12,336</u>	Issuance of long-term debt
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NOTE 3 - DEPOSITS AND INVESTMENTS*City (excluding the Pension Trust Fund)*

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

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

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

Deposits - Custodial Credit Risk

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

Investments Summary

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

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

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

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

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

Investments - Credit Risk of Debt Securities

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

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

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

Pension Trust Fund (The System)

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

Deposits - Custodial Credit Risk

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

Investments Summary

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities Less than 1 Year</u>
<u>Debt Securities:</u>		
Money market mutual funds.....	\$ 250,420	\$ 250,420
Debt security mutual funds.....	<u>10,996,463</u>	<u>10,996,463</u>
Total debt securities.....	<u>11,246,883</u>	<u>\$ 11,246,883</u>
<u>Other Investments:</u>		
Equity mutual funds.....	37,009,918	
Real estate investments.....	5,542,124	
Alternative investments.....	<u>4,974,451</u>	
Total other investments.....	<u>47,526,493</u>	
Total investments.....	<u>\$ 58,773,376</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, 2009, the System's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

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

Deposits and Investments - Foreign Currency Risk

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

Investments - Concentration of Credit Risk

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

NOTE 4 - ACCOUNTS RECEIVABLE

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

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

At June 30, 2010, 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.....	\$ 512,354	\$ -	\$ 512,354
Boat excise taxes.....	228,318	(201,404)	26,914
User charges.....	4,086,317	-	4,086,317
Special assessments.....	12,817,641	-	12,817,641
Departmental and other.....	14,535	-	14,535
Intergovernmental.....	2,962,831	-	2,962,831
Total.....	<u>\$ 20,621,996</u>	<u>\$ (201,404)</u>	<u>\$ 20,420,592</u>

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

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 1,053,138	\$ -	\$ 1,053,138
Real estate tax deferrals.....	216,860	-	216,860
Tax liens.....	1,937,545	-	1,937,545
Motor vehicle and other excise taxes.....	294,496	-	294,496
Community preservation surcharges.....	-	16,632	16,632
Special assessments.....	-	3,523,889	3,523,889
Departmental and other.....	650,328	77,296	727,624
Intergovernmental (state school construction).....	7,343,237	-	7,343,237
Intergovernmental (other state and federal).....	974,664	100,479	1,075,143
Loans.....	-	949,428	949,428
Tax foreclosures.....	437,119	-	437,119
Total.....	<u>\$ 12,907,387</u>	<u>\$ 4,667,724</u>	<u>\$ 17,575,111</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 2010, approximately \$1,627,000 of such assistance was received. Approximately \$11,275,000 will be received in future fiscal years. Of this amount, approximately \$3,932,000 represents reimbursement of long-term interest costs, and approximately \$7,343,000 represents reimbursement of approved construction costs. Accordingly, a \$7,343,237 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

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

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

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

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

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

Governmental Activities:

General government.....	\$ 206,872
Public safety.....	315,512
Education.....	2,407,697
Public works.....	697,736
Culture and recreation.....	105,477

Total depreciation expense - governmental activities..... \$ 3,733,294

Business-Type Activities:

Waterways.....	\$ 90,841
Sewer.....	3,146,974
Water.....	762,136

Total depreciation expense - business-type activities..... \$ 3,999,951

NOTE 6 - CAPITAL LEASES

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

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

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2011.....	\$ 271,307
2012.....	271,307
2013.....	<u>731,710</u>
 Total minimum lease payments.....	 1,274,324
 Less: amounts representing interest.....	 <u>(126,351)</u>
 Present value of minimum lease payments....	 \$ <u><u>1,147,973</u></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>(457,314)</u>
 Total.....	 \$ <u><u>1,371,938</u></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, 2010, are summarized as follows:

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

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

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

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

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

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

NOTE 8 - SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2010, is as follows:

Notes Payable - Governmental Funds

Notes Payable - Governmental Funds

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

* Interim Loan Notes

Notes Payable - Enterprise Funds*Notes Payable - Enterprise Funds*

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

Subsequent Events

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

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

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

NOTE 9 - LONG-TERM DEBT

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

Details related to the outstanding indebtedness at June 30, 2010, and the debt service requirements are as follows:

Bonds and Notes Payable – Governmental Funds

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

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

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

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

Bonds and Notes Payable - Enterprise Funds

Sewer Enterprise

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

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

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

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

Water Enterprise

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

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

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

Subsequent Event

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

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

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2010, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Sewer projects.....	\$ 39,577,308
Refunding.....	10,980,000
Water projects.....	15,886,239
Governmental projects.....	4,172,839
Departmental equipment....	<u>138,904</u>
Total.....	<u>\$ 70,755,290</u>

* Represents current BAN's outstanding

Changes in Long-Term Liabilities

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

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

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

NOTE 10 - RISK FINANCING*General*

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

Health Insurance

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

Workers' Compensation

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

The estimated liability at June 30, 2010, totaled \$311,896. Changes in the reported liability since July 1, 2008 are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-end
Fiscal year 2009.....	\$ 433,128	\$	316,894	\$	(234,436)	\$	515,586
Fiscal year 2010.....	\$ 515,586	\$	(54,715)	\$	(148,975)	\$	311,896

Unemployment Insurance

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

NOTE 11 - PENSION PLAN

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

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Gloucester Contributory Retirement System and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 127 Eastern Avenue, Gloucester, Massachusetts 01931.

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

Active members.....	522
Inactive members.....	78
Retirees and beneficiaries currently receiving benefi	<u>433</u>
Total.....	<u><u>1,033</u></u>

Funding Policy - Chapter 32 of MGL governs the contributions of plan members and the City. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

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

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

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

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

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

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

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

Asset valuation method: Market value adjusted by accounts receivable and accounts payable adjusted to phase in over 4 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.

Actuarial assumptions:

Investment rate of return: 7.875%

Projected salary increases: 4.50%

Cost of living adjustments: 3.00% of first \$12,000 of retirement income

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

Description	Amount	Purpose
Annuity Savings Fund.....	\$ 21,516,555	Active members' contribution balance
Annuity Reserve Fund.....	8,532,808	Retired members' contribution account
Military Service Fund.....	14,366	Military leave of absence contribution balance
Pension Reserve Fund.....	26,490,638	Amounts appropriated to fund future retiremen
Pension Fund.....	<u>2,663,361</u>	Remaining net assets
Total.....	<u>\$ 59,217,728</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 2010 totaled approximately \$43,000.

NOTE 12- MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

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

NOTE 13- OTHER POST EMPLOYMENT BENEFITS

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

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

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

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

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

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

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

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

* Transition year

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

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

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

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

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

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

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

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

NOTE 14- LANDFILL POST-CLOSURE CARE

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

NOTE 15- COMMITMENTS

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

NOTE 16- CONTINGENCIES

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2010.

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2010, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 17- PRIOR PERIOD RECLASSIFICATION

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

NOTE 18- IMPLEMENTATION OF GASB PRONOUNCEMENTS

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

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

NOTE 19- FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

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

These pronouncements will be implemented on their respective due dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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

See notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	56,247,285	\$ -	\$ 56,247,285	\$ (149,010)
	2,778,096	-	2,778,096	(189,114)
	256,530	-	256,530	(99,910)
	786,134	-	786,134	786,134
	18,572	-	18,572	(18,148)
	1,898,508	-	1,898,508	(320,242)
	12,206,789	-	12,206,789	365,538
	6,411	-	6,411	6,411
	770,906	-	770,906	262,945
	1,273,074	-	1,273,074	198,504
	393,422	-	393,422	83,542
	2,741,262	-	2,741,262	542,615
	158,524	-	158,524	(76,476)
	<u>79,535,513</u>	<u>-</u>	<u>79,535,513</u>	<u>1,392,789</u>
	2,892,234	310,481	3,202,715	349,009
	10,102,196	99,830	10,202,026	77,531
	36,450,047	234,992	36,685,039	1,812
	5,553,469	208,503	5,761,972	393,948
	626,546	7,463	634,009	11,969
	669,927	-	669,927	2,461
	5,317,643	-	5,317,643	10,277
	5,262,490	-	5,262,490	284,174
	402,641	-	402,641	17,530
	3,691,967	-	3,691,967	6,014
	6,105,638	-	6,105,638	115,985
	<u>2,065,616</u>	<u>-</u>	<u>2,065,616</u>	<u>133,350</u>
	<u>79,140,414</u>	<u>861,269</u>	<u>80,001,683</u>	<u>1,404,060</u>
	395,099	(861,269)	(466,170)	2,796,849
	4,095,488	-	4,095,488	25,689
	164,346	-	164,346	89,346
	<u>(551,138)</u>	<u>-</u>	<u>(551,138)</u>	<u>(175,998)</u>
	<u>3,708,696</u>	<u>-</u>	<u>3,708,696</u>	<u>(60,963)</u>
	4,103,795	(861,269)	3,242,526	2,735,886
	<u>(315,351)</u>	<u>(315,351)</u>	<u>(315,351)</u>	<u>-</u>
\$	<u>3,788,444</u>	<u>(1,176,620)</u>	<u>2,927,175</u>	<u>2,735,886</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 Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/08	\$ 71,938,829	\$ 128,811,115	\$ 56,872,286	55.8%	\$ 22,787,184	249.6%
01/01/06	58,165,437	117,403,326	59,237,889	49.5%	20,903,152	283.4%
01/01/04	52,051,078	105,751,987	53,700,909	49.2%	20,532,000	261.5%
01/01/03	46,649,000	99,626,000	52,977,000	46.8%	20,985,000	252.5%
01/01/01	48,733,000	81,303,000	32,570,000	59.9%	19,439,000	167.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

CITY SHARE OF SYSTEM ARC

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

NOTE A - BUDGETARY - GAAP RECONCILIATION

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2010, is presented below:

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