

REVISED AS TO PAR AMOUNT

PRELIMINARY OFFICIAL STATEMENT AND NOTICE OF SALE DATED FEBRUARY 6, 2009

Moody's Investors Service, Inc.: MIG-1

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Notes is exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. The Notes **will NOT** be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See "Tax Exemption" herein.

**CITY OF SOMERVILLE, MASSACHUSETTS
\$11,834,000 BOND ANTICIPATION NOTES**

The City of Somerville, Massachusetts (the "City") will receive telephone bids at the offices of First Southwest Company (617) 619-4400 and electronic proposals will be received via *PARITY*, in the manner described below until 11:00 AM, local time, Thursday, February 12, 2009, for the purchase of the following described Bond Anticipation Notes (the "Notes") of the City:

\$11,834,000 Bond Anticipation Notes (renewals) dated February 20, 2009 and payable February 19, 2010. Interest will be calculated on a 30 day month/360 day-year basis (359/360).

Bids may be submitted electronically via *PARITY* pursuant to this Notice of Sale until 11:00 AM, local time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in *PARITY* conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about *PARITY*, potential bidders may contact the First Southwest Company (617) 619-4400 or *PARITY* at (212) 404-8102.

The award of the Notes to the winning bidder will not be effective until the bid has been approved by the Treasurer and the Mayor of the City.

Bids may be for all or part of the Notes at a single or multiple rates of interest in a multiple of one-hundredth (1/100) of one percent (1%). No bid of less than par and accrued interest to the date of delivery will be considered, **and each bid must include a premium of at least \$1.30 per \$1,000 bid.** The right is reserved to reject any or all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any bid. The Notes will be awarded on the basis of lowest net interest cost to the City after deduction of premium, if any. In the event a bidder offering a premium for the Notes is awarded a lesser amount of Notes than bid, the premium shall be reduced proportionately.

An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Notes in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the City. Any bidder who submits a winning bid by telephone in accordance with this Notice of Sale shall be required to provide written confirmation of the terms of the bid by faxing or e-mailing a completed, signed bid form to First Southwest Company by not later than 12 Noon, Eastern Time, on the date of sale.

The successful bidder for all of the Notes may request that the Notes be issued in the form of one fully registered physical certificate, rather than in book-entry form through the facilities of the Depository Trust Company. The successful bidder seeking the issuance of the Notes in this manner shall bear any and all costs of any re-registration or transfer of Notes from time to time. Any bidder seeking to have the Notes issued in the form of fully registered physical certificates, rather than in book-entry form, shall indicate this preference to the City at the time of the submission of the winning bid. The City reserves the right to decline any request to issue the Notes in non-book entry form if it should determine, in its sole discretion, that issuing the Notes in this manner is not in its best interests.

On or prior to the date of delivery of the Notes, the successful bidder shall furnish to the City a certificate acceptable to Bond Counsel to the effect that (a) as of February 12, 2009 (the "Sale Date"), the purchaser had offered or reasonably expected to offer all of the Notes to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the price set forth in such certificate, plus accrued interest, if any, (b) such price represents the fair market price of the Notes as of the Sale Date, and (c) as of the date of such certificate, all of the Notes have been offered to the general public in a bona fide offering at the price set forth in such certificate, and at least 10% of the principal amount of the Notes actually has been sold to the general public at such price. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Notes, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Notes for federal tax law purposes. If the purchaser is purchasing the Notes for its own account and not on behalf of another party, and the purchaser does not presently intend to resell the Notes, the successful bidder will be required to so certify.

The Notes will be issued by means of a book entry system, evidencing ownership in principal amounts of \$1,000, or integral multiples thereof and transfer of the Notes will be effected on the records of The Depository Trust Company in New York, New York and its participants. See "Book Entry Transfer System".

Principal and interest on the Notes will be payable upon maturity in federal reserve funds by U.S. Bank National Association, as Paying Agent. Disbursements of such payments to the DTC Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

The purchaser(s) shall be furnished the opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, approving the legality of the Notes. The opinion will also indicate that the Notes and the enforceability thereof may be subject to bankruptcy and other laws affecting creditor's rights and that their enforceability may also be subject to the exercise of judicial discretion in appropriate cases. Payment of the principal and interest on the Notes is not limited to a particular fund or source of revenue nor is any lien or pledge for such payment created with respect to any such fund or source. See "Tax Exemption". The Notes will be valid general obligations of the City of Somerville and, except to the extent they are paid from the proceeds from the sale of bonds in anticipation of which they are issued or from any other available moneys, the principal of and interest on the Notes are payable from taxes which may be levied upon all taxable property in the City, subject to the limitation imposed by Chapter 59, Section 21C of the General Laws.

It is anticipated that CUSIP identification numbers will be printed on the Notes. All expenses in relation to the printing of CUSIP numbers on said Notes shall be paid for by the Issuer, however, the City assumes no responsibility for any CUSIP Service Bureau or other charges that may be imposed for the assignment of such number.

The Notes will be delivered to The Depository Trust Company against payment at the direction of the City in federal reserve funds.

In order to assist bidders in complying with the requirements of paragraph (b) (5) (i) (c) of S.E.C. Rule 15c2-12 the City will undertake to provide notices of certain material events. A description of this undertaking is set forth in the Preliminary Official Statement.

Additional information concerning the City of Somerville and the Notes is contained in the Preliminary Official Statement dated February 6, 2009 to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes. The Preliminary Official Statement has been deemed to be final by the City except for the omission of the reoffering prices, interest rates and other terms of the Notes depending on such matters and the identity of the underwriter, but is subject to change without notice and to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement may be obtained from First Southwest Company, 54 Canal Street, Suite 320, Boston, Massachusetts 02114 (Telephone: 617-619-4400). Within seven business days following the award of the Notes and receipt of necessary information, 5 copies of the Final Official Statement will be made available to the purchaser. Upon request, additional copies will be provided at the expense of the successful bidder.

CITY OF SOMERVILLE, MASSACHUSETTS
/s/ Elizabeth Craveiro, Treasurer

February 6, 2009

OFFICIAL STATEMENT
CITY OF SOMERVILLE, MASSACHUSETTS
\$11,834,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES

The purpose of this Official Statement is to furnish certain information regarding the City of Somerville, Massachusetts (hereafter referred to as the "City") and \$11,834,000 principal amount of Bond Anticipation Notes (hereafter referred to as the "Notes"). The information contained herein has been furnished by the City except information attributed to another governmental agency or official as the source.

The Notes

The Notes are being offered for sale at public bidding on Thursday, February 12, 2009, and a Notice of Sale dated February 6, 2009, has been furnished to prospective bidders for the terms and conditions of bidding.

The Bond Anticipation Notes will be dated February 20, 2009 and will be payable by U.S. Bank National Association, Boston, Massachusetts, or its successor as Paying Agent, on February 19, 2010, without option of prior redemption. The Notes will be issued by means of a book-entry transfer system, evidencing ownership of the Notes in principal amounts of \$1,000 or integral multiples thereof, with transfers of ownership effected on the records of the Depository Trust Company (DTC) and its Participants pursuant to the rules and procedures adopted by DTC. (See "Book-Entry Transfer System" herein.)

Authorization of the Notes and Use of Proceeds

The following table sets forth the principal amounts, purposes, statutory references and other relevant details for the current offering of Bond Anticipation Notes.

Purpose	This Issue	Original Bond Authorization	Statutory Reference (Chapter 44 of the Massachusetts General Laws), as amended	Date of Authorization
Lincoln Park School	\$ 2,479,000	\$ 23,400,000	7(3)	5/29/02, As Amended 619/03 & 3/27/06
Energy Conservation	7,000,000	7,771,481	7(3B)	8/14/2007
Fire Department Equipment	144,200	144,200	7(9)	8/14/2007
Outdoor Rec. Facilities - Grimmons Park	50,000	395,000	7(25)	10/18/2007
Outdoor Rec. Facilities - Albion Park	50,000	395,000	7(9)	10/18/2007
Hodgkins Park & Ballfield	50,000	785,000	7(25)	10/18/2007
Water	1,910,000	1,910,000	8 & 8(7C)	1/16/2008
Central Hill Memorial Park	50,000	500,000	7(25)	1/16/2008
ESCS Demolition	100,800	545,800	7(3)	3/3/2008
Total	<u>\$ 11,834,000</u>			

Book Entry Transfer System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered Note certificate will be issued for each interest rate, each in the aggregate principal amount bearing such interest rate, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates.

Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the City or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Tax Exemption

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Notes.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. Failure to comply with these requirements may result in interest on the Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Notes. The City has covenanted to comply with such requirements to ensure that interest on the Notes will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Notes is exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Notes. Prospective Noteholders should be aware, however, that the Notes are included in the measure of Massachusetts estate and inheritance taxes, and the Notes and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Notes or the income therefrom under the laws of any state other than Massachusetts.

To the extent the issue price of the Notes is less than the amount to be paid at maturity of such Notes (excluding amounts stated to be interest and payable at least annually over the term of such Notes), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Notes which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of the Notes is the first price at which a substantial amount of such Notes is sold to the public (excluding note houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to the Notes accrues daily over the term to maturity of such Notes on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Notes to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Notes. Noteholders should consult their own tax advisors with respect to the tax consequences of ownership of Notes with original issue discount, including the treatment of purchasers who do not purchase such Notes in the original offering to the public at the first price at which a substantial amount of such Notes is sold to the public.

Notes purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Notes, or, in some cases, at the earlier redemption date of such Notes ("Premium Notes"), will be treated as having amortizable note premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable note premium in the case of obligations, such as the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, a Noteholder's basis in a Premium Note will be reduced by the amount of amortizable note premium properly allocable to such Noteholder. Holders of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable note premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the value of, or the tax status of interest on, the Notes. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Notes. Prospective Noteholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Notes is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect the federal or state tax liability of a Noteholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Notes, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Notes in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Noteholder or the Noteholder's other items of income or deduction. Except as indicated in the following paragraph, Bond Counsel expresses no opinion regarding any such other tax consequences, and Noteholders should consult with their own tax advisors with respect to such consequences.

Bank Eligibility

The Notes will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Accordingly, in the opinion of Bond Counsel, no deduction will be allowed to a financial institution for any of its interest expense allocable to the Notes.

Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for "qualified bonds" as described below (see "*Serial Bonds and Notes*" under "TYPES OF OBLIGATIONS") and setoffs of state distributions as described below (see "*State Distributions*" below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments". Specific provision is also made for including in the next tax levy payments of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid, if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See "*Tax Limitations*" Under "PROPERTY TAX" below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See "DEBT LIMITS" below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. In the opinion of Bond Counsel, Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See "*Tax Limitations*" under "PROPERTY TAX" below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts and related purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on "qualified bonds" (See "*Serial Bonds and Notes*" under "TYPES OF OBLIGATIONS" below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority if the city or town is within the territory served by the Authority, or for charges necessary to meet obligations under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied.

Financial Advisory Services of First Southwest Company

First Southwest Company serves as financial advisor to the City of Somerville, Massachusetts. The City has consented to participation by First Southwest Company in the public bidding on the Notes if it so desires.

Opinion of Bond Counsel

The purchaser will be furnished the legal opinion of the firm of Edwards Angell Palmer & Dodge LLP, of Boston, Massachusetts. The opinion will be dated and given on and will speak only as of the date of original delivery of the Notes to the successful bidder.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel is not passing upon and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and make no representation that they have independently verified the same.

Disclosure of Material Events

In order to assist underwriters in complying with the requirements of paragraph (b)(5)(i)(C) of Rule 15c2-12 promulgated by the Securities Exchange Commission (the "Rule") applicable to municipal securities having a stated maturity of 18 months or less, the City will covenant for the benefit of the owners of the Notes to file with the Municipal Securities Rulemaking Board (and with the appropriate state information depository, if any), notices of the occurrence of any of the following events with respect to the Notes, if material: (a) principal and interest payment delinquencies; (b) non-payment related defaults; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Notes; (g) modifications to rights of owners of the Notes; (h) bond calls; (i) defeasances; (j) release, substitution or sale of property securing the repayment of the Notes; or (k) changes in the rating of the Notes.

The covenant will be included in a Material Events Disclosure Certificate to be executed by the signers of the Notes and incorporated by reference in the Notes. The sole remedy available to the owners of the Notes for the failure of the City to comply with any provision of the certificate shall be an action for specific performance of the City's obligations under the certificate and not for money damages; no other person shall have any right to enforce any provision of the certificate.

The City has never failed to provide annual reports or notices of material events in accordance with the Rule.

CITY OF SOMERVILLE, MASSACHUSETTS

General

The City of Somerville, Massachusetts is located in Middlesex County, three miles northwest of Boston. It is bordered by Cambridge on the south and southeast, Everett and the Charlestown section of Boston on the east, Medford on the north and Arlington on the west. Somerville has a population of 77,478 and occupies a land area of 3.93 square miles. Settled in 1630 as a part of Charlestown, the City was established as a separate town in 1842 and incorporated as a city in 1872. The City has an elected Mayor and an eleven member Board of Aldermen and operates under a Charter. Under the Charter the Board of Aldermen is the legislative body of the City. The following table sets forth the principal executive officers of the City.

PRINCIPAL CITY OFFICIALS

Town Title	Name	Manner of Selection	Entered Office	Term Expires
Mayor	Joseph A. Curtatone	Elected	January 2004	January 2010
Treasurer/Collector	Elizabeth Craveiro	Appointed	October 2007	January 2010
Auditor	Edward F. Bean	Appointed	April 2000	January 2012
Clerk	John Long	Appointed	January 2001	August 2011
City Solicitor	John Gannon	Appointed	March 2004	January 2010

Municipal Services

The City provides governmental services for the territory within its boundaries, including police and fire protection, disposal of garbage and rubbish, public education in grades K-12, water and sewer services, street maintenance, and parks and recreational facilities. Water and sewer services are provided via connections to the Massachusetts Water Resources Authority. The Somerville Housing Authority provides housing for low income and elderly residents of the City.

Transportation services include commuter bus, commuter train and public transit service to Boston, which is provided by the Massachusetts Bay Transportation Authority.

Education

The City's public school facilities include ten elementary schools, two schools for specialized programs, a Charter School and a comprehensive senior high school. Most elementary schools currently house grades kindergarten through 8. The City completed a \$25 million renovation and remodeling of the senior high school in the mid 1980's and completed the building of a new West Somerville Community School in September 1996, a new Kennedy elementary school in 1998, a new Healey elementary school in 1999 and one new Capuano early childhood center (PK-2) in 2003. The high school now houses students in grades 9 through 12. The capacity of the school system is approximately 7,000 students. The table below shows the recent trend in public school enrollments. School enrollments are expected to continue to decline in the short term.

PUBLIC SCHOOL ENROLLMENTS (as of October 1)

Grades	Actual						Projected
	2003	2004	2005	2006	2007	2008	2009
Elementary (Pre K- 8)	3,999	3,869	3,654	3,487	3,428	3,453	3,450
Senior High and Vocational	1,789	1,695	1,615	1,505	1,462	1,501	1,484
Somerville Charter School	389	318	293	346	343	329	386 (1)
Totals	<u>6,177</u>	<u>5,882</u>	<u>5,562</u>	<u>5,338</u>	<u>5,233</u>	<u>5,283</u>	<u>5,320</u>

SOURCE: Office of the Superintendent of Schools.

(1) Projected. First quarter.

Economy

The City of Somerville has a series of neighborhood commercial districts or “squares” which provide neighborhood retail, banking and other services to city residents and employees. Somerville has two major central business districts: Davis Square and Union Square. These commercial districts contain small retail, banking, professional offices, services, restaurant and entertainment uses. Other commercial uses include fast food restaurants, automotive repair, sales, rental and service stations. In addition, the City has an older industrial, manufacturing and warehousing base some of which has transformed to office, high technology, telecommunications and biotechnology uses. Over the past twenty years, a number of the City’s older, non-conforming industrial and manufacturing properties have been converted to residential use as property values and the demand for new housing has increased.

In the commercial and industrial segments of the local economy, Somerville continues to experience substantial growth.

EMPLOYMENT AND PAYROLLS

Due to reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

Industry	Calendar Year			
	2004	2005	2006	2007
Construction	669	673	685	700
Manufacturing	1,367	1,320	1,283	1,175
Trade, Transportation & Utilities	4,763	4,679	4,901	4,908
Information	541	241	218	212
Financial Activities	574	603	632	616
Professional and Business Services	3,950	3,798	3,942	4,149
Education and Health Services	5,269	5,230	4,796	4,972
Leisure and Hospitality	1,941	1,962	2,039	2,024
Other Services	1,357	1,451	1,534	1,628
Public Administration	979	1,080	1,072	1,066
Total Employment	<u>21,410</u>	<u>21,037</u>	<u>21,102</u>	<u>21,450</u>
Number of Establishments	<u>1,470</u>	<u>1,433</u>	<u>1,454</u>	<u>1,485</u>
Average Weekly Wages	<u>\$ 719</u>	<u>\$ 758</u>	<u>\$ 788</u>	<u>\$ 837</u>
Total Wages	<u>\$800,987,646</u>	<u>\$828,988,607</u>	<u>\$ 864,814,274</u>	<u>\$ 934,015,665</u>

Source: Massachusetts Department of Education and Training. Data based upon place of employment, not place of residence.

LARGEST EMPLOYERS

The following table provides a listing of the largest employers in Somerville with 100 employees or more.

Tufts University*	Educational Institution	2,193
Somerville School Department	Municipal	1,100
Cambridge Health Alliance	Health Care	771
City of Somerville	Municipal	700
Angelica Textiles	Laundry	546
Ames Safety Envelope	Envelopes/ Printing	400
Star Market/ Shaw's	Grocery	400
Market Basket	Grocery	275
MBTA Commuter Rail Maintenance Facility	Railroad Maintenance	250-400
Gentle Giant	Local Trucking	250-375
Target	Retail	200
Share Group	Non-Profit Telemarketing	196
United Parcel Service	Package Delivery Service	180
Stop & Shop	Grocery	178
Home Depot	Retail	160
Rogers Foam Corporation	Foam Products	150
Arrowstreet	Architecture/Design Firm	150
Grossman Marketing	Paper Company	120
Holiday Inn	Hotel	114-154
Somerville Housing Authority	Development/Management	105

Source: Company or institution listed.

*Approximately fifty percent of the campus is in Somerville and the balance is in Medford, Massachusetts.

Labor Force and Unemployment

According to the Massachusetts Department of Employment and Training preliminary data, in December 2008, the City had a total labor force of 46,246 of which 44,178 were employed and 2,068 or 4.5% were unemployed as compared with 5.5% for the Commonwealth (seasonally unadjusted). The following table sets forth the City's average labor force and unemployment rates for each of the calendar years 2003 through 2007 and the unemployment rate for the Commonwealth and nation as a whole for the same period.

UNEMPLOYMENT RATES

Year	City of Somerville		Massachusetts	United States
	Labor Force	Unemployment Rate	Unemployment Rate	Unemployment Rate
2007	46,191	3.2 %	4.5 %	4.6 %
2006	45,858	3.5	4.9	4.6
2005	46,187	3.5	4.8	5.1
2004	46,549	4.0	4.5	5.2
2003	47,326	4.7	5.8	6.0

SOURCE: Mass. Department of Employment and Training, Federal Reserve Bank of Boston and U.S. Bureau of Labor Statistics. Data based upon place of residence, not place of employment. Monthly data are unadjusted.

MAJOR PRIVATE CAPITAL INVESTMENT PROJECTS

There has been significant private capital investment in real estate and construction in the past several years in the City. The following table lists the major projects completed in the City or in the process of being permitted since 2001 and the estimated value of each project.

Project	Major Building Permits 2001 to 2008 Description	Approximate Value
Calendar Year 2008*:		
56-61 Clyde St***		
Max Pak Phase I***	65 Residential Units (estimate)	\$10,500,000
Max Pak Phase II ***	134 Residential Units	\$22,000,000
Assembly Square Mixed Use	Residential 2,100 Units Office 1,500,000 sf Hotel 180 Rooms Retail 600,000 sf	To be determined
IKEA Store****	340,000 sf Store Parking Structure	\$42,000,000 \$31,000,000
St. Polycarps****	84 Units Res/Comm 101,000 sf	\$19,400,000
Capen Court*****	95 Units Elderly Housing 86,000 sf	\$18,000,000
Visiting Nurse Assoc. Project*****	99 Units Res, 106,000 sf	\$17,900,000
515 Somerville Ave.	36 Residential/Commercial Units	\$6,000,000
50 Innerbelt Rd.****	Renovation to a Data Center	INNERBELT RD
70 Innerbelt Rd. ****	Tenant Fit Up	\$3,000,000
200 Innerbelt Rd.	Interior Fit Out	HOLDEN GREEN
57 Endicott Ave.	New 3 Family	\$500,000
2 Benton Rd	Interior Demolition	\$465,000
56 Professors Row	Renovate Dorm	\$708,740
100 Properzi Way	2 Story Addition	\$1,500,000
51 McGrath Hwy.	Renovate Storage Fac.	\$992,698
202 Holden Green	Renovate 3 Bldgs 23 Units	\$2,200,000
49 Endicott Street	New 8 residential units	\$890,000
35 McGrath	New Data Center	\$1,600,000
259 McGrath****	Auto Dealership new 2nd floor	\$100,000
308 Beacon St****	demo 3-fam, 6 new units	\$1,500,000
56 Webster St***	expansion/rehab of existing structure	\$4,800,000
* Through October, 2008.		
** Rezoning approved.		
*** SP/SPSR Application submitted.		
**** SP/SPSR approved.		
***** Comprehensive Permit approved.		
***** Construction underway.		
Calendar Year 2007:		
1 Davis Square	Steel Framed Building	\$4,185,000
1 Davis Square	Fit Out	\$597,600
55 Columbus Ave	Restoration of Group Home	\$760,000
9 Everett Ave.	New 6 Unit Building	\$618,000
6 Giles Park	Renovate 6 Units	\$635,000
70 Innerbelt Rd	Renovate Interior	\$2,500,000
70 Innerbelt Rd	Demo Existing Space	\$74,000
100 Talbot Ave	Renovate Servery	\$2,034,103
5 Middlesex Ave.	Tenant Fit-Out Gym	\$460,000
1 Davis Square	Fitness Club 2nd Floor	\$1,090,905
114 Temple St.	Int/Ext Renovation	\$595,023
546 Broadway	R&R Fieldhouse	\$2,000,000
44 Professor's Row	R&R Ceilings HVAC	\$665,875
343 Broadway	Tenant Fit-Out for Bank	\$942,000
6 Highland Ave.	Renovate 5 Apts	\$500,000
405 Alewife Brook Pkwy.	Assisted Living 99 Units	\$14,687,500
70 Innerbelt Rd.	Tenant Fit-Out for Data Center	\$1,300,000
99 Dover St.	Tenant Fit-Out for Office	\$1,300,000

Project	Description	Approximate Value
Calendar Year 2006:		
200 Innerbelt Rd.	Enc Dock, Ins Elec, HVAC Roof	\$5,700,000
70 Webster Ave.	New 46 Res Units	\$3,300,000
1188 Broadway	New 4 Story Structure	\$2,608,000
131 Willow	New 10 Unit Bldg	\$1,750,000
230 Highland Ave.	Renovate Main Floor	\$1,550,000
61 Medford St.	Renovate Storage Area	\$1,503,600
1 Summer St.	Renovate Blg - Add to Prev BP	\$1,240,000
63 Gorham St.	Renovate Interior	\$860,000
126 Cross St.	Renovate Interior	\$748,885
44 Professors Row	New Kitchen - Café	\$700,000
13 Talbot Ave.	Cost Increase BP05861	\$680,807
35 Charlestown St.	Renovate Interior	\$650,000
51 Dimisk St.	Complete Renovation 6 Family	\$556,947
4 Foskett St.	New 3 Unit Bldg	\$525,000
103 Orchard St.	Renovate 8 Units	\$500,000
Calendar Year 2005:		
140 Jacques St.	New three family condos	\$500,000
20 Howard St.	Parking Grage	\$500,000
230 Highland Ave.	R&R Clngs. 7 rms. Cntrs in 30 rms.	\$518,560
75 Mystic Ave.	R&R Roof	\$530,000
104 Woodstock St.	Gut 6 Units, new sprinkler sys.	\$550,000
22 McGrath Hwy.	Partial Demo Space B	\$550,000
1328 Beacon St.	New 6 Townhouses	\$600,000
245 Beacon St.	Conversion to 8 condos	\$650,000
133 Middlesex Ave.	Interior fit up for AC Moore	\$750,000
14 McGrath Hwy.	Interior fit up Bob's Store	\$750,000
133 Middlesex Ave.	Interior Partitions	\$851,813
13 Talbot Ave.	Foundation only - Residential Hall	\$950,000
43 Pitman St.	Build 10 Residential Units	\$1,025,000
20 Talbot Ave.	Foundation for new building	\$1,134,000
63 Temple St.	New 6 Residential Units	\$1,194,000
133 Middlesex Ave.	Interior Renovations	\$1,200,000
40 Howard St.	5 New Residential Units	\$1,500,000
30 Howard St.	5 New Residential Units	\$1,500,000
50 Howard St.	5 New Residential Units	\$1,500,000
60 Howard St.	5 New Residential Units	\$1,500,000
25 Osgood St.	New 2 Buildings 14 Residential Units	\$1,550,000
70 Innerbelt	Interior Demo	\$1,659,800
131 Middlesex Ave.	New Baths, Offices	\$1,700,000
65 Temple St.	New 9 Res. Units	\$1,792,000
131 Middlesex Ave.	Retail fit-out for stores	\$1,800,000
131 Middlesex Ave.	Interior fit-out, fire protection	\$2,000,000
Tufts University 20 Talbot Ave.	New Construction	\$2,174,010
Tufts University 20 South Campus Rd.	New parking garage	\$3,800,000
Tufts University 20 South Campus Rd.	R&R	\$3,800,000
Armory 191 Highland Ave.	Performance Space / Studios	\$3,904,000
Tufts University 13 Talbot Ave.	Reinforced Concrete Foundations	\$11,077,832
Assembly Square Mall 133 Middlesex Ave.	Retail 232,383 sf	\$23,238,300

Project	Description	Approximate Value
Calendar Year 2004:		
62 Talbot Ave.	Tufts University renovation	\$1,858,000
301 Medford St.	Residential Develoment	\$1,186,500
10 Memorial Rd.	Public Housing Renovations	\$1,300,000
15 Memorial Rd.	Public Housing Renovations	\$1,300,000
20 Memorial Rd.	Public Housing Renovations	\$1,300,000
25 Memorial Rd.	Public Housing Renovations	\$1,300,000
35 Memorial Rd.	Public Housing Renovations	\$1,300,000
40 Memorial Rd.	Public Housing Renovations	\$1,300,000
45 Memorial Rd.	Public Housing Renovations	\$1,300,000
50 Memorial Rd.	Public Housing Renovations	\$1,300,000
500 Mystic Ave.	Public Housing Renovations	\$1,300,000
510 Mystic Ave.	Public Housing Renovations	\$1,300,000
165 Beacon St.	Residential Develoment	\$1,300,000
22 McGrath Hwy.	School Renovations	\$2,050,000
50 Bow St.	Mixed Use Development	\$2,000,000
30 Innerbelt Rd.	Commercial Renovations	\$704,560
42 Highland Ave.	Residential Renovations	\$700,000
Calendar Year 2003:		
274 Mystic Ave.	Supermarket	\$5,850,640
230 Highland Ave.	Somerville Hospital Renovations	\$2,436,522
481 Columbia St.	Development	\$2,279,000
432 Norfolk St.	Multifamily	\$2,200,000
132 Middlesex Ave.	Church	\$1,687,000
117 Summer Est.	Somerville Home (exists/elevators)	\$1,400,000
14 McGrath Hwy.	Twin City Plaza Lighting	\$1,273,547
5 Tannery Br. Dr.	Residential	\$1,250,000
384 Washington	Residential rehab and new units	\$1,077,000
94 Vernon St.	Townhouses	\$1,060,000
42 Murdock St.	3 family house	\$600,000
81 Highland Ave.	High School Repairs	\$500,000
24 Howard St.	Lofts	\$500,000
Calendar Year 2002:		
150 Glen St.	School	\$29,240,000
429 Norfolk St.	Development	\$3,400,000
366 Somerville Ave.	Total Building Renovation	\$2,500,000
230 Highland Ave.	Renovation of Medical Building	\$1,500,000
12 Newbury St.	Residential New Construction	\$1,200,000
12 Newbury St.	Residential	\$1,200,000
50 Innerbelt Rd.	Renovation, Tenant Build Out	\$1,100,000
481 Columbia St.	Development	\$954,699
100 Talbot Ave.	Sprinkler, roof, electrical	\$642,750
36 Skeeahan St.	Townhouses	\$577,000
463 Somerville Ave.	Multifamily	\$575,000
Calendar Year 2001:		
70 Innerbelt Rd.		
40 S. Campus Rd.	Interior Renovation	\$1,270,000
3 Tannery Br Row	Reconstruct Bldgs 3&4	\$850,000
10 First Ave.	Renovation, Tenant Build Out	\$7,000,000
62 Talbot Ave.	Masonry Restoration	\$1,400,000
411 Norfolk St.	Build 20 Unit Townhouse	\$880,000
429 Norfolk St.	20 total units, single fam.	\$880,000
296 Broadway	Foundation for Health Center	\$650,000
81 Highland Ave.	Addition to Teen Center	\$500,000
298 Broadway	New Health Center	\$3,550,000
22 Line St.	New Construction 5 Colonial Townhouse	\$875,000
20 Cummings St	Interior Reonovation for restaurant	\$550,000
17 Ivaloo St.	18 Residential units, office, underground parking	\$6,065,084
10 Charlestown St	6 unit 3 story wood building	\$700,000
20 Charlestown St	6 unit 3 story wood building	\$700,000
24 Charlestown St	6 unit 3 story wood building	\$700,000
30 Linden St	3 unit 3 story wood building	\$500,000
34 Linden St.	3 unit 3 story wood building	\$500,000
36 Linden St	3 unit 3 story wood building	\$500,000
20 Merriam St.	6 unit 3 story wood building	\$700,000
26 Merriam St.	6 unit 3 story wood building	\$700,000
32 Merriam St.	3 unit 3 story wood building	\$700,000

Building Permits

The table below sets forth the recent trend in estimated dollar value of residential and non-residential new construction and alterations. The estimated dollar values are builders' estimates and are generally considered to be conservative.

Year	New Construction		Additions/Alterations		Total	
	No.	Value	No.	Value	No.	Value
2008 (1)	N.A.	N.A.	N.A.	N.A.	1,494 (1)	\$69,541,946 (1)
2007	7	\$16,067,354	1,786	\$56,849,657	1,793	72,917,011
2006	34	9,263,500	1,842	50,663,513	1,876	59,927,013
2005	29	41,516,842	2,023	65,005,833	2,052	106,522,675
2004	31	4,623,000	1,914	94,625,224	1,945	99,248,224

(1) Issued through October, 2008.

SOURCE: City Building Inspector.

The following table compares retail trade data for the City of Somerville with that of the Boston Primary Metropolitan Statistical Area (of which it is a member) and for the Commonwealth of Massachusetts as a whole.

RETAIL SALES

	<u>Somerville</u>	<u>Massachusetts</u>
Establishments:		
2002	178	25,761
1997	208	26,209
1992	348	38,491
1987	362	38,905
Sales(000):		
2002	\$603,989	\$73,903,837
1997	558,967	58,578,048
1992	471,776	47,663,248
1987	424,376	44,818,481
Per Capita Sales:		
2002	\$7,796	\$11,640
1997	7,335	9,736
1992	6,190	7,922
1987	5,484	7,731

SOURCE: 2002, 1997, 1992, and 1987 U.S. Census of Retail Trade.

ECONOMIC DEVELOPMENT

The City of Somerville working through the Mayor's Office of Strategic Planning and Community Development (OSPCD) has taken the lead role in planning and implementing major economic projects designed to increase the City's tax base and create new jobs. Major economic development activities are described below.

Assembly Square

Assembly Square is Somerville's largest commercial and industrial district with the greatest potential for redevelopment. Assembly Square is a 145-acre district located at the northeast corner of the city on the Boston line. Its location (less than 2.5 miles from downtown Boston and just 2 miles from Kendall Square in Cambridge) and existing transportation infrastructure make it one of the premier development sites in New England. Assembly Square is directly accessible from Interstate 93 and State Route 28. For autos, it is within minutes of downtown Boston, and for pedestrians, it is a ten-minute walk to the T-station at Sullivan Square. The MBTA's Orange Line and two commuter rail lines pass through the district. Assembly Square contains waterfront parcels and open space located along the banks of the Mystic River, and it is one of the largest redevelopment sites in the Metro Boston Area. To capitalize on these strengths, the City has undertaken an aggressive planning and redevelopment effort designed to convert this former industrial district to a transit-oriented, mixed use "urban village", using smart growth principles to maximize development potential.

In 2000, the Somerville Redevelopment Authority (SRA) purchased Yard 21, a 9.4-acre rail yard in Assembly Square, for \$3.1 million (using federal funds). Yard 21 was then advertised for redevelopment during the summer of 2001. The successful bidder offered \$4.1M for the site. As part of the disposition agreement, the developer was required to segregate land for construction of a new Orange Line station. In 2002, the Assembly Square Urban Renewal Plan was extensively revised and extended for an additional twenty years. The amended plan set forth a new vision of Assembly Square as a vibrant, 18-hour mixed-use district.

In 2005 Federal Realty Investment Trust (FRIT), a publicly traded REIT on the New York Stock Exchange (symbol FRT) bought the Assembly Square Mall buildings, surrounding properties (36 acres) and the rights to develop adjacent properties (9.4 acres known as Yard 21) for \$64 million. FRIT immediately began discussions with another major property owner in Assembly Square, IKEA, to swap some of FRIT's newly acquired land for IKEA's property adjacent to the Mystic River Reservation – a winning strategy for both developers in that FRIT would gain waterfront parcels for residential development and land near the proposed Orange Line Station for office development, and IKEA would gain a location more clearly visible from I-93 for its retail store. The terms of the land swap agreement have since been finalized. In the fall of 2006, a landmark accord was reached between FRIT, IKEA, and the Mystic View Task Force (a citizens' group which had been opposed to development in Assembly Square) demonstrating a strong will on the part of the community to move forward with the proposed developments. As part of this agreement, FRIT and IKEA jointly committed to contribute \$15 million toward the design and construction of the new Orange Line MBTA Station. This commitment, combined with the \$25 million of federal highway funds garnered by U.S Senators Kennedy and Kerry, and U.S. Representative Capuano, will make the new Orange Line Station at Assembly Square a reality.

On December 14, 2006 the Planning Board approved a Preliminary Master Plan for the Planned Unit Development (PUD) submitted by FRIT on behalf of itself and IKEA. This Preliminary Master Plan proposes 2,100 residential units, 1.75 million square feet of office, 1,150,800 square feet of retail space including a 340,000 IKEA store, and a 200-room hotel. The PUD will be permitted in six phases, of which two phases have already been approved by the Somerville Planning Board. At full build-out, in 2019, the development will yield \$18.6 million of local net fiscal gains, more than 14,800 jobs and \$798 million in wages and salaries. This will accrue gradually at first, and then accelerate after 2016. FRIT has paid, to date, approximately \$4.5 million in upfront contributions agreed to in a Development Covenant executed by FRIT, IKEA, and the City, and has committed to an additional \$1.6 million in contributions for municipal purposes. In addition, as previously mentioned, FRIT has committed jointly with IKEA to contribute \$15 million toward the design and construction of the new Orange Line station.

The Assembly Square Marketplace was re-permitted, as Phase 1AAA, of the Preliminary Master Plan in early 2007. The Marketplace is occupied by retailers with national name recognition, including the Christmas Tree Shops, AC Moore, Bed Bath and Beyond, TJ Maxx, Sports Authority, K Mart, and Staples. The stores in the mall employ over 500 people.

In October 2007, the City reviewed and approved the Special Permit with Site Plan Review-A for Phase 1AA of the Preliminary Master Plan. This phase involves construction of the 340,000 square foot IKEA retail store on an 11.9 acre parcel (relocated away from its previously approved location on the Mystic River), and construction of traffic improvements surrounding the District's street network and the new Assembly Square Drive, which will become the main boulevard of the fully built out Assembly Square district. By investing early in the construction of the main boulevard of the new Assembly Square area, FRIT is demonstrating to the community a genuine financial commitment to the long term build-out of a truly mixed-use, smart growth neighborhood in the City of Somerville. As provided in the Development Covenant between IKEA, FRIT, and the City, IKEA paid the City \$1 million upon the expiration of the appeal period for the Phase IAA Special Permit. FRIT purchased the 9.4-acre Yard 21 parcel in June, 2008, and has commenced demolition and site preparation in anticipation of the land swap between FRIT and IKEA, following which IKEA will commence construction of its new store, which is expected to result in an additional \$2 million of annual tax revenue and to employ 510 people when completed. The opening of IKEA is anticipated in 2010.

The City is currently working with FRIT to prepare an application for funding through the State's new I-Cubed Infrastructure financing program.

Boynton Yards

The MBTA's plans to extend the Green Line into Union Square has generated new interest in Boynton Yards, especially since one of the locations discussed for a transit stop lies in the northwest corner of Boynton Yards. In 2006, the Somerville Redevelopment Authority determined that the goals of Phase I of the Boynton Yards Urban Renewal Plan had been achieved and terminated the urban renewal plan. The former industrial district, which included noxious meatpacking, sandblasting, and rail yard uses, had been redeveloped, with a total of \$13 million in federal funds, to include 47,800 square feet of commercial space occupied by firms such as DHL Worldwide Express, Verizon, RCN and Members Plus Credit Union. Simultaneously with the termination of the urban renewal plan, the City rezoned the area to include a PUD-B overlay district encouraging residential, office, retail and other mixed-use development. The City is now proposing to rezone Boynton Yards again, as part of the Union Square rezoning effort (see below). Under the proposed new zoning, Boynton Yards will be located in a Transit Oriented District (TOD), where highest density and greatest heights (up to 135 feet) would be allowed.

Inner Belt

The Inner Belt district is a manufacturing and warehouse district that has begun a transition to higher-end office and biotechnology uses. An off-ramp which was constructed as part of the Central Artery Project (the "Big Dig") has improved regional automobile access to Inner Belt. To facilitate Inner Belt's transition to higher end uses, the City approved a significant privately financed infrastructure investment connecting Inner Belt to the fiber optic loop around Boston and Cambridge. The location of this major communications node makes Inner Belt a very competitive location for technology-oriented businesses.

Recent developments include a 320,000 square foot former Filene's Basement warehouse, renovated and converted to office and distribution uses. Established employers, including MS Walker, United Lithograph, Massachusetts General Hospital, the MBTA Boston Engine Terminal, and Angelia Textiles continue to provide employment opportunities in Somerville. The City, working through OSPCD, has completed various studies, including a planning study which identified public actions necessary to facilitate transformation of this district to office and biotechnology uses. Access studies were completed in 2005 that addressed the impact of economic development on traffic patterns in the Inner Belt, and a portion of a Federal grant will be used to advance these access issues and to develop a real estate market analysis for this section of the city. The City has been taking preliminary steps, with the assistance of Greenberg/CBT consultants to develop a comprehensive plan for the area.

Davis Square

Davis Square is one of the City's most vibrant central business districts. This commercial center is located in close proximity to nearby Tufts University and has an MBTA Red Line subway station. The combination of this district's location and public transit access has resulted in strong demand for office, retail, restaurant and entertainment uses. Davis Square has limited vacancy in the retail and office market segments. In addition, Davis Square has become a regional dining and entertainment destination with some of the Boston area's finest restaurants, nightclubs, and live entertainment venues. For example, the Somerville Theater – a 1920's vaudeville theater with a 900 seat capacity – includes a cinema complex and regularly hosts national and international musical performances which attract patrons from the entire region. The residential neighborhood surrounding Davis Square has seen dramatic increases in property values and rents, which has resulted in considerable new investment and condominium conversion. A new commercial building with retail, offices, and a Boston Sports Health Club has opened, and the City is in the process of reviewing responses to a Request for Qualifications for a hotel development in Davis Square.

Union Square

Union Square is the city's second largest central business district, known throughout the region as a multi-ethnic arts and dining destination. In 2002, the City initiated a revitalization effort for Union Square by funding a major transportation study and Master Plan, now being implemented. In 2003, the area was officially designated as a "Neighborhood Revitalization Strategy Area" under the guidelines of the U.S. Department of Housing & Urban Development, making the area eligible for a variety of incentives related to Community Development Block Grant funding. In 2004, the City worked with neighborhood residents, businesses, and property owners to create "Union Square Main Streets," a non-profit community organization based on the National Main Street Center's successful downtown revitalization model. More recent successes have included a \$90,000 state grant to create an "ArtsUnion" arts and entertainment district for economic development, a \$42,000 grant to do a strategic plan for the development of city-owned properties in Union Square, over \$100,000 in new state and federal Brownfields funding for parcels in the area, the initiation of a Saturday farmers market partially funded by a Robert Wood Johnson Grant, and, in 2007, the construction of two small urban parks.

The City has completed a \$24 million new elementary school at the edge of Union Square and the Massachusetts Highway Department is overseeing a \$21 million reconstruction of Somerville Avenue between Union Square and Porter Square. The Commonwealth of Massachusetts has officially stated its commitment to construct a Green Line light-rail service to Union Square, which is expected to drive a new generation of economic development for this historic downtown. The City has begun to implement the next round of strategic planning for Union Square by filing a rezoning proposal with the Board of Aldermen that significantly up-zones Union Square, including Boynton Yards, and imposes an overlay district that provides incentives to develop live/work spaces for artists.

Business Assistance Programs

The City of Somerville has instituted several small business assistance programs to support and stimulate local economic development activities. The programs help to stabilize the tax base and insure the economic vitality of the local business community. These are described below.

Brownfields Economic Development Initiative

In October of 1996, the City of Somerville was selected by the U.S. Environmental Protection Agency (EPA) to be a Brownfields Site Assessment Pilot Community. Utilizing grant funds totaling \$600,000 from the EPA and HUD funds of \$100,000, the City has facilitated development of Brownfields sites by providing environmental site testing services and remediation cost overrun coverage to interested redevelopers of Brownfields sites. Pilot project locations have included 220 Washington Street (Union Square), 56 Webster Avenue (Boynton Yards), 29, 30 & 33 Allen Street (Union Square), and 405 Alewife Brook Parkway (the Conwell School). In each instance, site testing and associated environmental engineering services were provided through the program so that redevelopment considerations regarding cleanup costs could be understood at an early stage. The City recently reapplied for assessment funding from the EPA to be able to evaluate properties across the City.

Brownfields Cleanup Revolving Loan Fund

In September of 1999, the City of Somerville was approved by the U.S. Environmental Protection Agency (EPA) as a Brownfield Cleanup Revolving Loan Fund (BCRLF) pilot community. Through a \$460,000 initial grant, Somerville has launched a loan program that is available to eligible redevelopers of Brownfields properties within Somerville. In 2003, the EPA streamlined the rules and regulations of the program to make it easier for municipalities to administer it. During the past year, the City used a \$200,000 EPA Brownfields cleanup grant to remediate new park site along the Lowell commuter rail line, which will eventually become part of the Somerville Community Path and the regional bike network. Through the use of the BCRLF, Somerville intends to accelerate the transformation of Brownfields from blighting influences on the neighborhood into assets for the community. The economic reuse of these sites will have a positive affect on the local economy by contributing to the commercial tax base and creating new jobs.

Storefront Improvement Program

In 1980, the City of Somerville established a Storefront Improvement Program (SIP) to assist in the revitalization of local business districts. The program offers architectural services and a 50% rebate to participants (tenants or owners), not to exceed \$35,000 per project, toward facade renovation costs. From the years 2001-2008, the City has expended more than \$211,000 in storefront renovations in CDBG eligible areas. This investment has leveraged another \$211,000 in matching private capital towards these improvements, and the City has budgeted another \$223,000 in funds to make Somerville's commercial districts more attractive for consumers and businesses alike. During the past year, the City has contracted with three private owners for facade improvements under the storefront improvement grant program – two in Union Square and one on Lower Broadway in East Somerville. These storefront improvements help establish a design standard for retail districts throughout the city.

Tax Increment Financing/District Improvement Financing/Other Economic Development Tools

In May of 1994, the Massachusetts Economic Assistance Coordinating Council (EACC) designated the City of Somerville as an Economic Target Area (ETA), which makes it possible to use the mechanism of Tax Increment Financing (TIF) on key economic development projects. Since 1995, the City of Somerville has obtained approval from the EACC for five private sector projects to be eligible Economic Opportunity Areas (EOAs) under the state's Economic Development Incentive Program (EDIP). This approval enabled each project to utilize TIF and to qualify for a state Investment Tax Credit. Somerville's TIF projects to date include major new construction and rehabilitation of office and other commercial buildings. Through the TIF designation, \$485,000 in state Investment Tax Credit funds were enjoyed by participating businesses and developers, who in turn leveraged approximately \$10 million toward the various development projects. All of the TIF projects have now expired, and the City is currently exploring other state programs aimed at incentivizing private development: in particular, implementing District Improvement Financing in the Union Square area; and applying for at least \$50 million of state's new \$250 million "I-Cubed" program to fund public infrastructure in Assembly Square.

Groundwork Somerville

In February of 1999, the National Park Service (NPS) selected the City of Somerville as a Groundwork/USA Pilot community, one of six in the United States. Along with NPS staff support, the City received \$100,000 in grant funding to support the reuse of Brownfields and other derelict sites for conservation, recreation, economic development, and community benefits, in order to improve the quality of life for its citizens. The initial grant funding has been used for planning, organizing, and promoting the Groundwork/USA initiative. However actual design and construction for specific projects undertaken by Groundwork Somerville will involve a partnership between community-based organizations and the local business community. The NPS has increased grant funds by \$90,000 for a total of \$190,000. Using NPS and Community Development Block Grant (CDBG) funds, Groundwork Somerville completed projects providing landscape enhancements at the entrance to the bike path that connects Somerville with the Minuteman regional bike trails, two business parking lots within the Boynton Yards area, redesigned the high school courtyard, restored the landscaping at the Blessing of the Bay Boathouse, and is coordinating a citywide "Adopt a Spot" program with local businesses.

Major Private Development Projects

Major Private and public development projects recently in the City of Somerville include:

Assembly Square (also discussed above)

- **IKEA:** The IKEA store, 340,000 square feet of retail space, is anticipated to open in 2010. This project is expected to result in an additional \$2 million of annual tax revenue when complete, and to employ 510 people. In addition to these recurring benefits, the developer has agreed to a \$1.5 million community benefits package that will include transit and pedestrian improvements to the area, and public art installations.
- **Assembly Square Marketplace:** The Assembly Square Marketplace consisted of a refurbished and re-tenanted Assembly Square Mall. All stores are now open for business and are operating successfully.

- **Yard 21 Development Parcel:** FRIT purchased this parcel from the Somerville Redevelopment Authority in June of 2008. The actual development program for Yard 21 will consist of a portion of the new IKEA building and an office development built around a new MBTA Orange Line rapid transit station at the Foley Street end of Yard 21.
- **Orange Line Station:** IKEA and FRIT have jointly committed to contribute \$15 million toward the design and construction of the new Orange Line Station, for which the United States Congress has earmarked an additional \$25 million.

Other Areas of Somerville

- **Max Pak:** The Developers will be filing for special permit for this project in December 2008. The Master Plan was approved by the Planning Board in the spring of 2008. The project consists of the demolition of a former blighted and dilapidated factory complex located in a residential neighborhood and the construction of a phased, multi-building project including a total of 199 units of housing with dedication of substantial amounts of open space to the public, and construction of new public access to the community path adjacent to the site.
- **North Point:** North Point is a major new transit-oriented development, which is located in the cities of Boston, Cambridge and Somerville on former industrial and railroad land. Approximately 5 acres of the site are located within the City of Somerville. As proposed, the site will be developed with 385 dwelling units within the Somerville city limits. Upon completion, the net benefit to Somerville is anticipated to be in the range of \$600,000 to \$2,310,000 per year depending on the final assessed valuation of the development and the specifics of any agreement between Cambridge and Somerville relative to municipal service cost sharing. The project has received approval from the City of Cambridge and the Commonwealth of Massachusetts. A zoning change is required to allow the project to proceed in Somerville. Although the project was in jeopardy as a result of a Massachusetts Supreme Judicial Court decision, the state legislature has since passed legislation to correct the problems raised by the court decision, and a P&S agreement has been signed by on the property by a well known development team.
- **Union Place:** The Union Place project is a mixed-use development, which contains residential, office, retail and structured parking uses. The development has helped to transform an older industrial and automotive district into a mixed-use residential/commercial/artist loft district. The location – between Union Square and the City of Cambridge near MIT – has tremendous development potential over the long term. The first three phases of the project have been constructed. Upon completion of all phases, the project is expected to involve \$15 million in private investment.
- **Angelica Textiles (formerly Royal White Institutional Services):** This 118,000 square foot institutional laundry facility in the Inner Belt was permitted in 2004, bringing an estimated expansion of 300 jobs and increased value to the City.
- **Highland Armory:** This former National Guard Armory, which was sold at auction in 2004 for \$2.6 million has been transformed from an abandoned, tax-exempt property into tax-generating, mixed-use visual and performance art center. The owners have invested approximately an estimated \$10-12 million in the facility, which includes 10-14 new live/work units, offices, a gallery/café, and two performance spaces. It will generate \$38,000 in real estate taxes for the City.
- **Biogen:** The Biogen/IDEC Company has purchased property on Webster Street for the purpose of distribution and support services for their operations in nearby Cambridge. This facility is an active operation.
- **One Davis Square:** One Davis Square is a newly constructed commercial property in the heart of Davis Square, which includes office, retail, and a large health club facility. This project opened in 2007 and consists of approximately 12,000 square feet of retail space, and 25,000 square feet of office space, for a combined total of approximately 37,000 square feet of new development, and \$74,000 in new tax revenues.

- **Durrell School:** This former City-owned elementary school has been adaptively redeveloped into eight 2-bedroom unit condos, of which all 8 have been sold, generating \$10,000 in new tax revenues.
- **1188 Broadway:** Developers have sold nearly all of the units in this 30-unit condominium project in Teele Square, which has generated \$50,000 in new tax revenue for the City.
- **515 Somerville Avenue:** This 36-unit mixed use condominium project is in the remediation phase and is anticipated to begin construction in Spring 2009.
- **39 Endicott Avenue:** This 8-unit condominium project was recently permitted by the City of Somerville.
- **St. Polycarps:** Former Archdiocese of Boston properties purchased by a local non-profit developer and to be redeveloped for a mixed-Use, mixed income project for 45 condos, 85 rental apartments and 5,000 square feet of retail/office space. Phase I of the project is currently under construction.
- **VNA Assisted Living Facility:** The Visiting Nurses Association of Massachusetts is nearing completion and occupancy of a 99-unit affordable assisted living facility on a former public school site. This project received extensive public funding including tax credits. The VNA facility will generate \$83,000 in new real estate taxes for the City and create approximately 50 new jobs, in addition to providing excellent quality housing for low income elderly residents.
- **Conwell-Capen Housing:** In December 2008, the Somerville Housing Authority will be closing on approximately \$25 million in financing from a consortium of public and private lenders for a project consisting of the demolition of an existing (65) unit public housing development for seniors and people with disabilities to be replaced by new construction of a 95-unit public housing facility serving the same population.

Transit Improvements

The Commonwealth, through its Executive Office of Transportation (EOT), has taken significant steps to move forward on the proposed Green Line Extension from Lechmere through Somerville to the Medford Hillside, including a spur into Union Square. In the Spring of 2008, the Governor's Bond Bill was approved, which included several hundred million dollars for the design and construction of the Green Line Extension. The EOT will be seeking federal contribution to the project through the FTA New Starts Funding and plans to initiate the application process in Winter 2008. In addition, the EOT is in the final stages of determining optimal locations for the stations and recommending a site for the associated light-rail maintenance facility. In conjunction with the proposed Green Line Extension to Medford and Union Square, the City is planning for closer coordination and updates/adjustments of the MBTA Bus routes, to improve Green Line station access and to enhance inter-modal circulation within Somerville. The City of Somerville is an active member on the Public Advisory Group and has already taken steps to consider land use policies surrounding the new stations. Revitalization of these areas can be realized using smart growth tools such as 40R, transit oriented development, district increment financing, and rezoning. The Green Line Extension into Somerville will be a major economic catalyst. In addition, as already mentioned, the City is also moving forward, in cooperation with private developers and the MBTA, to secure federal funding for an Orange Line rapid transit station in Assembly Square. Congress has earmarked \$25 million for the station which, with the \$15 million to be contributed by IKEA and FRIT, is estimated to be very close to the amount needed to build the station.

Somerville is participating on the Community Action Committee working with other communities and stakeholders to complete a Notice of Project Change for the Environmental Impact Report for the Federal Transit Administration "New Starts" Funding application for the Urban Ring Corridor. The Urban Ring is a concept for a circumferential public transportation system which would link all of metropolitan Boston's commuter rail, subway and bus lines with a new service forming a ring around Boston's inner core. The Ring would connect Somerville with Chelsea, Everett, Cambridge, Brookline, Logan Airport, Kendall Square, the Longwood Medical Area and the University of Massachusetts-Boston. The City has been working on the future alignment of the ring, future stations in Somerville and future inter-modal transit options for the Ring. Transportation improvements proposed as part of the Urban Ring include rapid bus transit from Wellington Station to Assembly Square to Sullivan and then connecting southerly to Lechmere via an Inner Belt alternative alignment and an eventual rapid transit line from Longwood Medical Area to the Inner Belt District and Assembly Square. The City continues to participate in other regional transportation planning initiatives such as the Journey 2030 Metro Future Planning program.

Roadways & Bridges

The Department of Public Works, in coordination with OSPCD, completed the redesign of two major city thruways, namely Beacon Street and Magoun Square. The reconstruction of the \$21 million Somerville Avenue is underway and will be completed in the fall of 2009. Design engineering continues on the reconstruction of Beacon Street with construction funding secured in 2012. The city has applied for Federal and State funding for ten study designs and construction projects securing nine of ten thus far, with the tenth application expected to be approved in the new 4-year Transportation Improvement Plan (TIP 2009-2013), including the Community Pedestrian/Bike Path, Roadway and Streetscape design in East Somerville, Union Square and Assembly Square, and the Interchange of I-93 and Mystic Avenue. Mayor Curtatone was elected to represent the 101 municipalities within the Inner Core of Massachusetts on the State Metropolitan Planning Organization which oversees federal and state funding allocation for regional transportation improvement projects. The City of Somerville has secured funding, with the Federal government appropriations and earmarks totaling \$60 million for the 4-year period (FY 2007-FY 2011) for various roadway and access study improvements in the city and will be reapplying this year for FY 2009-FY2013 TIP for a total of \$65 million. The City has also leveraged State Transit Oriented Development Grants (\$.5million) with CDBG money to plan, design and build a portion of Broadway from Route 28 to the Boston City Line (Sullivan Square) in East Somerville.

All bridges in the city are owned and maintained by the Commonwealth of Massachusetts. The reconstruction of these bridges has been an ongoing effort, utilizing both Federal and State transportation monies. Since 1999, Commonwealth bridges have been reconstructed over the following streets: Cedar Street; School Street; Walnut Street; Washington Street; Sycamore Street; and Lowell Street. In a number of cases, it took a long time to complete the bridge reconstruction; under the Commonwealth of Massachusetts new "fix it first" program, the City hopes to see all major bridge reconstruction projects completed on a shorter time schedule.

Transportation and Utilities

Encouraging a trend toward more pedestrian and bicycle travel, Somerville continues its commitment to providing better pedestrian circulation and access by pursuing expansion and improvements to existing pedestrian paths, and by striping bicycle paths throughout its street network. The city is well represented and actively campaigns for the expansion of the Minuteman Trail and the completion of its last segments connecting the pedestrian/bicycle path with the Boston/Charles River network, by closely coordinating with EOT on the design along the Green Line Extension alignment. On the vehicle side, the City is served by Interstate 93, McGrath and O'Brien Highways, Route 38 (Mystic Avenue), Route 16 and the Fellsway. Rapid transit and bus service within the city and to neighboring communities, including Boston, is provided by the Massachusetts Bay Transportation Authority (MBTA). Since November 1998, additional intercity transportation has been provided by A&A Charter, Inc., funded with a federal grant and local matching funds. Transportation services for the elderly are funded by the City with assistance from the federal CDBG program, and have been provided by SCM Community Transportation, Inc. Other private carriers provide taxicab (with one locally owned cab company) and other transportation services to various city businesses and institutions such as Tufts University.

Complete water and sewer services are provided for by connections to the Massachusetts Water Resources Authority (MWRA) system. Gas and electric services are provided by established private utilities.

POPULATION TRENDS

<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>
77,478	76,210	77,372	88,779

SOURCE: U. S. Bureau of the Census.

On the basis of the 2000 Federal census, the City has a population density of approximately 18,847 persons per square mile.

Income Levels and Population

According to the 2000 Federal census, median family income for the City of Somerville was \$51,243 compared with \$61,644 for the Commonwealth and \$50,046 for the nation. In 2000, per capita income was \$23,628 compared with \$25,952 for the Commonwealth and \$21,587 for the nation. Based upon 2006 projections for a family of four, the median income in Somerville was \$71,795, and in the Boston PMSA (Primary Metropolitan Statistical Area) was \$82,600.

POPULATION AND INCOME

	<u>Somerville</u>	<u>Massachusetts</u>	<u>United States</u>
Median Age:			
2000	31.1	36.5	35.3
1990	31.0	33.6	32.9
1980	29.9	31.2	30.0
1970	29.1	29.0	28.1
Median Family Income:			
2000	\$51,243	\$61,644	\$50,046
1990	38,532	44,367	35,225
1980	18,220	21,166	19,908
1970	9,594	10,835	9,867
Per Capita Income:			
2000	\$ 23,628	\$ 25,952	\$ 21,587
1990	15,179	17,224	14,420
1980	6,249	7,459	7,313
1970	2,989	3,425	3,139

SOURCE: U. S. Bureau of the Census.

PROPERTY TAXATION

Tax Levy Computation

One of the principal revenue sources of the City is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriation voted from funds on hand. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see "Property Tax Limitation" herein. As to the inclusion of debt service and final judgments see "Security and Remedies", herein. The estimated receipts for a fiscal year from sources other than property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years. Although an allowance is made in the tax levy for abatements (see "Overlay" below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (See "Taxation to Meet Deficits").

The table below illustrates the manner in which the tax levy was determined for the following fiscal years.

TAX LEVY COMPUTATION

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Total Appropriations(1)	\$ 155,782,958	\$ 166,178,558	\$ 177,355,269	\$ 184,824,164	\$ 194,515,673
Additions:					
State Assessments(2)	8,954,713	8,590,803	9,076,921	9,844,372	10,112,492
Overlay Reserve	1,489,945	1,505,475	1,345,578	1,740,520	1,425,728
Other Additions (2)	131,161	967,515	134,332	140,573	140,676
Total Additions	<u>10,575,819</u>	<u>11,063,793</u>	<u>10,556,831</u>	<u>11,725,465</u>	<u>11,678,896</u>
Gross Amount to be Raised	<u>166,358,777</u>	<u>177,242,351</u>	<u>187,912,100</u>	<u>196,549,629</u>	<u>206,194,569</u>
Deductions:					
Local Estimated Receipts	35,852,512	40,609,287	43,207,408	44,606,247	47,599,395
State Aid(3):					
Current Year	51,460,129	53,439,250	55,921,225	56,578,126	57,692,847
Available Funds:					
Free Cash	4,234,558	3,275,000	3,722,929	6,000,000	3,095,214
Other Available Funds (4)	75,000	1,390,000	1,860,000	1,134,653	5,304,421
Total Deductions	<u>91,622,199</u>	<u>98,713,537</u>	<u>104,711,562</u>	<u>108,319,026</u>	<u>113,691,877</u>
Net Amount to be Raised (Tax Levy)	<u><u>\$74,736,578</u></u>	<u><u>\$78,528,814</u></u>	<u><u>\$83,200,538</u></u>	<u><u>\$88,230,603</u></u>	<u><u>\$92,502,692</u></u>

- (1) Includes additional appropriations from taxation voted subsequent to the adoption of the annual budget but prior to the setting of the tax rate.
- (2) Approximately 80% of these amounts were to pay for students attending a "Charter School" which opened in Somerville under the Education Reform Act. Part of this cost was reimbursed to the City through increased state aid. In fiscal 2004, Charter School assessments were included under State Assessments above.
- (3) Includes state aid as well as other payments from the Commonwealth. See "CITY FINANCES--Revenues--State Aid". **The Governor recently announced mid-year cuts in state local aid for fiscal 2009, and further estimated reductions for fiscal 2010. See "Reduction of State Local Aid" on the next page for discussion.**
- (4) Transfers from other available funds, including overlay surplus, parking revenues and the tax title collection reserve account are generally made as an offset to a particular appropriation item.

Reduction of State Local Aid

The Governor recently announced mid-year cuts in school local aid for fiscal 2009, and further estimated reductions for fiscal 2010. For Somerville, the state aid revenue base will be reduced by \$6,221,502 in fiscal year 2010. Of that \$6,221,502 revenue base reduction, \$2,935,217 must be cut in fiscal year 2009. The Governor's proposal calls for a closing of the telecommunication tax loophole and local option meals and hotel/motel excise taxes. These initiatives are estimated by the state to raise an additional \$1,193,155.

FY 2009 State Aid Base	\$ 53,411,710
FY 2010 State Aid Base	47,190,208 (Per Governor's Budget - House 1)
FY 2010 estimated base cut	<u>6,221,502</u>
Potential Offsets:	
Meals Tax Increase	988,870
Close Telecom Loophole	105,342
Hotel Tax Increase	<u>98,943</u>
Sub-total	<u>1,193,155</u>
Estimated Loss	5,028,347
9c cuts for FY 2009	2,935,217
Potential 9c cuts for FY 2010	2,093,130

The City is aggressively formulating its plan to address these cuts. The City intends to address the matter employing a variety of tools. The plan will include the following items:

- Raise fee, fine and permit revenues.
- Budget Reversions – 1 year wage freeze.
- Elimination of vacant positions.
- Restrictions of overtime.
- Restrictions of discretionary spending.
- Utilizing reserves – i.e. parking meter receipts.

The City is still extensively looking at ways to address these cuts and is confident that the measures taken will address the cuts in FY 2009 and FY 2010.

Assessed Valuations and Tax Levies

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. Until fiscal year 2004, the share required to be borne by residential real property was at least 50 per cent of its share of the total taxable valuation; under legislation enacted in the beginning of 2004, however, cities and towns were authorized to reduce the required share to be borne by residential real property to at least 45 per cent of its share of the total taxable valuation in fiscal year 2004, 47 per cent in fiscal year 2005, 49 per cent in fiscal year 2006 and 50 per cent thereafter. The effective rate for open space must be at least 75 per cent of the effective rate for residential real property. Until fiscal year 2004, the share of commercial, industrial and personal property was limited to not more than 175 per cent of their share of the total valuation; under legislation enacted in the beginning of 2004, however, cities and towns were authorized to increase the limit on the share of the total taxable valuation of such property to not more than 200 per cent in fiscal year 2004, 197 per cent in fiscal year 2005, 190 per cent in fiscal year 2006, 183 percent in fiscal year 2007, 175 per cent in fiscal year 2008, and, if the share of such property in a particular city or town exceeded 175 per cent in any of fiscal years 2004 through 2007, 170 per cent in fiscal years 2009 and thereafter. Under legislation recently enacted, for fiscal years 2008 and thereafter, the share of the annual levy to be borne by residential real property must be at least 50 percent of its share of the total taxable valuation; the effective rate for open space must be at least 75 percent of the effective rate for residential real property; and the share of commercial, industrial, and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State

Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land is valued for this purpose at five percent of fair cash value but not less than ten dollars per acre.

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value". See "DEBT LIMITS" below.

The City of Somerville has used multiple tax rates for different classes of property since fiscal year 1986.

Classification came in part in response to a general recognition that, under the prior system, there were substantial discrepancies in fact between fair cash values and assessed valuations within municipalities and relative discrepancies as between municipalities. In a number of municipalities litigation concerning disproportionate valuations led to court-ordered revaluations and, in some instances, to delayed tax bills. Disproportionate valuation also led to substantial relief pursuant to petitions for abatement where there had been unlawful discrimination between categories of property. Assuming that petitions were or are seasonably filed, there may still be additional large abatements in any community which used widely varying percentages when valuing different classes of property prior to classification. Professional revaluations of all property in the City to full and fair cash value in compliance with Massachusetts law were completed for use in fiscal year 2007 (see "Tax Limitations"). The City conducts an in-house revaluation annually.

The table below sets forth the trend in the City's assessed valuations, tax levies, and tax levies per capita for the following fiscal years.

Fiscal Year	Real Estate Valuation	Personal Property Valuation	Total Assessed Valuation	Tax Rate Per \$1,000 Valuation		Tax Levy	Tax Levy Per Capita(1)
				Resid.	All other		
2009	\$ 8,264,590,100	\$ 144,604,120	\$ 8,409,194,220	\$ 11.71	\$ 19.25	\$ 92,502,692	\$ 1,214
2008	8,453,997,300	138,332,790	8,592,330,090	10.95	17.97	88,230,603	1,158
2007	8,623,056,800	129,018,900	8,752,075,700	10.15	16.67	83,200,538	1,092
2006	7,757,498,500	137,399,800	7,894,898,300	10.53	18.90	78,528,814	1,030
2005	7,143,100,100	112,783,900	7,255,884,000	10.75	20.29	74,736,578	981

(1) Based on 2000 Federal Census figure.

Classification of Property

The following is a breakdown of the City's assessed valuation of real estate in fiscal 2007, 2008, and 2009.

Property Type	2007		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Residential	\$7,523,926,865	87.3 %	\$7,343,629,210	86.9 %	\$7,178,108,247	86.9 %
Commercial	843,514,735	9.8	851,069,790	10.1	826,175,153	10.0
Industrial	255,615,200	3.0	259,298,300	3.1	260,306,700	3.1
Total Real Estate	<u>\$8,623,056,800</u>	<u>100.0 %</u>	<u>\$8,453,997,300</u>	<u>100.0 %</u>	<u>\$8,264,590,100</u>	<u>100.0 %</u>

LARGEST TAXPAYERS

The following table lists the ten largest taxpayers in the City based upon assessed valuation for fiscal 2009. All of the taxpayers listed below are current in their tax payments.

Name	Nature of Business	Total Assesed Valuation for Fiscal 2009	Amount of Tax	% of Total Levy
FR Assembly Square LLC	Shopping Mall	\$ 62,391,000	\$ 1,201,027	1.30 %
Twin City Plaza LLC	Retail Mall	55,126,300	1,061,181	1.15
NSTAR Electric CO	Electric Company	54,794,010	1,054,785	1.14
I-93 Somerville LLC	Retail	37,000,000	712,250	0.77
Kadima Medical Properties LLC	Professional Building	32,698,600	629,448	0.68
CRP 70 Inner Belt LLC	Telecom	30,684,700	590,680	0.64
IKEA Property Inc.	Commercial Land	23,934,000	460,730	0.50
National Tax Seach LLC Trustee	Office Building	23,658,800	455,432	0.49
FR Sturtevant Street LLC	Retail	19,668,400	378,617	0.41
Clarendon Hills Towers Assoc.	Apartments	31,787,100	372,227	0.40
Total		<u>\$ 371,742,910</u>	<u>\$ 6,916,376</u>	<u>7.48 %</u>

State Equalized Valuation

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own determination of the fair cash value of the taxable property in each municipality as of January 1 of even numbered years. This is known as the "equalized value". Local assessed valuations are determined annually as of January 1 and used for the fiscal year beginning on the next July 1.

The following table sets forth the State equalized valuation of the City.

January 1,	State Equalized Valuation	City % Increase
2008	\$9,612,275,100	10.25 %
2006	8,718,572,100	19.17
2004	7,316,371,300	31.86
2002	5,548,714,800	43.82
2000	3,858,210,300	21.68
1998	3,170,880,300	13.01

Overlay

The City is authorized to increase each tax levy by an amount approved by the Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the resultant "overlay deficit" is required to be added to the next tax levy. An abatement granted after a tax payment has been made is accounted for as a refund on the books of the City. Any balance in the overlay account, in excess of the amount of the warrant remaining to be collected or abated, is transferred to a reserve fund to be used for extraordinary or unforeseen expenses. Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue.

The following table sets forth the amount of the overlay reserve for each of the last five fiscal years and actual abatements and refunds granted through June 30, 2008 against each levy.

Fiscal Year	Net Tax Levy(1)	Overlay Reserve		Abatements Granted Through June 30, 2008
		Dollar Amount	As a % of Net Levy	
2008	\$ 86,490,083	\$ 1,740,520	2.0 %	\$1,149,182
2007	81,854,960	1,345,578	1.6	1,265,011
2006	77,023,339	1,505,475	2.0	1,032,191
2005	73,246,633	1,489,945	2.0	1,044,877
2004	69,525,463	1,558,006	2.2	933,758

(1) Tax levy prior to addition of overlay reserve.

Tax Collections

Property tax bills are payable quarterly on August 1, November 1, February 1, and May 1 of each fiscal year. Interest accrues on delinquent taxes at the rate of 14 percent per annum. Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described below.

The table below compares the City's net tax collection with its net (gross tax levy less overlay reserve for abatements) tax levies for the following fiscal years.

TAX COLLECTIONS

Fiscal Year	Gross Tax Levy	Net Tax Levy(1)	Collections During Fiscal Year Payable(2)		Collections as of June 30, 2008(2)	
			Dollar Amount	% of Net Levy	Dollar Amount	% of Net Levy
2008	\$88,230,603	\$86,490,083	\$86,635,835	100.17 %	\$86,635,835	100.17 %
2007	83,200,538	81,854,960	81,298,109	99.32	81,704,666	99.82
2006	78,528,814	77,023,339	76,559,265	99.40	78,261,453	101.61
2005	74,736,578	73,246,633	72,465,026	98.93	73,469,410	100.30
2004	71,083,469	69,525,463	69,083,718	99.36	69,671,291	100.21

(1) Net after deduction of overlay for abatements.

(2) Actual dollar collections net of refunds. Does not include abatements or other non-cash credits.

Tax Titles and Possessions

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments) it can be foreclosed by petition to the Land Court.

Upon such foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of in the same manner as other land held for municipal purposes. Uncollectible real property taxes are ordinarily not written off until they become municipal tax titles by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of tax and charging surplus.

The following table sets forth the amount of tax titles and possessions outstanding at the end of each of the last five fiscal years.

Fiscal Year	Total Tax Titles and Possessions
2008	\$2,688,486
2007	2,342,644
2006	2,348,675
2005	1,010,284
2004	2,135,113

Sale of Tax Receivables

Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

Taxation to Meet Deficits

As noted elsewhere (see "Overlay" above) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

In our opinion, cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations

Chapter 580 of the Acts of 1980, which was proposed by an initiative petition known as "Proposition 2½", was adopted at the November 4, 1980 general election and took effect on December 4, 1980. The law is subject to amendment or repeal by the legislature. The legislation (as subsequently amended) imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation.

This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit "to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year".

Proposition 2 ½ further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option". Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

Initiative Petitions

Various proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on state and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

Unused Levy Capacity (1)

	For Fiscal Year				
	2009	2008	2007	2006	2005
Primary Levy Limit(2)	\$210,229,856	\$214,808,252	\$218,801,892	\$166,127,766	\$152,209,042
Prior Fiscal Year Levy Limit	88,265,083	84,009,244	78,863,283	74,976,750	71,738,700
2.5% Levy Growth	2,206,627	2,100,231	1,971,582	1,874,419	1,793,467
New Growth (3)	2,062,754	2,155,608	3,174,378	2,012,114	1,314,465
Overrides	-	-	-	-	-
Growth Levy Limit	92,534,464	88,265,083	84,009,243	78,863,283	74,846,632
Debt Exclusions	-	-	-	-	-
Capital Expenditure Exclusions	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Tax Levy Limit	92,534,464	88,265,082	84,009,243	78,863,283	74,846,632
Tax Levy	92,502,692	88,230,603	83,200,538	78,528,814	74,736,578
Unused Levy Capacity (4)	31,772	34,479	808,705	334,469	110,054
Unused Primary Levy Capacity (5)	\$117,695,392	\$93,161,225	\$101,195,208	\$87,264,483	\$77,362,410

(1) Source: Massachusetts Department of Revenue

(2) 2.5% of assessed valuation.

(3) Allowed increase for new valuations (or required reduction) – certified by the Department of Revenue.

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit Less Growth levy Limit.

Community Preservation Act

The Massachusetts Community Preservation Act (the “CPA”) permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see “*Tax Limitations*” under “PROPERTY TAX”). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

The City has not adopted the CPA.

CITY FINANCES

Budget and Appropriation Process

Pursuant to the City Charter, City department heads are required to submit their budget requests to the Mayor between January and February in each year. The Mayor then submits a budget request and recommendation for the next fiscal year beginning on July 1, to the Board of Aldermen in March or April in each year. Under the Charter, the Board of Aldermen must adopt a budget by June 30.

The Mayor is required to submit a budget. The Board of Aldermen may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the Mayor, the Board of Aldermen may not make any appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in case of the failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the Board of Aldermen). The Board of Aldermen may not increase any item without the recommendation of the Mayor (except as provided by legislation, subject to local acceptance, under which the school budget or regional school district assessment can be increased upon recommendation of the school committee and the two-thirds vote of the Board of Aldermen, provided that such increase does not cause the total annual budget to exceed the property tax limitation). If the Board of Aldermen fails to act on any item of the proposed budget within 45 days, that item takes effect.

If the Mayor does not make a timely budget submission, provision is made for preparation of a budget by the Board of Aldermen. Provision is also made for supplementary appropriations upon recommendation of the Mayor. Water department expenditures are required to be included in the budget adopted by the Board of Aldermen. As a result of an initiative law adopted in November 1980, school committees are no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the amount appropriated by the Board of Aldermen, but the school committee retains full power to allocate the funds appropriated.

Mandatory items, such as state assessments, the overlay for abatements, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "Security and Remedies" and "PROPERTY TAXATION--Tax Levy Computation".)

The table below sets forth the trend in operating budgets in the format recommended by the Mayor and voted by the Board of Aldermen for the following fiscal years. As such, said budgets exclude mandatory items (see above) and expenditures for "non-operating" or supplemental appropriations transfers between appropriation items made during the course of the fiscal year.

BUDGET COMPARISON

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
General Government	\$ 8,009,269	\$ 8,417,940	\$ 9,331,094	\$ 10,879,547	\$ 11,404,192
Public Safety	25,004,309	25,601,399	26,382,856	28,395,958	30,747,793
Education	44,000,000	45,000,000	45,985,490	46,785,700	48,785,700
Libraries	1,701,227	1,715,360	1,858,576	1,973,582	1,920,327
Recreation	537,890	514,842	565,247	639,083	674,135
Debt Service	6,705,786	6,837,438	7,059,523	7,897,953	7,733,562
Insurance	24,028,833	25,650,989	27,712,998	24,268,601 (1)	24,919,465 (2)
Compensation and Pensions	10,540,115	14,057,334	15,859,680	16,686,546	16,353,242
Public Works	15,289,182	17,349,078	18,081,824	19,200,146	20,320,113
Water & Sewer	18,938,037	20,151,338	25,431,038	24,159,185	25,356,062
Other	765,039	492,840	367,840	421,400	560,692
Grand Total	<u>\$155,519,687</u>	<u>\$165,788,558</u>	<u>\$178,636,166</u>	<u>\$181,307,701</u>	<u>\$ 188,775,283</u>

(1) Grant benefit reimbursements of \$1,981,873 to be used to minimize the fiscal 2008 appropriation.

(2) Employee contributions of approximately \$2,800,000 and stop/loss reimbursement of approximately \$461,000 to be used to minimize the fiscal 2009 appropriation.

Revenues

Property Taxes: Property taxes together with State aid are the major sources of revenue for the City. The total amount of property taxes to be levied is subject to certain limits prescribed by law; for a description of those limits see "PROPERTY TAXATION--Tax Limitations".

State Aid: The City's State aid entitlement is based upon a number of different formulas, and while said formulas might indicate that a particular amount of State aid is owed, the amount of State aid actually paid is limited to the amount appropriated by the State Legislature. The State annually estimates State aid but actual payments may vary from the estimate.

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a uniform rate of \$25 per \$1,000 of valuation. The excise tax is collected by and for the benefit of the municipality in which the owner of the motor vehicle resides. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 per cent per annum. Provision is also made for the non-renewal of registration and operators license by the registrar of motor vehicles. In budget fiscal 2008 the City's motor vehicle excise receipts totaled \$5,007,547.

Water and Sewer Rates and Services: Beginning in fiscal 2006, the City's water and sewer operations are fully self supporting and accounted for in separate Water and Sewer Enterprise Funds. Water rates range between \$3.14 and \$4.93 per 100 cubic feet and sewer rates range between \$5.39 and \$7.47 per 100 cubic feet, and are billed tri-annually. These rates are set annually by the Department of Public Works Commissioner and approved by the Mayor. Water and sewer rate revenues collected in fiscal year 2008 (including prior year commitments) were \$23,158,659.

Room Occupancy Tax: In 1985 the State Legislature made available a room occupancy excise tax as an additional source of revenue for municipalities (G.L. Chapter 64G, s. 3A). Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed four percent (4%) of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located. The City levied the full 4% as permitted under the law and revenues from this source totaled \$403,478 in fiscal 2008.

Other Revenues: Other major sources of General Fund revenues in fiscal 2008 included fees, fines and charges, \$22,798,101 and interest income, \$1,415,826.

State School Building Assistance Program

Under its school building assistance program, the Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds. Approved project costs included the interest expense incurred on debt issued by a municipality to finance the school project. In recent years, demand for school building assistance grants far exceeded available funds. As of July 1, 2004, a total of 425 projects for which completed grant applications had been submitted were still on the Department of Education's project priority list awaiting approval of a grant.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. The Authority expects to pay grants for all of the projects on the priority waiting list by the end of fiscal year 2008. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality. In most cases, the receipt of these progress payments from the Authority eliminates the need for the municipality to borrow even on a temporary basis to finance the Authority's share of the project costs.

Grant applications for new projects could be submitted to the Authority beginning July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. The Authority recently promulgated new regulations with respect to the application and approval process for new projects. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

Investment of City Funds

All funds of the City, except for trust funds and funds of the Somerville Retirement System are invested in accordance with Section 55 of Chapter 44 of the Massachusetts General Laws (MGL). This section permits investment of available funds and bond and note proceeds in term deposits and Certificates of Deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government and an agency thereon with a maturity of one year or less, in repurchase agreements secured by federal or federal agency securities, with a maturity of 90 days or less, in participation units in the Massachusetts Municipal Depository Trust (MMDT), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer, the MMDT's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with Section 54 of Chapter 44 of the MGL, which permits a broader range of investments than Section 55, including any bonds or notes that are legal, investments for savings banks in the Commonwealth. The restrictions imposed by Sections 54 and 55 do not apply to city and town retirement systems.

A breakdown of current investments may be obtained from the City Treasurer.

Summary of Significant Accounting Policies of the City

See Appendix B.

Annual Audits

The City's accounts were independently audited for the fiscal years ended June 30, 1990 through 1994 by Arthur Anderson & Company, Certified Public Accountants. The 1995 through 2007 audits were completed by Powers & Sullivan, Certified Public Accountants. The fiscal 2007 audit is attached as appendix A.

The attached report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Financial Statements

Set forth on the following pages are a draft, unaudited, fiscal 2008 balance sheet (general fund), Governmental Funds Balance Sheets - All Funds for the fiscal years ended June 30, 2007, June 30, 2006, and June 30, 2005, and Statements of Revenues, Expenditures and Changes in Fund Balance for fiscal years ended June 30, 2008 (draft, unaudited), June 30, 2007 and June 30, 2006 and a Comparative Statement of Revenues, Expenditures and Changes in Fund Equity for fiscal years 2003 through 2005. Water and Sewer Enterprise financial statements are also included for the year ended June 30, 2007. All of these statements, other than statements related to fiscal year ending June 30, 2008, were extracted from the City's audited Financial Statements.

**CITY OF SOMERVILLE, MASSACHUSETTS
GENERAL FUND BALANCE SHEET JUNE 30, 2008(1)**

ASSETS	General
Cash and short-term investments	\$ 38,673,504
Receivables, net of uncollectibles:	
Tax liens and foreclosures	1,468,155
Motor vehicle excise	2,688,867
Departmental and other	2,915,938
Intergovernmental	47,596
Other assets	2,167
TOTAL ASSETS	\$ 45,796,227
LIABILITIES AND FUND BALANCES	
LIABILITIES:	
Warrants payable	3,436,555
Accrued Liabilities	-
Accrued payroll	1,448,588
Health claims payable	2,025,097
Abandoned property	646,438
Payroll withholdings	241,865
Deferred revenues	7,076,080
TOTAL LIABILITIES	14,874,623
FUND BALANCES	
Reserved for:	
Encumbrances and continuing appropriations	3,279,393
Employee benefits	9,765,660
Unreserved:	
Designed for subsequent year's expenditures	3,500,000
Undesignated, Reported In:	
General fund	14,376,551
TOTAL FUND BALANCES	30,921,604
TOTAL LIABILITIES AND FUND BALANCES	\$ 45,796,227

(1) Prepared by the City; subject to revision and change.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET JUNE 30, 2007(1)**

	General	Strategic Planning & Community Development	School Construction Fund	Bond Capital Projects Fund	Capital Project Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and short-term investments	\$ 35,806,204	\$ 269,029	\$ 3,359,105	\$ 2,793,308	\$ 4,800,000	\$ 14,477,592	\$ 61,505,238
Receivables, net of uncollectibles:							
Real estate and personal property taxes	736,078	-	-	-	-	-	736,078
Tax liens and foreclosures	2,454,159	-	-	-	-	-	2,454,159
Motor vehicle excise	565,424	-	-	-	-	-	565,424
Departmental and other	2,595,452	-	-	-	-	-	2,595,452
Intergovernmental	40,716,804	5,212,843	-	-	-	3,084,896	49,014,543
Loans	-	8,358,420	-	-	-	-	8,358,420
Other assets	7,087	-	-	-	-	-	7,087
TOTAL ASSETS	\$ 82,881,208	\$ 13,840,292	\$ 3,359,105	\$ 2,793,308	\$ 4,800,000	\$ 17,562,488	\$ 125,236,401
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Warrants payable	2,837,415	-	2,376,601	-	-	-	5,214,016
Accrued payroll	1,338,096	22,614	1,923	-	-	258,176	1,620,809
Health claims payable	1,574,182	-	-	-	-	-	1,574,182
Tax refunds payable	528,000	-	-	-	-	-	528,000
Accrued interest on short- term debt	118,000	-	-	-	-	-	118,000
Payroll withholdings	252,639	-	-	-	-	-	252,639
Abandoned property	568,281	-	-	-	-	-	568,281
Deferred revenues	46,428,357	4,926,915	-	-	-	1,985,531	53,340,803
Notes payable	-	-	6,300,000	2,600,943	-	-	8,900,943
TOTAL LIABILITIES	53,644,970	4,949,529	8,678,524	2,600,943	-	2,243,707	72,117,673
FUND BALANCES							
Reserved for:							
Encumbrances and continuing appropriations	1,825,472	-	-	-	-	-	1,825,472
Loans	-	8,358,420	-	-	-	-	8,358,420
Employee benefits	9,563,778	-	-	-	-	-	9,563,778
Perpetual permanent funds	-	-	-	-	-	433,126	433,126
Other specific purposes	-	-	-	-	-	3,520,974	3,520,974
Unreserved:							
Designed for subsequent year's expenditures	3,500,000	-	-	-	-	-	3,500,000
Undesignated, Reported In:							
General fund	14,346,988	-	-	-	-	-	14,346,988
Special revenue funds	-	532,343	-	-	-	7,580,220	8,112,563
Capital projects funds	-	-	(5,319,419)	192,365	4,800,000	3,587,731	3,260,677
Permanent funds	-	-	-	-	-	196,730	196,730
TOTAL FUND BALANCES	29,236,238	8,890,763	(5,319,419)	192,365	4,800,000	15,318,781	53,118,728
TOTAL LIABILITIES AND FUND BALANCES	\$ 82,881,208	\$ 13,840,292	\$ 3,359,105	\$ 2,793,308	\$ 4,800,000	\$ 17,562,488	\$ 125,236,401

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET JUNE 30, 2006(1)**

	General	Community Development	Nonmajor Governmental Funds	Totals Governmental Funds
ASSETS				
Cash and short-term investments	\$ 31,523,234	\$ 315,939	\$ 15,207,449	\$ 47,046,622
Receivables, net of uncollectibles:				
Tax liens and foreclosures	3,037,215	-	-	3,037,215
Motor vehicle excise	505,868	-	-	505,868
Departmental and other	1,991,171	-	-	1,991,171
Intergovernmental	37,422,000	8,714,930	4,011,293	50,148,223
Loans	-	8,328,809	-	8,328,809
Other assets	670	-	-	670
TOTAL ASSETS	\$ 74,480,158	\$ 17,359,678	\$ 19,218,742	\$ 111,058,578
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable	1,902,073	-	2,951	1,905,024
Accrued payroll	965,715	21,798	201,992	1,189,505
Health claims payable	1,451,000	-	-	1,451,000
Tax refunds payable	755,940	-	-	755,940
Accrued interest on short- term debt	26,316	-	-	26,316
Payroll withholdings	287,009	-	2,950	289,959
Abandoned property	745,283	-	-	745,283
Deferred revenues	42,475,527	8,662,523	1,772,765	52,910,815
Notes payable	-	-	6,065,000	6,065,000
TOTAL LIABILITIES	48,608,863	8,684,321	8,045,658	65,338,842
FUND BALANCES				
Reserved for:				
Encumbrances and continuing appropriations	1,407,479	-	-	1,407,479
Loans	-	8,328,809	-	8,328,809
Employee benefits	7,600,023	-	-	7,600,023
Perpetual permanent funds	-	-	433,126	433,126
Other specific purposes	-	-	3,103,659	3,103,659
Unreserved:				
Designed for subsequent year's expenditures	3,000,000	-	-	3,000,000
Undesignated, Reported In:				
General fund	13,863,793	-	-	13,863,793
Special revenue funds	-	346,548	6,960,057	7,306,605
Capital projects funds	-	-	498,479	498,479
Permanent funds	-	-	177,763	177,763
TOTAL FUND BALANCES	25,871,295	8,675,357	11,173,084	45,719,736
TOTAL LIABILITIES AND FUND BALANCES	\$ 74,480,158	\$ 17,359,678	\$ 19,218,742	\$ 111,058,578

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET JUNE 30, 2005(1)**

	General	Community Development	Water & Sewer	Nonmajor Governmental Funds	Totals Governmental Funds
ASSETS					
Cash and short-term investments	\$ 29,354,315	\$ 94,795	\$ -	\$ 12,226,709	\$ 41,675,819
Receivables, net of uncollectibles:					-
Real estate and personal property taxes	1,375,912	-	-	-	1,375,912
Tax liens and foreclosures	1,022,553	-	-	-	1,022,553
Motor vehicle excise	590,030	-	-	-	590,030
User fees	2,347,903	-	5,622,002	-	7,969,905
Departmental and other	1,536,255	-	-	-	1,536,255
Intergovernmental	35,361,000	9,302,989	-	3,360,359	48,024,348
Loans	-	8,368,615	-	-	8,368,615
Due from other funds	639,281	-	-	-	639,281
Other assets	6,390	-	-	-	6,390
TOTAL ASSETS	\$ 72,233,639	\$ 17,766,399	\$ 5,622,002	\$ 15,587,068	\$ 111,209,108
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable	2,761,647	345,817	305,713	1,098,732	4,511,909
Accrued liabilities	258,331				258,331
Accrued payroll	967,119	-	-	273,227	1,240,346
Health claims payable	1,679,000	-	-		1,679,000
Tax refunds payable	495,000	-	-		495,000
Accrued interest on short- term debt	145,778				145,778
Abandoned property	728,380	-	-	-	728,380
Deferred revenues	42,098,213	8,957,242	5,622,002	2,591,803	59,269,260
Due to other funds	-	-	639,281	-	639,281
Notes payable	-	-	-	6,162,000	6,162,000
TOTAL LIABILITIES	49,133,468	9,303,059	6,566,996	10,125,762	75,129,285
FUND BALANCES					
Reserved for:					
Encumbrances and continuing appropriations	2,577,373	-	-	-	2,577,373
Loans	-	8,368,615	-	-	8,368,615
Employee benefits	5,480,973	-	-	-	5,480,973
Perpetual permanent funds	-	-	-	433,126	433,126
Other specific purposes	-	-	-	2,560,012	2,560,012
Unreserved:					
Designed for subsequent year's expenditures	3,275,000	-	-	-	3,275,000
Designed for affordable housing	416,121				416,121
Undesignated, Reported In:					
General fund	11,350,704	-	-	-	11,350,704
Special revenue funds	-	94,725	(944,994)	5,179,653	4,329,384
Capital projects funds	-	-	-	(2,877,173)	(2,877,173)
Permanent funds	-	-	-	165,688	165,688
TOTAL FUND BALANCES	23,100,171	8,463,340	(944,994)	5,461,306	36,079,823
TOTAL LIABILITIES AND FUND BALANCES	\$ 72,233,639	\$ 17,766,399	\$ 5,622,002	\$ 15,587,068	\$ 111,209,108

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2008 (1)**

REVENUES:	General
Real Estate and Personal Property Taxes	
net of Tax Refunds	\$ 85,376,533
Tax liens	870,517
Motor Vehicle and Other Excise Taxes	5,007,547
Payments in Lieu of Taxes	314,262
Intergovernmental	59,306,729
Departmental and Other	14,067,739
Investment Income (loss)	1,415,826
Total Revenues	166,359,153
EXPENDITURES:	
Current:	
General Government	10,605,597
Public Safety	31,785,374
Education	46,026,787
Public Works	20,009,673
Culture and Recreation	2,519,264
Pension benefits	11,559,834
Employee Benefits	25,804,215
State and County Charges	9,083,059
Debt Service	
Principal	4,623,616
Interest	2,820,799
Total Expenditures	164,838,218
Excess (deficiency) of revenues over expenditures	1,520,935
OTHER FINANCING SOURCES:	
Transfers in	2,582,783
Transfers out	(2,696,508)
Total Other Financing Sources	(113,725)
Net Change in Fund Balances	1,407,210
FUND BALANCES AT BEGINNING OF YEAR	29,514,394
FUND BALANCES AT END OF YEAR	\$30,921,604

(1) Prepared by the City; subject to revision and change.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2007 (1)**

REVENUES:	General	Strategic Planning & Community Development	School Construction Fund	Bonded Capital Projects Fund	Capital Project Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
Real Estate and Personal Property Taxes net of Tax Refunds	\$ 81,122,008	\$ -	\$ -	\$ -	-	\$ -	\$ 81,122,008
Tax liens	660,729	-	-	-	-	-	660,729
Motor Vehicle and Other Excise Taxes	5,009,381	-	-	-	-	-	5,009,381
Payments in Lieu of Taxes	131,329	-	-	-	-	-	131,329
Intergovernmental	66,895,532	4,337,614	19,407,108	-	-	15,493,791	106,134,045
Departmental and Other	15,070,380	211,718	-	-	-	4,993,695	20,275,793
Contributions	-	-	-	-	-	2,046,099	2,046,099
Investment Income	1,653,740	45,788	-	-	-	522,136	2,221,664
Total Revenues	170,543,099	4,595,120	19,407,108	-	-	23,055,721	217,601,048
EXPENDITURES:							
Current:							
General Government	9,607,282	-	-	141,597	-	1,089,860	10,838,739
Public Safety	25,827,555	-	-	1,126,019	-	2,353,812	29,307,386
Education	45,824,238	-	22,269,366	41,331	99,385	13,697,651	81,931,971
Public Works	19,041,247	-	-	2,802,081	-	3,570,023	25,413,351
Community Development	-	3,982,356	-	-	-	104,282	4,086,638
Human Services	-	-	-	-	-	3,458	3,458
Culture and Recreation	2,373,931	-	-	-	-	504,475	2,878,406
Pension benefits	22,252,303	-	-	-	-	-	22,252,303
Employee Benefits	24,574,027	-	-	-	-	-	24,574,027
State and County Charges	8,700,697	-	-	-	-	-	8,700,697
Debt Service							
Principal	5,391,986	280,000	-	-	-	-	5,671,986
Interest	2,811,958	116,488	-	-	-	-	2,928,446
Total Expenditures	166,405,224	4,378,844	22,269,366	4,111,028	99,385	21,323,561	218,587,408
Excess (deficiency) of revenues over expenditures	4,137,875	216,276	(2,862,258)	(4,111,028)	(99,385)	1,732,160	(986,360)
OTHER FINANCING SOURCES:							
Proceeds from Bonds and Notes	-	-	-	3,680,000	-	1,937,227	5,617,227
Proceeds from refunding bonds	23,705,000	-	-	-	-	-	-
Premium from issuance of bonds	420,654	-	-	-	-	-	-
Payments to refunded bond escrow agent	(24,115,350)	-	-	-	-	-	-
Sale of Capital Assets	150,000	-	-	-	-	-	150,000
Transfers in	1,990,256	-	-	310,000	4,500,000	1,362,290	8,162,546
Transfers out	(2,923,492)	(870)	-	-	(615)	(2,629,748)	(5,554,725)
Total Other Financing Sources	(772,932)	(870)	-	3,990,000	4,499,385	669,769	8,375,048
Net Change in Fund Balances	3,364,943	215,406	(2,862,258)	(121,028)	4,400,000	2,401,929	7,398,992
FUND BALANCES AT BEGINNING OF YEAR	25,871,295	8,675,357	(2,457,161)	313,393	400,000	12,916,852	45,719,736
FUND BALANCES AT END OF YEAR	\$29,236,238	\$ 8,890,763	\$ (5,319,419)	\$ 192,365	\$ 4,800,000	\$ 15,318,781	\$ 53,118,728

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2006 (1)**

REVENUES:	General	Community Development	Nonmajor Governmental Funds	Total Governmental Funds
Real Estate and Personal Property Taxes net of Tax Refunds	\$ 76,923,448	\$ -	\$ -	\$ 76,923,448
Tax liens	986,111	-	-	986,111
Motor Vehicle and Other Excise Taxes	5,272,658	-	-	5,272,658
Payments in Lieu of Taxes	354,342	-	-	354,342
Intergovernmental	62,733,635	5,737,822	15,760,081	84,231,538
Departmental and Other	14,418,864	-	5,318,575	19,737,439
Contributions	-	-	1,958	1,958
Investment Income	1,057,635	41,146	333,839	1,432,620
Miscellaneous	-	-	1,750	1,750
Total Revenues	161,746,693	5,778,968	21,416,203	188,941,864
EXPENDITURES:				
Current:				
General Government	9,063,439	-	726,547	9,789,986
Public Safety	25,494,912	-	3,158,117	28,653,029
Education	44,937,889	-	18,484,404	63,422,293
Public Works	17,896,777	-	2,290,660	20,187,437
Intergovernmental Subsidy	-	220,000	-	220,000
Community Development	-	4,846,091	324,692	5,170,783
Human Services	-	-	6,339	6,339
Culture and Recreation	2,717,368	-	434,220	3,151,588
Pension benefits	20,836,787	-	-	20,836,787
Employee Benefits	24,159,735	-	-	24,159,735
State and County Charges	7,987,790	-	-	7,987,790
Debt Service				
Principal	4,600,181	280,000	-	4,880,181
Interest	2,708,247	125,504	-	2,833,751
Total Expenditures	160,403,125	5,471,595	25,424,979	191,299,699
Excess (deficiency) of revenues over expenditures	1,343,568	307,373	(4,008,776)	(2,357,835)
OTHER FINANCING SOURCES:				
Proceeds from Bonds and Notes	-	-	10,073,053	10,073,053
Sale of Capital Assets	150,484	-	-	150,484
Transfers in	2,025,194	-	1,165,428	3,190,622
Transfers out	(748,122)	(95,356)	(1,517,927)	(2,361,405)
Total Other Financing Sources	1,427,556	(95,356)	9,720,554	11,052,754
Net Change in Fund Balances	2,771,124	212,017	5,711,778	8,694,919
FUND BALANCES AT BEGINNING OF YEAR (as restated)	23,100,171	8,463,340	5,461,306	37,024,817
FUND BALANCES AT END OF YEAR	<u>\$25,871,295</u>	<u>\$ 8,675,357</u>	<u>\$ 11,173,084</u>	<u>\$ 45,719,736</u>

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND EQUITY (1)**

	June 30,		
	2003	2004	2005
REVENUES:			
Property Taxes, Net of Overlay	\$ 65,940,754	\$ 69,495,393	\$ 72,598,949
Intergovernmental Revenue	64,849,184	58,981,156	61,586,312
Excise Taxes	5,441,575	5,353,299	5,379,484
Departmental	14,220,569	10,350,164	12,689,429
Charges for Service	-	(2) -	-
Investment Income	306,200	407,104	613,010
Other	756,298	881,336	1,486,061
Total Revenues	151,514,580	145,468,452	154,353,245
EXPENDITURES:			
General Government	7,678,367	7,031,110	7,552,483
Education	49,901,326	46,028,311	43,823,443
Public Safety	24,804,193	23,905,431	24,682,560
Public Works (2)	14,471,387	13,685,381	16,331,956
Debt Service and Capital Outlay	7,690,114	6,739,216	6,863,512
Recreation and Culture	2,378,391	2,170,227	2,199,110
Pensions and Fringe	15,639,105	17,048,989	18,907,078
Health Benefits	18,436,513	20,815,373	20,026,746
State and County Assessments	9,094,624	8,858,332	8,134,727
Other	-	-	-
Total Expenditures	150,094,020	146,282,370	148,521,615
Excess (deficiency) of revenues over expenditures	1,420,560	(813,918)	5,831,630
OTHER FINANCING SOURCES:			
Proceeds from Refunding Bonds	-	10,355,000	-
Premium from Issuance of Bonds	-	76,854	-
Operating Transfers In	500,526	1,051,516	924,277
Operating Transfers (Out)	-	(89,775)	-
Sale of Assets	-	3,299,674	1,234,671
Payments to Refunded Bond Escrow Agent	-	(10,334,532)	-
Total Other Financing Sources	500,526	4,358,737	2,158,948
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	1,921,086	3,544,819	7,990,578
FUND EQUITY-Beginning	9,643,688	11,564,774	15,109,593
FUND EQUITY-Ending	\$11,564,774	\$15,109,593	\$23,100,171

(1) Extracted from audited financial statements of the City.

(2) The decrease is caused by the shift of water and sewer monies into enterprise funds.

PROPRIETARY FUNDS
Statement of Net Assets
June 30, 2007(1)

	Business-Type Activities - enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and short-term investments	\$ 830,706	\$ 1,552,327	\$ 2,383,033
Receivables, net of allowance for uncollectibles:			
User fees	3,230,343	5,350,964	8,581,307
Tax liens	55,997	127,907	183,904
TOTAL ASSETS	<u>\$ 4,117,046</u>	<u>\$ 7,031,198</u>	<u>\$ 11,148,244</u>
LIABILITIES			
CURRENT			
Accrued payroll	\$ 13,762	\$ 5,980	\$ 19,742
NET ASSETS			
Unrestricted	<u>4,103,284</u>	<u>7,025,218</u>	<u>11,128,502</u>
TOTAL NET ASSETS	<u>\$ 4,103,284</u>	<u>\$ 7,025,218</u>	<u>\$ 11,128,502</u>

(1) Extracted from audited financial statements of the City.

Fiscal Year Ended June 30, 2007 (1)

	<u>Business-Type Activities-Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>OPERATING REVENUES:</u>			
Charges for services	\$ 5,674,055	\$ 15,500,715	\$ 21,174,770
Utilities liens	4,164	401,072	405,236
TOTAL OPERATING REVENUES	<u>5,678,219</u>	<u>15,901,787</u>	<u>21,580,006</u>
<u>OPERATING EXPENSES:</u>			
Cost of services and administration	6,836,987	11,457,723	18,294,710
OPERATING INCOME (LOSS)	<u>(908,768)</u>	<u>4,444,064</u>	<u>3,535,296</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Investment Income	25,806	123,699	149,505
Interest expense	<u>(78,730)</u>	<u>(107,396)</u>	<u>(186,126)</u>
TOTAL NONOPERATING REVENUES (EXPENSES NET)	<u>(52,924)</u>	<u>16,303</u>	<u>(36,621)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(961,692)</u>	<u>4,460,367</u>	<u>3,498,675</u>
<u>TRANSFERS:</u>			
Transfers in	125,000	-	125,000
Transfers out	<u>(1,408,671)</u>	<u>(1,324,150)</u>	<u>(2,732,821)</u>
TOTAL OPERATING TRANSFERS	<u>(1,283,671)</u>	<u>(1,324,150)</u>	<u>(2,607,821)</u>
CHANGE IN NET ASSETS	<u>6,348,647</u>	<u>3,136,217</u>	<u>9,484,864</u>
NET ASSETS AT BEGINNING OF YEAR (as restated)	<u>6,348,647</u>	<u>3,889,001</u>	<u>10,237,648</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,103,284</u>	<u>\$ 7,025,218</u>	<u>\$ 11,128,502</u>

Extracted from audited financial statements of the City.

Free Cash

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy.

The following table sets forth the trend in Free Cash for the City for the last five fiscal years.

	<u>Free Cash</u> <u>(July 1)</u>
2008	\$10,210,232
2007	8,146,771
2006	6,945,371
2005	8,529,764
2004	N/A (1)
2003	6,722,018

(1) \$3,740,636 of the 2003 free cash certification was appropriated by the Board of Aldermen on June 24, 2004 to reduce the Fiscal Year 2005 Tax rate. Without this action, these funds would have flowed to free cash in the 2004 certification. The City did not apply for a certification of free cash in 2004.

Stabilization Fund

The City maintains a stabilization fund, which is accounted for in the Trust Funds. Funded by an appropriation, the stabilization fund plus interest income may be appropriated at any Board of Aldermen meeting for any municipal purpose.

The following table lists the Stabilization Fund balances as of the end of the last five fiscal years.

<u>June 30,</u>	<u>Stabilization</u> <u>Fund Balance</u>
2008	\$7,645,608
2007	4,800,000
2006	400,000
2005	189,593
2004	276,823

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the Town or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2 ½.

The City has not established any such Development Districts at this time.

INDEBTEDNESS

Authorization Procedure and Debt Limitation

Bonds and notes are generally authorized on behalf of the City by a vote of two-thirds of all the members of the Board of Aldermen on the recommendation of the Mayor. Provision is made for a referendum on the filing of a petition bearing the requisite number of signatures. Borrowings for certain purposes require state administrative approval. Under State law the Treasurer with the approval of the Mayor, is authorized to borrow in anticipation of current revenues and state and federal grants.

The general debt limit of the City consists of a normal debt limit and a double debt limit. The normal debt limit is 5 per cent of the valuation of taxable property as last equalized by the State Department of Revenue. The City can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with approval of the State Municipal Finance Oversight Board.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. (See "Taxation to Meet Deficits" under "PROPERTY TAX" below.) In any event, the period from an original borrowing to its final maturity cannot exceed one year.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. Level debt service is permitted for bonds or notes issued for certain purposes, including self-supporting enterprise purposes, certain state-aided school projects and certain community preservation and open space projects, as well as for those projects for which debt service has been exempted from property tax limitations. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. Most of the purposes are capital projects. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum term measured from the date of the original bonds or notes.

Serial bonds may be issued as "qualified bonds" with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Bond Anticipation Notes. Bond Anticipation Notes generally must mature within two years of their original date of issuance but may be renewed from time to time for a period not to exceed five years from their original date of issuance, provided that (except for notes issued for certain school projects) for each year that the notes are renewed beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if bonds had been issued at the end of the second year. The maximum term of bonds issued to refund bond anticipation notes is measured from the date of the original issue date of the notes.

Revenue Anticipation Notes. Revenue Anticipation Notes are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be renewed from time to time up to one year from the original date of issue. The City has not issued revenue anticipation notes during the current or the last five fiscal years.

Grant Anticipation Notes. Grant Anticipation Notes are issued for temporary financing in anticipation of federal grants and state and county reimbursements. Generally they must mature within two years but may be renewed from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.

**GENERAL OBLIGATION DEBT
DIRECT DEBT SUMMARY
As of June 30, 2008, Including Subsequent Issues**

Long Term Debt:		
General Obligation Bonds (1):		
Sewer Loan (2)	\$ 5,324,520	
Water Loan (3)	6,338,960	
General (4)	10,161,964	
School (5)	<u>52,809,551</u>	
Total Long-Term Debt Outstanding		\$ 74,634,995
February 1, 2009 Bond Issue		4,975,000
Short Term Debt:		
Bond Anticipation Notes Outstanding (6)	22,230,943	
Less:		
To Be Retired 2/20/09 with February 2009 Bond Proceeds	(4,975,000)	
To Be Retired 2/20/09 with Revenue Funds	(943)	
To Be Retired 2/20/09 with MSBA Grant Proceeds	<u>(1,021,000)</u>	
Total Short Term Debt Outstanding After This Issue (7)		<u>16,234,000</u>
Total Direct Debt		<u>\$ 95,843,995</u>

-
- (1) In addition the City receives loans under Section 108 of the Federal Housing and Community Development Act of 1974, as amended (the "Act"). The balance of Section 108 Loans as of June 30, 2007 was \$2,060,000. The loans are secured by present and future grants under the Act and are described in Appendix A.
 - (2) Subject to the City's debt limit.
 - (3) Subject to a separate debt limit of 10% of the City's equalized valuation of \$8,760,328,000.
 - (4) Subject to the City's debt limit. Includes bonds for street, equipment, building remodeling, parks, computers, library and land acquisition.
 - (5) \$13,635,322 is subject to the City's debt limit. \$39,174,229 is not subject to the City's debt limit. School construction will be reimbursed by the State at the rate of 90% of principal and interest over the life of outstanding school bonds. The City expects to receive school construction grants from the Massachusetts School Building Authority in the amount of \$38,094,218. Grant payments are subject to annual appropriation by the State Legislature.
 - (6) Payable February 20, 2009 (\$17,830,943) and December 18, 2009 (\$4,400,000).
 - (7) Includes this issue, payable February 19, 2010 (\$11,834,000).

Debt Ratios

The following table sets forth debt as a percentage of assessed valuation and per capita debt and these calculations after deducting state school building grant payments at the end of the last five fiscal years. The table considers the principal amount of general obligation bonds of the City only and does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole, or part, by non-tax revenues.

Fiscal Year End	General Obligation Bonds Outstanding	2000 Federal Census Population	Local Assessed Valuation	Per Capita Debt	Bonds as a % of Assessed Valuation
2008	\$ 74,634,995	77,478	\$ 8,592,330,090	\$ 963	0.9 %
2007	71,381,925	77,478	7,408,178,051	921	1.0
2006	64,170,858	77,478	6,645,110,658	828	1.0
2005	66,137,987	77,478	6,088,361,664	854	1.1
2004	69,363,380	77,478	5,531,415,364	895	1.3

Principal Payments by Purpose

The following table sets forth principal payments by purpose for the City's outstanding general obligation debt.

GENERAL OBLIGATION BONDS PRINCIPAL PAYMENTS BY PURPOSE As of June 30, 2008

Fiscal Year	Sewer (1)	Water (2)	General (3)	School (4)	Total Long-Term Debt
2009	\$ 881,275	\$ 934,617	\$ 1,344,529	\$ 3,414,206	\$ 6,574,627
2010	883,275	931,481	1,333,661	3,910,315	7,058,732
2011	789,688	928,938	1,236,376	4,032,576	6,987,577
2012	445,928	832,292	1,153,690	4,183,861	6,615,772
2013	260,338	734,607	886,742	4,336,445	6,218,132
2014	257,692	637,035	809,883	4,503,716	6,208,326
2015	248,769	538,129	787,082	4,414,540	5,988,521
2016	252,556	442,055	700,000	4,014,105	5,408,716
2017	145,000	234,805	640,000	4,184,105	5,203,910
2018	145,000	25,000	500,000	2,884,105	3,554,105
2019	145,000	25,000	240,000	1,934,105	2,344,105
2020	145,000	25,000	135,000	1,999,105	2,304,105
2021	145,000	25,000	130,000	2,074,105	2,374,105
2022	140,000	25,000	115,000	2,139,105	2,419,105
2023	95,000	-	70,000	524,105	689,105
2024	95,000	-	45,000	524,105	664,105
2025	105,000	-	35,000	524,105	664,105
2026	75,000	-	-	514,105	589,105
2027	70,000	-	-	514,105	584,105
2028	-	-	-	364,105	364,105
2029	-	-	-	364,105	364,105
2030	-	-	-	364,105	364,105
2031	-	-	-	364,105	364,105
2032	-	-	-	364,105	364,105
2033	-	-	-	364,105	364,105
Total	\$ 5,324,520	\$ 6,338,960	\$ 10,161,964	\$ 52,809,551	\$ 74,634,995

- (1) Subject to the City's debt limit.
- (2) Subject to a separate debt limit of 10% of the City's equalized valuation of \$8,760,328,000.
- (3) Subject to the City's debt limit. Includes bonds for street, equipment, building remodeling, parks, computers, library and land acquisition.
- (4) \$13,635,322 is subject to the City's debt limit. \$39,174,229 is not subject to the City's debt limit. School construction will be reimbursed by the State at the rate of 90% of principal and interest over the life of outstanding school bonds. The City expects to receive school construction grants from the Massachusetts School Building Authority in the amount of \$38,094,218. Grant payments are subject to annual appropriation by the State Legislature.

Debt Service Requirements

The following table sets forth the required principal and interest payments on outstanding general obligation bonds of the City.

GENERAL OBLIGATION BONDS DEBT SERVICE REQUIREMENTS PROJECTED As of June 30, 2008

Fiscal Year	Total Principal	Total Interest	SBAB Subsidy	Total Net Debt Service
2009	\$ 6,574,627	\$ 2,539,673	\$ (3,736,376)	\$ 5,377,923
2010	7,058,732	2,728,619	(3,736,376)	6,050,975
2011	6,987,577	2,306,457	(3,736,376)	5,557,658
2012	6,615,772	2,081,125	(3,736,376)	4,960,521
2013	6,218,132	1,861,076	(3,736,376)	4,342,831
2014	6,208,326	1,612,138	(3,736,376)	4,084,089
2015	5,988,521	1,373,006	(3,736,376)	3,625,151
2016	5,408,716	1,139,418	(3,101,269)	3,446,865
2017	5,203,910	898,686	(3,101,269)	3,001,328
2018	3,554,105	687,754	(1,901,062)	2,340,797
2019	2,344,105	537,372	(958,997)	1,922,480
2020	2,304,105	435,090	(958,997)	1,780,198
2021	2,374,105	334,808	(958,997)	1,749,916
2022	2,419,105	231,525	(958,997)	1,691,634
2023	689,105	126,081	-	815,186
2024	664,105	105,986	-	770,091
2025	664,105	86,404	-	750,509
2026	589,105	68,331	-	657,436
2027	584,105	51,871	-	635,976
2028	364,105	40,052	-	404,157
2029	364,105	32,769	-	396,875
2030	364,105	25,487	-	389,592
2031	364,105	18,205	-	382,310
2032	364,105	10,923	-	375,028
2033	364,105	3,641	-	367,746
Total	<u>\$ 74,634,995</u>	<u>\$ 19,336,498</u>	<u>\$ (38,094,218)</u>	<u>\$ 55,877,275</u>

Authorized Unissued Debt

The City currently has approximately \$33.8 million authorized but unissued debt as follows: \$12.2 million for school, \$7.7 million for energy conservation and alternative energy improvements to City buildings, \$5.8 million for renovations to City buildings for office space, \$3.45 million for the construction and reconstruction of various parks throughout the City, \$1.9 million for the laying and relaying of water mains and related lead services and gate valves throughout the City, \$4.4 million for cost and installation of new water meters and the balance for miscellaneous equipment and public improvements.

Overlapping Debt

The City of Somerville is a member of the Massachusetts Water Resources Authority and the Massachusetts Bay Transportation Authority.

The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of the Massachusetts Water Resources Authority and the Massachusetts Bay Transportation Authority and the City's gross share of such debt and the fiscal 2009 dollar assessment for each.

Overlapping Entity	Outstanding Debt	Somerville's Estimated Share (1)	Fiscal 2009 Dollar Assessment (2)
Massachusetts Water Resources Authority(3)			
Water	\$ 1,868,396,000	3.17 %	\$5,934,618
Sewer	3,618,254,000	3.53	12,037,009
Massachusetts Bay Transportation Authority(4)	5,142,645,000	3.36	4,527,781

(1) Estimated share based on debt service only.

(2) Estimated dollar assessment based upon total net operating expenses, inclusive (where applicable) of debt service.

(3) SOURCE: Massachusetts Water Resources Authority. Outstanding debt as of June 30, 2008. The Massachusetts Water Resources Authority (the "MWRA") provides wholesale drinking water services in whole or in part to 48 cities, towns and special purpose entities and provides wastewater collection and treatment services to 43 cities, towns and special purpose entities. Under its enabling legislation, as amended, the aggregate principal amount of all bonds issued by the MWRA for its corporate purposes may not exceed \$6.1 billion outstanding at any time. Its obligations are secured by revenues of the MWRA. The MWRA assesses member cities, towns and special purpose entities, which continue to provide direct retail water and sewer services to users. The cities, towns and other entities collect fees from the users to pay all or part of the assessments; some municipalities levy property taxes to pay part of the amounts assessed upon them.

(4) SOURCE: Massachusetts Bay Transportation Authority ("MBTA"). Outstanding debt as of June 30, 2008. The Massachusetts Bay Transportation Authority (the "MBTA") was created in 1964 to finance and operate mass transportation facilities within the greater Boston metropolitan area. Under its enabling act, the MBTA is authorized to issue bonds for capital purposes, other than refunding bonds, and for certain specified purposes to an outstanding amount, which does not exceed the aggregate principal amount of \$3,556,300,000. In addition, pursuant to certain of the Commonwealth's transportation bond bills, the MBTA is authorized to issue additional bonds for particular capital projects. The MBTA also is authorized to issue bonds of the purpose of refunding bonds. Under the MBTA's enabling act debt service, as well as other operating expenses of the MBTA, are to be financed by a dedicated revenue stream consisting of the amounts assessed on the cities and towns of the MBTA and a dedicated portion of the statewide sales tax. The amount assessed to each city and town is based on its weighted percentage of the total population of the authority as provided in the enabling act. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year.

Contractual Obligations

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interest, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases for long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There is implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facilities.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The City has a limited number of such contractual obligations, the largest of which are for rubbish disposal, school transportation, and equipment leasing. All are subject to annual appropriation by the Board of Aldermen.

The City has a ten-year contract expiring on July 1, 2015 with Waste Management, Inc. for the disposal of rubbish. The cost in fiscal 2008 is approximately \$1,842,809. The budgeted amount for fiscal 2009 is \$1,750,000.

The School Department has entered into a three-year contract for transportation of students ending on June 30, 2010. Annual appropriations for this contract are not to exceed \$1,760,000 over the term of the contract.

RETIREMENT PLAN

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2028, with annual increases in the scheduled payment amounts of not more than 4.5 percent. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule.

Under recent legislation, cities and towns that accept its provisions and that obtain certain state approvals therefor may, within limits, reduce the amount of their scheduled appropriations for fiscal year 2004 and fiscal year 2005 for the unfunded portion of their pension liability to offset recent reductions in state aid. Cities and towns that reduce such appropriations are required to revise their retirement system funding schedule for eliminating their unfunded pension liability and may extend such schedule by one year, provided that in no event may such funding schedule extend beyond June 30, 2028.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked. The teachers and certain administrative and other professional employees of the City's school department participate individually in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board. The City does not contribute to this plan.

Substantially all other employees of the City are participants in the City of Somerville Contributory Retirement System (the System). Under the provisions of the System, active employees contribute certain percentages of their pay (5%, 7% or 8%, depending upon date of employment) and are eligible for retirement benefits after meeting the prescribed age and period of service criteria. In addition, the City and the Somerville Housing Authority contribute to the System an annual amount, determined by the State Division of the Public Employee Retirement Administration, primarily on the basis of projected annual benefit payments for the year (the "pay-as-you-go" method).

Generally accepted accounting principles require the System to perform an actuarial valuation to determine the pension benefit obligation at least biennially, with an actuarial update to the date 12 months after that biennial valuation. The most recent actuarial valuation of the City was completed as of January 1, 2007.

The total unfunded pension benefit obligation applicable to the City's employees was \$93,176,590 at January 1, 2007 as follows:

Total pension benefit obligation.....	\$266,454,022
Net assets available for benefits, at market value	<u>173,277,432</u>
Unfunded pension benefit obligation	<u>\$93,176,590</u>

In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The annual required contributions of the City to each retirement system for the 2005 through 2009 fiscal years were as follows:

<u>Fiscal Year</u>	<u>Contributory</u>	<u>Non-Contributory</u>
2009	\$11,792,112	\$399,950
2008	11,121,547	475,500
2007	10,780,567	546,119
2006	10,373,527	550,813
2005	9,330,420	499,696

For additional information on the retirement system see Appendix A.

Other Post-Employment Benefits.

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis.

The Governmental Accounting Standards Board ("GASB") recently promulgated its Statement Nos. 43 and 45, which will for the first time require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These new accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Although cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims, Massachusetts General Laws do not currently provide cities and towns with general legal authority to establish a trust fund for the purpose of pre-funding this liability in the same manner as traditional pension benefits.

As of January 1, 2007, the City had an unfunded actuarial accrued liability (UAAL) of approximately \$98,926,369. The City's annual required contribution (ARC) is approximately \$11,775,000.

EMPLOYEE RELATIONS

The City employs approximately 1,835 full and part-time workers, of whom 949 are employed by the School Department, 177 by the Police Department, 151 by the Fire Department, 152 by the Department of Public Works and the remainder by various other departments of the City. City and town employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment. Of the approximately 1,835 employees of the City, approximately 1,500 are represented by unions including employees of the School, Police and Fire Departments.

The City's contracts with the Somerville Municipal Employees' Association (SMEA) Unit B (an unaffiliated local which represents blue collar workers, clerical employees, school nurses, and librarians), the Somerville Police Superiors Association and the National Conference of Firemen and Oilers (which represents school custodians) expired on June 30, 2006. The City has in place three year settlements with SMEA Unit A (supervisory employees) and the Service Employees International Union, Local 888 (which represents emergency 911 call takers) which expire on June 30, 2008. Somerville school teachers are working under a contract that expired on August 31, 2011. School department contracts are negotiated and signed by the elected School Committee. The City has in place a four-year settlement with the Somerville Patrolmen's Association that expired on June 30, 2008 and a three-year settlement with the Somerville Firefighters that expired on June 30, 2007. The union representing fire alarm operators contract expired on June 30, 2004. All expired contracts are currently under negotiation.

LITIGATION

The City is a defendant in various lawsuits throughout the Commonwealth. However, in the opinion of the City, none of the pending litigation, either individually or in the aggregate, is likely to result in final judgments against the City which would have a materially adverse effect on the City's financial position.

CITY OF SOMERVILLE, MASSACHUSETTS
/s/ Elizabeth Craveiro,
Treasurer/Collector

February 6, 2009

CITY OF SOMERVILLE, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2007

CITY OF SOMERVILLE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2007

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Independent Auditors' Report

To the Honorable Mayor and Board of Aldermen
City of Somerville, Massachusetts

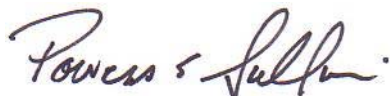
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Massachusetts, as of and for the fiscal year ended June 30, 2007 (except for the Somerville Contributory Retirement System which is as of and for the year ended December 31, 2006), 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 Somerville, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Massachusetts, as of June 30, 2007 (except for the Somerville Contributory Retirement System which is as of December 31, 2006), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008, on our consideration of the City of Somerville, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 to 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on pages 5 through 12, and the schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Powers & Sullivan". The signature is written in a cursive, flowing style.

January 31, 2008

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Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Somerville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Somerville for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Somerville's basic financial statements. The City of Somerville's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The approach focuses on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Somerville's finances, in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic position at the end of the fiscal year. The statements are prepared using the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are considered even if the cash involved has not been received or disbursed. The government-wide financial statements include two statements:

The *statement of net assets* presents information on all of the City of Somerville's 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 of Somerville 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 and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Somerville 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*). The governmental activities of the City of Somerville include general government, public safety, highways and streets, public works and cemetery, education, health and human services, employee benefits and capital, water and sewer, and culture and recreation.

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 of Somerville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Somerville can be divided into three categories: governmental funds, proprietary funds and 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 fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable 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 impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Somerville maintains nineteen individual governmental funds. Information is presented separately for the general fund, the strategic planning and community development fund, the school construction fund, the bonded capital projects fund and the capital projects stabilization fund in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. Data for certain governmental funds are combined into a single aggregated presentation under the caption *nonmajor governmental funds*.

The City of Somerville adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided as required supplementary information for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds provide the same information shown as business-type activities in the government wide financial statements, only in more detail. The City uses proprietary funds to account for its sewer and water operations.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* all reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Somerville's own programs. The accounting used for fiduciary funds records transactions using the flow of economic resources measurement focus and the accrual basis of accounting.

The fiduciary fund financial statements provide separate information for the pension trust fund of the City and the private purpose trust funds of the City. All other fiduciary funds are combined into a single, aggregate presentation in the fiduciary fund financial statements under the caption agency funds.

Notes to the 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.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Somerville's budgetary basis of accounting. Required supplementary information can be found after the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Somerville, Governmental assets exceeded liabilities by \$180.1 million and the business-type assets exceeded liabilities by \$11.1 million at the close of the most recent fiscal year. Key components of the City's activities are presented on the following pages.

Governmental Activities

	FY 2007	FY 2006
Assets:		
Current assets.....	\$ 88,898,323	\$ 75,679,014
Noncurrent assets (excluding capital).....	37,793,545	36,000,117
Capital assets.....	151,968,636	128,184,063
Total assets.....	278,660,504	239,863,194
Liabilities:		
Current liabilities (excluding debt).....	11,655,859	7,742,371
Noncurrent liabilities (excluding debt).....	3,546,900	3,647,700
Current debt.....	15,955,567	11,446,986
Noncurrent debt.....	67,376,476	68,568,873
Total liabilities.....	98,534,802	91,405,930
Net Assets:		
Capital assets net of related debt.....	111,143,022	87,930,204
Restricted.....	21,855,935	23,512,466
Unrestricted.....	47,126,745	37,014,594
Total net assets.....	\$ 180,125,702	\$ 148,457,264

The largest portion of the City of Somerville's net assets \$111 million (62 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are *not* available for future spending. Although the City of Somerville's investment in its capital assets is reported net of related debt, it should be noted that 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 of Somerville's net assets \$22 million (12 percent) represents resources that are subject to external restrictions on how they may be used. These include funds for street improvement (Ch 90), community development projects to funded by future federal reimbursements, outstanding loan balance authorized under various housing and urban development federal grants , expendable and nonexpendable funds and school grants.

The remaining balance of unrestricted net assets \$47 million (26 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Somerville is able to report positive balances in its three categories of net assets, both for the government as a whole and for its separate governmental and business-type activities.

Included within the noncurrent assets (excluding capital) is \$36.7 million in future school construction reimbursement grants.

Long term liabilities include \$67.3 million in general obligation bonds and intergovernmental loans; \$2.3 million in compensated absence liabilities for unused vacation, special leave, and enhanced longevity benefits payable; and \$1.2 million in future year workers' compensation benefits payable.

Governmental activities. Governmental activities increased the City of Somerville's net assets by \$31.6 million.

	FY 2007	FY 2006
Program revenues:		
Charges for services.....	\$ 16,021,446	\$ 15,932,027
Operating grants and contributions.....	54,607,003	55,394,872
Capital grants and contributions.....	24,363,592	3,879,094
General Revenues:		
Real estate and personal property taxes.....	82,031,393	75,140,486
Tax liens.....	89,402	3,000,902
Motor vehicle and other excise taxes.....	5,068,422	5,189,010
Penalties and interest on taxes.....	475,391	619,375
Payments in lieu of taxes.....	131,329	354,342
Nonrestricted grants and contributions.....	32,563,468	28,456,720
Unrestricted investment income.....	2,261,853	1,476,584
Gain on sale of capital assets.....	148,563	150,484
Loss on disposal of capital assets.....	-	(2,148,301)
Donation of land.....	678,300	-
Premium on sale of bonds.....	420,654	-
Other revenues.....	478,856	1,048,792
Total revenues.....	<u>219,339,672</u>	<u>188,494,387</u>
Expenses:		
General government.....	18,995,359	17,625,708
Public safety.....	39,923,227	39,481,659
Education.....	93,333,097	91,176,638
Public works.....	26,217,844	20,814,103
Intergovernmental subsidy.....	-	220,000
Community development.....	4,086,638	5,173,783
Human services.....	2,974	26,210
Culture and recreation.....	4,208,127	4,513,673
Interest.....	3,511,789	2,885,144
Total expenses.....	<u>190,279,055</u>	<u>181,916,918</u>
Transfers.....	<u>2,607,821</u>	<u>829,217</u>
Change in net assets.....	<u>\$ 31,668,438</u>	<u>\$ 7,406,686</u>

Key elements of this increase are as follows:

- Property taxes, inclusive of new growth, increased by \$6.9 million
- An increase in investment income of \$785 thousand.
- Capital grants increased by \$20.5 million mainly as a result of the reimbursements from the Massachusetts School Building Authority for constructions costs of the new Argenziano School.
- Increase in grants and contributions due to increased state aid contributions.
- Donation of parcel of land with a fair market value of approximately \$678,000.

For the most part, expenses decreased in anticipation of revenue reductions. Noteworthy exceptions, however, were the City's costs for pensions and public works, which increased \$1.4 million (6.7%) and \$5.4 million (26%), respectively.

Business-type Activities

Relevant details to operations of the water and sewer operations, which are presented as business-type activities are shown below.

	FY 2007	FY 2006
Assets:		
Current assets.....	\$ 11,148,244	\$ 10,256,313
Liabilities:		
Current liabilities (excluding debt).....	\$ 19,742	\$ 18,665
Net Assets:		
Unrestricted.....	\$ 11,128,502	\$ 10,237,648
	FY 2007	FY 2006
Program revenues:		
Charges for services.....	\$ 21,174,770	\$ 23,311,329
Tax liens.....	655,236	904,658
Unrestricted investment income.....	149,505	201,498
Total revenues.....	21,979,511	24,417,485
Expenses:		
Water.....	6,915,717	6,524,762
Sewer.....	11,565,119	11,502,866
Total expenses.....	18,480,836	18,027,628
Transfers.....	(2,607,821)	(829,217)
Change in net assets.....	\$ 890,854	\$ 5,560,640

The water enterprise fund realized a loss of approximately \$900,000 from operations before transfers, contributions and non-operating items. This is primarily due to the accrual of unbilled receivables in the prior fiscal year. Due to the change of the water billing cycle, the accrual has significantly decreased in the current fiscal year.

The sewer enterprise fund realized net income of approximately \$4,400,000 from operations before transfers, contributions and non-operating items. This is primarily due to the fund's ability to set rates to cover costs of operations including capital improvements. Also, there was approximately \$401,000 of sewer liens collected during fiscal year 2007.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Somerville's governmental funds reported combined ending balances of \$53.1 million, an increase of \$7.4 million in comparison with the prior year. Approximately 34% of this total amount (\$17.8 million) constitutes *general fund unreserved fund balance*, which is available for spending at the government's discretion when certified as *free cash* by the Massachusetts Department of Revenue. Approximately 22% (\$11.6 million) of fund balance is also *unreserved* and reported in the special revenue, capital projects and permanent funds. The remainder is *reserved* to indicate that it is not available for new spending because it has already been 1) committed to liquidate prior period purchase orders and contracts, or pay ongoing capital articles (\$1.8 million) or 2) is restricted for expenditure by grants or other outside restrictions (\$21.8 million).

The general fund is the chief operating fund of the City of Somerville. At the end of the current fiscal year, unreserved fund balance of the general fund was \$17.8 million while the total fund balance equaled \$29.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10.7 percent of total general fund expenditures, while total fund balance represents 17.5 percent of that same amount.

The City's general fund increased \$3.3 million during the current fiscal year. Key factors in this growth were a \$4.2 million increase in property tax revenues, an increase in intergovernmental revenues of \$4.2 million, and an increase in debt service subsidies received from the water and sewer enterprise funds of \$505 thousand. These individual increases were offset by a \$1.4 million increase in expenditures related to pension benefits, an increase of \$1.1 million in public works expenditures, an \$895 thousand increase to debt service expenditures, and an increase of \$900 thousand in education expense.

General Fund Budgetary Highlights

The net change between the original budget and the final amended budget was an increase of approximately \$265 thousand. This increase is mainly attributable to increases in public safety and public works offset by decreases in general government and employee benefits.

Capital Asset and Debt Administration

Capital assets. The City of Somerville's investment in capital assets for its governmental activities as of June 30, 2007, amounts to \$151.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The net increase in the City's investment in capital assets for the current year was \$23.7 million. Additional information on the City's capital assets may be found in Note 4 to the financial statements.

Major capital asset events during the current fiscal year included the following:

- Various investments were made to improve and expand the buildings of the School department;
- A variety of infrastructure investments occurred within the street, water and sewer systems and;
- Various departmental vehicle and equipment acquisitions.

In conjunction with the operating budget, the City annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures. The chart below summarizes the net carrying value of the various capital asset categories.

	2007	2006
Land and land improvements.....	\$ 23,689,549	\$ 22,926,078
Construction in progress.....	27,852,214	5,674,956
Books and periodicals.....	733,284	774,743
Buildings and improvements.....	73,414,285	76,054,839
Machinery and equipment.....	1,842,419	1,473,107
Vehicles.....	3,413,898	2,124,077
Infrastructure.....	<u>21,022,987</u>	<u>19,156,263</u>
Total.....	<u>\$ 151,968,636</u>	<u>\$ 128,184,063</u>

Long-term debt. At the end of the current fiscal year, the City of Somerville had total bonded debt outstanding of \$74.4 million. Additionally, reported short-term borrowing of \$8.9 million is due to various school projects, departmental equipment acquisitions and recreational building improvements.

General Obligation Bonds Outstanding

	2007	2006
Municipal Purpose - April 1, 1998 (Refunded).....	\$ 960,000	\$ 12,950,000
Municipal Purpose - August 16, 2006 (Refunding).....	11,151,887	-
Municipal Purpose - August 16, 2006 (Refunded).....	12,263,113	-
Municipal Purpose - February 15, 1997 (Refunding)...	-	13,155,000
MWRA Notes.....	7,121,102	6,135,860
Municipal Purpose - February 15, 2002.....	21,325,000	22,480,000
General Obligation Bond - March 15, 2004.....	8,429,998	9,449,999
Municipal Purpose - August 15, 2006.....	<u>11,120,000</u>	<u>7,440,000</u>
Total bonds and notes payable.....	72,371,100	71,610,859
Section 108 Intergovernmental Loans.....	<u>2,060,000</u>	<u>2,340,000</u>
Total.....	<u>\$ 74,431,100</u>	<u>\$ 73,950,859</u>

During fiscal year 2007 the City's long-term debt increased by \$480,000. This increase is primarily the net effect of debt refunding transactions during the year. The net effect of the refunding transactions increased the City's long term debt by \$535,000.

Moody's Investors Service, Inc. and Standard & Poor's Corporation have assigned ratings of A1 and A+ to the City's bonds.

Economic Factors and Next Year's Budgets and Rates

- According to the U.S. Census Bureau, the median family income for the City in 2000 was \$51,243 compared with \$61,644 for the Commonwealth and \$49,600 for the nation. The per capita income was \$23,628, compared with \$25,952 for the Commonwealth and \$21,587 for the nation
- The unemployment rate for the City of Somerville is approximately 3.9 percent, which is a .7% increase from a rate of 3.2 percent a year ago. This compares favorably to the state's average unemployment rate of 4.9 percent and the national average of 4.6 percent.
- According to the City's Board of Assessors, the average 2006 single family home in the City is valued at \$423,400; the average two-family home is valued at \$516,500; the average 2006 commercial and industrial property is valued at \$1,412,700 – all compare favorably with state and national property values.

Requests for Information

This financial report is designed to provide a general overview of the City of Somerville's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City Hall, 93 Highland Ave, Somerville, Massachusetts 02143.

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Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 61,505,238	\$ 2,383,033	\$ 63,888,271
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	736,078	-	736,078
Tax liens and foreclosures.....	2,454,159	183,904	2,638,063
Motor vehicle excise tax.....	565,424	-	565,424
User fees.....	-	8,581,307	8,581,307
Departmental and other.....	2,595,452	-	2,595,452
Intergovernmental.....	12,216,419	-	12,216,419
Loans.....	8,358,420	-	8,358,420
Other assets.....	7,087	-	7,087
Deferred charges on refunding.....	460,046	-	460,046
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	36,798,124	-	36,798,124
Deferred charges on refunding.....	995,421	-	995,421
Capital assets, net of accumulated depreciation.....	151,968,636	-	151,968,636
TOTAL ASSETS.....	278,660,504	11,148,244	289,808,748
LIABILITIES			
CURRENT:			
Warrants payable.....	5,214,016	-	5,214,016
Accrued payroll.....	1,620,809	19,742	1,640,551
Health claims payable.....	1,574,182	-	1,574,182
Tax refunds payable.....	528,000	-	528,000
Accrued interest.....	1,503,832	-	1,503,832
Payroll withholdings.....	252,639	-	252,639
Abandoned property.....	568,281	-	568,281
Compensated absences.....	257,200	-	257,200
Workers' compensation.....	136,900	-	136,900
Intergovernmental loans payable.....	580,000	-	580,000
Bonds and notes payable.....	15,375,567	-	15,375,567
NONCURRENT:			
Compensated absences.....	2,314,800	-	2,314,800
Workers' compensation.....	1,232,100	-	1,232,100
Intergovernmental loans payable.....	1,480,000	-	1,480,000
Bonds and notes payable.....	65,896,476	-	65,896,476
TOTAL LIABILITIES.....	98,534,802	19,742	98,554,544
NET ASSETS			
Invested in capital assets, net of related debt.....	111,143,022	-	111,143,022
Restricted for:			
Streets.....	1,985,531	-	1,985,531
Community development.....	4,926,915	-	4,926,915
Loans.....	8,358,420	-	8,358,420
Permanent funds:			
Expendable.....	196,730	-	196,730
Nonexpendable.....	433,126	-	433,126
Other specific purposes.....	5,955,213	-	5,955,213
Unrestricted.....	47,126,745	11,128,502	58,255,247
TOTAL NET ASSETS.....	\$ 180,125,702	\$ 11,128,502	\$ 191,254,204

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 18,995,359	\$ 2,525,059	\$ 1,277,274	\$ -	\$ (15,193,026)
Public safety.....	39,923,227	10,675,114	1,914,580	-	(27,333,533)
Education.....	93,333,097	1,566,641	45,527,173	24,363,592	(21,875,691)
Public works.....	26,217,844	442,295	2,772,390	-	(23,003,159)
Community development.....	4,086,638	767	854,630	-	(3,231,241)
Human services.....	2,974	553,610	85,023	-	635,659
Culture and recreation.....	4,208,127	257,960	371,612	-	(3,578,555)
Interest.....	3,511,789	-	1,804,321	-	(1,707,468)
Total Governmental Activities.....	190,279,055	16,021,446	54,607,003	24,363,592	(95,287,014)
<i>Business-Type Activities:</i>					
Water	6,915,717	5,674,055	-	-	(1,241,662)
Sewer.....	11,565,119	15,500,715	-	-	3,935,596
Total Business-Type Activities.....	18,480,836	21,174,770	-	-	2,693,934
Total Primary Government.....	\$ 208,759,891	\$ 37,196,216	\$ 54,607,003	\$ 24,363,592	\$ (92,593,080)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (95,287,014)	\$ 2,693,934	\$ (92,593,080)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	82,031,393	-	82,031,393
Tax and utility liens.....	89,402	655,236	744,638
Motor vehicle and other excise taxes.....	5,068,422	-	5,068,422
Penalties and interest on taxes.....	475,391	-	475,391
Payments in lieu of taxes.....	131,329	-	131,329
Grants and contributions not restricted to specific programs.....	32,563,468	-	32,563,468
Unrestricted investment income.....	2,261,853	149,505	2,411,358
Gain on sale of assets.....	148,563	-	148,563
Premium on sale of bonds.....	420,654	-	420,654
Donation of land.....	678,300	-	678,300
Miscellaneous.....	478,856	-	478,856
<i>Transfers, net</i>	2,607,821	(2,607,821)	-
Total general revenues and transfers.....	126,955,452	(1,803,080)	125,152,372
Change in net assets.....	31,668,438	890,854	32,559,292
<i>Net Assets:</i>			
Beginning of year.....	148,457,264	10,237,648	158,694,912
End of year.....	\$ 180,125,702	\$ 11,128,502	\$ 191,254,204

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2007

ASSETS	General	Strategic Planning & Community Development	School Construction Fund	Bonded Capital Projects Fund	Capital Project Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments.....	\$ 35,806,204	\$ 269,029	\$ 3,359,105	\$ 2,793,308	\$ 4,800,000	\$ 14,477,592	\$ 61,505,238
Receivables, net of uncollectibles:							
Real estate and personal property taxes.....	736,078	-	-	-	-	-	736,078
Tax liens and foreclosures.....	2,454,159	-	-	-	-	-	2,454,159
Motor vehicle excise taxes.....	565,424	-	-	-	-	-	565,424
Departmental and other.....	2,595,452	-	-	-	-	-	2,595,452
Intergovernmental.....	40,716,804	5,212,843	-	-	-	3,084,896	49,014,543
Loans.....	-	8,358,420	-	-	-	-	8,358,420
Other assets.....	7,087	-	-	-	-	-	7,087
TOTAL ASSETS.....	\$ 82,881,208	\$ 13,840,292	\$ 3,359,105	\$ 2,793,308	\$ 4,800,000	\$ 17,562,488	\$ 125,236,401
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Warrants payable.....	\$ 2,837,415	\$ -	\$ 2,376,601	\$ -	\$ -	\$ -	\$ 5,214,016
Accrued payroll.....	1,338,096	22,614	1,923	-	-	258,176	1,620,809
Health claims payable.....	1,574,182	-	-	-	-	-	1,574,182
Tax refunds payable.....	528,000	-	-	-	-	-	528,000
Accrued interest on short-term debt.....	118,000	-	-	-	-	-	118,000
Payroll withholdings.....	252,639	-	-	-	-	-	252,639
Abandoned property.....	568,281	-	-	-	-	-	568,281
Deferred revenues.....	46,428,357	4,926,915	-	-	-	1,985,531	53,340,803
Notes payable.....	-	-	6,300,000	2,600,943	-	-	8,900,943
TOTAL LIABILITIES.....	53,644,970	4,949,529	8,678,524	2,600,943	-	2,243,707	72,117,673
FUND BALANCES:							
Reserved for:							
Encumbrances and continuing appropriations.....	1,825,472	-	-	-	-	-	1,825,472
Loans.....	-	8,358,420	-	-	-	-	8,358,420
Employee benefits.....	9,563,778	-	-	-	-	-	9,563,778
Perpetual permanent funds.....	-	-	-	-	-	433,126	433,126
Other specific purposes.....	-	-	-	-	-	3,520,974	3,520,974
Unreserved:							
Designated for subsequent year's expenditures.....	3,500,000	-	-	-	-	-	3,500,000
Undesignated, reported in:							
General fund.....	14,346,988	-	-	-	-	-	14,346,988
Special revenue funds.....	-	532,343	-	-	-	7,580,220	8,112,563
Capital projects funds.....	-	-	(5,319,419)	192,365	4,800,000	3,587,731	3,260,677
Permanent funds.....	-	-	-	-	-	196,730	196,730
TOTAL FUND BALANCES.....	29,236,238	8,890,763	(5,319,419)	192,365	4,800,000	15,318,781	53,118,728
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 82,881,208	\$ 13,840,292	\$ 3,359,105	\$ 2,793,308	\$ 4,800,000	\$ 17,562,488	\$ 125,236,401

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2007

Total governmental fund balances.....		\$ 53,118,728
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		151,968,636
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		53,340,803
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(1,385,832)
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.....	(74,431,100)	
Workers compensation.....	(1,369,000)	
Compensated absences.....	(2,572,000)	
Net effect of reporting long-term liabilities.....		(78,372,100)
In the statement of activities, deferred losses are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....		1,455,467
Net assets of governmental activities.....		\$ 180,125,702

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2007

	General	Strategic Planning & Community Development	School Construction Fund	Bonded Capital Projects Fund	Capital Project Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:							
Real estate and personal property taxes, net of tax refunds.....	\$ 81,122,008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 81,122,008
Tax liens.....	660,729	-	-	-	-	-	660,729
Motor vehicle and other excise taxes.....	5,009,381	-	-	-	-	-	5,009,381
Payments in lieu of taxes.....	131,329	-	-	-	-	-	131,329
Intergovernmental.....	66,895,532	4,337,614	19,407,108	-	-	15,493,791	106,134,045
Departmental and other.....	15,070,380	211,718	-	-	-	4,993,695	20,275,793
Contributions.....	-	-	-	-	-	2,046,099	2,046,099
Investment income.....	1,653,740	45,788	-	-	-	522,136	2,221,664
TOTAL REVENUES.....	170,543,099	4,595,120	19,407,108	-	-	23,055,721	217,601,048
EXPENDITURES:							
Current:							
General government.....	9,607,282	-	-	141,597	-	1,089,860	10,838,739
Public safety.....	25,827,555	-	-	1,126,019	-	2,353,812	29,307,386
Education.....	45,824,238	-	22,269,366	41,331	-	13,697,651	81,832,586
Public works.....	19,041,247	-	-	2,802,081	99,385	3,570,023	25,512,736
Community development.....	-	3,982,356	-	-	-	104,282	4,086,638
Human services.....	-	-	-	-	-	3,458	3,458
Culture and recreation.....	2,373,931	-	-	-	-	504,475	2,878,406
Pension benefits.....	22,252,303	-	-	-	-	-	22,252,303
Employee benefits.....	24,574,027	-	-	-	-	-	24,574,027
State and county charges.....	8,700,697	-	-	-	-	-	8,700,697
Debt service:							
Principal.....	5,391,986	280,000	-	-	-	-	5,671,986
Interest.....	2,811,958	116,488	-	-	-	-	2,928,446
TOTAL EXPENDITURES.....	166,405,224	4,378,844	22,269,366	4,111,028	99,385	21,323,561	218,587,408
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	4,137,875	216,276	(2,862,258)	(4,111,028)	(99,385)	1,732,160	(986,360)
OTHER FINANCING SOURCES (USES):							
Proceeds from bonds and notes.....	-	-	-	3,680,000	-	1,937,227	5,617,227
Proceeds from refunding bonds.....	23,705,000	-	-	-	-	-	23,705,000
Premium from issuance of bonds.....	420,654	-	-	-	-	-	420,654
Payments to refunded bond escrow agent.....	(24,115,350)	-	-	-	-	-	(24,115,350)
Sale of capital assets.....	150,000	-	-	-	-	-	150,000
Transfers in.....	1,990,256	-	-	310,000	4,500,000	1,362,290	8,162,546
Transfers out.....	(2,923,492)	(870)	-	-	(615)	(2,629,748)	(5,554,725)
TOTAL OTHER FINANCING SOURCES (USES).....	(772,932)	(870)	-	3,990,000	4,499,385	669,769	8,385,352
NET CHANGE IN FUND BALANCES.....	3,364,943	215,406	(2,862,258)	(121,028)	4,400,000	2,401,929	7,398,992
FUND BALANCES AT BEGINNING OF YEAR.....	25,871,295	8,675,357	(2,457,161)	313,393	400,000	12,916,852	45,719,736
FUND BALANCES AT END OF YEAR.....	\$ 29,236,238	\$ 8,890,763	\$ (5,319,419)	\$ 192,365	\$ 4,800,000	\$ 15,318,781	\$ 53,118,728

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**

FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds..... \$ 7,398,992

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.

Capital outlay.....	29,167,067	
Depreciation expense.....	<u>(5,381,057)</u>	
Net effect of reporting capital assets.....		23,786,010

In the Statement of Activities, only the *gain* on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold..... (1,437)

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..... 491,107

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 effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Proceeds from bonds and notes.....	(5,617,227)	
Proceeds from refunding bonds.....	(23,705,000)	
Payments to refunded bond escrow agent.....	24,115,350	
Debt service principal payments.....	5,671,986	
Amortization of deferred charge on refunding.....	<u>(110,436)</u>	
Net effect of reporting long-term debt.....		354,673

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	107,000	
Net change in accrued interest on long-term debt.....	(472,907)	
Net change in workers' compensation accrual.....	<u>5,000</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(360,907)</u>

Change in net assets of governmental activities..... \$ 31,668,438

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 830,706	\$ 1,552,327	\$ 2,383,033
Receivables, net of allowance for uncollectibles:			
User fees.....	3,230,343	5,350,964	8,581,307
Tax liens.....	<u>55,997</u>	<u>127,907</u>	<u>183,904</u>
TOTAL ASSETS.....	<u>\$ 4,117,046</u>	<u>\$ 7,031,198</u>	<u>\$ 11,148,244</u>
LIABILITIES			
CURRENT:			
Accrued payroll.....	<u>\$ 13,762</u>	<u>\$ 5,980</u>	<u>\$ 19,742</u>
NET ASSETS			
Unrestricted.....	<u>4,103,284</u>	<u>7,025,218</u>	<u>11,128,502</u>
TOTAL NET ASSETS.....	<u>\$ 4,103,284</u>	<u>\$ 7,025,218</u>	<u>\$ 11,128,502</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2007

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES:			
Charges for services	\$ 5,674,055	\$ 15,500,715	\$ 21,174,770
Utility liens.....	254,164	401,072	655,236
TOTAL OPERATING REVENUES	5,928,219	15,901,787	21,830,006
OPERATING EXPENSES:			
Cost of services and administration	6,836,987	11,457,723	18,294,710
OPERATING INCOME (LOSS).....	(908,768)	4,444,064	3,535,296
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	25,806	123,699	149,505
Interest expense.....	(78,730)	(107,396)	(186,126)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(52,924)	16,303	(36,621)
INCOME (LOSS) BEFORE TRANSFERS.....	(961,692)	4,460,367	3,498,675
TRANSFERS:			
Transfers in.....	125,000	-	125,000
Transfers out.....	(1,408,671)	(1,324,150)	(2,732,821)
TOTAL OPERATING TRANSFERS.....	(1,283,671)	(1,324,150)	(2,607,821)
CHANGE IN NET ASSETS.....	(2,245,363)	3,136,217	890,854
NET ASSETS AT BEGINNING OF YEAR.....	6,348,647	3,889,001	10,237,648
NET ASSETS AT END OF YEAR.....	\$ 4,103,284	\$ 7,025,218	\$ 11,128,502

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2007

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Receipts from customers and users.....	\$ 8,720,470	\$ 13,774,008	\$ 22,494,478
Payments to vendors.....	(6,075,154)	(11,192,095)	(17,267,249)
Payments to employees.....	(761,862)	(264,522)	(1,026,384)
NET CASH FROM OPERATING ACTIVITIES.....	<u>1,883,454</u>	<u>2,317,391</u>	<u>4,200,845</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>			
Transfers in.....	125,000	-	125,000
Transfers out.....	(1,408,671)	(1,324,150)	(2,732,821)
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>(1,283,671)</u>	<u>(1,324,150)</u>	<u>(2,607,821)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Interest expense.....	(78,730)	(107,396)	(186,126)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Investment income.....	25,806	123,699	149,505
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	546,859	1,009,544	1,556,403
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	<u>283,847</u>	<u>542,783</u>	<u>826,630</u>
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	<u>\$ 830,706</u>	<u>\$ 1,552,327</u>	<u>\$ 2,383,033</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ (908,768)	\$ 4,444,064	\$ 3,535,296
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Changes in assets and liabilities:			
Tax Liens.....	(8,679)	(104,496)	(113,175)
User fees.....	2,799,781	(2,023,283)	776,498
Other assets.....	1,149	-	1,149
Accrued payroll.....	(29)	1,106	1,077
Total adjustments.....	<u>2,792,222</u>	<u>(2,126,673)</u>	<u>665,549</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 1,883,454</u>	<u>\$ 2,317,391</u>	<u>\$ 4,200,845</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	Pension Trust Fund (as of December 31, 2006)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 9,025,005	\$ 91,836	\$ 1,023,755
Investments.....	163,879,939	-	-
Interest and dividends.....	32,643	-	-
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	<u>347,243</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>173,284,830</u>	<u>91,836</u>	<u>1,023,755</u>
LIABILITIES			
Warrants payable.....	77,832	-	-
Accrued liabilities.....	-	-	33,211
Liabilities due depositors.....	<u>-</u>	<u>-</u>	<u>990,544</u>
TOTAL LIABILITIES	<u>77,832</u>	<u>-</u>	<u>1,023,755</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 173,206,998</u>	<u>\$ 91,836</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2007

	Pension Trust Fund (as of December 31, 2006)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 11,451,824	\$ -
Employee.....	4,505,341	-
Private donations.....	-	2,530
Total contributions.....	15,957,165	2,530
Net investment income (loss):		
Net change in fair value of investments.....	12,487,392	-
Interest.....	5,810,045	4,749
Total investment income (loss).....	18,297,437	4,749
Less: investment expense.....	(1,186,777)	-
Net investment income (loss).....	17,110,660	4,749
Intergovernmental.....	922,920	-
Transfers from other systems.....	561,494	-
TOTAL ADDITIONS.....	34,552,239	7,279
DEDUCTIONS:		
Administration.....	324,348	-
Transfers to other systems.....	874,650	-
Retirement benefits and refunds.....	18,742,750	-
Educational scholarships.....	-	10,484
TOTAL DEDUCTIONS.....	19,941,748	10,484
CHANGE IN NET ASSETS.....	14,610,491	(3,205)
NET ASSETS AT BEGINNING OF YEAR.....	158,596,507	95,041
NET ASSETS AT END OF YEAR.....	\$ 173,206,998	\$ 91,836

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Somerville, Massachusetts (the City) 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 recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described herein.

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and an eleven member Board of Alderman (Board).

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. 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 significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Blended Component Units – 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 following component unit is blended within the primary government:

In the Fiduciary Funds:

The Somerville Contributory Retirement System (System) was established to provide retirement benefits to City employees, the City Housing Authority 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 Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Availability of Financial Information for Component Units

The System did 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 50 Evergreen Avenue, Somerville, Massachusetts 02145.

B. Government-Wide and Fund Financial Statements*Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities* are primarily supported by taxes and intergovernmental revenues.

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 are reported as separate columns in the fund financial statements. Non-major funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental funds are at least 5 percent of the corresponding element for all governmental funds combined.

Additionally, any other governmental fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*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 particular 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 particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the net effect of interfund services provided and used between functions is not eliminated

as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund 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 and 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 fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

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

The following major governmental funds are reported:

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

The *strategic planning and community development fund* is used to account for grant activities of the Office of Strategic Planning and Community Development.

The *school construction fund* is used to account for activities associated with the construction of the new Lincoln Park School.

The *bonded capital projects fund* is used to account for activities associated with constructing and acquiring assets for general city-wide, non-educational use.

The *capital project stabilization fund* is used to account for the financial resources to be used for the acquisition or construction of major capital facilities. This fund will also be used to provide the resources to meet ongoing and future debt service costs relating to the construction or acquisition of major capital facilities.

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

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

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

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

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, 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 *water enterprise fund* is used to account for financial activity that occurs as a result of the ongoing operations within the water department.

The *sewer enterprise fund* is used to account for the financial activity that occurs as a result of the ongoing operations within the sewer department.

Fiduciary fund 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 governmental 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 that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The donor restrictions and trustee policies only allows the trustees to authorize spending of the realized investment earnings. The City's educational scholarship trusts are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, 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 and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

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. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer

User fees are levied monthly 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 in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of parking fines and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

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

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Loans

The Office of Strategic Planning and Community Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

Loan receivables are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

F. Inventories***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets***Government-Wide Fund Financial Statements***

Capital assets, which include land, construction in progress, land improvements, buildings, machinery and equipment, vehicles, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental activity 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. Construction period interest is capitalized on constructed capital assets except for the capital assets of the governmental activities column in the government-wide financial statements.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-40
Books and improvements.....	10
Buildings and periodicals.....	20-40
Machinery and equipment.....	5-10
Vehicles.....	5-15
Infrastructure.....	10-50

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.

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service 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.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

Government-Wide Financial Statements

Operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities. 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

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

J. Deferred Revenue

Deferred revenue at the governmental 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 (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Streets” represents amounts committed by the Commonwealth for the repair and/or construction of streets.

“Community Development” represents amounts committed by the federal Department of Housing and Urban Development (HUD) for various community development projects.

“Loans” represents community development outstanding loans receivable balances.

“Permanent funds – nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Permanent funds – expendable” represents the amount of realized and unrealized investment earnings of donor restricted trusts. The donor restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings that support governmental programs.

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

Fund Financial Statements (Fund Balances)

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

Fund balances have been “reserved for” the following:

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

“Loans” represents community development outstanding loans receivable balances.

“Employee benefits” represents the amount accumulated for the specific purpose of providing health insurance coverage for the City’s employees and retirees.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

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

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2008 operating budget.

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as a liability in the government-wide statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest 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. 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.

M. 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 of the proprietary funds is retained in the respective water and sewer enterprise funds.

N. Compensated Absences

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

Government-Wide 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.

O. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer's 90% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2007, this expense/expenditure totaled approximately \$9,685,000. There were 1294 participants eligible to receive benefits at June 30, 2007.

P. 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.

Q. Individual Fund Deficits

At June 30, 2007, the School Construction Fund reports a fund deficit of approximately \$5,300,000. This deficit will be funded with available funds and future bond proceeds.

R. 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 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 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Short-term Investments". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City of Somerville’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$44,449,975 and the bank balance totaled \$47,716,900. Of the bank balance, \$11,151,310 was covered by Federal Depository Insurance and \$36,565,590 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2006, carrying amount of deposits for the System totaled \$7,555,675 and the bank balance totaled \$7,864,801. The entire bank balance of the System was covered by Federal Depository Insurance.

Investments

As of June 30, 2007, the City of Somerville had the following investments:

<u>Other Investments</u>	
MMDT	\$ <u>20,553,887</u>

As of December 31, 2006, the System had the following investments:

Investment Type	Fair Value	Maturity			Rating
		1-5 Years	6-10 Years	Over 10 Years	
<u>Debt Securities</u>					
(1) Loomis Sayles Fixed Income Fund	\$ 40,649,185	\$ -	\$ -	\$ 40,649,185	Baa1
(1) Cypress Asset Management Fixed Income Fund.....	6,990,732	-	6,990,732	-	AA1
State of Israel Bond.....	250,000	250,000	-	-	unrated
	<u>47,889,917</u>	<u>\$ 250,000</u>	<u>\$ 6,990,732</u>	<u>\$ 40,649,185</u>	
<u>Other Investments</u>					
Equity Mutual Funds (Domestic).....	\$ 14,585,476				
Equity Mutual Funds (International).....	10,791,515				
Equities.....	72,430,825				
Real Estate.....	18,182,206				
Money Market Mutual Funds.....	<u>1,469,330</u>				
Total Investments.....	<u>\$ 165,349,269</u>				

(1) The maturities and ratings of the fixed income mutual funds are representative of the average maturities of the underlying investments of each fund.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City does not have custodial credit risk exposure because the City’s investment of \$20,553,887 is invested with MMDT. The City does not have a formal investment policy to manage custodial credit risk.

Of the System’s investments of \$14,585,476 in Domestic Equity Mutual Funds, \$10,791,515 in International Equity Mutual Funds, \$72,430,216 in equity investments, and \$18,182,206 in Real Estate, the System has custodial credit risk exposure of \$115,989,413 because the related securities are uninsured, unregistered and held by the counterparty. The System has not adopted a formal investment policy to manage custodial credit risk.

Interest Rate Risk

Neither the City or the System, have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has not adopted a formal policy related to Credit Risk. The City does not have any debt securities as of June 30, 2007.

The System has not adopted a formal policy related to Credit Risk.

Concentration of Credit Risk

The City places no limit on the amount the government may invest in any one issuer.

The System is not invested more than 5% in any one issuer. The System has not adopted a formal policy related to the amount that may be invested in any one issuer.

NOTE 3 – RECEIVABLES

At June 30, 2007, receivables for the individual major governmental funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.... \$	926,432	\$ (190,354)	\$ 736,078
Tax liens and foreclosures.....	2,454,159	-	2,454,159
Motor vehicle excise taxes.....	2,806,062	(2,240,638)	565,424
Departmental and other.....	12,165,953	(9,570,501)	2,595,452
Intergovernmental.....	49,014,543	-	49,014,543
Loans.....	8,358,420	-	8,358,420
	<u>75,725,569</u>	<u>(12,001,493)</u>	<u>63,724,076</u>
Total..... \$	\$ 75,725,569	\$ (12,001,493)	\$ 63,724,076

At June 30, 2007, receivables for the enterprise funds, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer.....	\$ 5,350,964	\$ -	\$ 5,350,964
Water.....	3,230,343	-	3,230,343
Sewer liens.....	127,907	-	127,907
Water liens.....	55,997	-	55,997
Total.....	<u>\$ 8,765,211</u>	<u>\$ -</u>	<u>\$ 8,765,211</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Strategic Planning & Community Development	Governmental Funds	Nonmajor Total
<u>Receivable type:</u>				
Real estate and personal property taxes....	\$ 96,518	\$ -	\$ -	\$ 96,518
Tax liens and foreclosures.....	2,454,159	-	-	2,454,159
Motor vehicle excise.....	565,424	-	-	565,424
Departmental and other.....	2,595,452	-	-	2,595,452
Intergovernmental.....	40,716,804	4,926,915	1,985,531	47,629,250
Total.....	<u>\$ 46,428,357</u>	<u>\$ 4,926,915</u>	<u>\$ 1,985,531</u>	<u>\$ 53,340,803</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 14,243,411	\$ 678,300	\$ (1,437)	\$ 14,920,274
Construction in progress.....	5,674,956	22,177,258	-	27,852,214
Total capital assets not being depreciated.....	19,918,367	22,855,558	(1,437)	42,772,488
<u>Capital assets being depreciated:</u>				
Land improvements.....	13,701,057	596,849	-	14,297,906
Books and periodicals.....	2,136,664	120,021	-	2,256,685
Buildings and improvements.....	113,932,145	331,895	-	114,264,040
Machinery and equipment.....	5,264,662	731,995	(367,129)	5,629,528
Vehicles.....	7,911,060	2,002,665	(405,940)	9,507,785
Infrastructure.....	57,514,767	2,528,084	-	60,042,851
Total capital assets being depreciated.....	200,460,355	6,311,509	(773,069)	205,998,795
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(5,018,390)	(510,241)	-	(5,528,631)
Books and periodicals.....	(1,361,921)	(161,480)	-	(1,523,401)
Buildings and improvements.....	(37,877,306)	(2,972,449)	-	(40,849,755)
Machinery and equipment.....	(3,791,555)	(362,683)	367,129	(3,787,109)
Vehicles.....	(5,786,983)	(712,844)	405,940	(6,093,887)
Infrastructure.....	(38,358,504)	(661,360)	-	(39,019,864)
Total accumulated depreciation.....	(92,194,659)	(5,381,057)	773,069	(96,802,647)
Total capital assets being depreciated, net.....	108,265,696	930,452	-	109,196,148
Total governmental activities capital assets, net.....	\$ 128,184,063	\$ 23,786,010	\$ (1,437)	\$ 151,968,636

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

Governmental Activities:	
General government.....	\$ 163,147
Public safety.....	726,992
Education.....	2,841,227
Public works.....	1,001,606
Human services.....	343
Culture and recreation.....	647,742
Total depreciation expense - governmental activities.....	\$ 5,381,057

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2007, are summarized as follows:

Operating Transfers Out:	Transfers In:					Total
	General Fund	Bonded Capital Projects Fund	Capital Project Stabilization Fund	Nonmajor Governmental Fund	Water Enterprise Fund	
General Fund.....	\$ -	\$ 310,000	\$ 2,500,000	\$ 113,492	\$ -	\$ 2,923,492
Capital Project Stabilization Fund.....	615	-	-	-	-	615
Strategic Planning & Community Development Fund.....	870	-	-	-	-	870
Nonmajor Governmental Funds.....	622,500	-	2,000,000	7,248	-	2,629,748
Water Enterprise Fund.....	731,466	-	-	677,205	-	1,408,671
Sewer Enterprise Fund.....	634,805	-	-	564,345	125,000	1,324,150
Total.....	\$ <u>1,990,256</u>	\$ <u>310,000</u>	\$ <u>4,500,000</u>	\$ <u>1,362,290</u>	\$ <u>125,000</u>	\$ <u>8,287,546</u>

Transfers relate to amounts voted to fund the fiscal year 2007 budget as well as the close out of certain funds maintained within the general ledger. Transfers relating to the capitalization of fixed assets have been recorded between the enterprise funds and the non-major capital project funds.

NOTE 6 – LEASES

Operating Leases

The City leases three buildings and a licensed parking area under several non-cancelable operating leases. The total cost of these leases for the fiscal year ended June 30, 2007 was approximately \$651,000 and is reported as general government, education and public safety expenditures in the basic financial statements. The future minimum lease payments are as follows:

	Fiscal Years Ending June 30	Governmental Activities
2008.....		\$ <u>220,730</u>

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 or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

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 capital projects fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2007, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2006	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2007
BAN	High School Renovations.....	4.00	08/18/06	\$ 470,000	\$ -	\$ 470,000	\$ -
BAN	Homen's Renovation (2).....	4.00	08/18/06	15,000	-	15,000	-
BAN	Equipment.....	4.00	08/18/06	200,000	-	200,000	-
BAN	Sewer Construction.....	4.00	08/18/06	80,000	-	80,000	-
BAN	Lincoln Park School.....	4.00	08/18/06	5,300,000	-	5,300,000	-
BAN	Lincoln Park School.....	4.00	12/18/06	-	5,300,000	5,300,000	-
BAN	Lincoln Park School.....	3.88	10/18/07	-	5,300,000	-	5,300,000
BAN	Lincoln Park School.....	4.00	10/18/07	-	1,000,000	-	1,000,000
BAN	Departmental Equipment.....	4.00	02/20/08	-	2,139,943	-	2,139,943
BAN	Fire Alarm.....	4.00	02/20/08	-	41,000	-	41,000
BAN	Computer.....	4.00	02/20/08	-	20,000	-	20,000
BAN	Trum Fieldhouse Building.....	4.00	02/20/08	-	400,000	-	400,000
Total.....				\$ 6,065,000	\$ 14,200,943	\$ 11,365,000	\$ 8,900,943

On October 18, 2007, the City renewed and combined the \$5,300,000 and the \$1,000,000 Lincoln Park School BANS into a single BAN. The new BAN will mature on February 20, 2008 with an interest rate 3.75%.

NOTE 8 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

During fiscal year 2007, the City issued \$23,705,000 of general refunding obligation bonds with an interest rate of 4.10% to refund \$23,170,000 of general obligation bonds with an interest rate of between 4.2% and 7.0%. Through this advance refunding, the City has taken advantage of lower interest rates to realize a decrease in its aggregate debt service payments by approximately \$1,189,000 over the next 11 years. The City also realized an

economic gain (the difference between the present values of the debt service payments of the refunded debt and refunding bonds) of approximately \$868,000.

Details related to the outstanding indebtedness at June 30, 2007, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2006	Issued	Redeemed	Outstanding at June 30, 2007
Municipal Purpose - April 1, 1998 (Refunded).....	4.2% - 6.0%	\$ 12,950,000	\$ -	\$ 11,990,000	\$ 960,000
Municipal Purpose - August 16, 2006 (Refunding).....	3.5% - 5.0%	-	11,422,387	270,500	11,151,887
Municipal Purpose - August 16, 2006 (Refunding).....	3.5% - 5.0%	-	12,282,613	19,500	12,263,113
Municipal Purpose - February 15, 1997 (Refunded)....	4.2% - 7.0%	13,155,000	-	13,155,000	-
MWRA Notes.....	0%	6,135,860	1,937,227	951,985	7,121,102
Municipal Purpose - February 15, 2002.....	3.0% - 5.0%	22,480,000	-	1,155,000	21,325,000
General Obligation Bond - March 15, 2004.....	2.0% - 4.0%	9,449,999	-	1,020,001	8,429,998
Municipal Purpose - August 15, 2006.....	4.0% - 4.1%	7,440,000	3,680,000	-	11,120,000
Total bonds and notes payable.....		71,610,859	29,322,227	28,561,986	72,371,100
Section 108 Intergovernmental Loans.....	7.1% - 8.0%	2,340,000	-	280,000	2,060,000
Total.....		\$ 73,950,859	\$ 29,322,227	\$ 28,841,986	\$ 74,431,100

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008.....	\$ 7,054,624	\$ 2,836,311	\$ 9,890,935
2009.....	7,154,626	2,608,789	9,763,415
2010.....	6,994,625	2,384,872	9,379,497
2011.....	6,923,472	2,170,064	9,093,536
2012.....	6,551,669	1,933,808	8,485,477
2013.....	5,854,027	1,712,396	7,566,423
2014.....	5,844,222	1,470,142	7,314,364
2015.....	5,624,415	1,238,292	6,862,707
2016.....	5,044,609	1,011,984	6,056,593
2017.....	4,839,811	778,534	5,618,345
2018.....	3,190,000	574,884	3,764,884
2019.....	1,980,000	432,184	2,412,184
2020.....	1,940,000	336,784	2,276,784
2021.....	2,010,000	243,784	2,253,784
2022.....	2,055,000	147,784	2,202,784
2023.....	325,000	49,621	374,621
2024.....	300,000	36,808	336,808
2025.....	300,000	24,508	324,508
2026.....	225,000	13,717	238,717
2027.....	220,000	4,538	224,538
Total.....	\$ <u>74,431,100</u>	\$ <u>20,009,804</u>	\$ <u>94,440,904</u>

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a non-interest bearing loan. During fiscal year 2007, \$2,746,553 was received from this program; of this \$809,325 was a grant. The loan is payable in ten equal annual installments. At June 30, 2007, the outstanding principal amount of these loans totaled \$7,121,102.

The Commonwealth has approved school construction assistance. 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 2007 approximately \$23,143,000 of such assistance was received. Of this amount, approximately \$19,407,000 was a one-time reimbursement of construction costs relating to the new Argenziano School. Approximately \$47,819,000 will be received in future fiscal years. Of this amount, approximately \$7,373,000 represents reimbursement of long-term interest costs, and approximately \$40,446,000 represents reimbursement of approved construction costs. Accordingly, a \$40,446,000 intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In previous years the City record an estimated receivable from the MSBA based on the original construction and borrowing costs. During fiscal year 2007 the City was notified by the MSBA that the estimated receivable should be increased to an amount representative of actual eligible costs under the MSBA's reimbursement program. Accordingly, the City has recognized additional one-time capital grant revenues on the entity-wide basis.

At June 30, 2007 the City carried \$2,060,000 of debt, issued in prior fiscal years, under the United States Department of Housing and Urban Development’s (HUD) Section 108 Loan Guarantee Program. The purpose of the program is to enable local governments to provide financing to urban renewal projects operated by either the government or third party developers. Debt issued under this program is secured by future entitlement allocations to the City under HUD’s Community Development Block Grant (CDBG) Program. Loan proceeds, recorded as other financing sources in the Community Development Fund when received, are used for the revitalization of Boynton Yards. Payments on these loans are reported in the Community Development Fund as debt service expenditures in the fiscal year of payment. Debt outstanding at fiscal year-end is reported as intergovernmental loans payable on the Statement of Net Assets.

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, 2007, the City had the following authorized and unissued debt:

Purpose	Amount
Lincoln Park School Project.....	\$ 20,400,000
Powder House Building.....	5,800,000
Sewer.....	76,975
Communications & Equipment.....	55,000
Trum Field Fieldhouse.....	2,300,000
Ladder Truck.....	34,199
Equipment.....	<u>2,200,943</u>
 Total.....	 <u>\$ 30,867,117</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2007, the following changes occurred in long-term liabilities:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Governmental Activities:					
Long-Term Bonds and Notes.....	\$ 71,610,859	\$ 29,322,227	\$ (28,561,986)	\$ 72,371,100	\$ 6,474,624
Long-Term Intergovernmental Loans..	2,340,000	-	(280,000)	2,060,000	580,000
Workers' Compensation.....	1,374,000	144,000	(149,000)	1,369,000	136,900
Compensated Absences.....	<u>2,679,000</u>	<u>160,900</u>	<u>(267,900)</u>	<u>2,572,000</u>	<u>257,200</u>
Total.....	<u>\$ 78,003,859</u>	<u>\$ 29,627,127</u>	<u>\$ (29,258,886)</u>	<u>\$ 78,372,100</u>	<u>\$ 7,448,724</u>

The General Fund has been used to liquidate and long term liabilities outstanding from prior fiscal years.

NOTE 9 – RISK FINANCING

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.

The City is self-insured for its retirees' health insurance and workers' compensation activities. These activities are accounted for in the General Fund. Liabilities, including amounts Incurred But Not Reported (IBNR), are recorded when the claim is incurred.

(a) *Health Insurance*

The estimate of Incurred But Not Reported (IBNR) claims based on a three month claims paid average. At June 30, 2007, the amount of the liability for health insurance claims totaled approximately \$1,574,000. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2005, 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 2006.....	\$ 1,679,000	\$ 27,001,321	\$ (27,229,321)	\$ 1,451,000
Fiscal Year 2007.....	1,451,000	26,796,971	(26,673,789)	1,574,182

(b) *Workers' Compensation*

Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2007, the amount of the liability for workers' compensation claims totaled \$1,369,000. Changes in the reported liability since July 1, 2005, 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 2006.....	\$ 1,811,000	\$ 4,790	\$ (441,790)	\$ 1,374,000
Fiscal Year 2007.....	1,374,000	442,833	(447,833)	1,369,000

NOTE 10 - PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Somerville Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who 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 \$10,985,000 for the fiscal year ended June 30, 2007, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase 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 approved by the Somerville Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with

guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 50 Evergreen Avenue, Somerville, Massachusetts 02145.

At December 31, 2006, the System's membership consists of the following:

Active members.....	1128
Inactive members.....	270
Retirees and beneficiaries currently receiving benefits.....	<u>908</u>
Total.....	<u><u>2306</u></u>

Funding Policy - 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 active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute approximately 93% of the total. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2007, 2006, and 2005 were \$10,780,567, \$10,347,418, and \$9,588,751, respectively, which equaled its required contribution for each fiscal year. At June 30, 2007, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.25% investment rate of return and projected salary increases of 5.00% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at January 1, 2007, was 16 years.

Schedule of Funding Progress (Dollar amounts in thousands)

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)
01/01/07	\$ 167,528	\$ 266,454	\$ 98,926	\$ 62.9%	\$ 48,837	\$ 202.6%
01/01/04	145,900	246,900	101,000	59.1%	43,900	230.1%
01/01/01	134,400	204,500	70,100	65.7%	44,800	156.5%
01/01/98	103,300	168,700	65,400	61.2%	39,000	167.7%
01/01/97	89,400	137,700	48,300	64.9%	36,750	131.4%
01/01/96	79,500	136,900	57,400	58.1%	33,630	170.7%
01/01/95	66,400	127,200	60,800	52.2%	35,700	170.3%
01/01/94	68,000	121,700	53,700	55.9%	27,200	197.4%

Funding progress is reported based on the triennial actuarial valuation performed by the System, and is being accumulated on a triennial basis.

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 2007 totaled \$487,000.

NOTE 11 - COMMITMENTS

The City has entered into an agreement with Waste Management of Massachusetts, Inc. to direct the acceptable waste it collects to a transfer station. The City is charged a flat rate per ton that is subject to increase annually equal to but not to exceed any average net increase in the Consumer Price Index for Urban Wage Earners. There are no minimum tonnage requirements that the City must comply with.

The School Department has entered into an agreement with TransComm, Inc. to provide for the transportation of its students. The contract bears an annual cost of approximately \$1,300,000 and expires on June 30, 2007. This contract has been renewed for an additional three-year period ending on June 30, 2010. Annual appropriations for this contract are not to exceed \$1,760,000 over the term of the contract.

The City has entered into, or is planning to enter into, contracts totaling approximately \$31,000,000 for the reconstruction of the Lincoln School, for the renovation of the Trum Field fieldhouse, for the renovation of the Powder House building and for various street and sidewalk projects throughout the City.

Subsequent to year-end the City entered into a lease agreement with Honeywell, Inc provisions of which call for improvements to existing heating, cooling, plumbing and related systems that will allow the City to realize energy efficiencies. The agreement covers a 20 year period.

NOTE 12 - CONTINGENCIES

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, 2007, 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 it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. 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, 2007, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2007.

NOTE 13 – FUTURE IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2007, the following GASB pronouncements were implemented:

GASB Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in Fiscal 2007. The standards in this statement did not affect the basic financial statements.

GASB Statement # 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is required to be implemented in fiscal year 2008. Management has elected to implement the GASB early. The standards in this statement did not affect the basic financial statements.

GASB Statement # 51, *Accounting and Financial Reporting for Intangible Assets*, which is required to be implemented in fiscal year 2010. Management has elected to implement this GASB early. The standards in this statement did not affect the basic financial statements.

Other Future GASB Pronouncements:

The GASB issued Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which is required to be implemented in Fiscal 2008. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

The GASB issued Statement #50 Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27, which is required to be implemented in Fiscal 2008. This GASB statement will change the disclosures related to pensions.

The GASB issued Statement #52, Land and Other Real Estate Held as Investments by Endowments, which is required to be implemented in fiscal year 2009. The standards in this statement require all investments in land and real estate in permanent and similar funds to be reported at fair value. Management does not expect this pronouncement to impact the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		
	Amounts Carried forward From Prior Year	Original Budget	Final Budget
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 81,354,960	\$ 81,354,960
Tax liens.....	-	-	-
Motor vehicle and other excise taxes.....	-	4,650,000	4,650,000
Payments in lieu of taxes.....	-	-	-
Intergovernmental.....	-	55,786,893	55,786,893
Departmental and other.....	-	14,866,370	14,866,370
Investment income.....	-	960,000	960,000
TOTAL REVENUES.....	-	157,618,223	157,618,223
EXPENDITURES:			
Current:			
General government.....	311,678	13,366,368	12,428,151
Public safety.....	267,085	26,022,076	26,456,545
Education.....	85,076	46,070,776	46,047,786
Public works.....	736,016	19,706,376	21,021,240
Culture and recreation.....	6,424	2,430,247	2,477,240
Pension benefits.....	-	11,326,686	11,326,686
Employee benefits.....	1,200	28,747,192	28,165,812
State and county charges.....	-	9,076,921	9,076,921
Debt service:			
Principal.....	-	4,856,986	5,391,986
Interest.....	-	3,243,808	2,720,274
TOTAL EXPENDITURES.....	1,407,479	164,847,436	165,112,641
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,407,479)	(7,229,213)	(7,494,418)
OTHER FINANCING SOURCES (USES):			
Proceeds from refunding bonds.....	-	-	-
Premium from issuance of bonds.....	-	-	-
Payments to refunded bond escrow agent.....	-	-	-
Sale of assets.....	-	-	-
Transfers in.....	-	1,990,256	1,990,256
Transfers out.....	-	(2,923,492)	(2,923,492)
TOTAL OTHER FINANCING SOURCES (USES).....	-	(933,236)	(933,236)
NET CHANGE IN FUND BALANCE.....	(1,407,479)	(8,162,449)	(8,427,654)
BUDGETARY FUND BALANCE, Beginning of year.....	-	19,069,564	19,069,564
BUDGETARY FUND BALANCE, End of year.....	\$ (1,407,479)	\$ 10,907,115	\$ 10,641,910

See notes to required supplementary information.

	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Final Budget
\$	81,005,608	\$ -	\$ (349,352)
	660,729	-	660,729
	5,009,381	-	359,381
	131,329	-	131,329
	55,910,532	-	123,639
	15,070,380	-	204,010
	<u>1,653,740</u>	<u>-</u>	<u>693,740</u>
	<u>159,441,699</u>	<u>-</u>	<u>1,823,476</u>
	9,607,282	513,491	2,307,378
	25,827,555	278,723	350,267
	45,824,238	181,419	42,129
	19,041,247	847,137	1,132,856
	2,373,931	4,702	98,607
	11,267,303	-	59,383
	26,647,341	-	1,518,471
	8,700,697	-	376,224
	5,391,986	-	-
	<u>2,720,274</u>	<u>-</u>	<u>-</u>
	<u>157,401,854</u>	<u>1,825,472</u>	<u>5,885,315</u>
	<u>2,039,845</u>	<u>(1,825,472)</u>	<u>7,708,791</u>
	23,705,000	-	23,705,000
	420,654	-	420,654
	(24,115,350)	-	(24,115,350)
	150,000	-	150,000
	1,990,256	-	-
	<u>(2,923,492)</u>	<u>-</u>	<u>-</u>
	<u>(772,932)</u>	<u>-</u>	<u>160,304</u>
	1,266,913	(1,825,472)	7,869,095
	<u>19,069,564</u>	<u>-</u>	<u>-</u>
\$	<u><u>20,336,477</u></u>	<u><u>(1,825,472)</u></u>	<u><u>7,869,095</u></u>

Notes to Required Supplementary Information**A. Budgetary Information**

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

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Board approval via a supplemental appropriation or Board order.

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. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Board.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2007 approved budget authorized \$167,770,000 in appropriations and other amounts to be raised. During fiscal year 2007, the Board also increased appropriations totaling by approximately \$265,000.

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

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal 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, 2007, is presented below:

Excess (deficiency) of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$	1,266,913
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Perspective difference:

Unemployment insurance trust recorded in the General Fund for GAAP.....		2,073,314
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Basis of accounting differences:

Net change in recording 60-day receipts accrual.....		154,400
Net change in recording tax refunds payable.....		(38,000)
Short-term interest accrual.....		(91,684)
Recognition of revenue for on-behalf payments.....		(10,985,000)
Recognition of expenditures for on-behalf payments.....		<u>10,985,000</u>

Excess (deficiency) of revenues and other financing sources (uses) over expenditures - GAAP basis.....	\$	<u>3,364,943</u>
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