



GLOUCESTER CITY COUNCIL

9 Dale Avenue, Gloucester, MA 01930
Office (978) 281-9720 Fax (978) 282-3051

Budget & Finance Committee

Thursday, April 19, 2012 – **5:30 p.m.**
1st Fl. Council Committee Rm. – City Hall

AGENDA

(Items May be taken out of order at the discretion of the Committee)

1. **Continued Business (all from 04/05/12):**
 - A) Memorandum from City Auditor re: City's Financial Statements and City's Financial Audit Contract for FY12, FY13 & FY14 and Memorandum from City Auditor re: City's FY2011 Basic Financial Statements - discussion with Chris Rogers, Sullivan, Rogers & Co., LLC
 - B) Memorandum from City Auditor re: Employee Conference/Training, Travel, Meals & Lodging Expense Documentation Policy
 - C) CC2012-019 (Hardy) Election of City Auditor pursuant to the City of Gloucester City Charter Section 2-7(a)
2. **Memorandum from CFO re: request for Newell Stadium Loan Order, with memoranda from the Administration & Newell Stadium Building Committee re: GAP Financing of the Newell Stadium Project**
3. **Memorandum from CAO re: Loan Authorization for a West Parish School Feasibility Study & memorandum from CFO containing language for the West Parish School Feasibility Study Loan Order**
4. **Memorandum from Grants Administrator re: Program year 2012 CDBG and HOME grants and request Acceptance of anticipated total for both grants in the amount of \$833,546**
5. **Supplemental Appropriation Budgetary Request (#2012-SA-8) from the DPW**
6. **Special Budgetary Transfer Request (#2012-SBT-29) from the DPW**
7. **Special Budgetary Transfer Request (#2012-SBT-30) from the Treasurer's/Auditor's Office**
8. **Special Budgetary Transfer Request (#2012-SBT-31) from the Treasurer's/Auditor's Office**
9. **Special Budgetary Transfer Request (#2012-SBT-32) from the Treasurer's/Auditor's Office**
10. **Recommendation for disposition and lease of the Witham Street Parking Area – 99 Thatcher Road**
11. **Addendum to Mayor's Report re: proposed reorganization plan of the Treasurer & Collector's Department**
12. **Memo from City Auditor regarding accounts having expenditures which exceed their authorization And Auditor's Report**

COMMITTEE

Councilor Paul McGeary, Chair
Councilor Joseph Ciolino, Vice Chair
Councilor Melissa Cox

Committee members – Please bring relevant documentation

Back-up and Supporting Documentation all on file at the City Clerk's Office, City Hall

CC: Mayor Carolyn Kirk
Jim Duggan
Kenny Costa
Jeffrey Towne
William Sanborn
Mike Hale/Mark Cole/Jim Hafey/Donna Compton
Sharon DuBois/Noreen Burke
Dr. Safier/Tom Markham

The listing of matters is those reasonably anticipated by the Chair which may be discussed at the meeting. Not all items listed may in fact be discussed and other items not listed may also be brought up for discussion to the extent permitted by law.

City Hall
Nine Dale Avenue
Gloucester, MA. 01930



TEL 978 281 9730
FAX 978 281 8472

CITY OF GLOUCESTER
CITY AUDITOR'S OFFICE

MEMORANDUM

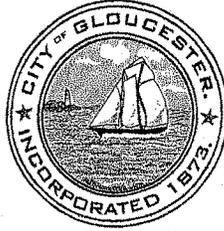
TO: Gloucester City Council
FROM: Kenny Costa, City Auditor *KC*
RE: City's Financial Statement Audit Contract for FY 2012, 2013, 2014
Date: March 12, 2012

CITY CLERK
GLOUCESTER, MA
12 MAR 12 AM 11:19

Our independent auditors', Sullivan, Rogers & Co., LLC just completed 3 years of the City's financial statement audits for the fiscal years ending June 30, 2009, 2010, 2011. The objective of an audit is to express an opinion as to whether our basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. The objective also includes reporting on the internal controls related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with Governmental Auditing Standards. The City is in discussions with Sullivan, Rogers & Co., LLC of renewing a 3 year financial statement audit contract for fiscal years ending June 30, 2012, 2013, 2014. The City is pleased with the professionalism and audit services provided from Sullivan, Rogers & Co., LLC. The audit services to be provided include the City audit including financial statement and management letter, Gloucester Contributory Retirement System audit, up to 6 federal grant compliance audits, Report on Agreed Upon Procedures on the School Department's End of year report (EOYR).

Please refer this matter to the Budget and Finance subcommittee for review and discussion. Chris Rogers, Partner, from Sullivan, Rogers & Co., LLC will be available to answer any questions regarding the audit services and terms of the new proposed contract.

City Hall
Nine Dale Avenue
Gloucester, MA. 01930



TEL 978 281 9730
FAX 978 281 8472

CITY OF GLOUCESTER
CITY AUDITOR'S OFFICE

MEMORANDUM

TO: Gloucester City Council
FROM: Kenny Costa, City Auditor *KC*
RE: City's FY 2011 Basic Financial Statements
Date: March 29, 2012

12 MAR 29 PM 1:32
CITY CLERK
GLOUCESTER, MA

I am pleased to transmit to you the City of Gloucester's Independent Auditors' Report on Basic Financial Statements and Required Supplementary Information Report for the fiscal year ended June 30, 2011. At the close of each fiscal year, state law requires the City of Gloucester to publish a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Independent Auditors' Report on Basic Financial Statements and Required Supplementary Information Report of the City of Gloucester, Massachusetts, for the for the fiscal year ending June 30, 2011 for your review.

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

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

The City's financial statements have been audited by Sullivan, Rogers & Company, LLC, a firm of licensed certified public accountants, who have been hired by and report to the City's City Council. The independent auditors' unqualified ("clean") opinion on the City's financial statements for the year ended June 30, 2011 is presented in the first component of the financial section of the report on pages 2 and 3.

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

CITY CLERK
GLOUCESTER, MA
12 MAR 29 PM 1:32

CITY OF GLOUCESTER, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CITY OF GLOUCESTER, MASSACHUSETTS
 INDEPENDENT AUDITORS' REPORT ON
 BASIC FINANCIAL STATEMENTS AND
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

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

This page left intentionally blank.

Independent Auditors' Report



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

Independent Auditors' Report

To the Honorable City Council
City of Gloucester, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gloucester, Massachusetts, as of and for the fiscal year ended June 30, 2011 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2010), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gloucester, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Gloucester Lyceum and Sawyer Free Library, Inc. (the Library), a discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts of the Library, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Library, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gloucester, Massachusetts, as of June 30, 2011 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2010), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2012, on our consideration of the City of Gloucester, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 13) and budgetary comparison and certain pension and other postemployment benefits information (located on pages 67 through 72) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sullivan, Roy & Company, LLC

March 22, 2012

Management's Discussion and Analysis

As management of the City of Gloucester, Massachusetts (City), we offer readers of these financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2011.

Financial Highlights

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

Overview of the Basic Financial Statements

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

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

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

Government-wide financial statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the City's sewer, water, waterways and rink operations.

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

Fund financial statements

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

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

Governmental Funds

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

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

The City maintains 513 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other 512 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

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

Proprietary funds

The City maintains two types of proprietary funds.

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

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

Fiduciary funds

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

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

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-65 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other postemployment benefits information, which can be found on pages 67-72.

Government-Wide Financial Analysis

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$144,856,943 at the close of the fiscal year and are summarized as follows:

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

* Reflects reclassification of certain net asset components.

The largest portion of the City's net assets (77.8%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other and infrastructure) less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (14.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets (7.7% or \$11,070,129) may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$24,528,662 may be used to support business-type activities and (\$13,458,533) represents an unrestricted net deficit in governmental activities.

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

Changes in Net Assets

For the fiscal year ended June 30, 2011, the City's total net assets decreased by \$4,090,954 and are summarized as follows:

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

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

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

Fund Financial Statement Analysis

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

Governmental funds

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

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

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

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

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

Proprietary funds

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

Unrestricted net assets of the sewer, water, waterways and Talbot rink enterprise funds at the end of the year amounted to \$20,381,552, \$3,663,812, \$443,748 and \$39,550, respectively. The sewer and waterways enterprise funds had a decrease in net assets for the year of \$561,370 and \$142,724, respectively, whereas the water and Talbot rink enterprise funds had an increase in net assets for the year of \$1,516,341 and \$193,209, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$85,044,737 was increased by \$1,769,331 (2.1%) during the year. The following table summarizes the increase:

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

During the year, general fund revenues and other financing sources exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$2,585,000. Encumbrances and continuing appropriations total approximately \$816,000 at year-end.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$238,146,683 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$11,635,546, or 5.1% (a 5.9% increase for business-type activities and a 0.8% decrease for governmental activities).

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

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

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

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

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

Long-Term Debt

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

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

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

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

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

Economic Factors and Next Year's Budget Rates

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

Property taxes for Massachusetts municipalities are limited to a levy growth of 2 ½% plus a factor for a new construction, unless voters at an election approve an increase for operating expenses or debt service for a specific project (Proposition 2 ½). The City calculated that the tax levy growth from fiscal year 2011 to fiscal year 2012, exclusive of debt service excluded from Proposition 2 ½ and a water and sewer debt shift, will be approximately \$634,000. The City is scheduled to receive \$10.7 million in state aid in fiscal year 2012, net of school construction grants. This amount is \$87,000 or 0.8%, more than received in fiscal year 2011.

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

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

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

Requests for Information

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

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2011

| ASSETS | Primary Government | | | Component |
|--|----------------------------|-----------------------------|-----------------------|---|
| | Governmental Activities | Business-type Activities | Total | Unit Gloucester Lyceum and Sawyer Free Library, Inc. |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 10,447,611 | \$ 5,531,636 | \$ 15,979,247 | \$ 448,789 |
| Restricted cash and cash equivalents | 10,912,596 | 7,483,294 | 18,395,890 | |
| Restricted investments | 929,715 | - | 929,715 | 5,063,015 |
| Receivables, net of allowance for uncollectible amounts: | | | | |
| Real estate and personal property taxes | 1,702,287 | - | 1,702,287 | |
| Tax and utility liens | 2,146,872 | 405,477 | 2,552,349 | |
| Motor vehicle and other excise taxes | 281,354 | 30,109 | 311,463 | |
| Community preservation surcharges | 15,512 | - | 15,512 | |
| User charges | - | 4,147,424 | 4,147,424 | |
| Special assessments | 64,975 | 50,986 | 115,961 | |
| Departmental and other | 904,645 | 1,370 | 906,015 | |
| Intergovernmental | 2,127,187 | 1,269,016 | 3,396,203 | |
| Loans | 89,380 | - | 89,380 | |
| Total current assets | 29,622,134 | 18,919,312 | 48,541,446 | 5,511,804 |
| Noncurrent assets: | | | | |
| Receivables, net of allowance for uncollectible amounts: | | | | |
| Real estate tax deferrals | 196,796 | - | 196,796 | |
| Special assessments | 3,740,422 | 12,099,247 | 15,839,669 | |
| Intergovernmental | 5,804,703 | 2,420,958 | 8,225,661 | |
| Loans | 804,418 | - | 804,418 | |
| Tax foreclosures | 588,345 | - | 588,345 | |
| Capital assets not being depreciated | 19,531,663 | 33,462,002 | 52,993,665 | 1,000 |
| Capital assets, net of accumulated depreciation | 49,255,979 | 135,897,039 | 185,153,018 | 1,014,866 |
| Total noncurrent assets | 79,922,326 | 183,879,246 | 263,801,572 | 1,015,866 |
| Total assets | 109,544,460 | 202,798,558 | 312,346,018 | 6,527,670 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Warrants payable | 426,883 | 173,962 | 600,845 | 3,991 |
| Accrued payroll | 2,740,623 | 64,262 | 2,804,885 | |
| Tax refunds payable | 509,703 | - | 509,703 | |
| Other liabilities | 423,545 | 5,170 | 428,715 | |
| Accrued interest | 551,142 | 1,047,514 | 1,598,656 | 3,035 |
| Workers' compensation claims | 13,869 | - | 13,869 | |
| Landfill closure and post-closure | 36,076 | - | 36,076 | |
| Compensated absences | 220,394 | 16,072 | 236,466 | |
| Short-term notes payable | 6,063,911 | 14,084,100 | 20,148,011 | |
| Long-term bonds and notes payable | 4,664,854 | 5,240,509 | 9,905,363 | |
| Total current liabilities | 15,651,000 | 20,631,589 | 36,282,589 | 7,026 |
| Noncurrent liabilities: | | | | |
| Workers' compensation claims | 217,281 | - | 217,281 | |
| Landfill closure and post-closure | 1,153,948 | - | 1,153,948 | |
| Compensated absences | 1,983,549 | 144,644 | 2,128,193 | |
| Net OPEB obligation | 23,502,246 | 963,604 | 24,465,850 | |
| Long-term bonds and notes payable | 32,984,153 | 70,254,061 | 103,238,214 | |
| Total noncurrent liabilities | 59,841,177 | 71,362,309 | 131,203,486 | |
| Total liabilities | 75,492,177 | 91,993,898 | 167,486,075 | 7,026 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 30,275,698 | 82,476,284 | 112,751,982 | |
| Restricted for: | | | | |
| Capital purposes | 5,548,767 | 3,799,714 | 9,348,481 | |
| Other postemployment benefits | 10,000 | - | 10,000 | |
| Community preservation | 950,505 | - | 950,505 | |
| Loans | 893,797 | - | 893,797 | |
| Permanent funds | 1,009,937 | - | 1,009,937 | |
| Other specific purposes | 8,822,112 | - | 8,822,112 | 5,007,501 |
| Unrestricted | (13,458,533) | 24,528,662 | 11,070,129 | 1,513,143 |
| Total net assets | \$ 34,052,283 | \$ 110,804,660 | \$ 144,856,943 | \$ 6,520,644 |

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense)/ Revenue |
|---|----------------|-------------------------|--|--|------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government..... | \$ 7,590,541 | \$ 1,345,727 | \$ 2,173,839 | \$ - | \$ (4,070,975) |
| Public safety..... | 21,378,976 | 4,026,394 | 869,543 | - | (16,483,039) |
| Education..... | 60,613,207 | 1,655,823 | 19,149,930 | - | (39,797,454) |
| Public works..... | 12,903,774 | 3,063,593 | 202,705 | 985,212 | (8,652,264) |
| Health and human services..... | 2,897,092 | 417,484 | 844,845 | - | (1,634,763) |
| Culture and recreation..... | 1,228,440 | - | 36,085 | - | (1,192,355) |
| Debt service - interest..... | 1,489,621 | - | 381,570 | - | (1,108,051) |
| Total governmental activities..... | 108,101,651 | 10,519,021 | 23,658,517 | 985,212 | (72,938,901) |
| Business-type activities: | | | | | |
| Sewer..... | 9,188,687 | 7,367,704 | 442,898 | - | (1,378,085) |
| Water..... | 5,169,099 | 6,683,935 | 126,505 | - | 1,641,341 |
| Waterways..... | 415,062 | 261,699 | 10,638 | - | (142,725) |
| Talbot rink..... | 215,488 | 267,292 | - | - | 51,804 |
| Total business-type activities..... | 14,988,336 | 14,580,630 | 580,041 | - | 172,335 |
| Total primary government..... | \$ 123,089,987 | \$ 25,099,651 | \$ 24,238,558 | \$ 985,212 | \$ (72,766,566) |
| Component units: | | | | | |
| Gloucester Lyceum and Sawyer Free Library, Inc..... | \$ 1,294,321 | \$ 44,542 | \$ 1,070,836 | \$ 7,264 | \$ (171,679) |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2011

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

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to basic financial statements.

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

JUNE 30, 2011

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

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

| ASSETS | Business-Type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Funds |
|--|---|----------------------|-----------------------|-------------------------|-----------------------|--|
| | sewer | Water | Nonmajor Waterways | Nonmajor Trafic Bank | Total | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 2,746,493 | \$ 2,174,178 | \$ 563,347 | \$ 47,617 | \$ 5,531,635 | \$ |
| Restricted cash and cash equivalents | 6,990,929 | 492,366 | - | - | 7,483,295 | - |
| Receivables, net of allowance for uncollectible amounts: | | | | | | |
| Utility liens | 236,092 | 169,385 | - | - | 405,477 | - |
| Excise taxes | - | - | 30,109 | - | 30,109 | - |
| User charges | 2,009,293 | 2,138,172 | - | - | 4,147,465 | - |
| Special assessments | 50,986 | - | - | - | 50,986 | - |
| Departmental and other | 1,230 | - | 140 | - | 1,370 | - |
| Intergovernmental | 1,104,385 | 164,631 | - | - | 1,269,016 | - |
| Total current assets | 13,199,368 | 5,136,732 | 593,596 | 47,617 | 18,919,313 | |
| Noncurrent assets: | | | | | | |
| Receivables, net of allowance for uncollectible amounts: | | | | | | |
| Special assessments | 12,099,247 | - | - | - | 12,099,247 | - |
| Intergovernmental | 2,420,958 | - | - | - | 2,420,958 | - |
| Capital assets, net of accumulated depreciation | 16,382,132 | 16,541,388 | 538,482 | - | 33,462,002 | - |
| Capital assets, net of accumulated depreciation | 109,302,081 | 24,858,174 | 1,583,125 | 153,659 | 135,897,039 | - |
| Total noncurrent assets | 140,204,418 | 41,399,562 | 2,121,607 | 153,659 | 183,879,246 | |
| Total assets | 153,343,786 | 46,536,294 | 2,715,203 | 201,276 | 202,798,559 | |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Warrants payable | 142,711 | 8,366 | 21,442 | 1,444 | 173,963 | - |
| Accrued payroll | 26,662 | 28,793 | 5,857 | 2,950 | 64,262 | - |
| Other liabilities | - | 4,551 | 619 | - | 5,170 | - |
| Accrued interest | 676,513 | 371,001 | - | - | 1,047,514 | - |
| Compensated absences | 2,930 | 10,006 | 2,769 | 367 | 16,072 | - |
| Short-term notes payable | 8,531,374 | 5,552,726 | - | - | 14,084,100 | - |
| Long-term bonds and notes payable | 3,497,584 | 1,742,925 | - | - | 5,240,509 | - |
| Total current liabilities | 12,877,774 | 7,718,368 | 30,687 | 4,761 | 20,631,590 | |
| Noncurrent liabilities: | | | | | | |
| Compensated absences | 26,366 | 90,052 | 24,920 | 3,306 | 144,644 | - |
| Net OPRB obligation | 399,878 | 469,785 | 94,241 | - | 963,904 | - |
| Long-term bonds and notes payable | 47,176,611 | 23,077,450 | - | - | 70,254,061 | - |
| Total noncurrent liabilities | 47,602,855 | 23,637,287 | 119,161 | 3,306 | 71,362,309 | |
| Total liabilities | 60,480,629 | 31,355,655 | 149,848 | 8,067 | 91,993,899 | |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 69,174,557 | 11,026,461 | 2,121,607 | 153,659 | 82,476,284 | - |
| Restricted for: | | | | | | |
| Capital purposes | 3,307,348 | 492,366 | - | - | 3,799,714 | - |
| Unrestricted | 20,381,552 | 3,663,812 | 443,748 | 39,950 | 24,528,662 | - |
| Total net assets | \$ 92,863,457 | \$ 15,182,639 | \$ 2,565,355 | \$ 193,209 | \$ 110,804,660 | \$ |

See notes to basic financial statements.

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

| | Business-Type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Funds |
|--|---|----------------------|-----------------------|-------------------------|-----------------------|--|
| | Sewer | Water | Nonmajor Waterways | Nonmajor Talbot Rink | Total | |
| OPERATING REVENUES | | | | | | |
| Charges for services..... | \$ 6,157,007 | \$ 6,629,421 | \$ 188,804 | \$ 267,292 | \$ 13,242,524 | \$ |
| Special assessments..... | 982,995 | | | | 982,995 | |
| Boat excise taxes..... | | | 72,895 | | 72,895 | |
| Penalties and interest..... | 227,701 | 54,514 | | | 282,215 | |
| Other..... | | | 10,638 | | 10,638 | |
| TOTAL OPERATING REVENUES..... | 7,367,703 | 6,683,935 | 272,337 | 267,292 | 14,591,267 | |
| OPERATING EXPENSES | | | | | | |
| Cost of service and administration..... | 2,016,285 | 2,009,293 | 268,184 | 214,843 | 4,508,605 | |
| Repairs and maintenance..... | 2,421,468 | 1,499,926 | 56,012 | | 3,987,406 | |
| Depreciation..... | 3,171,657 | 785,753 | 90,865 | 645 | 4,048,920 | |
| TOTAL OPERATING EXPENSES..... | 7,609,410 | 4,284,972 | 415,061 | 215,488 | 12,524,931 | |
| OPERATING INCOME (LOSS)..... | (241,707) | 2,398,963 | (142,724) | 51,804 | 2,066,336 | |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Premium from issuance of bonds and notes..... | 20,119 | 65,688 | | | 85,807 | |
| Premium from issuance of refunding bonds..... | 9,887 | 60,817 | | | 70,704 | |
| Intergovernmental..... | 412,892 | | | | 412,892 | |
| Interest expense..... | (1,579,277) | (884,127) | | | (2,463,404) | |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET..... | (1,136,379) | (757,622) | | | (1,894,001) | |
| INCOME (LOSS) BEFORE TRANSFERS AND SPECIAL ITEMS..... | (1,378,086) | 1,641,341 | (142,724) | 51,804 | 172,335 | |
| TRANSFERS | | | | | | |
| Transfers in..... | 1,011,016 | | | | 1,011,016 | |
| Transfers out..... | (194,300) | (125,000) | | | (319,300) | (44,525) |
| TOTAL TRANSFERS..... | 816,716 | (125,000) | | | 691,716 | (44,525) |
| SPECIAL ITEMS | | | | | | |
| Capital assets transfer from governmental activities..... | | | | 141,405 | 141,405 | |
| CHANGE IN NET ASSETS..... | (561,370) | 1,516,341 | (142,724) | 193,209 | 1,805,456 | (44,525) |
| NET ASSETS AT BEGINNING OF YEAR..... | 93,424,827 | 13,666,298 | 2,708,079 | | 109,799,204 | 44,525 |
| NET ASSETS AT END OF YEAR..... | \$ 92,863,457 | \$ 15,182,639 | \$ 2,565,355 | \$ 193,209 | \$ 110,804,660 | \$ |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Business-Type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Funds |
|--|---|---------------------|-----------------------|--------------------------|----------------------|--|
| | Sewer | Water | Nonmajor Waterways | Nonmajor Talbot Runks | Total | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Receipts from customers and users | \$ 8,133,617 | \$ 6,635,749 | \$ 280,256 | \$ 267,292 | \$ 15,314,414 | \$ 53,762 |
| Payments to vendors | (3,698,952) | (2,652,760) | (181,651) | (84,379) | (6,620,742) | |
| Payments to employees | (653,655) | (693,953) | (73,290) | (122,397) | (1,543,295) | |
| Payments for interfund services used | | | | | | (9,237) |
| NET CASH FROM OPERATING ACTIVITIES | 3,781,010 | 3,286,536 | 22,315 | 60,516 | 7,150,377 | 44,525 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Transfers in | 1,011,016 | | | | 1,011,016 | |
| Transfers out | (194,300) | (125,000) | | | (319,300) | (44,525) |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES | 816,716 | (125,000) | | | 691,716 | (44,525) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Proceeds from the issuance of bonds and notes | 37,304,812 | 20,813,873 | | | 58,118,685 | |
| Proceeds from the issuance of refunding bonds | 151,000 | 978,820 | | | 1,079,820 | |
| Premium from issuance of bonds and notes | 20,119 | 65,688 | | | 85,807 | |
| Premium from issuance of refunding bonds | 4,887 | 60,817 | | | 70,704 | |
| Acquisition and construction of capital assets | (10,597,956) | (6,865,388) | (39,740) | (12,899) | (17,315,983) | |
| Principal payments on bonds and notes | (32,664,362) | (17,387,347) | | | (50,051,509) | |
| Refunded bonds redeemed | (150,000) | (920,000) | | | (1,070,000) | |
| Interest expense | (1,173,427) | (857,615) | | | (2,031,042) | |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | (7,099,927) | (3,960,952) | (39,740) | (12,899) | (11,113,518) | |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (2,502,201) | (799,416) | (17,425) | 47,617 | (3,271,425) | |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$10,293,577 and \$2,117,376 reported as restricted in the sewer and water enterprise funds, respectively) | 12,239,623 | 3,568,900 | 380,772 | | 16,286,355 | |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$6,990,929 and \$492,366 reported as restricted in the sewer and water enterprise funds, respectively) | \$ 9,737,422 | \$ 2,666,544 | \$ 563,347 | \$ 47,617 | \$ 13,014,930 | \$ - |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES | | | | | | |
| Operating income (loss) | \$ (241,707) | \$ 2,398,963 | \$ (142,724) | \$ 51,804 | \$ 2,066,336 | \$ - |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | | | | |
| Changes in assets and liabilities not requiring current expenditure of cash: | | | | | | |
| Depreciation | 3,171,657 | 785,753 | 90,865 | 643 | 4,048,920 | |
| Net OPEB obligation | 158,512 | 166,922 | 48,826 | | 374,260 | |
| Changes in assets and liabilities requiring current expenditure of cash: | | | | | | |
| Utility items | 36,586 | 70,291 | | | 106,877 | |
| Excise taxes | | | (3,195) | | (3,195) | |
| User charges | 59,869 | (120,977) | | | (61,108) | |
| Departmental and other | 667,408 | | | | 667,408 | |
| Working capital deposit | 2,051 | | 11,114 | | 13,165 | |
| Warrants payable | (73,287) | (13,266) | 12,799 | 1,444 | (67,310) | 53,762 |
| Accrued payroll | (2,473) | 3,272 | 597 | 2,950 | 3,306 | |
| Other liabilities | | 4,551 | 619 | | 5,170 | |
| Due to other funds | | (7,973) | (1,546) | 3,673 | (3,452) | (9,237) |
| Compensated absences | 2,394 | | | | | |
| Total adjustments | 4,022,717 | 887,573 | 165,039 | 8,712 | 5,084,041 | 44,525 |
| NET CASH FROM OPERATING ACTIVITIES | \$ 3,781,010 | \$ 3,286,536 | \$ 22,315 | \$ 60,516 | \$ 7,150,377 | \$ 44,525 |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | | | |
| Intergovernmental debt subsidies (MWPA) | 679,810 | | | | 679,810 | |
| Capital assets transfer from governmental activities | | | | 141,405 | 141,405 | |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

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

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to basic financial statements.

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

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

B. Reporting Entity

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

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

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

Blended Component Unit

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

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

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

Discretely Presented Component Unit

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

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

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

Joint Venture

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

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

The City is indirectly liable for the North Shore Regional Vocational School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The City's fiscal year 2011 assessment totaled \$937,982. Separate audited financial statements may be obtained by contacting the District at 30 Log Bridge Road, Middleton, Massachusetts 01949.

C. Implementation of New Accounting Principles

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

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

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

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

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

E. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide and Fund Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental fund is reported:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund.

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

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

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

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

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

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

The following major proprietary funds are reported:

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

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

The following nonmajor proprietary funds are reported:

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

The *Talbot rink* enterprise fund is used to account for the City's skating rink activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to retirees' health insurance. This fund was closed out in fiscal year 2011 (see Note 12).

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

The following fiduciary fund types are reported:

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

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

F. Deposits and Investments

City

Government-Wide and Fund Financial Statements

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

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

Pooled Funds

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

Alternative Investments

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

Real Estate

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

Library (Discretely Presented Component Unit)

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

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

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

G. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

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

Motor Vehicle Excise Taxes

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

Community Preservation Surcharges

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

User Charges (Water and Sewer)

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

Special Assessments

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

Departmental and Other

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

Intergovernmental

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

H. Allowance for Uncollectible Amounts

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

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

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

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

Intergovernmental receivables are considered 100% collectible.

I. Inventories

Government-Wide and Fund Financial Statements

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

J. Restricted Assets

Government-Wide and Fund Financial Statements

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

K. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

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

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

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis (or an accelerated basis for certain Library component unit capital assets). The estimated useful lives of capital assets are as follows:

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

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

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

L. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

N. Deferred Revenue

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

*O. Net Assets and Fund Balances*Government-Wide Financial Statements and Proprietary Funds Financial Statements (Net Assets)

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

Net assets have been "restricted" for the following:

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

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

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

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

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

"Other specific purposes" represents restrictions placed on the City's assets from outside parties and donor restrictions on the Library's assets.

Governmental Funds Financial Statements (Fund Balances)

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

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

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

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

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

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

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

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

P. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

Q. Investment Income

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

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

R. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

S. Post Retirement Benefits

Government-Wide and Fund Financial Statements

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

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

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

*U. Total Column*Government-Wide Financial Statements

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

Fund Financial Statements

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

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

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

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

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2011 approved budget for the general fund authorized approximately \$85,045,000 in appropriations. During fiscal year 2011, total appropriations were increased by approximately \$1,769,000.

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

B. Fund Deficits

At June 30, 2011, the following governmental fund deficits (exclusive of deficits financed with outstanding short-term notes) exist:

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

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

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

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

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

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

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. The City does not have a policy for custodial credit risk of deposits. As of June 30, 2011, \$16,163,982 of the City's bank balance of \$32,692,039 was uninsured and uncollateralized.

Investments Summary

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

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

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk of investments. As of June 30, 2011 the City's investments were exposed to custodial credit risk as follows:

| Investment Type | Fair Value | Held by Counterparty's Trust or Agent |
|--------------------------------|--------------|---------------------------------------|
| U.S. Agencies..... | \$ 20,626 | \$ 20,626 |
| Corporate bonds..... | 611,313 | 611,313 |
| Money market mutual funds..... | 142,446 | 142,446 |
| Cerificates of deposit..... | 184,928 | 184,928 |
| Fixed income securities..... | 196,347 | 196,347 |
| Equity mutual funds..... | 595,915 | 595,915 |
| Alternative investments..... | 23,160 | 23,160 |
| Total..... | \$ 1,774,735 | \$ 1,774,735 |

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The City does not have a policy for credit risk of debt securities. As of June 30, 2011, the credit quality ratings of the City's debt securities are as follows:

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

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

Pension Trust Fund (The System)

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System does not have a policy for custodial credit risk of deposits. As of December 31, 2010, the System is not exposed to custodial credit risk.

Investments Summary

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

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

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2010, the System's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. As of December 31, 2010, the System's investments in debt securities were unrated by a national credit rating organization.

Library (Discretely Presented Component Unit)

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

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

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

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2011, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

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

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

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

| <u>Receivable type:</u> | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|-------------------------|--|----------------------|
| Real estate and personal property taxes..... | \$ 1,042,661 | \$ - | \$ 1,042,661 |
| Real estate tax deferrals..... | 196,796 | - | 196,796 |
| Tax liens..... | 2,146,872 | - | 2,146,872 |
| Motor vehicle and other excise taxes..... | 281,354 | - | 281,354 |
| Community preservation surcharges..... | - | 15,512 | 15,512 |
| Special assessments..... | - | 3,759,782 | 3,759,782 |
| Departmental and other..... | 656,045 | 125,778 | 781,823 |
| Intergovernmental (state school construction).... | 6,033,989 | - | 6,033,989 |
| Loans..... | - | 893,797 | 893,797 |
| Tax foreclosures..... | 588,345 | - | 588,345 |
| <u>Total.....</u> | <u>\$ 11,833,490</u> | <u>\$ 4,794,869</u> | <u>\$ 16,628,359</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 2011, approximately \$1,564,000 of such assistance was received. Approximately \$9,268,000 will be received in future fiscal years. Of this amount, approximately \$3,234,000 represents reimbursement of long-term interest costs, and approximately \$6,034,000 represents reimbursement of approved construction costs. Accordingly, a \$6,033,989 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

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

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

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

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

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

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

Governmental Activities:

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

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

Business-Type Activities:

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

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

Component Unit:

| | |
|--------------|-----------|
| Library..... | \$ 60,862 |
|--------------|-----------|

NOTE 6 - INTERFUND TRANSFERS

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

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

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

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

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

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

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

NOTE 7 - SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2011, is as follows:

Notes Payable - Governmental Funds

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

*** Interim Loan Notes****Notes Payable - Enterprise Funds**

| Type | Description | Origination Date | Maturity Date | Interest Rate | Balance at June 30, 2010 | Increases | Decreases | Balance at June 30, 2011 |
|-------------------------|--------------------------------------|------------------|---------------|---------------|--------------------------|---------------|-----------------|--------------------------|
| Sewer Enterprise | | | | | | | | |
| BAN | Wastewater treatment facility..... | 9/18/09 | 9/17/10 | 1.50% | \$ 1,239,245 | \$ - | \$ (1,239,245) | \$ - |
| BAN | CSO consent..... | 9/18/09 | 9/17/10 | 1.50% | 11,277,300 | - | (11,277,300) | - |
| BAN | Sewer betterment (Moorland Way)..... | 9/18/09 | 9/17/10 | 1.50% | 1,352,076 | - | (1,352,076) | - |
| ILN* | MWPAT CSO loan..... | Various dates | Interim loan | 0.00% | 2,201,659 | 7,072,838 | (9,274,497) | - |
| BAN | Wastewater treatment facility..... | 9/17/10 | 9/16/11 | 0.75-1.50% | - | 1,200,600 | (1,193,192) | 7,408 |
| BAN | CSO consent..... | 9/17/10 | 9/16/11 | 0.75-1.50% | - | 11,055,300 | (3,521,145) | 7,534,155 |
| BAN | Sewer betterment (Moorland Way)..... | 9/17/10 | 9/16/11 | 0.75-1.50% | - | 1,323,811 | (1,084,000) | 239,811 |
| BAN | CSO long term control plan..... | 6/30/11 | 9/16/11 | 1.30% | - | 750,000 | - | 750,000 |
| | Sub-total (sewer enterprise)..... | | | | 16,070,280 | 21,402,549 | (28,941,455) | 8,531,374 |
| Water Enterprise | | | | | | | | |
| BAN | Water valve replacement..... | 9/18/09 | 9/17/10 | 1.50% | 498,239 | - | (498,239) | - |
| BAN | Water improvements..... | 9/18/09 | 9/17/10 | 1.50% | 1,975,000 | - | (1,975,000) | - |
| BAN | Water systems improvements..... | 9/18/09 | 9/17/10 | 1.50% | 3,500,000 | - | (3,500,000) | - |
| BAN | Water mains..... | 9/18/09 | 9/17/10 | 1.50% | 703,434 | - | (703,434) | - |
| ILN* | MWPAT Water Treatment Plant..... | Various dates | Interim loan | 0.00% | 3,130,937 | 4,955,126 | (8,086,063) | - |
| BAN | Water valve replacement..... | 9/17/10 | 9/16/11 | 0.75-1.50% | - | 494,500 | (491,448) | 3,052 |
| BAN | Water improvements..... | 9/17/10 | 9/16/11 | 0.75-1.50% | - | 1,953,700 | - | 1,953,700 |
| BAN | Water systems improvements..... | 9/17/10 | 9/16/11 | 0.75-1.50% | - | 3,431,900 | - | 3,431,900 |
| BAN | Water mains..... | 9/17/10 | 9/16/11 | 0.75-1.50% | - | 700,289 | (536,215) | 164,074 |
| | Sub-total (water enterprise)..... | | | | 9,807,610 | 11,535,515 | (15,790,399) | 5,552,726 |
| | Total enterprise funds..... | | | | \$ 25,877,890 | \$ 32,938,064 | \$ (44,731,854) | \$ 14,084,100 |

*** Interim Loan Notes****Subsequent Events**

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

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

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

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

NOTE 8 - LONG-TERM OBLIGATIONS

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

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

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

NOTE 9 - LONG-TERM DEBT

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

Bonds and Notes Payable - Governmental Funds

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

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

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

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

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

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

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

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

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

Water Enterprise

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

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

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

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

Advanced Refunding - September 15, 2010

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

Details of the advanced refunding are as follows:

| <u>Description</u> | <u>Nonmajor Governmental</u> | <u>Water Enterprise</u> | <u>Sewer Enterprise</u> | <u>Total</u> |
|--|----------------------------------|-----------------------------|-----------------------------|-------------------|
| Refunding bonds issued..... | \$ 1,590,180 | \$ 928,820 | \$ 151,000 | \$ 2,670,000 |
| Refunding bonds premium..... | 104,121 | 60,817 | 9,887 | 174,825 |
| Refunded bonds defeased..... | (1,570,000) | (920,000) | (150,000) | (2,640,000) |
| Bond issuance costs..... | (35,516) | (20,745) | (3,373) | (59,633) |
| Net loss on refunding..... | <u>\$ 88,785</u> | <u>\$ 48,892</u> | <u>\$ 7,515</u> | <u>\$ 145,192</u> |
| | | | | |
| <u>Description</u> | | | | |
| Net change in debt service payments..... | <u>\$ 169,373</u> | <u>\$ 98,930</u> | <u>\$ 16,083</u> | <u>\$ 284,386</u> |
| | | | | |
| <u>Description</u> | | | | |
| Economic gain..... | <u>\$ 153,750</u> | <u>\$ 89,805</u> | <u>\$ 14,600</u> | <u>\$ 258,155</u> |

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2011, the City had the following authorized and unissued debt:

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

NOTE 10 - LANDFILL POST-CLOSURE CARE

State and federal laws and regulations required the City to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City had operated a solid waste landfill that ceased operations and was subsequently capped and funded via long-term debt in 2001. The City has reflected \$1,190,024 as the estimated landfill post-closure care liability at June 30, 2011. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

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

The number of participants as of June 30, 2009, the latest actuarial valuation, is as follows:

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

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

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

Dollar Amounts in Thousands

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

* Transition year

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

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

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

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

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

NOTE 12 - RISK FINANCING*General*

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

Health Insurance

The City participates in a premium-based health care plan for its active and retired employees. The amount of claim settlements did not exceed insurance coverage in fiscal year 2011. Prior to fiscal year 2009, the City was self-insured for its retiree health insurance activities and was liable for the payment of "run off" claims related to the activity. As of June 30, 2011, these claims have been paid in full. During fiscal year 2011, the City closed out the related internal service fund and transferred the remaining balance of \$44,525 to the general fund.

Workers' Compensation

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

The estimated liability at June 30, 2011, totaled \$231,150. Changes in the reported liability since July 1, 2009 are as follows:

| | Balance at Beginning of Fiscal Year | | Current Year Claims and Changes in Estimate | | Claims Payments | | Balance at Fiscal Year-end |
|-----------------------|---|----|--|----|--------------------|----|----------------------------------|
| Fiscal year 2010..... | \$ 515,586 | \$ | (54,715) | \$ | (148,975) | \$ | 311,896 |
| Fiscal year 2011..... | \$ 311,896 | \$ | 35,884 | \$ | (116,630) | \$ | 231,150 |

Unemployment Insurance

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

NOTE 13 - FUND BALANCES

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

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

NOTE 14 - STABILIZATION FUNDS

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

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

NOTE 15 - PRIOR PERIOD ADJUSTMENT

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

NOTE 16 - PENSION PLAN

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

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

Plan Membership - At December 31, 2010, the System's membership consists of the following:

| | |
|---|---------------------|
| Active members..... | 521 |
| Inactive members..... | 75 |
| Retirees and beneficiaries currently receiving benefits.... | <u>427</u> |
| Total | <u><u>1,023</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, 2011, 2010, and 2009 were \$5,884,564, \$5,705,314, and \$5,495,974, respectively. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute approximately 94% of the total. At June 30, 2011, the City did not have a net pension obligation.

Funded Status and Funding Progress - The funded status of the plan at January 1, 2010, the most recent actuarial valuation date, is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 01/01/10 | 65,139,502 | 138,859,148 | 73,719,646 | 46.9% | 23,227,715 | 317.4% |

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

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

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

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

| Description | Amount | Purpose |
|----------------------------|----------------------|--|
| Annuity Savings Fund..... | \$ 22,729,868 | Active members' contribution balance |
| Annuity Reserve Fund..... | 8,396,326 | Retired members' contribution account |
| Military Service Fund..... | 14,387 | Military leave of absence contribution balance |
| Pension Reserve Fund..... | 33,260,528 | Amounts appropriated to fund future retirement |
| Pension Fund..... | 1,835,786 | Remaining net assets |
| Total..... | \$ <u>66,236,895</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 2011 totaled approximately \$39,000.

NOTE 17 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$7,578,411 for the fiscal year ended June 30, 2011, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 18 - COMMITMENTS

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

NOTE 19 - CONTINGENCIES

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2011.

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2011, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 20 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

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

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

These pronouncements will be implemented by their respective implementation dates.

This page left intentionally blank

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

See notes to required supplementary information.

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

PENSION PLAN SCHEDULES

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

SCHEDULES OF FUNDING PROGRESS

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | Annually Required Contributions (ARC) | Percentage of ARC Contributed (%) |
|---------------------------|--|---|
| 2005 | \$ 4,930,042 | 100 |
| 2006 | 5,155,891 | 100 |
| 2007 | 5,560,462 | 100 |
| 2008 | 5,808,066 | 100 |
| 2009 | 6,067,057 | 100 |
| 2010 | 6,292,539 | 100 |

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

CITY SHARE OF SYSTEM ARC

| Fiscal Year Ended | ARC | Percentage of ARC Contributed (%) | City ARC as a Percentage of System ARC (%) |
|----------------------|--------------|---|--|
| 2006 | \$ 4,639,133 | 100 | 94.1% |
| 2007 | 4,872,362 | 100 | 94.5% |
| 2008 | 5,254,216 | 100 | 94.5% |
| 2009 | 5,495,974 | 100 | 94.6% |
| 2010 | 5,705,314 | 100 | 94.0% |
| 2011 | 5,884,564 | 100 | 93.5% |

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE

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

SCHEDULES OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll (B-A)/C |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|---|
| 06/30/09 | \$ - | \$ 220,755,787 | \$ 220,755,787 | - | \$ 47,216,775 | 468% |
| 01/01/08 | - | 147,790,883 | 147,790,883 | - | 47,234,000 | 313% |

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

NOTE A - BUDGETARY - GAAP RECONCILIATION

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2011, is presented below:

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



12 APR 12 PM 12:36

CITY OF GLOUCESTER
CITY AUDITOR'S OFFICE

MEMORANDUM

TO: All City Departments
FROM: Kenny Costa, City Auditor
RE: Employee Conference/Training, Travel, Meals and Lodging Expense Documentation Policy
Date: March 14, 2012

The purpose of this documentation policy is to simplify the necessary documents needed to reimburse employees for training, travel, meals and lodging. This policy is not intended to replace the Travel, Meals and Lodging Expense Reimbursement Policy as approved by the Mayor.

All individuals attending training, conference, or seminar with approval in advance by City or School Administration must pay all related expenses first (excluding mandatory prepaid conference fees.) Each employee will be subsequently reimbursed after proper documentation is submitted. Reimbursements will only be made after attendance to training, conference, or seminar. All Conference/Training, Travel, Meals and Lodging Expense Documentation submitted to the Auditor's Office for reimbursement must be authorized, reviewed and signed by the Department Manager.

ALL EMPLOYEES MUST SUBMIT REIMBURSEMENT REQUESTS TO DEPARTMENT MANAGERS WITHIN 30 DAYS OF RECEIPT OR EVENT

The following is a list of reimbursable items and the required documentation necessary for reimbursement:

ONE DAY TRAINING/CONFERENCE/SEMINAR

REIMBURSABLE COST

- A. **Meals (Lunch)** \$10.00 Maximum; if not part of conference fee – if conference fees include meals, the daily allowance is not applicable. Maximum 20% gratuity reimbursed.

DOCUMENTATION REQUIRED

1. Completed expense reimbursement request form – Include Conference/Training Name and Dates
2. Original dated meal receipt and/or bill from the restaurant – non itemized charge slips will not be accepted.

ONE DAY TRAINING/CONFERENCE/SEMINAR (Continued)

REIMBURSABLE COSTS

B. Mileage – From Gloucester, the total miles to conference and back from Gloucester. Leaving from residence not in Gloucester, the total miles to conference and back to home.

DOCUMENTATION REQUIRED

- a. Completed expense reimbursement request form – Include Conference Name and Dates – Mileage costs will be reimbursed at the current IRS reimbursement rate for business travel.

REIMBURSABLE COSTS

C. Tolls & Parking – Only reasonable parking meter reimbursements will be given without a receipt. Parking fine or parking meter violations will not be reimbursed by the City.

DOCUMENTATION REQUIRED

1. Completed expense reimbursement request form – Include Training, Conference or Seminar Name and Dates.
2. Original receipt from parking garage, lot and toll booth.
3. No reimbursement will be given without a receipt.

REIMBURSABLE COSTS

D. Training, Conference or Seminar Fees or Registration: The best option would be for each department to open a requisition for the training, conference or seminar with Department Manager approval. *Best practices would be to follow the City's procurement process through the requisition and purchase order process.*
The second option would be for the employee to pay the fees and registration first via cash, check or credit card.

DOCUMENTATION REQUIRED

1. Please submit the original receipt from the Training, Conference or Seminar. The receipt must be clearly marked as "receipt".
2. If a receipt is unattainable, please include one of the following items as proof of payment: print out of an e-mail clearly stating as a "receipt" for the payment of fees or registration for training, conference or seminar, front and back of cancelled check, debit payment clearly marked on a bank statement and credit card statement showing the charge clearly.

MULTIPLE DAYS (OVERNIGHT)

REIMBURSABLE COSTS

- A. **Meals (Breakfast, Lunch & Dinner)** \$41.00 Maximum; if not part of conference fee – if conference fees include meals, the daily allowance is not applicable. Maximum 20% gratuity reimbursed.

DOCUMENTATION REQUIRED

1. Completed expense reimbursement request form – Include Conference Name and Dates
2. Original dated meal receipt and/or bill from the restaurant – non itemized charge slips will not be accepted.

REIMBURSABLE COSTS

B. **Mileage** – From Gloucester, the total miles to conference and back from Gloucester. Leaving from residence not in Gloucester, the total miles to conference and back to home.

DOCUMENTATION REQUIRED

1. Completed expense reimbursement request form – Include Conference Name and Dates – Mileage costs will be reimbursed at the current IRS reimbursement rate for business travel.

REIMBURSABLE COSTS

- C. **Taxi/Public Transportation** – Between airport & home and Airport and Hotel only

DOCUMENTATION REQUIRED

1. Completed expense reimbursement request form – Include Training, Conference or Seminar Name and Dates.
2. Original transportation receipts.
3. No reimbursement will be given without a receipt from taxi or public transport.

REIMBURSABLE COSTS

D. **Tolls & Parking** – Only reasonable **parking meter** reimbursements will be given without a receipt. Parking fine or parking meter violations will not be reimbursed by the City.

MULTIPLE DAYS (OVERNIGHT) (Continued)

DOCUMENTATION REQUIRED

1. Completed expense reimbursement request form – Include Training, Conference or Seminar Name and Dates.
2. Original receipt from parking garage, lot and toll booth.
3. No reimbursement will be given with out a receipt.

REIMBURSABLE COSTS

E. Airline Tickets – Tickets obtained with frequent flyer miles will NOT be reimbursed.

DOCUMENTATION REQUIRED

1. Completed expense reimbursement request form – Include Training, Conference or Seminar Name and Dates.
2. Must provide detailed receipt from Airline showing flight was paid for and taken. Will not pre-pay for airline tickets. Reimbursement will be granted if City cancels travel plans.

REIMBURSABLE COSTS

F. Hotel – Note: Mini bar/interior bar, internet access for personal use, toll calls, movie charges, gym, and spa are not reimbursable.

DOCUMENTATION REQUIRED

1. Completed expense reimbursement request form – Include Training, Conference or Seminar Name and Dates.
2. Must provide original itemized receipt from Hotel – to include charges and dates of stay. Will not pre-pay for Hotel stays.

ITEMS NOT ELIGIBLE FOR REIMBURSEMENT

The following items are not eligible for reimbursement: Liquor, entertainment, mini-bars, interior bars, internet access for personal use, toll calls, movie charges, gym/spa fees, all tobacco products, Limousine / Car Services (unless it's cheaper than a Taxi fare) and as well as any items for which proper detailed documentation has not been provided.

MGL CHAPTER 41 SECTION 52; APPROVAL OF BILLS

The Conference/Training, Travel, Meals and Lodging Expense Documentation Policy is in accordance with MGL Chapter 41 Section 52; Approval of Bills. Kindly review the State statute via the web by searching the General Laws at <http://www.malegislature.gov/Laws/GeneralLaws/Search> .



CITY OF GLOUCESTER 2012 CITY COUNCIL ORDER

ORDER: #CC2012-020
COUNCILLORS: Jackie Hardy

DATE RECEIVED BY COUNCIL: 03/27/12
REFERRED TO: O&A & B&F
FOR COUNCIL VOTE:

ORDERED that pursuant to the City of Gloucester City Charter section 2-7(a) concerning the election of the City Clerk, the Council shall elect the City Clerk for the term of April 2012 to April 2014; and further

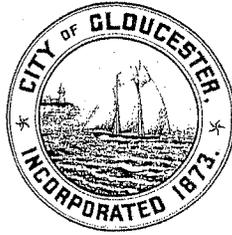
ORDERED that this matter be referred to the Ordinances and Administration Committee for review and recommendation; and further

ORDERED that pursuant to the City of Gloucester City Charter section 2-7(a) concerning the election of the City Auditor, the Council shall elect the City Auditor for the term of April 2012 to April 2014; and further

ORDERED that this matter be referred to the Budget and Finance Committee for review and recommendation.

Jackie Hardy
Councillor – Ward 4

City Hall
Nine Dale Ave
Gloucester, MA 01930



TEL 978-281-9700
FAX 978-281-9738
ckirk@gloucester-ma.gov

CITY OF GLOUCESTER
OFFICE OF THE MAYOR

MEMORANDUM

TO: City Council
FR: Mayor Kirk
RE: Gap Financing for Newell Stadium Project
DT: April 3, 2012

Attached you will find a Memorandum from the Newell Stadium Building Committee along with an additional loan authorization request from CFO Jeff Towne in the amount of \$1,654,000 for gap financing for the Newell Stadium rehabilitation project.

To date, this has been a profoundly successful public / private / non-profit partnership with the singular goal of building an asset for the community that will positively impact countless children, families and residents. Due to the nature of the partnership, and the structure of the varying financial sources, there is a need for the city of Gloucester to provide gap financing in order to meet the schedule of bidding and awarding construction contracts, and breaking ground, this spring.

There are three reasons why we need the City Council's assistance in bringing this project over the finish line:

- The schedule for collecting some of the pledged revenues for the project will take place up to a 10-year period;
- The PARC grant from the state is a reimbursement grant which means that the city of Gloucester must finance the expenses which will be incurred, and then seek reimbursement for those expenses; and,
- The fundraising efforts of the Gloucester Fisherman's Athletic Association need to continue to achieve their goal of \$1.5 million in community / corporate donations. They are about \$1.2 million towards achieving their goal, and have proven their success in this effort. However, in order to reach the construction timetable which is designed to minimally disrupt the length of time Newell Stadium is out of commission, the city needs to provide gap funding while they continue their fundraising efforts.

A breakdown of the total funding for the project budgeted at \$3.5 million is as follows:

| FUNDING SOURCE | AMOUNT |
|--|--|
| City of Gloucester | \$ 1.5 million – Previously authorized |
| GFAA: Corporate and community fundraising | \$ 1 million – See detail |
| GFAA: New Balance Title Sponsorship | \$ 500,000 – Pledged over 10 years |
| PARC grant awarded from the Commonwealth of MA | \$ 500,000 – Paid to the city on a reimbursement basis |
| Total Project Budget | \$ 3.5 million |

Memo to Council
April 3, 2012
Gap Financing

GFAA Detail

The breakdown of the GFAA corporate and community fundraising is as follows:

| | |
|---|-------------|
| New Balance Title Sponsorship | \$ 500,000 |
| Cash to be turned over to city: | \$ 346,169 |
| Cash already turned over to city: | \$ 100,000 |
| Pledges due in: | \$ 186,433 |
| (excluding New Balance which will be paid directly to the city) | |
| Go Forward GFAA Fundraising Goal: | \$ 367,398* |

TOTAL GFAA CONTRIBUTION: \$ 1.5 million

* NOTE: There is an agreement in place between the city and the GFAA which specifies the understanding of how future pledges will be turned over to the city along with accountability for the future fundraising.

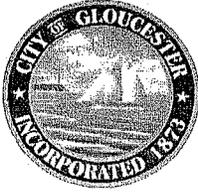
Summary

Given the cash flow schedules, and the reimbursable nature of the PARC grant, it is necessary for the City Council to authorize an additional \$1,654,000 in gap financing for the rehabilitation of Newell Stadium.

This figure was arrived at using the following equation:

$\$3,500,000 \text{ MINUS } \$1,500,000 \text{ (previously authorized) MINUS } \$346,169 \text{ (GFAA cash to be turned over) EQUALS } \$1,654,000 \text{ (rounded).}$

The full amount of \$1,654,000 will be reimbursed to the city of Gloucester from the various financing sources illustrated in this Memorandum.



CITY OF GLOUCESTER
Newell Stadium Building Committee

Mike Carrigan, Chair
Dick Wilson, GFAA Representative
Kristen Michel
William Goodwin, Gloucester High School
Mark Cole, Operations Manager, DPW
William Sanborn, Building Inspector
Joe Guzzo, Plumbing Inspector

TO: Mayor Carolyn Kirk

CC: James Duggan, Chief Administrative Officer
Jeff Towne, Chief Financial Officer

FROM: Newell Stadium Building Committee

RE: Request for Newell Stadium Renewal Loan Authorization

DATE: April 3, 2012

JK *CAK*

As you recall, the Gloucester City Council has authorized \$1,500,000 for the Newell Stadium renewal project. The Newell Stadium Building Committee is nearing completion of the design and permitting and is preparing to go to bid on the project. At this time the building committee is requesting an additional \$1,654,000 loan authorization. The reason for this additional request is to cover cost gaps while grant specifications are met, fundraising continues, and pledges are collected. The approval of this loan authorization will keep this project on schedule and moving ahead in a timely fashion.

The Building Committee is prepared to support this request and be available for any questions from you or the Council.

Misc: Newell Stadium Renovation

City Hall
Nine Dale Avenue
Gloucester, MA 01930



TEL 978-281-9707
FAX 978-281-8472
jtowne@gloucester-ma.gov

CITY OF GLOUCESTER
OFFICE OF THE TREASURER/COLLECTOR

MEMORANDUM

TO: Mayor Carolyn A. Kirk
FROM: Jeffrey Towne, CFO *Jeffrey Towne*
RE: Loan Order - Newell Stadium
DATE: April 4, 2012

Per the Newell Stadium Building Committee's request dated April 3, 2012, following is the language which should be forwarded to City Council:

ORDERED: that an additional \$1,654,000 is appropriated to pay costs of making various improvements to Newell Stadium, including, among other things, track and field facilities, a multipurpose athletic field, spectator seating, ADA and lighting improvements, irrigation and building improvements, and for the payment of all other costs incidental and related thereto; that to meet this appropriate the Treasurer with the approval of the Mayor is authorized to borrow an additional \$1,654,000 under G.L. c.44, §7(25) or pursuant to any other enabling legislation; that the Mayor is authorized to contract for and expend any federal or state aid available for the project; and that the Mayor is authorized to take any other action necessary to carry out this project, including the acceptance of any private grants or gifts received by the City on account of this project. The Treasurer is authorized to file an application with the Municipal Finance Oversight Board to qualify under Chapter 44A of the General Laws any or all of the bonds authorized by this order and to provide such information and execute such documents as the Municipal Finance Oversight Board may require for these purposes.

A public hearing is required and I ask that when it is placed on the City Council agenda that it specifically states "Loan Order Authorization - Newell Stadium." I will be available to provide further information to the City Council, as well as to answer any questions they may have.

for CAK

City Hall
Nine Dale Ave
Gloucester, MA 01930



TEL 978-281-9700
FAX 978-281-9738
jduggan@gloucester-ma.gov

CITY OF GLOUCESTER
OFFICE OF THE MAYOR

Memorandum

To: City Council President Hardy and Members of the Gloucester City Council
From: Jim Duggan, Chief Administrative Officer
Date: April 2, 2012
Re: **Loan Authorization for West Parish School Feasibility Study**

On January 25, 2012, the Massachusetts School Building Authority (MSBA) Board of Directors voted unanimously to invite the City of Gloucester into their Eligibility Period to further review the construction of a new West Parish School, utilizing MSBA's grant program.

The vote initiated a 270-day period for the city to complete certain preliminary requirements that include:

- The submission of the Initial Compliance Certification, which confirms the city understands MSBA's grant program rules. – *Completed*
- Formation of a School Building Committee and submitting the names to the MSBA for acceptance. – *Completed*
- A summary of the city's funding capacities. – *4/9/2012 Submission to MSBA*
- A summary of the city's existing maintenance practices. – *4/9/2012 Submission to MSBA*
- Certification of a design enrollment for the proposed project agreed upon with the MSBA. – *4/9/2012 Submission to MSBA*
- Confirmation of City Council for the authorization and funding to proceed with the Feasibility Study. – *Requesting City Council Approval*
- Execution of MSBA's Feasibility Study Agreement. – *Conditioned on City Council Approval of Feasibility Study Funding Request*

Upon successfully completing the preliminary requirements outlined above to the MSBA's satisfaction and within the 270-day timeline, Gloucester will be eligible to receive an invitation from the MSBA Board of Directors to enter the Feasibility Study phase. This phase involves the city to utilize the specific MSBA procurement processes, standard Request for Services ("RFS") templates, and contracts to procure a team of professionals to work with the School Building Committee on the Feasibility Study.

West Parish Feasibility Request

April 2, 2012

Page 2 of 2

Although the 270-day Eligibility Period gives the city until November 5, 2012, to complete the preliminary requirements, it is the intent of the City and School Administrations for the West Parish project to be reviewed at MSBA's July 2012 Board of Director's meeting.

Preliminary Feasibility Study cost estimates from similar projects supported by the MSBA reflect that an expenditure of approximately \$500,000 will be necessary.

I respectfully request that the City Council approve a loan authorization in the amount of \$500,000 for the Feasibility Study to construct a new West Parish school. Please refer this matter to Budget and Finance for their review. The City and School Administration will be available to answer any questions.

Thank you.

City Hall
Nine Dale Avenue
Gloucester, MA 01930



TEL 978-281-9707
FAX 978-281-8472
jtowne@gloucester-ma.gov

CITY OF GLOUCESTER
OFFICE OF THE TREASURER/COLLECTOR

MEMORANDUM

TO: Mayor Carolyn A. Kirk

FROM: Jeffrey Towne, CFO *Jeffrey Towne*

RE: Loan Order – West Parish School Feasibility Study *J. Kirk*

DATE: April 4, 2012

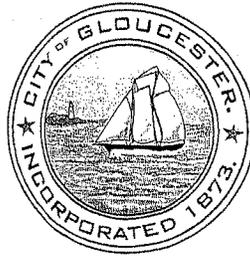
Per the Massachusetts School Buildings Authority (MSBA) Board of Directors vote to invite the City of Gloucester into their Eligibility Period to further review the construction of a new West Parish School, utilizing MSBA's grant program, following is the language which should be forwarded to City Council regarding the Loan Order for the feasibility study:

ORDERED: That the City of Gloucester appropriates the amount of Five Hundred Thousand (\$500,000) for the purpose of paying costs of a feasibility study to consider alternative renovation/reconstruction options for the West Parish School, located at 10 Concord Street, including the payment of all costs incidental or related thereto, and for which the City of Gloucester may be eligible for a grant from the Massachusetts School Building Authority ("MSBA"), said amount to be expended under the direction of the School Building Committee. To meet this appropriation the Treasurer, with the approval of the Mayor is authorized to borrow said amount under and pursuant to M.G.L. Chapter 44, or pursuant to any other enabling authority. The City of Gloucester acknowledges that the MSBA's grant program is a non-entitlement, discretionary program based on need, as determined by the MSBA, and any costs the City incurs in excess of any grant approved by and received from the MSBA shall be the sole responsibility of the City. The amount of borrowing authorized pursuant to this vote shall be reduced by any grant amount set forth in the Feasibility Study Agreement that may be executed between the City and the MSBA.

FURTHER ORDERED: That the Treasurer is authorized to file an application with the Municipal Finance oversight Board to qualify under Chapter 44A of the General Laws any or all of the bonds authorized by this order and to provide such information and execute such documents as the Municipal Finance Oversight Board may require for these purposes.

I will be available to provide further information to the City Council, as well as to answer any questions they may have.

3 Pond Road
Gloucester, MA 01930



Tel 978-282-3027
Fax 978-282-3035

CITY OF GLOUCESTER
COMMUNITY DEVELOPMENT DEPARTMENT
GRANTS OFFICE

Memorandum

To: Carolyn Kirk, Mayor
From: Sharon DuBois, Grants Administrator
CC: Sarah Garcia, Community Development Director
Date: March 30, 2012

Re: Program Year 2012 CDBG & HOME Grants

We are preparing Program Year 2012 (PY12) which starts July 1, 2012 to June 30, 2013 of our Community Development Block Grant (CDBG) and HOME Funding Annual Appropriations.

The Request for Proposals was issued in January 23, 2012, with applications being received March 2, 2012. Three public hearings were held: an pre-submittal informational meeting on December 15, 2011, in the Friend Room of the Sawyer Free Library; a pre-submittal informational meeting was held in the Friend Room of the Sawyer Free Library on February 16, 2012, and a third meeting on March 8, 2012, in the Friend Room, Sawyer Free Library, to hear the presentations of the submitted RFPs. The city's proposed allocation of funds is scheduled to be advertised for public comment on April 13, 2012. This ad will also include instructions for any individual interested in examining the Draft 2012 Annual Action Plan to do so at the Grants Division, City Clerk's Office, the Sawyer Free Library or on the city website at www.gloucester-ma.gov. The final version of this plan will be submitted to the US Department of Housing and Urban Development (HUD) on or about May 14, 2012.

Please request that City Council accept the anticipated CDBG Grant in the amount of \$622,996 and \$210,550 of Program Income for a total of \$833,546 and the city's anticipated allocation of the HOME Grant from the North Shore HOME Consortium in the amount of \$67,679.

Attached is an itemization, including a brief description, of the proposed activities to be funded with HOME funds (\$67,679) and Community Development Block Grant funds (\$833,546) for PY12 beginning July 1, 2012 and ending June 30, 2013.

First-time Housing Opportunities:

HOME Funds - The city will allocate \$67,679 to support the First-time Homebuyers Program. The First-time Homebuyers Program expands access to homeownership for low and moderate-income persons, with a long-term benefit from a relatively small investment by the city (a maximum of \$10,000). With HOME funds, the city will provide down payment and/or closing cost assistance to approximately 8 low and moderate-income households.

Economic Development:

The City will allocate \$100,000 for financial assistance to small businesses through Gloucester's **Maritime Business Development Fund**. An eligible business must create or retain jobs that benefit at least 51% low-to-moderate income Gloucester residents. The program is designed to compliment investor equity and bank financing. The average amount received is \$35,000 to \$50,000.

The City's Grants Division and a Review Committee are responsible for administration of funds. One full-time job or an aggregate amount of part-time jobs must be created or retained for each \$35,000 borrowed. The business must create or retain, within established guidelines, at least 51% of the jobs to low to moderate income Gloucester residents.

The City will continue to offer the **Brownfields Cleanup Revolving Loan (BCRLF)** to businesses requiring assistance with cleanup of contaminated properties. This program is funded with a grant from the Environment Protection Agency.

Housing Rehabilitation Programs:

- The **Housing Rehabilitation Program** will have four different levels of assistance, depending on the income of the qualifying household, the structure (single-family vs. multi-family) and the ownership (homeowner vs. rental or investment property).

The **Low-Income Homeowner Rehabilitation Program** provides deferred, 0% loans to low-income homeowners to address health and safety code violation in their homes. The loan will be due upon the transfer or sale of the property or if the property is no longer the principle place of residence of the original applicant.

The **Moderate-Income Homeowner Rehabilitation Program** offers a 3% loan for up to 15 years to moderate income homeowners for home repairs.

The **Multifamily Rehabilitation Program** is targeted for housing which has one unit occupied by the homeowner. This program preserves the availability of fair market rental by placing long-term affordability restrictions on each unit assisted. The homeowner/landlord must preserve this affordability of any unit assisted for a minimum of 15 years. Rent increases are restricted to 10% a year. The loan interest rate is for 3 - 5% for up to 15 years.

The **Investor Owner Rehabilitation Program** assists investor-owned property with a 5% loan for home repairs. The program preserves the availability of fair market rental by placing long-term affordability restriction on each unit assisted. The landlord must preserve the affordability of any unit assisted for a minimum of 15 years. Rent increases are restricted to 10% a year.

The city will allocate \$216,596 for this program. With these different initiatives within the Housing Rehabilitation Program, Gloucester will better be able to achieve comprehensive rehabilitation services with a positive impact on housing quality, affordability and neighborhood improvements. The Housing Rehabilitation Program goal is to assist 10 units of housing.

- \$5,950 is awarded to Action, Inc. for the **95 Prospect Street Roof Replacement Project**. 95 Prospect Street is an 11-unit, permanent, supportive housing building which provides housing for disabled and formerly chronically homeless adults. The facility works with Gloucester Housing Authority to ensure tenants meet the required criteria for candidacy. Action, Inc. meets HUD's annual 95% fill rate obligation every year at this facility, as all units are consistently occupied.

Public Services:

CDBG provides both a safety net for unmet needs in the community, as well as a leveraging tool for state, federal, and private funding of the strong nonprofit agencies that provide so many services in the community. The city will allocate \$125,000 for this program. CDBG intends to fund the following programs and projects:

Family, Special Needs and Elderly

- \$4,000 is awarded to Cape Ann Interfaith Commission (CAIC) to support their Rental Assistance Program. CAIC will assist at least 15 households/individuals to help alleviate homelessness in Gloucester. Since CAIC is an all-volunteer program, 100% of CDBG funds received directly assist their recipients to obtain housing.
- \$5,000 is awarded to Gloucester Housing Authority's Cape Ann Home Ownership Center "Pre/Post Home Homebuyer Education and Foreclosure Program" which will serve 290 low to moderate income clients prior to and for three years after purchasing a home.
- \$6,000 is awarded to HAWC for services in Gloucester for their Community Based Domestic Violence Crisis Intervention and Prevention Program. They assist in domestic violence issues and serve approximately 225 clients in crises.

Youth and Young Adult Employment

- \$45,000 is awarded to the YMCA's Youth Employment Program to employ approximately 160 teens as the Downtown Clean Team. This program provides

employment opportunities and ensures our residents and tourists will not encounter litter as they travel through downtown Gloucester.

- \$15,000 is awarded to the YMCA "ACCESS" program to provide scholarships for children and families to participate in YMCA programs through a variety of free memberships and programs that include, but are not limited to: summer camp, swimming lessons, instructional classes and more.
- \$4,000 is awarded to Chill Zone which offers youth at-risk a safe environment with proper supervision, structure, and a developmental program. They plan to serve 100+ clients.
- \$7,000 is awarded to The Open Door/Cape Ann Food Pantry to support their Mobile Market. This program will provide nutritious, fresh produce and other foods to 1,979 Gloucester low income individuals and families at their schools, community centers and public housing neighborhoods.
- \$5,000 is awarded to Maritime Gloucester for their Ocean Explorers Marine Science Enrichment Program. This program introduces 120 third and fourth graders to science process skills and provides the opportunity for them to explore content areas directly linked to the Massachusetts Curriculum Frameworks.
- \$3,000 is awarded to the Schooner Thomas E. Lannon for their "Schooner Sails Fifth Grade Educational Program" which will serve 250 students with two hours of experiential sailing.
- \$5,000 is awarded to The Cape Ann Cultural and Performing Arts Center to provide arts programming and job training for 12 Gloucester youths.

Employment and Educational Training:

- \$10,000 is awarded to Wellspring House for their Adult Learning Initiative Program to provide adults with a range of programs including, GED, education and job training, and career development. This program plans to serve up to 48 adults.
- \$16,000 is awarded to Action, Inc. for their Home Health Aide Training Program to support training to get a job as a home health aide. Action, Inc.'s program includes life skills and career readiness components, pivotal for students entry into the job market. The program has a 100% graduate rate and a 71% employment rate within two months of graduation. The Home Health Aide Program assists 48 students.

Public Facilities:

Under the CDBG Program, funds may be used to undertake a variety of public facilities and public improvement projects. The city will allocate \$231,000 for programs. Public facilities and public improvements are interpreted to include all facilities and

improvements that are publicly owned or owned by a non-profit organization and open to the general public. CDBG intends to fund the following programs and projects:

- \$186,000 is awarded to the City to improve public parks and for street and sidewalk improvements. The City plans to improve its ADA accessibility, refresh surfaces at playgrounds, improve lighting and replace damaged facilities at qualified recreational facilities.
- \$26,000 is awarded to The City Hall Restoration Commission to modify public bathroom facilities in Gloucester City Hall to make them handicapped accessible in compliance with the Americans with Disabilities Act (ADA).
- \$19,000 is awarded to The City Hall Restoration Commission to install five (5) doors with automatic openers in Gloucester City Hall to make them handicapped accessible in compliance with the Americans with Disabilities Act (ADA).

Planning and Administration:

- \$155,000 is allocated for the Planning and Administration of the CDBG grant. The city plans to further the goals of Economic Development, Brownsfield Remediation, Housing Rehabilitation, and Public Services and Facilities.

**City of Gloucester
SUPPLEMENTAL APPROPRIATION - BUDGETARY REQUEST
Fiscal Year 2012**

****CITY COUNCIL APPROVAL- 6 VOTES NEEDED****

APPROPRIATION # 2012-SA- 8 *Auditor's Use Only*

DEPARTMENT REQUESTING TRANSFER: _____ DPW _____

APPROPRIATION AMOUNT: \$ 10,000.00

Account to appropriate from:

| | | |
|------------------------------|----------|--------------------|
| <i>Unifund Account #</i> | _____ | 294015 |
| <i>Account Description</i> | _____ | Highway Force Acct |
| Balance Before Appropriation | \$ _____ | 16,714.00 |
| Balance After Appropriation | \$ _____ | 6,714.00 |

Account Receiving Appropriation:

| | | |
|------------------------------|----------|--|
| <i>Unifund Account #</i> | _____ | 101000.10.470.58415.0000.00.000.00.058 |
| <i>Account Description</i> | _____ | Public Services Paving |
| Balance Before Appropriation | \$ _____ | 2,001.00 ✓ |
| Balance After Appropriation | \$ _____ | 12,001.00 ✓ |

DETAILED ANALYSIS OF NEED(S): Funds needed for paving and for police details associated with paving for rest of the fiscal year.

APPROVALS: [Signature]

DEPT. HEAD: [Signature] DATE: 26 MARCH 2012

ADMINISTRATION: [Signature] DATE: 4/4/12

BUDGET & FINANCE: _____ DATE: _____

CITY COUNCIL: _____ DATE: _____

**City of Gloucester
Special Budgetary Transfer Request
Fiscal Year 2012**

INTER-departmental requiring City Council approval - 6 Votes Required
 INTRA-departmental requiring City Council approval - Majority Vote Required

TRANSFER # 2012-SBT- 30 Auditor's Use Only

DEPARTMENT REQUESTING TRANSFER: Treasurer's / Auditor's Office

DATE: 3/27/2012 BALANCE IN ACCOUNT: \$ 85,000.42

(FROM) PERSONAL SERVICES ACCOUNT # Unifund Account #
 (FROM) ORDINARY EXPENSE ACCOUNT # Unifund Account #
101000.10.145.59100.0000.00.000.00.059
Treasurer/Collector, Debt Service, Principal/Debt
Account Description

DETAILED EXPLANATION OF SURPLUS: Surplus of Debt Service Principal budget funds.

(TO) PERSONAL SERVICES ACCOUNT # Unifund Account #
 (TO) ORDINARY EXPENSE ACCOUNT # Unifund Account #
101000.10.135.53130.0000.00.000.00.052
Auditor, Prof Audit Services
Account Description

DETAILED ANALYSIS OF NEED(S): Outside Auditors' to perform 1 additional federal grant audit pursuant to the Single Audit Acts, OMB A-133 & A-87. (Homeland Port Security Grant).

TOTAL TRANSFER AMOUNT: \$ 4,400.00 NEW BALANCE IN ACCOUNTS AFTER TRANSFER
 FROM ACCOUNT: \$ 80,600.42
 TO ACCOUNT: \$ 14,800.00

APPROVALS: [Signature] DATE: 3/27/12
 DEPT. HEAD: [Signature: Kerry Cote] DATE: 4/4/12
 ADMINISTRATION: [Signature] DATE: _____
 BUDGET & FINANCE: _____ DATE: _____
 CITY COUNCIL: _____ DATE: _____

**City of Gloucester
Special Budgetary Transfer Request
Fiscal Year 2012**

INTER-departmental requiring City Council approval - 6 Votes Required
 INTRA-departmental requiring City Council approval - Majority Vote Required

TRANSFER # 2012-SBT- 31 *Auditor's Use Only*

DEPARTMENT REQUESTING TRANSFER: Treasurer's / Auditor's Office

DATE: 3/27/2012 BALANCE IN ACCOUNT: \$ 100,000.42

(FROM) PERSONAL SERVICES ACCOUNT # Unifund Account #
(FROM) ORDINARY EXPENSE ACCOUNT # Unifund Account #
101000.10.145.59100.0000.00.000.00.059
Treasurer/Collector, Debt Service, Principal/Debt
Account Description

DETAILED EXPLANATION OF SURPLUS: Surplus of Debt Service Principal budget funds.

(TO) PERSONAL SERVICES ACCOUNT # Unifund Account #
(TO) ORDINARY EXPENSE ACCOUNT # Unifund Account #
101000.10.135.52000.0000.00.000.00.052
Auditor, Contractual Services
Account Description

DETAILED ANALYSIS OF NEED(S): OPEB Actuarial Services are needed per GASB 43/45 as of June 30, 2011.

TOTAL TRANSFER AMOUNT: \$ 15,000.00 NEW BALANCE IN ACCOUNTS AFTER TRANSFER
FROM ACCOUNT: \$ 85,000.42
TO ACCOUNT: \$ 15,000.00

APPROVALS: [Signature]
DEPT. HEAD: [Signature] DATE: 3/27/12
ADMINISTRATION: [Signature] DATE: 4/4/12
BUDGET & FINANCE: _____ DATE: _____
CITY COUNCIL: _____ DATE: _____

**City of Gloucester
Special Budgetary Transfer Request
Fiscal Year 2012**

INTER-departmental requiring City Council approval - 6 Votes Required
 INTRA-departmental requiring City Council approval - Majority Vote Required

TRANSFER # 2012-SBT- 32 Auditor's Use Only

DEPARTMENT REQUESTING TRANSFER: Treasurer's / Auditor's Office

DATE: 3/27/2012 BALANCE IN ACCOUNT: \$ 80,600.42

(FROM) PERSONAL SERVICES ACCOUNT # _____ *Unifund Account #*
 (FROM) ORDINARY EXPENSE ACCOUNT # _____ *Unifund Account #*
101000.10.145.59100.0000.00.000.00.059
Treasurer/Collector, Debt Service, Principal/Debt
Account Description

DETAILED EXPLANATION OF SURPLUS: Surplus of Debt Service Principal budget funds.

(TO) PERSONAL SERVICES ACCOUNT # _____ *Unifund Account #*
101000.10.135.51200.0000.00.000.00.051
 (TO) ORDINARY EXPENSE ACCOUNT # _____ *Unifund Account #*
Auditor, Sal/Wage-Temp Position
Account Description

DETAILED ANALYSIS OF NEED(S): To fund Office Aid position through June 30, 2012. Additional assistance is needed to file executed contracts and paid invoices for all City/School Departments.

TOTAL TRANSFER AMOUNT: \$ 1,750.00 NEW BALANCE IN ACCOUNTS AFTER TRANSFER
 FROM ACCOUNT: \$ 78,850.42
 TO ACCOUNT: \$ 1,750.00

APPROVALS: [Signature]
 DEPT. HEAD: [Signature] DATE: 3/27/12
 ADMINISTRATION: [Signature] DATE: 4/4/12
 BUDGET & FINANCE: _____ DATE: _____
 CITY COUNCIL: _____ DATE: _____

City of Gloucester

Office of the Purchasing Agent

City Hall, 9 Dale Avenue, Gloucester, MA 01930

Telephone 978 281 9710 Fax 978 281 8763

www.gloucester-ma.gov

CITY CLERK
GLOUCESTER, MA
12 APR -6 PM 12:12



DRAFT FOR CITY COUNCIL REVIEW

Witham Street Parking Area

Lease Agreement #12131

Between the

City of Gloucester

And

Good Harbor Beach Inn, Corp.

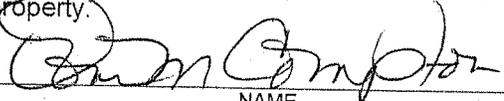
12131 Dispostion & Recomendation, Witham St. Parking Lease

Property Information:

Document Number: **12131**
Property Name and Address: **Witham Street Parking Area Lease, 99 Thatcher Road (G. H. Beach)**
Description of Property: **Intersection of Salt Island Road and Witham Street**
Method of Disposition: **Three Year Lease Agreement, 5/1/12 to 4/30/15**
Recommended Rent: **\$6,500 per year, \$19,500 term of lease**
Current Rent: **\$6,500 per year**
Market Value of Lease: **\$6,500 per year, \$19,500 term of lease (see memo from Asst. DPW Director. & Assessor)**

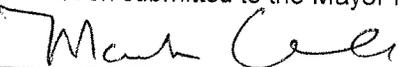
Purchasing Department:

At the request of the Mayor, the Purchasing Department has prepared a lease agreement for the disposition of the above property.

 **Purchasing Agent** 3/23/12
NAME POSITION DATE

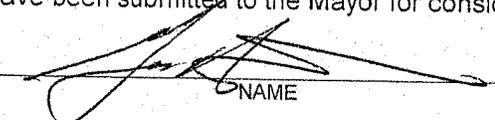
Contract Manager:

At the request of the Mayor, I have reviewed the possible disposition of the above named property. My recommendations have been submitted to the Mayor for consideration and possible inclusion in the lease.

 **Contract Manager** 3-21-12
NAME POSITION DATE

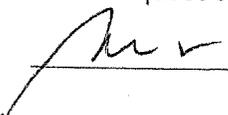
Office of the Assessor:

At the request of the Mayor, I have reviewed the possible disposition of the above named property. My recommendations have been submitted to the Mayor for consideration and possible inclusion in the lease.

 **Assessor** 3-23-12
NAME POSITION DATE

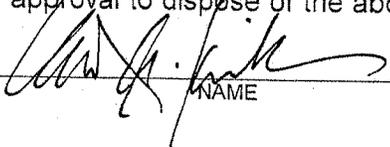
Legal Department:

At the request of the Mayor, the Legal Department has reviewed as to form

 **General Counsel** 3-26-12
NAME POSITION DATE

Office of the Mayor:

As required by the Gloucester Code of Ordinance, I am submitting my recommendation to the City Council for their approval to dispose of the above property in a Lease format.

 **Mayor** 4/4/12
NAME POSITION DATE

SECTION 1: **NEWSPAPER ADVERTISING** [Not required by MGLc. 30B or Code of Ordinances]

SECTION 2: **CENTRAL REGISTER** [Not required by MGLc. 30B or Code of Ordinances]

SECTION 3: **REQUEST FOR PROPOSAL** [Not required by MGLc. 30B or Code of Ordinances]
or INVITATION FOR BIDS

SECTION 4: **PRICE**

4.1 Refer to Section 8.4, page 4.

4.2 The Gloucester Code, Sec. 2-3 (a)(4) requires the Lessee to submit a \$200 payment for administrative costs. The payment should be by check made payable to the City of Gloucester.

SECTION 5: **TERMS AND CONDITIONS:**

Mayor's recommendation as amended and voted by the City Council can be found in lease Section 8

SECTION 6: **CERTIFICATE OF NON-COLLUSION and TAX COMPLIANCE**

The undersigned certifies under penalties of perjury that this bid or proposal has been made and submitted in good faith and without collusion or fraud with any other person. As used in this certification, the word "person" shall mean any natural person, business, partnership, corporation, union, committee, club, or other organization, entity, or group of individuals.

Pursuant to M.G.L. c. 62C, §49A, I certify under the penalties of perjury that, to the best of my knowledge and belief, I am in compliance with all laws of the Commonwealth relating to taxes, reporting of employees and contractors, and withholding and remitting child support.

Bidder:

(Company Name)

Address:

By:

(Signature of person authorized to sign this bid)

Title:

**Social Security No. or
Federal Identification No.**

Telephone

SECTION 7: DISCLOSURE OF BENEFICIAL INTEREST

THE LESSEE SHALL SUBMIT THIS FORM TO DCAM

A COPY OF THE COMPLETED FORM IS TO BE RETURNED TO THE PURCHASING DEPARTMENT WITH YOUR SIGNED CONTRACT.

SUCCESSFUL PROPOSER DISCLOSURE OF BENEFICIAL INTEREST IN REAL ESTATE

MGLc 7, S 40J, requires disclosure of all beneficial interests in real property acquired or disposed of by a public agency. The selected bidder's disclosure of beneficial interests must be filed with the Commissioner of the Division of Capital Asset Management (DCAM). No contract to lease or sell property is valid until the buyer or lessee files this form with DCAM. A form for this purpose is attached. An updated disclosure form must be filed within 30 days of any change in beneficial interests during the lease term.

Disclosure of Beneficial Interests in Real Property Transaction

This form contains a disclosure of the names and addressees of all persons with a direct or indirect beneficial interest in the real estate transaction described below. This form must be filed with the Massachusetts Division of Capital Planning and Operations, as required by MGLc 7 Sec. 40J, prior to the conveyance of or execution of a lease for the real property described below. Attach additional sheets if necessary.

1. Public agency involved in this transaction: **City of Gloucester, MA.**
Complete legal description of the property: **Witham Street Parking Area
Witham Street
Gloucester, MA. 01930**
Type of transaction: Sale: **N/A** Lease from **5/01/12 to 4/30/15**
Seller: **N/A** Lessor: **City of Gloucester, MA.**
Purchaser **N/A** Lessee:

Names and addresses of all persons who have or will have a direct or indirect beneficial interest in the real property described above. **Note:** If a corporation has, or will have a direct or indirect beneficial interest in the real property, the names of all stockholders must be listed except that, if the stock of the corporation is listed for sale to the general public, the name of any person holding less than ten percent of the outstanding voting shares need not be disclosed.

| Name | Address |
|-------|---------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

None of the persons listed in this section is an official elected to public office in the Commonwealth of Massachusetts except as noted below:

| Name | Title or position |
|-------|-------------------|
| _____ | _____ |
| _____ | _____ |

This section must be signed by the individual(s) or organization(s) entering into this real property transaction with the public agency named in item #1. If this form is signed on behalf of a corporation, it must be signed by a duly authorized officer of that corporation.

The undersigned acknowledges that any changes or additions to item #4 of this form during the term of any lease or rental will require filing a new disclosure with the Division of Capital Planning and Operations within 30 days following the change or addition.

Signature: _____
Printed name: _____
Title: _____ Date: _____

SECTION 8: LEASE

SECTION 8.1: PARTIES

This lease agreement is between the CITY OF GLOUCESTER, LESSOR, which expression shall include its heirs, successors and assigns, and Good Harbor Beach Inn, Corp., d.b.a. GOOD HARBOR BEACH INN, LESSEE, which expression shall include its successors and assigns.

SECTION 8.2: PREMISES

The LESSOR hereby leases to the LESSEE the following parcels of land.

- 8.2.1 A strip of land situated on the westerly side of Witham Street, bounded and described as follows:
Beginning at a point on Witham Street at a telephone pole which pole is located at a point where Witham Street intersects Salt Island Road and then running northerly by the westerly side line of Witham Street about eighty (80) feet to the location of another telephone pole; then running westerly about twenty-five (25) feet at land of the City of Gloucester; southerly about eighty (80) feet, still land of said City, and easterly twenty-five (25) feet still by land of said City, to the point of beginning.
- 8.2.2 A triangular parcel of land consisting of 400 square feet, more or less, located near the intersection of Thatcher Road and Witham Street.

SECTION 8.3 TERM

The term of this lease shall be from **May 1, 2012 to April 30, 2015**.

SECTION 8.4 RENT

The LESSEE shall pay the LESSOR at the following rate:

- May 1, 2012 to April 30, 2013 -- **Six Thousand, Five Hundred dollars (\$6,500.00) assessors recommendation**
- May 1, 2013 to April 30, 2014 -- **Six Thousand, Five Hundred dollars (\$6,500.00)**
- May 1, 2014 to April 30, 2015 -- **Six Thousand, Five Hundred dollars (\$6,500.00)**

Such rent shall be payable in advance of each year on or before May 1 to the City Treasurer.

SECTION 8.5 USE OF LEASED PREMISES

The LESSEE shall use the leased premises described in paragraph 8.2.1 above solely for parking motor vehicles in connection with the operation of the Good Harbor Beach Inn. The LESSEE shall not allow the general public to use the leased premises described in paragraph 8.2.1 above for any purpose, including parking of motor vehicles, except that from November 15 to March 15 the premises may be used by the general public.

The LESSEE shall use the leased premises described in paragraph 8.2.2 above solely and exclusively for the erection and maintenance of a sign to advertise the Good Harbor Beach Inn. The LESSEE shall obtain all the necessary permits for the sign and shall comply with all laws, ordinances and regulations, including Section 4.3 of the Gloucester Zoning Ordinance, that may be applicable to its signs. The LESSEE shall, at LESSEE'S expense, landscape and maintain the leased premises described in paragraph 8.2.2 above and maintain the sign in good repair, as may be directed by the Director of Public Works.

LESSEE shall, at LESSEE'S expense, maintain the entire leased premises litter-free.

LESSEE may have towed all motor vehicles illegally parked on the leased premises, as allowed by law, provided there is a sign indicating that illegally parked cars may be towed.

LESSEE shall not use, and shall not permit the use of the public landing abutting the leased premises to the east for any purpose other than those for which a public land is normally used.

SECTION 8.6 COMPLIANCE WITH LAWS

The LESSEE shall make no use of the premises which is contrary to any federal, state or municipal law.

SECTION 8.7 ASSIGNMENT AND SUBLEASING

The LESSEE shall not assign or sublet the whole or any part of the leased premises without LESSOR'S prior written consent, which consent will not be unreasonably withheld. Notwithstanding such consent, LESSEE shall remain liable to LESSOR for the payment of all rent and for the full performance of the covenants and conditions of this lease.

SECTION 8.8 LESSOR'S ACCESS

The LESSOR or any agent of the LESSOR at reasonable times and with reasonable notice to the LESSEE enter to view the leased premises. The LESSOR may, with notice to the LESSEE, show the leased premises to others at any time within three (3) months before the expiration of the term.

SECTION 8.9 INDEMNIFICATION AND LIABILITY

The LESSEE shall indemnify and save the LESSOR harmless for any and all claims and all loss or damage occasioned by the use of the leased premises.

SECTION 8.10 LESSEE'S LIABILITY INSURANCE

The LESSEE shall maintain with respect to the leased premises comprehensive liability insurance in the amount of \$1,000,000.00, with property damage insurance in limits of \$50,000.00. The policies shall be with responsible companies qualified to do business in Massachusetts and in good standing herein, insuring LESSOR as well as LESSEE against injury to persons or damage to property. The LESSEE shall deposit with the LESSOR certificates of insurance prior to the commencement of the term, and thereafter within thirty (30) days prior to expiration of any such policy. All such insurance certificates shall provide that such policies shall not be canceled without at least ten (10) days' prior written notice to each insured named therein.

SECTION 8.11 DEFAULT AND BANKRUPTCY

In the event that:

- 8.11.1 The LESSEE shall default in the payment of any installment of rent or other sum herein specified and such default shall continue for ten (10) days after written notice thereof; or
- 8.11.2 The LESSEE shall default in the observance or performance of any other of the LESSEE'S covenants, agreements or obligations hereunder and such default shall not be corrected within thirty (30) days after written notice thereof; or
- 8.11.3 The LESSEE shall be declared bankrupt or insolvent according to law, or if any assignment shall be made of LESSEE'S property for the benefit of creditors, then the LESSOR shall have the right thereafter, while such default continues, to re enter and take complete possession of the leased premises, to declare the term of this lease ended, and remove the LESSEE'S effects, without prejudice to any remedies which might be otherwise used for arrears of rent or other default.
- 8.11.4 The LESSEE shall indemnify the LESSOR against all loss of rent and other payments which the LESSOR may suffer by reason of such termination during the residue of the term. If the LESSEE shall default, after reasonable notice thereof in the observance or performance of any conditions or covenants on LESSEE'S part to be observed or performed under or by virtue of any of the provisions in any article of this lease, the LESSOR, without being under any obligation to do so and without thereby waiving such default, may remedy such default for the account and at the expense of the LESSEE.

If the LESSOR makes an expenditures or incurs any obligations for the payment of money in connection therewith, including but not limited to, reasonable attorneys' fees in instituting, prosecuting or defending any action or proceeding, such sums paid or obligations incurred with interest at the rate of ten (10) per cent per annum and costs, shall be paid to the LESSOR by the LESSEE as additional rent.

SECTION 8.12 NOTICE

Any notice from LESSOR to LESSEE relating to leased premises or to the occupancy thereof shall be deemed to be duly served if mailed to Dennis Dyer, Good Harbor Beach Inn Corp., 120 Raffaele Drive, Waltham, MA 02452 registered or certified mail, return receipt requested, postage prepaid.

Any notice from LESSEE to LESSOR relating to the leased premises or to the occupancy thereof, shall be deemed duly served if mailed to the Mayor, City of Gloucester, City Hall, Dale Avenue, Gloucester, MA 01930, registered or certified mail, return receipt requested, postage prepaid.

SECTION 8.13 SURRENDER

The LESSEE shall at the expiration or other termination of this lease remove all LESSEE'S goods and effects from the leased premises including, without hereby limiting the generality of the foregoing, all signs erected by the LESSEE. LESSEE shall deliver to the LESSOR the leased premises in the same condition as they were at the commencement of the term, or as they were put in during the term hereof, reasonable wear and tear and damage by casualty only excepted. In the event of the LESSEE'S failure to remove any of LESSEE'S property from the premises, LESSOR is hereby authorized, without liability to LESSEE for loss or damage thereto, and at the sole risk of LESSEE, to remove and store any of the property at LESSEE'S expense, or to retain same under LESSOR'S control or to sell at public or private sale, without notice, any or all of the property not so removed and to apply the net proceeds of such sale to the payment of any sum due hereunder, or to destroy such property.

Signed and sealed this _____ day of _____, 2012 by their duly authorized officers and representatives:

City of Gloucester, LESSOR

Good Harbor Beach Inn Corp., LESSEE

By: _____
Mayor

By: _____
Authorized Signature & Title

Purchasing Agent

Approved as to Form:
General Counsel

ATTACHMENTS

LETTERS FROM ASSESSOR
AND
ASSISTANT DPW DIRECTOR



CITY OF GLOUCESTER

GLOUCESTER, MASSACHUSETTS - 01930

OFFICE OF THE ASSESSORS

March 23, 2012

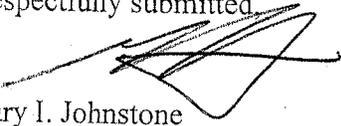
To: Donna Compton, Purchasing Agent

From: Gary I. Johnstone, Assessor

Re: Good Harbor Beach 11 Space Parking Lease On Witham Street

As per your request, the assessors have attempted to determine a reasonable lease amount for 11 parking spaces situated on Witham Street which are a portion of the Good Harbor Beach parcel situated at 99 Thatcher Road (Map 184 and Lot 3) that have been and are currently leased and utilized by the Good Harbor Beach Inn. Mark Cole, DPW Operations Manager, has supplied beach parking statistics of full weekday and full weekend days at Good Harbor Beach for the past three seasons in order to determine the potential gain or loss in beach revenues related to the eleven parking spaces on the full days. This scenario assumes that residents would be able to utilize the 11 parking spaces on Witham Street and thus free up 11 beach parking lot rental spaces. Over the past 3 years there were an 45 full weekend days and 25 full weekday days in which the Good Harbor Beach lot was closed to paying beach guests. Utilizing these figures, there was potential revenue losses for the three year period of approximately \$17,875 based upon the 45 full weekend days at \$25/space per day times 11 spaces or \$12,375 and 25 full weekday days at \$20/space per day times 11 spaces or \$5,500. The \$17,875 potential revenue loss figure for the past 3 year period would represent \$5,958.33 per year. Based upon this information, it appears that an annual lease of approximately \$6,000 would be reasonable for the 11 parking spaces which are to be leased to the Good Harbor Beach Inn for guest use. The actual leases for these 11 spaces has been \$6,500 for the past 3 years. Based upon this information it appears that an annual lease in the range of \$6,000 to \$6,500 would appear reasonable.

Respectfully submitted


Gary I. Johnstone
Assessor

City Hall
Nine Dale Avenue
Gloucester, MA 01930



TEL 978-281-9707

FAX 978-281-8472

jtowne@gloucester-ma.gov

CITY OF GLOUCESTER
OFFICE OF THE CHIEF FINANCE OFFICER

RECEIVED

APR 5 2012

Mayor's Office

MEMORANDUM

To: Mayor Kirk
From: Jeffrey C. Towne, City CFO/Treasurer/Collector
Date: April 4, 2012
Re: Department Reorganization Request

Last year, in April 2011, the Collector's Department notified the Principal Account Clerk that the position was being laid off due to budgetary constraints. In the fall of 2012, the City Council agreed to increase the fees for demand notices and municipal lien certificates to help restore the position. Unfortunately, the demand notice had already gone out by the time the fees were increased. Therefore the position has not been filled. During this time the position has been vacant I have instituted a number of policy and procedure changes as a matter of necessity and for improvement reasons. I no longer believe that it is in the best interest to fill the position of Principal Account Clerk for a number of very important reasons.

The Department is presently being run very efficiently and effectively with the three staff members that remain. They have been instrumental in implementing the changes that I have required including a brand new filing system, processing all checks via electronic deposit, creating databases for bankruptcy notifications and are responsibly pursuing overdue accounts. We are handling the same volume of transactions but now more efficiently and effectively. The remaining staff in the Collector's Division has been working out of classification for some time now. They are handling the work of what used to be done by four people.

The Senior Account Clerk's pay should be commensurate with the grade for a similar position that was held in the Auditor's Department. The position is presently at a Grade 6 but the same position title in the Auditor's Department was at a Grade 7. A proposed job description for this position has been drafted that incorporates what the duties and responsibilities of the position are presently.

The Account Clerks are functioning at a higher degree of specialty than that of an Account Clerk. They truly should be regarded as Collection Specialists and I am proposing to change their responsibilities to reflect the duties and responsibilities that they are presently performing which is very much needed within the Department. A proposed job description for this position has been drafted that incorporates what the duties and responsibilities of the position are presently.

I am also recommending an additional full-time position of Account Clerk within the Treasurer's Department. We have discussed having a "roaming" position that would help in many of the Departments within City Hall. I believe that my office would be best suited to manage the position because it would not only help the Treasurer/Collectors office (including payroll) but it would also be greatly utilized in the

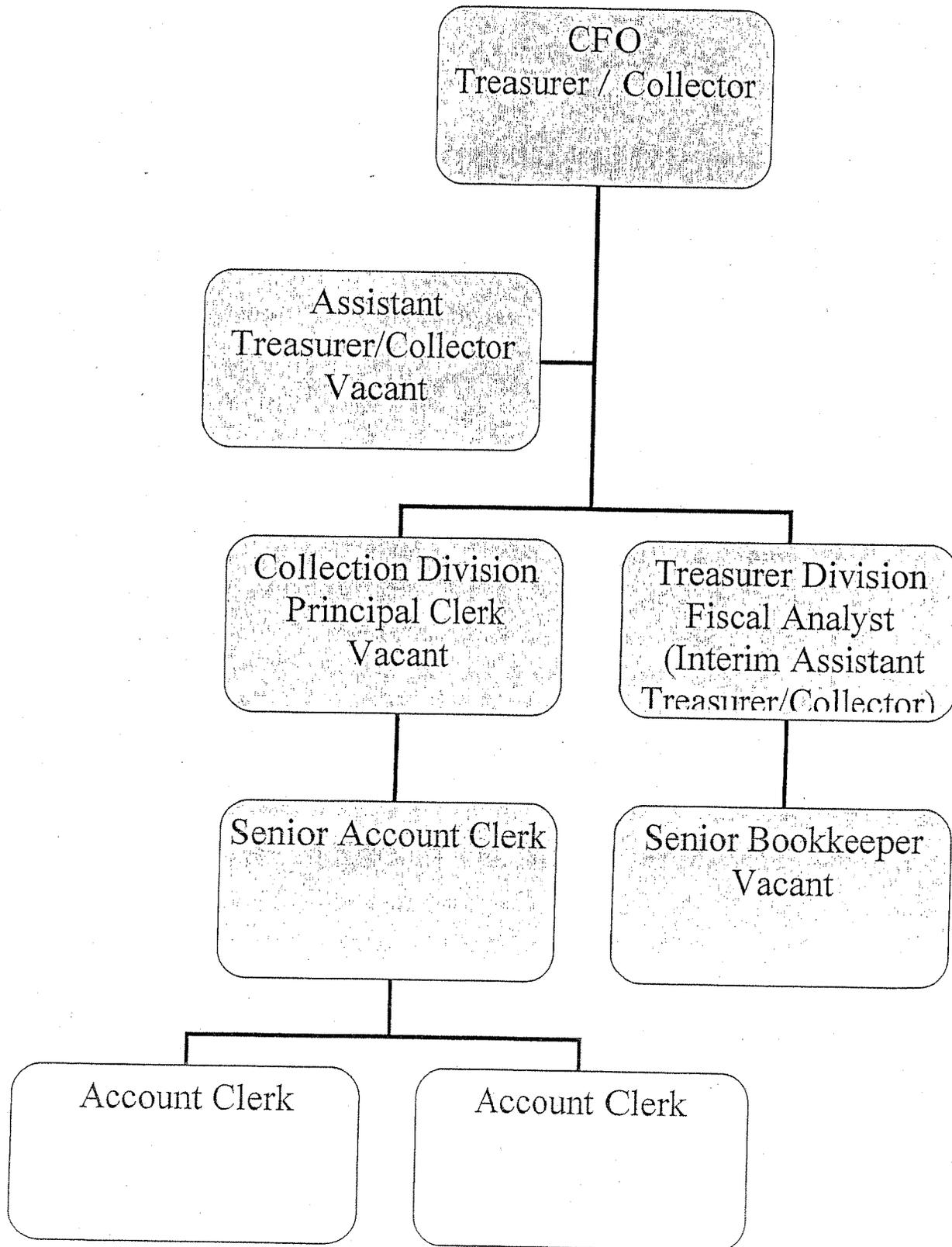
Page 2

Purchasing Department which reports to me as well. In addition this new position would be partially assigned to the Auditor's office to assist with filing or as needed by the City Auditor's staff. I am suggesting that I utilize the position on Thursdays, the Purchasing Department on Wednesdays and Fridays and the Auditor's Office on Tuesdays. The remaining day would be utilized for projects and/or for other departments in City Hall as needed.

In addition, the Assistant Treasurer/Collector retired in February 2012. Whenever any one retires it presents a good opportunity to review policies and procedures. We had implemented a number of positive changes while the Assistant Treasurer/Collector worked for me and I was very pleased with the progress that we were making. I believe it is time to upgrade the responsibilities of that position. The complexity of the accounting for municipal activity has become increasingly greater. I propose creating the position of Assistant CFO/Treasurer/Collector. This position will be responsible for both departments in my absence. The position will be responsible for more than what was required of the Assistant Treasurer/Collector. Assisting me with the overall financial systems of the City will be of utmost importance. This position will be responsible for the day-to-day activities of the department, including payroll as well. My role needs to be focused more on the "big picture" financial condition of the community. It is my opinion that I shouldn't be reconciling checking accounts and analyzing balance sheet accounts, etc. I will train this position well to handle all that is necessary.

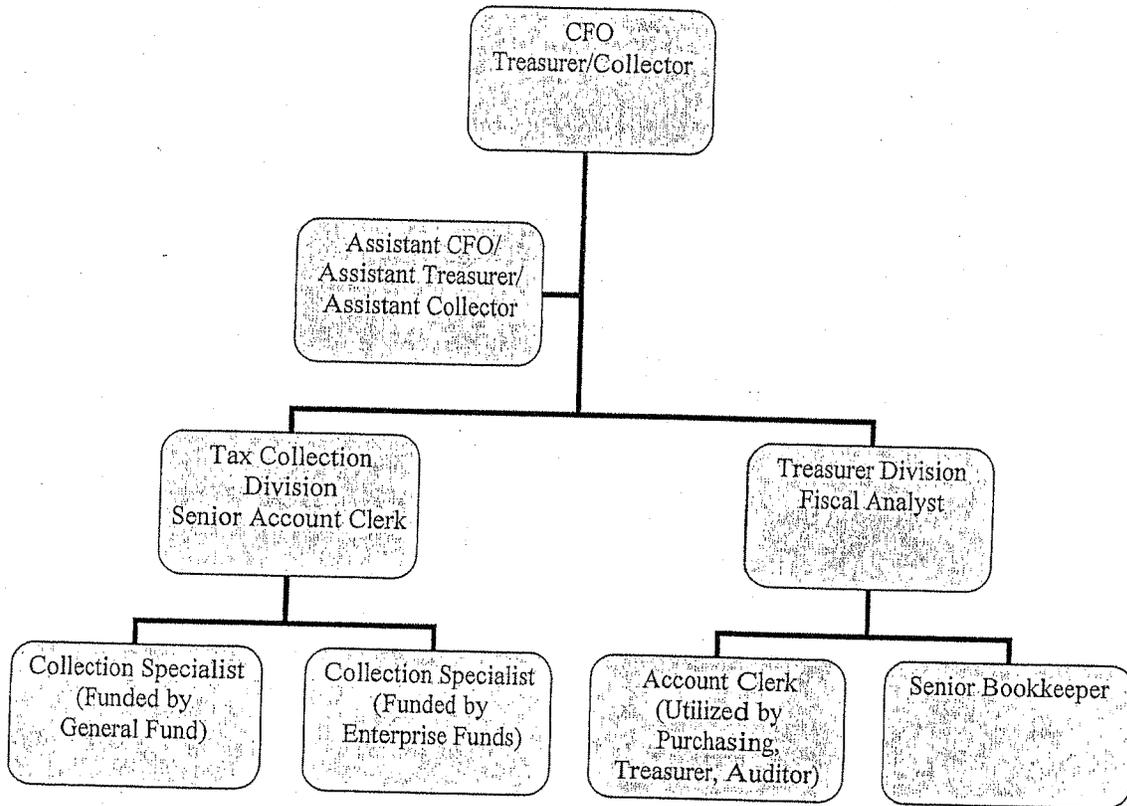
I respectfully request that my reorganization request be presented to the City Council for consideration. I believe that with increased fees already approved that I can fund the proposed reorganization plan in future fiscal years. I would like it to be effective in this fiscal year as soon as possible. I have available resources to fund the upgrade in this fiscal year.

Existing Departmental Organization Chart – As of 4/4/12



April 4, 2012

Proposed Departmental Organization Chart



Assessors, MIS, Payroll and Purchasing Divisions are not included above because those Divisions are not affected by the proposed reorganization plan.