

CITY OF SOMERVILLE, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2010

CITY OF SOMERVILLE, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

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

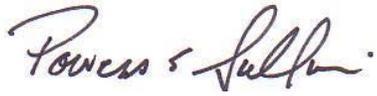
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2010 (except for the Somerville Contributory Retirement System which is as of December 31, 2009), 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 April 26, 2011, 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 following pages 5 through 12, the schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual, other postemployment benefit plan schedule of funding progress and employer contributions, and other postemployment benefit plan actuarial methods and assumptions 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.

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April 26, 2011

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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, 2010. 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, education, public works, community development, human services, and culture and recreation. The business-type activities include water and sewer.

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 capital projects bond fund and the stabilization funds 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 water and sewer operations.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial 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 and information regarding other postemployment benefits paid by the City. 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 \$141.6 million and the business-type assets exceeded liabilities by \$35.4 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 2010 | FY 2009 |
|--|------------------------------|------------------------------|
| Assets: | | |
| Current assets..... | \$ 105,479,507 | \$ 102,664,034 |
| Noncurrent assets (excluding capital)..... | 27,371,993 | 29,951,255 |
| Capital assets..... | 156,483,413 | 156,253,861 |
| Total assets..... | <u>289,334,913</u> | <u>288,869,150</u> |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 10,720,478 | 16,228,394 |
| Noncurrent liabilities (excluding debt)..... | 62,156,964 | 41,720,788 |
| Current debt..... | 12,805,151 | 18,473,458 |
| Noncurrent debt..... | 62,022,852 | 56,858,803 |
| Total liabilities..... | <u>147,705,445</u> | <u>133,281,443</u> |
| Net Assets: | | |
| Capital assets net of related debt..... | 114,146,078 | 116,342,373 |
| Restricted..... | 24,114,249 | 20,852,777 |
| Unrestricted..... | 3,369,141 | 18,392,764 |
| Total net assets..... | <u>\$ 141,629,468</u> | <u>\$ 155,587,914</u> |

The largest portion of the City of Somerville's net assets, \$114.1 million (78.5%), 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, \$24.1 million (17%), 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 be 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, \$3.4 million (4.5%), 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 \$29.5 million in future school construction reimbursement grants.

Long-term liabilities include \$62 million in general obligation bonds and intergovernmental loans; \$3.0 million in compensated absence liabilities for unused vacation, special leave, and enhanced longevity benefits payable; \$722,000 in future year workers' compensation benefits payable; \$57.5 million in other postemployment benefits and \$607,000 in unamortized premium on bonds payable.

Governmental activities. Governmental activities net assets decreased by \$14.0 million in FY2010.

| | FY 2010 | FY 2009 |
|--|-------------------------------|-------------------------------|
| Program revenues: | | |
| Charges for services..... | \$ 18,618,343 | \$ 16,821,020 |
| Operating grants and contributions..... | 62,202,892 | 60,785,313 |
| Capital grants and contributions..... | - | 1,021,427 |
| General Revenues: | | |
| Real estate and personal property taxes..... | 94,556,361 | 89,464,420 |
| Tax liens..... | 1,473,382 | 1,727,713 |
| Motor vehicle and other excise taxes..... | 4,414,024 | 4,190,680 |
| Penalties and interest on taxes..... | 982,668 | 695,914 |
| Payments in lieu of taxes..... | 163,644 | 158,827 |
| Nonrestricted grants and contributions..... | 23,777,003 | 38,521,736 |
| Unrestricted investment income..... | 584,028 | 1,096,779 |
| Gain on sale of capital assets..... | 8,635 | 7,838 |
| Other revenues..... | 458,502 | 2,019,017 |
| Total revenues..... | <u>207,239,482</u> | <u>216,510,684</u> |
| Expenses: | | |
| General government..... | 21,779,285 | 23,046,034 |
| Public safety..... | 52,328,325 | 53,101,263 |
| Education..... | 108,803,922 | 110,579,231 |
| Public works..... | 24,973,616 | 26,829,776 |
| Community development..... | 6,014,349 | 9,101,260 |
| Human services..... | 18,802 | 122,641 |
| Culture and recreation..... | 4,566,066 | 4,824,947 |
| Interest..... | 2,713,563 | 2,865,682 |
| Total expenses..... | <u>221,197,928</u> | <u>230,470,834</u> |
| Change in net assets..... | <u>\$ (13,958,446)</u> | <u>\$ (13,960,150)</u> |

The reduction in net assets is due to several factors. The first is the increase in the liability relating to GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This requires the recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan. In fiscal year 2010 the City, based on its actuarial valuation, reported an accrual of \$57.5 million for its portion of the liability that was not paid. This represents an increase of \$19.0 million over the prior fiscal year. Please see Note 11 for additional information.

Other elements effecting this change were:

- Property taxes, inclusive of new growth, increased by \$5.1 million.
- A decrease in investment income of \$513,000.
- Capital grants decreased by \$1 million.
- A decrease in tax lien collections of \$254,000.
- An increase in excise tax collection of \$223,000.

Business-type Activities

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

| | FY 2010 | FY 2009 |
|--|----------------------|----------------------|
| Assets: | | |
| Current assets..... | \$ 20,211,411 | \$ 22,531,531 |
| Capital assets..... | 31,840,832 | 24,830,717 |
| Total assets..... | 52,052,243 | 47,362,248 |
| Liabilities: | | |
| Current liabilities (excluding debt)..... | 204,346 | 1,302,265 |
| Noncurrent liabilities (excluding debt)..... | 597,897 | 408,208 |
| Current debt..... | 2,881,429 | 4,344,559 |
| Noncurrent debt..... | 12,919,848 | 12,946,276 |
| Total liabilities..... | 16,603,520 | 19,001,308 |
| Net Assets: | | |
| Capital assets net of related debt..... | 16,039,555 | 7,539,882 |
| Unrestricted..... | 19,409,168 | 20,821,058 |
| Total net assets..... | \$ 16,039,555 | \$ 28,360,940 |
| Program revenues: | | |
| Charges for services..... | \$ 25,622,382 | \$ 24,675,427 |
| General Revenues: | | |
| Tax liens..... | 1,413,910 | 1,609,372 |
| Unrestricted investment income..... | 159,786 | 322,087 |
| Total revenues..... | 27,196,078 | 26,606,886 |
| Expenses: | | |
| Water..... | 6,863,013 | 7,920,756 |
| Sewer..... | 13,245,282 | 12,979,914 |
| Total expenses..... | 20,108,295 | 20,900,670 |
| Change in net assets..... | \$ 7,087,783 | \$ 5,706,216 |

The water enterprise fund net assets increased \$3.6 million. This is primarily due to the City changing its policy in the prior year regarding non-profit organizations and the fund's ability to set rates to cover costs of operations, along with the fact that the prior year saw more repairs and maintenance expenses as opposed to capitalized expenses in the current year.

The sewer enterprise fund net assets increased \$3.4 million. This is primarily due to the fund's ability to set rates to cover costs of operations, approximately \$890,000 of sewer lien collections, and debt principal payments exceeding depreciation by \$707,000 during fiscal year 2010.

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 \$68.4 million, an increase of \$11.3 million from the prior year. Approximately 19% of this total amount (\$9.2 million undesignated, \$3.5 designated) 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. Another 40% (\$27.1 million) of fund balance is also 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 been: 1) committed to liquidate prior period purchase orders, contracts, and ongoing capital articles (\$4.8 million); 2) is restricted for loans and expenditure by grants or other outside restrictions (\$13 million) 3) has been restricted by management for other purposes (\$10.4 million) or 4) has been restricted for perpetual permanent funds (\$433 thousand).

The general fund is the chief operating fund of the City of Somerville. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$9.2 million and the unreserved designated fund balance was 3.5 million, *while* the total fund balance equaled \$27.9 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 7% of total general fund appropriations, while total fund balance represents 15.5% of that same amount.

The City's general fund increased \$1.2 million in the current fiscal year. The primary reason for the increase is due to a \$1 million transfer from receipts reserved for appropriations from Developer on Assembly Square receipts to the rainy day stabilization fund.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase of \$1.2 million. This increase is attributable to increases in public safety, education and public works and a transfer out of \$850,000 to capital project stabilization fund.

Capital Asset and Debt Administration

Capital assets. The City of Somerville's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$156.5 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 \$230,000. 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:

- Improvements to the city’s recreational parks
- Various investments were made to improve and expand the buildings of the School department and Public works;
- A variety of infrastructure investments occurred within the street and sidewalk 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 within the governmental activities.

| | 2010 | 2009 |
|---------------------------------|-----------------------|-----------------------|
| Land and land improvements..... | \$ 28,247,536 | \$ 27,298,261 |
| Construction in progress..... | 2,280,622 | 9,269,976 |
| Books and periodicals..... | 578,542 | 657,714 |
| Buildings and improvements..... | 107,497,061 | 103,263,207 |
| Machinery and equipment..... | 3,206,634 | 2,141,968 |
| Vehicles..... | 3,817,902 | 3,440,013 |
| Infrastructure..... | <u>10,855,116</u> | <u>10,182,722</u> |
| Total..... | <u>\$ 156,483,413</u> | <u>\$ 156,253,861</u> |

Long-term debt. At the end of the current fiscal year, the City of Somerville had total governmental bonded debt outstanding of \$69.1 million. Additionally, reported governmental short-term borrowing of \$6.3 million is due to various school projects, departmental equipment acquisitions and recreational building improvements.

General Obligation Bonds Outstanding

Governmental activities:

| | 2010 | 2009 |
|--|----------------------|----------------------|
| Municipal Purpose - August 16, 2006 (Refunding)... | \$ 18,080,000 | \$ 20,240,000 |
| Municipal Purpose - February 15, 2002..... | 2,475,000 | 18,115,000 |
| General Obligation Bond - March 15, 2004..... | 3,929,386 | 4,724,258 |
| Municipal Purpose - August 15, 2006..... | 5,405,000 | 6,115,000 |
| MSBA - February 12, 2008..... | 8,374,417 | 8,738,522 |
| Municipal Purpose - February 1, 2009..... | 4,435,000 | 4,975,000 |
| Municipal Purpose - February 15, 2010..... | 2,924,000 | - |
| Municipal Purpose - April 1, 2010 (Refunding)..... | 15,129,000 | - |
| Municipal Purpose - June 15, 2010..... | <u>7,771,000</u> | <u>-</u> |
| Total bonds and notes payable..... | 68,522,803 | 62,907,780 |
| Section 108 Intergovernmental Loans..... | <u>600,000</u> | <u>900,000</u> |
| Total..... | <u>\$ 69,122,803</u> | <u>\$ 63,807,780</u> |

During fiscal year 2010, the City's long-term debt increased \$5.3 million. This change is due to the net effect of current year principal payments combined with the issuance of refunding and general obligation bonds for various projects during fiscal year 2010. See note 8 for further long term debt information.

Standard & Poor's have assigned a rating of AA- and Moody's have assigned a rating of Aa2 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 \$61,664 for the Commonwealth and \$50,046 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 6.3%, which is a 14.86% drop from a rate of 7.4% a year ago. This compares favorably to the state's average unemployment rate of 8.3% and the national average of 9%.
- According to the City's Board of Assessors, the average fiscal year 2009 single family home in the city is valued at \$410,000; the average two-family home is valued at \$499,500; the average fiscal year 2009 commercial and industrial property is valued at \$1,421,700. All compared favorably with state and national property values.

Requests for Information

This financial report is designed to provide a general overview of the City 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, 2010

| | <i>Primary Government</i> | | |
|--|-------------------------------|-----------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 70,272,066 | \$ 7,581,432 | \$ 77,853,498 |
| Receivables, net of allowance for uncollectibles: | | | |
| Real estate and personal property taxes..... | 932,593 | - | 932,593 |
| Tax liens and foreclosures..... | 3,645,889 | 53,969 | 3,699,858 |
| Motor vehicle excise tax..... | 44,504 | - | 44,504 |
| User fees..... | - | 12,576,010 | 12,576,010 |
| Departmental and other..... | 5,706,299 | - | 5,706,299 |
| Intergovernmental..... | 11,604,892 | - | 11,604,892 |
| Loans..... | 12,989,978 | - | 12,989,978 |
| Other assets..... | 713 | - | 713 |
| Deferred charges on refunding..... | 282,573 | - | 282,573 |
| NONCURRENT: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Intergovernmental..... | 25,853,230 | - | 25,853,230 |
| Deferred charges on refunding..... | 1,518,763 | - | 1,518,763 |
| Capital assets, net of accumulated depreciation..... | 156,483,413 | 31,840,832 | 188,324,245 |
| TOTAL ASSETS..... | 289,334,913 | 52,052,243 | 341,387,156 |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | 3,289,803 | 116,525 | 3,406,328 |
| Accrued payroll..... | 1,974,699 | 30,176 | 2,004,875 |
| Health claims payable..... | 1,861,562 | - | 1,861,562 |
| Tax refunds payable..... | 1,362,000 | - | 1,362,000 |
| Accrued interest..... | 718,349 | 55,345 | 773,694 |
| Payroll withholdings..... | 22,693 | - | 22,693 |
| Abandoned property..... | 716,123 | - | 716,123 |
| Compensated absences..... | 159,352 | 2,300 | 161,652 |
| Workers' compensation..... | 240,500 | - | 240,500 |
| Unamortized premium on bonds payable..... | 75,397 | - | 75,397 |
| Intergovernmental loans payable..... | 300,000 | - | 300,000 |
| Bonds and notes payable..... | 12,805,151 | 2,881,429 | 15,686,580 |
| NONCURRENT: | | | |
| Compensated absences..... | 3,008,048 | 55,800 | 3,063,848 |
| Workers' compensation..... | 721,500 | - | 721,500 |
| Other postemployment benefits..... | 57,520,204 | 542,097 | 58,062,301 |
| Unamortized premium on bonds payable..... | 607,212 | - | 607,212 |
| Intergovernmental loans payable..... | 300,000 | - | 300,000 |
| Bonds and notes payable..... | 62,022,852 | 12,919,848 | 74,942,700 |
| TOTAL LIABILITIES..... | 147,705,445 | 16,603,520 | 164,308,965 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | 114,146,078 | 16,039,555 | 130,185,633 |
| Restricted for: | | | |
| Streets..... | 1,557,261 | - | 1,557,261 |
| Community development..... | 6,376,577 | - | 6,376,577 |
| Loans..... | 12,989,978 | - | 12,989,978 |
| Permanent funds: | | | |
| Expendable..... | 163,066 | - | 163,066 |
| Nonexpendable..... | 433,126 | - | 433,126 |
| Other specific purposes..... | 2,594,241 | - | 2,594,241 |
| Unrestricted..... | 3,369,141 | 19,409,168 | 22,778,309 |
| TOTAL NET ASSETS..... | \$ 141,629,468 | \$ 35,448,723 | \$ 177,078,191 |

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2010

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|--|-----------------------|-------------------------|--|--|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary Government: | | | | | |
| <i>Governmental Activities:</i> | | | | | |
| General government..... | \$ 21,779,285 | \$ 3,929,772 | \$ 1,142,773 | \$ - | \$ (16,706,740) |
| Public safety..... | 52,328,325 | 11,653,283 | 1,582,812 | - | (39,092,230) |
| Education..... | 108,803,922 | 1,523,386 | 47,963,393 | - | (59,317,143) |
| Public works..... | 24,973,616 | 384,629 | 816,657 | - | (23,772,330) |
| Community development..... | 6,014,349 | 560 | 9,596,234 | - | 3,582,445 |
| Human services..... | 18,802 | 367,285 | 83,314 | - | 431,797 |
| Culture and recreation..... | 4,566,066 | 759,428 | 384,871 | - | (3,421,767) |
| Interest..... | 2,713,563 | - | 632,838 | - | (2,080,725) |
| Total Governmental Activities..... | 221,197,928 | 18,618,343 | 62,202,892 | - | (140,376,693) |
| <i>Business-Type Activities:</i> | | | | | |
| Water | 6,863,013 | 9,968,139 | - | - | 3,105,126 |
| Sewer..... | 13,245,282 | 15,654,243 | - | - | 2,408,961 |
| Total Business-Type Activities..... | 20,108,295 | 25,622,382 | - | - | 5,514,087 |
| Total Primary Government..... | \$ 241,306,223 | \$ 44,240,725 | \$ 62,202,892 | \$ - | \$ (134,862,606) |

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2010

| | Primary Government | | |
|---|-------------------------------|-----------------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Changes in net assets: | | | |
| Net (expense) revenue from previous page..... | \$ (140,376,693) | \$ 5,514,087 | \$ (134,862,606) |
| <i>General revenues:</i> | | | |
| Real estate and personal property taxes, net of tax refunds payable..... | 94,556,361 | - | 94,556,361 |
| Tax and utility liens..... | 1,473,382 | 1,413,910 | 2,887,292 |
| Motor vehicle and other excise taxes..... | 4,414,024 | - | 4,414,024 |
| Penalties and interest on taxes..... | 982,668 | - | 982,668 |
| Payments in lieu of taxes..... | 163,644 | - | 163,644 |
| Grants and contributions not restricted to specific programs..... | 23,777,003 | - | 23,777,003 |
| Unrestricted investment income..... | 584,028 | 159,786 | 743,814 |
| Gain on sale of assets..... | 8,635 | - | 8,635 |
| Miscellaneous..... | 458,502 | - | 458,502 |
| Total general revenues and transfers..... | 126,418,247 | 1,573,696 | 127,991,943 |
| Change in net assets..... | (13,958,446) | 7,087,783 | (6,870,663) |
| <i>Net Assets:</i> | | | |
| Beginning of year..... | 155,587,914 | 28,360,940 | 183,948,854 |
| End of year..... | \$ 141,629,468 | \$ 35,448,723 | \$ 177,078,191 |

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2010

| ASSETS | <u>General</u> | <u>Strategic Planning & Community Development</u> | <u>School Construction Fund</u> | <u>Bonded Capital Projects Fund</u> | <u>Stabilization Funds</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|---|---|---|--------------------------------|--|---|
| Cash and cash equivalents..... | \$ 35,867,071 | \$ 580,691 | \$ 1,353,465 | \$ 2,126,460 | \$ 9,994,651 | \$ 20,349,728 | \$ 70,272,066 |
| Receivables, net of uncollectibles: | | | | | | | |
| Real estate and personal property taxes..... | 932,593 | - | - | - | - | - | 932,593 |
| Tax liens and foreclosures..... | 3,645,889 | - | - | - | - | - | 3,645,889 |
| Motor vehicle excise taxes..... | 44,504 | - | - | - | - | - | 44,504 |
| Departmental and other..... | 5,706,299 | - | - | - | - | - | 5,706,299 |
| Intergovernmental..... | 29,501,528 | 6,012,364 | - | - | - | 1,944,230 | 37,458,122 |
| Loans..... | - | 12,989,978 | - | - | - | - | 12,989,978 |
| Other assets..... | 713 | - | - | - | - | - | 713 |
| TOTAL ASSETS..... | \$ 75,698,597 | \$ 19,583,033 | \$ 1,353,465 | \$ 2,126,460 | \$ 9,994,651 | \$ 22,293,958 | \$ 131,050,164 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| LIABILITIES: | | | | | | | |
| Warrants payable..... | \$ 2,581,957 | \$ 169,765 | \$ 204,382 | \$ 286,403 | \$ - | \$ 47,296 | \$ 3,289,803 |
| Accrued payroll..... | 1,769,808 | 46,713 | - | - | - | 158,178 | 1,974,699 |
| Health claims payable..... | 1,861,562 | - | - | - | - | - | 1,861,562 |
| Tax refunds payable..... | 1,362,000 | - | - | - | - | - | 1,362,000 |
| Payroll withholdings..... | 22,693 | - | - | - | - | - | 22,693 |
| Abandoned property..... | 716,123 | - | - | - | - | - | 716,123 |
| Deferred revenues..... | 39,486,016 | 6,012,364 | - | - | - | 1,629,648 | 47,128,028 |
| Notes payable..... | - | - | 445,000 | 5,860,200 | - | - | 6,305,200 |
| TOTAL LIABILITIES..... | 47,800,159 | 6,228,842 | 649,382 | 6,146,603 | - | 1,835,122 | 62,660,108 |
| FUND BALANCES: | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances and continuing appropriations..... | 4,808,278 | - | - | - | - | - | 4,808,278 |
| Loans..... | - | 12,989,978 | - | - | - | - | 12,989,978 |
| Stabilization..... | 4,002,224 | - | - | - | - | - | 4,002,224 |
| Employee benefits..... | 6,400,233 | - | - | - | - | - | 6,400,233 |
| Perpetual permanent funds..... | - | - | - | - | - | 433,126 | 433,126 |
| Unreserved: | | | | | | | |
| Designated for subsequent year's expenditures..... | 3,500,000 | - | - | - | - | - | 3,500,000 |
| Undesignated, reported in: | | | | | | | |
| General fund..... | 9,187,703 | - | - | - | - | - | 9,187,703 |
| Special revenue funds..... | - | 364,213 | - | - | - | 19,862,644 | 20,226,857 |
| Capital projects funds..... | - | - | 704,083 | (4,020,143) | 9,994,651 | - | 6,678,591 |
| Permanent funds..... | - | - | - | - | - | 163,066 | 163,066 |
| TOTAL FUND BALANCES..... | 27,898,438 | 13,354,191 | 704,083 | (4,020,143) | 9,994,651 | 20,458,836 | 68,390,056 |
| TOTAL LIABILITIES AND FUND BALANCES..... | \$ 75,698,597 | \$ 19,583,033 | \$ 1,353,465 | \$ 2,126,460 | \$ 9,994,651 | \$ 22,293,958 | \$ 131,050,164 |

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, 2010

| | | |
|---|---------------------|-----------------------|
| Total governmental fund balances..... | | \$ 68,390,056 |
| Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds..... | | 156,483,413 |
| Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds..... | | 47,128,028 |
| In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due..... | | (718,349) |
| 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..... | (69,122,803) | |
| Workers compensation..... | (962,000) | |
| Compensated absences..... | (3,167,400) | |
| Other postemployment benefits..... | <u>(57,520,204)</u> | |
| Net effect of reporting long-term liabilities..... | | (130,772,407) |
| In the statement of activities, material bond premiums are amortized over the life of the debt issuance..... | | (682,609) |
| 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..... | | <u>1,801,336</u> |
| Net assets of governmental activities..... | | <u>\$ 141,629,468</u> |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

| | General | Strategic Planning & Community Development | School Construction Fund | Bonded Capital Projects Fund | Stabilization Funds | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|---|--------------------------------|------------------------------------|------------------------|-----------------------------------|--------------------------------|
| REVENUES: | | | | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ 95,031,409 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 95,031,409 |
| Tax liens..... | 1,078,578 | - | - | - | - | - | 1,078,578 |
| Motor vehicle and other excise taxes..... | 4,563,267 | - | - | - | - | - | 4,563,267 |
| Payments in lieu of taxes..... | 163,644 | - | - | - | - | - | 163,644 |
| Intergovernmental..... | 62,787,400 | 8,726,390 | - | - | - | 12,196,628 | 83,710,418 |
| Departmental and other..... | 16,472,773 | 254,923 | - | - | - | 6,573,298 | 23,300,994 |
| Contributions..... | - | - | - | - | 21,900 | 1,140,445 | 1,162,345 |
| Investment income..... | 539,957 | 4,857 | - | - | 26,831 | 12,383 | 584,028 |
| Miscellaneous..... | - | - | - | - | 145,000 | 167,803 | 312,803 |
| TOTAL REVENUES..... | 180,637,028 | 8,986,170 | - | - | 193,731 | 20,090,557 | 209,907,486 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government..... | 10,167,005 | - | - | 1,067,321 | 115,599 | 1,034,167 | 12,384,092 |
| Public safety..... | 30,103,237 | - | - | 300,962 | 598,830 | 1,770,473 | 32,773,502 |
| Education..... | 47,550,217 | - | 458,326 | 227,896 | 62,000 | 12,450,810 | 60,749,249 |
| Public works..... | 19,213,158 | - | - | 45,225 | 236,557 | 936,130 | 20,431,070 |
| Community development..... | - | 5,935,365 | - | - | - | 187,984 | 6,123,349 |
| Human services..... | - | - | - | - | - | 2,681 | 2,681 |
| Culture and recreation..... | 2,109,456 | - | 116,403 | 2,091,393 | 130,130 | 671,079 | 5,118,461 |
| Pension benefits..... | 25,028,473 | - | - | - | - | - | 25,028,473 |
| Employee benefits..... | 28,046,345 | - | - | - | - | - | 28,046,345 |
| State and county charges..... | 9,815,484 | - | - | - | - | - | 9,815,484 |
| Debt service: | | | | | | | |
| Principal..... | 5,748,976 | 300,000 | - | - | - | - | 6,048,976 |
| Interest..... | 2,779,156 | 23,580 | - | - | - | - | 2,802,736 |
| TOTAL EXPENDITURES..... | 180,561,507 | 6,258,945 | 574,729 | 3,732,797 | 1,143,116 | 17,053,324 | 209,324,418 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES..... | 75,521 | 2,727,225 | (574,729) | (3,732,797) | (949,385) | 3,037,233 | 583,068 |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Proceeds from bonds and notes..... | - | - | 2,579,800 | 8,115,200 | - | - | 10,695,000 |
| Proceeds from refunding bonds..... | 15,129,000 | - | - | - | - | - | 15,129,000 |
| Payment to refunding escrow agent..... | (15,811,609) | - | - | - | - | - | (15,811,609) |
| Premium from issuance of bonds..... | 10,000 | - | - | - | - | - | 10,000 |
| Premium from issuance of refunding bonds..... | 682,609 | - | - | - | - | - | 682,609 |
| Sale of capital assets..... | 8,635 | - | - | - | - | - | 8,635 |
| Transfers in..... | 1,960,976 | - | 484,203 | - | 850,000 | - | 3,295,179 |
| Transfers out..... | (850,000) | - | - | (34,203) | - | (2,410,976) | (3,295,179) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | 1,129,611 | - | 3,064,003 | 8,080,997 | 850,000 | (2,410,976) | 10,713,635 |
| NET CHANGE IN FUND BALANCES..... | 1,205,132 | 2,727,225 | 2,489,274 | 4,348,200 | (99,385) | 626,257 | 11,296,703 |
| FUND BALANCES (DEFICITS) AT BEGINNING OF YEAR..... | 26,693,306 | 10,626,966 | (1,785,191) | (8,368,343) | 10,094,036 | 19,832,579 | 57,093,353 |
| FUND BALANCES (DEFICITS) AT END OF YEAR..... | \$ 27,898,438 | \$ 13,354,191 | \$ 704,083 | \$ (4,020,143) | \$ 9,994,651 | \$ 20,458,836 | \$ 68,390,056 |

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, 2010

Net change in fund balances - total governmental funds..... \$ 11,296,703

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..... | 6,576,020 | |
| Depreciation expense..... | (6,346,468) | |
| | | |
| Net effect of reporting capital assets..... | | 229,552 |

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..... (2,676,639)

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..... | (10,695,000) | |
| Proceeds from refunding bonds..... | (15,129,000) | |
| Payments to refunded bond escrow agent..... | 15,811,609 | |
| Premium from issuance of refunding bonds..... | (682,609) | |
| Debt service principal payments..... | 6,048,976 | |
| Amortization of deferred charge on refunding..... | (151,974) | |
| | | |
| Net effect of reporting long-term debt..... | | (4,797,998) |

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..... | 239,600 | |
| Net change in accrued interest on long-term debt..... | 231,147 | |
| Net change in workers' compensation accrual..... | 543,000 | |
| Net change in postemployment benefits liability..... | (19,023,811) | |
| | | |
| Net effect of recording long-term liabilities and amortizing deferred losses..... | | (18,010,064) |

Change in net assets of governmental activities..... \$ (13,958,446)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2010

| | Business-Type Activities - Enterprise Funds | | |
|--|---|-----------------------------|-----------------------------|
| | Water | Sewer | Total |
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 2,291,392 | \$ 5,290,040 | \$ 7,581,432 |
| Receivables, net of allowance for uncollectibles: | | | |
| User fees..... | 4,754,674 | 7,821,336 | 12,576,010 |
| Tax liens..... | 17,857 | 36,112 | 53,969 |
| Total current assets..... | <u>7,063,923</u> | <u>13,147,488</u> | <u>20,211,411</u> |
| NONCURRENT: | | | |
| Capital assets, net of accumulated depreciation..... | <u>23,484,102</u> | <u>8,356,730</u> | <u>31,840,832</u> |
| TOTAL ASSETS..... | \$ <u>30,548,025</u> | \$ <u>21,504,218</u> | \$ <u>52,052,243</u> |
| LIABILITIES | | | |
| CURRENT: | | | |
| Warrants payable..... | \$ 116,525 | \$ - | \$ 116,525 |
| Accrued payroll..... | 24,109 | 6,067 | 30,176 |
| Accrued interest..... | 22,063 | 33,282 | 55,345 |
| Compensated absences..... | 2,100 | 200 | 2,300 |
| Bonds and notes payable..... | 2,091,741 | 789,688 | 2,881,429 |
| Total current liabilities..... | <u>2,256,538</u> | <u>829,237</u> | <u>3,085,775</u> |
| NONCURRENT: | | | |
| Compensated absences..... | 48,100 | 7,700 | 55,800 |
| Other postemployment benefits..... | 443,065 | 99,032 | 542,097 |
| Bonds and notes payable..... | 10,130,566 | 2,789,282 | 12,919,848 |
| Total noncurrent liabilities..... | <u>10,621,731</u> | <u>2,896,014</u> | <u>13,517,745</u> |
| TOTAL LIABILITIES..... | <u>12,878,269</u> | <u>3,725,251</u> | <u>16,603,520</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt..... | 11,261,795 | 4,777,760 | 16,039,555 |
| Unrestricted..... | 6,407,961 | 13,001,207 | 19,409,168 |
| TOTAL NET ASSETS..... | \$ <u>17,669,756</u> | \$ <u>17,778,967</u> | \$ <u>35,448,723</u> |

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2010

| | <u>Business-Type Activities - Enterprise Funds</u> | | |
|---|--|-----------------------------|-----------------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
| <u>OPERATING REVENUES:</u> | | | |
| Charges for services | \$ 9,968,139 | \$ 15,654,243 | \$ 25,622,382 |
| Utility liens..... | <u>523,709</u> | <u>890,201</u> | <u>1,413,910</u> |
| TOTAL OPERATING REVENUES | <u>10,491,848</u> | <u>16,544,444</u> | <u>27,036,292</u> |
| <u>OPERATING EXPENSES:</u> | | | |
| Cost of services and administration | 6,040,263 | 12,935,250 | 18,975,513 |
| Depreciation..... | <u>613,771</u> | <u>175,865</u> | <u>789,636</u> |
| TOTAL OPERATING EXPENSES | <u>6,654,034</u> | <u>13,111,115</u> | <u>19,765,149</u> |
| OPERATING INCOME (LOSS)..... | <u>3,837,814</u> | <u>3,433,329</u> | <u>7,271,143</u> |
| <u>NONOPERATING REVENUES (EXPENSES):</u> | | | |
| Investment income..... | 20,517 | 139,269 | 159,786 |
| Interest expense..... | <u>(208,979)</u> | <u>(134,167)</u> | <u>(343,146)</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET..... | <u>(188,462)</u> | <u>5,102</u> | <u>(183,360)</u> |
| CHANGE IN NET ASSETS..... | 3,649,352 | 3,438,431 | 7,087,783 |
| NET ASSETS AT BEGINNING OF YEAR..... | <u>14,020,404</u> | <u>14,340,536</u> | <u>28,360,940</u> |
| NET ASSETS AT END OF YEAR..... | \$ <u>17,669,756</u> | \$ <u>17,778,967</u> | \$ <u>35,448,723</u> |

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2010

| | Business-Type Activities - Enterprise Funds | | |
|---|---|---------------------|---------------------|
| | Water | Sewer | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipts from customers and users..... | \$ 10,021,734 | \$ 15,731,288 | \$ 25,753,022 |
| Payments to vendors..... | (5,518,576) | (13,125,662) | (18,644,238) |
| Payments to employees..... | (1,058,922) | (168,210) | (1,227,132) |
| NET CASH FROM OPERATING ACTIVITIES..... | 3,444,236 | 2,437,416 | 5,881,652 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Proceeds from the issuance of bonds and notes..... | 6,996,000 | 419,000 | 7,415,000 |
| Acquisition and construction of capital assets..... | (6,369,622) | (1,430,129) | (7,799,751) |
| Principal payments on bonds and notes..... | (7,621,283) | (1,283,275) | (8,904,558) |
| Interest expense..... | (214,412) | (141,107) | (355,519) |
| NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES..... | (7,209,317) | (2,435,511) | (9,644,828) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Investment income..... | 20,517 | 139,269 | 159,786 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS..... | (3,744,564) | 141,174 | (3,603,390) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..... | 6,035,956 | 5,148,866 | 11,184,822 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 2,291,392 | \$ 5,290,040 | \$ 7,581,432 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES: | | | |
| Operating income (loss)..... | \$ 3,837,814 | \$ 3,433,329 | \$ 7,271,143 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | |
| Depreciation..... | 613,771 | 175,865 | 789,636 |
| Changes in assets and liabilities: | | | |
| Tax Liens..... | 4,477 | 41,388 | 45,865 |
| User fees..... | (474,591) | (854,544) | (1,329,135) |
| Warrants payable..... | (684,119) | (390,556) | (1,074,675) |
| Accrued payroll..... | (2,952) | (5,219) | (8,171) |
| Accrued compensated absences..... | 3,300 | 4,400 | 7,700 |
| Other postemployment benefits..... | 146,536 | 32,753 | 179,289 |
| Total adjustments..... | (393,578) | (995,913) | (1,389,491) |
| NET CASH FROM OPERATING ACTIVITIES..... | \$ 3,444,236 | \$ 2,437,416 | \$ 5,881,652 |

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

| | Pension Trust Fund (as of December 31, 2009) | Private Purpose Trust Funds | Agency Funds |
|--|---|-----------------------------------|-----------------|
| ASSETS | | | |
| CURRENT: | | | |
| Cash and cash equivalents..... | \$ 1,240,506 | \$ 84,773 | \$ 419,922 |
| Investments..... | 158,982,565 | - | - |
| Interest and dividends..... | 109,929 | - | - |
| Receivables, net of allowance for uncollectibles: | | | |
| Departmental and other..... | - | - | 36,406 |
| Intergovernmental..... | 2,871,947 | - | - |
| TOTAL ASSETS..... | 163,204,947 | 84,773 | 456,328 |
| LIABILITIES | | | |
| Warrants payable..... | 71,345 | - | - |
| Accrued liabilities..... | - | - | 98,051 |
| Liabilities due depositors..... | - | - | 358,277 |
| TOTAL LIABILITIES..... | 71,345 | - | 456,328 |
| NET ASSETS | | | |
| Held in trust for pension benefits and other purposes..... | \$ 163,133,602 | \$ 84,773 | \$ - |

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2010

| | Pension Trust Fund (as of December 31, 2009) | Private Purpose Trust Funds |
|--|---|-----------------------------------|
| ADDITIONS: | | |
| Contributions: | | |
| Employer..... | \$ 10,197,347 | \$ - |
| Employee..... | 5,311,149 | - |
| Private donations..... | - | 3,577 |
| Total contributions..... | <u>15,508,496</u> | <u>3,577</u> |
| Net investment income (loss): | | |
| Net change in fair value of investments..... | 25,698,779 | - |
| Interest..... | <u>5,150,913</u> | <u>854</u> |
| Total investment income (loss)..... | 30,849,692 | 854 |
| Less: investment expense..... | <u>(691,822)</u> | <u>-</u> |
| Net investment income (loss)..... | <u>30,157,870</u> | <u>854</u> |
| Intergovernmental..... | <u>729,393</u> | <u>-</u> |
| Transfers from other systems..... | <u>338,910</u> | <u>-</u> |
| TOTAL ADDITIONS..... | <u>46,734,669</u> | <u>4,431</u> |
| DEDUCTIONS: | | |
| Administration..... | 297,681 | - |
| Transfers to other systems..... | 1,075,139 | - |
| Retirement benefits and refunds..... | 20,272,414 | - |
| Educational scholarships..... | - | 5,420 |
| TOTAL DEDUCTIONS..... | <u>21,645,234</u> | <u>5,420</u> |
| CHANGE IN NET ASSETS..... | 25,089,435 | (989) |
| NET ASSETS AT BEGINNING OF YEAR..... | <u>138,044,167</u> | <u>85,762</u> |
| NET ASSETS AT END OF YEAR..... | <u>\$ 163,133,602</u> | <u>\$ 84,773</u> |

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 *stabilization funds major fund* is made up of five separate stabilization funds. The following funds make up the stabilization major fund:

- *East Somerville Stabilization Fund* – used to fund traffic mitigation and improvement measures on and near lower Broadway.
- *Capital Projects Stabilization Fund* – used to fund necessary capital improvements.
- *Assembly Square Construction Stabilization Fund* – used to fund park rehabilitation and improvement projects.

- *Max-Pak Stabilization Fund* – used to fund ward five benefits and/or amenities in accordance with the development covenant for the 56 Clyde Street acquisition.
- *Street Tree Stabilization Fund* – used to fund the installation and removal of street trees around the City.
- *Traffic Safety Stabilization Fund* – used to fund traffic and pedestrian safety improvement projects under the Sustainable Transportation Assessment and Recommendation Team Program (Safe START).
- *Mitigation Stabilization Fund* – is made up of the following:
 - *Assembly Square Fire Security Box Fund* – used to fund installation of a wireless fire box at Assembly Square.
 - *Wellington Undercarriage Fund* – used to fund the final design and construction of the Wellington Undercarriage for the Mystic River bicycle path.
 - *Algonquin Gas Loop Fund* – used to fund construction of streets, sidewalks, and related work associated with the reconstruction of interstate gas pipelines within the City of Somerville.

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, such as federal and state grants.

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 projected expenditures in the upcoming fiscal year.

“Loans” represents community development outstanding loans receivable balances.

“Stabilization” represents the amount accumulated for general and/or capital purposes.

“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.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2011 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. 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.

P. Individual Fund Deficits

At June 30, 2010, the Bonded Capital Projects Fund reports a fund deficit of approximately \$4,020,000. This deficit will be funded with available funds and future bond proceeds.

Q. 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 cash Equivalents". 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.

The City participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

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 \$73,784,882 and the bank balance totaled \$77,592,356. Of the bank balance, \$1,549,696 was covered by Federal Depository Insurance, \$11,381,386 was insured under the FDIC Transaction Account Guarantee Program, \$2,802,503 was covered by Share Insurance Fund, \$48,408,764 was collateralized, and \$13,450,007 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2009, carrying amount of deposits for the System totaled \$404,434 and the bank balance totaled \$786,238. The entire bank balance of the System was covered by Federal Depository Insurance and is collateralized.

Investments

As of June 30, 2010, the City of Somerville had the following investments:

| | |
|--------------------------|---------------------|
| <u>Other Investments</u> | |
| MMDT..... | \$ <u>4,573,311</u> |

As of December 31, 2009, the System had the following investments:

| Investment Type | Fair Value | Maturity | | | Rating |
|---|----------------|------------|--------------|---------------|-------------|
| | | 1-5 Years | 6-10 Years | Over 10 Years | |
| Debt Securities | | | | | |
| (1) Loomis Sayles Fixed Income Fund | \$ 49,560,408 | \$ - | \$ - | \$ 49,560,408 | Baa1 / BBB+ |
| (1) Cypress Asset Management Fixed Income Fund..... | 7,089,001 | - | 7,089,001 | - | AA1 |
| State of Israel Bond..... | 250,000 | 250,000 | - | - | unrated |
| Total Debt Securities..... | 56,899,409 | \$ 250,000 | \$ 7,089,001 | \$ 49,560,408 | |
| Other Investments | | | | | |
| Equity Mutual Funds (Domestic)..... | \$ 5,484,426 | | | | |
| Equity Mutual Funds (International)..... | 9,976,815 | | | | |
| Equities..... | 73,922,588 | | | | |
| Real Estate..... | 12,699,327 | | | | |
| Money Market Mutual Funds..... | 836,072 | | | | |
| Total Investments..... | \$ 159,818,637 | | | | |

(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 \$4,573,311 is invested with MMDT. The City does not have a formal investment policy to manage custodial credit risk.

Of the System’s investments of \$5,484,426 in Domestic Equity Mutual Funds, \$9,976,815 in International Equity Mutual Funds, \$73,922,588 in equity investments, and \$12,699,327 in Real Estate, the System has custodial credit risk exposure of \$102,083,156 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 nor 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, 2010.

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, 2010, 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..... \$ | 1,109,855 | \$ (177,262) | \$ 932,593 |
| Tax liens and foreclosures..... | 3,645,889 | - | 3,645,889 |
| Motor vehicle excise taxes..... | 2,696,210 | (2,651,706) | 44,504 |
| Departmental and other..... | 9,794,428 | (4,088,129) | 5,706,299 |
| Intergovernmental..... | 37,458,122 | - | 37,458,122 |
| Loans..... | 12,989,978 | - | 12,989,978 |
| Total..... | <u>\$ 67,694,482</u> | <u>\$ (6,917,097)</u> | <u>\$ 60,777,385</u> |

At June 30, 2010, receivables for the enterprise funds, 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> | | | |
| Sewer..... \$ | 7,821,336 | \$ - | \$ 7,821,336 |
| Water..... | 4,754,674 | - | 4,754,674 |
| Sewer liens..... | 36,112 | - | 36,112 |
| Water liens..... | 17,857 | - | 17,857 |
| Total..... | <u>\$ 12,629,979</u> | <u>\$ -</u> | <u>\$ 12,629,979</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:

| | <u>General Fund</u> | <u>Community Development</u> | <u>Governmental Funds</u> | <u>Nonmajor Total</u> |
|---|-------------------------|----------------------------------|-------------------------------|---------------------------|
| <u>Receivable type:</u> | | | | |
| Real estate and personal property taxes..... \$ | 587,796 | \$ - | \$ - | \$ 587,796 |
| Tax liens and foreclosures..... | 3,645,889 | - | - | 3,645,889 |
| Motor vehicle excise..... | 44,504 | - | - | 44,504 |
| Departmental and other..... | 5,706,299 | - | - | 5,706,299 |
| Intergovernmental..... | 29,501,528 | 6,012,364 | 1,629,648 | 37,143,540 |
| Total..... | <u>\$ 39,486,016</u> | <u>\$ 6,012,364</u> | <u>\$ 1,629,648</u> | <u>\$ 47,128,028</u> |

NOTE 4 – CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|-----------------------|---------------------------|
| Governmental Activities: | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Land..... | \$ 14,920,274 | \$ 108,000 | \$ - | \$ 15,028,274 |
| Construction in progress..... | <u>9,269,976</u> | <u>1,962,804</u> | <u>(8,952,158)</u> | <u>2,280,622</u> |
| Total capital assets not being depreciated..... | <u>24,190,250</u> | <u>2,070,804</u> | <u>(8,952,158)</u> | <u>17,308,896</u> |
| <u>Capital assets being depreciated:</u> | | | | |
| Land improvements..... | 19,066,024 | 1,636,050 | - | 20,702,074 |
| Books and periodicals..... | 2,492,309 | 66,445 | - | 2,558,754 |
| Buildings and improvements..... | 149,975,597 | 8,234,270 | - | 158,209,867 |
| Machinery and equipment..... | 6,628,196 | 1,552,429 | - | 8,180,625 |
| Vehicles..... | 10,008,464 | 848,494 | - | 10,856,958 |
| Infrastructure..... | <u>33,919,408</u> | <u>1,119,686</u> | <u>-</u> | <u>35,039,094</u> |
| Total capital assets being depreciated..... | <u>222,089,998</u> | <u>13,457,374</u> | <u>-</u> | <u>235,547,372</u> |
| <u>Less accumulated depreciation for:</u> | | | | |
| Land improvements..... | (6,688,037) | (794,775) | - | (7,482,812) |
| Books and periodicals..... | (1,834,595) | (145,617) | - | (1,980,212) |
| Buildings and improvements..... | (46,712,390) | (4,000,416) | - | (50,712,806) |
| Machinery and equipment..... | (4,486,228) | (487,763) | - | (4,973,991) |
| Vehicles..... | (6,568,451) | (470,605) | - | (7,039,056) |
| Infrastructure..... | <u>(23,736,686)</u> | <u>(447,292)</u> | <u>-</u> | <u>(24,183,978)</u> |
| Total accumulated depreciation..... | <u>(90,026,387)</u> | <u>(6,346,468)</u> | <u>-</u> | <u>(96,372,855)</u> |
| Total capital assets being depreciated, net..... | <u>132,063,611</u> | <u>7,110,906</u> | <u>-</u> | <u>139,174,517</u> |
| Total governmental activities capital assets, net..... | <u>\$ 156,253,861</u> | <u>\$ 9,181,710</u> | <u>\$ (8,952,158)</u> | <u>\$ 156,483,413</u> |

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|----------------|-------------------|
| Business-Type Activities: Water | | | | |
| <u>Capital assets not being depreciated:</u> | | | | |
| Construction in progress..... | \$ 2,212,899 | \$ - | \$ (2,212,899) | \$ - |
| <u>Capital assets being depreciated:</u> | | | | |
| Buildings..... | 16,087 | - | - | 16,087 |
| Machinery and equipment..... | 460,675 | 4,715,740 | - | 5,176,415 |
| Vehicles..... | 350,494 | 66,536 | - | 417,030 |
| Infrastructure..... | 19,862,616 | 3,800,245 | - | 23,662,861 |
| Total capital assets being depreciated..... | 20,689,872 | 8,582,521 | - | 29,272,393 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings..... | (3,621) | (805) | - | (4,426) |
| Machinery and equipment..... | (44,716) | (166,531) | - | (211,247) |
| Vehicles..... | (112,661) | (36,768) | - | (149,429) |
| Infrastructure..... | (5,013,522) | (409,667) | - | (5,423,189) |
| Total accumulated depreciation..... | (5,174,520) | (613,771) | - | (5,788,291) |
| Total capital assets being depreciated, net..... | \$ 17,728,251 | \$ 7,968,750 | \$ (2,212,899) | \$ 23,484,102 |
| | | | | |
| | Beginning Balance | Increases | Decreases | Ending Balance |
| Business-Type Activities: Sewer | | | | |
| <u>Capital assets being depreciated:</u> | | | | |
| Machinery and equipment..... | \$ 12,467 | \$ - | \$ - | \$ 12,467 |
| Vehicles..... | 53,000 | 86,785 | - | 139,785 |
| Infrastructure..... | 19,012,366 | 1,343,344 | - | 20,355,710 |
| Total capital assets being depreciated..... | 19,077,833 | 1,430,129 | - | 20,507,962 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Machinery and equipment..... | (3,741) | (2,493) | - | (6,234) |
| Vehicles..... | (18,550) | (11,232) | - | (29,782) |
| Infrastructure..... | (11,953,076) | (162,141) | - | (12,115,217) |
| Total accumulated depreciation..... | (11,975,367) | (175,865) | - | (12,151,232) |
| Total capital assets being depreciated, net..... | \$ 7,102,466 | \$ 1,254,264 | \$ - | \$ 8,356,730 |

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

| | |
|--|---------------------|
| Governmental Activities: | |
| General government..... | \$ 307,760 |
| Public safety..... | 481,903 |
| Education..... | 3,927,252 |
| Public works..... | 958,791 |
| Human services..... | 2,652 |
| Culture and recreation..... | <u>668,110</u> |
| Total depreciation expense - governmental activities..... | <u>\$ 6,346,468</u> |
| | |
| Business-Type Activities: | |
| Water..... | \$ 613,771 |
| Sewer..... | <u>175,865</u> |
| Total depreciation expense - business-type activities..... | <u>\$ 789,636</u> |

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2010, are summarized as follows:

| Operating Transfers Out: | Transfers In: | | | |
|-----------------------------------|---------------------|---------------------|--------------------------|---------------------|
| | General Fund | Stabilization Funds | School Construction Fund | Total |
| General Fund..... | \$ - | \$ 850,000 | \$ - | \$ 850,000 |
| Bonded Capital Projects Fund..... | - | - | 34,203 | 34,203 |
| Nonmajor Governmental Funds..... | <u>1,960,976</u> | <u>-</u> | <u>450,000</u> | <u>2,410,976</u> |
| Total..... | <u>\$ 1,960,976</u> | <u>\$ 850,000</u> | <u>\$ 484,203</u> | <u>\$ 3,295,179</u> |

Transfers relate to amounts voted to fund the fiscal year 2010 budget as well as the close out of certain funds maintained within the general ledger.

NOTE 6 – LEASES

Operating Leases

The City leases three buildings, a police sub-station, and a licensed parking area under several non-cancelable operating leases. The total cost of these leases for the fiscal year ended June 30, 2010 was approximately \$253,000 and is reported as general government, education and public safety expenditures in the basic financial statements. The future minimum lease payments are as follows:

| <u>Fiscal Years</u> <u>Ending June 30</u> | <u>Governmental</u> <u>Activities</u> |
|--|--|
| 2011..... | \$ 51,949 |
| 2012..... | 47,777 |
| 2013..... | <u>32,136</u> |
| Total..... | \$ <u><u>131,862</u></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, 2010, is as follows:

Governmental Activities

| Type | Purpose | Rate (%) | Due Date | Balance at June 30, 2009 | Renewed/ Issued | Retired/ Redeemed | Balance at June 30, 2010 |
|------------|---|----------|----------|--------------------------|-----------------|-------------------|--------------------------|
| BAN | Lincoln Park School..... | 1.50 | 02/19/10 | \$ 2,479,000 | \$ - | \$ 2,479,000 | \$ - |
| BAN | Energy Conservation..... | 1.50 | 02/19/10 | 7,000,000 | - | 7,000,000 | - |
| BAN | Fire Department Equipment..... | 1.50 | 02/19/10 | 144,200 | - | 144,200 | - |
| BAN | Grimmons Park..... | 1.50 | 02/19/10 | 50,000 | - | 50,000 | - |
| BAN | Albion Park..... | 1.50 | 02/19/10 | 50,000 | - | 50,000 | - |
| BAN | Hodgkins Park & Ballfield..... | 1.50 | 02/19/10 | 50,000 | - | 50,000 | - |
| BAN | Central Hill Memorial Park..... | 1.50 | 02/19/10 | 50,000 | - | 50,000 | - |
| BAN | ESCS Demolition..... | 1.50 | 02/19/10 | 100,800 | - | 100,800 | - |
| BAN | ESCS Demolition..... | 1.25 | 02/19/10 | 445,000 | - | 445,000 | - |
| BAN | Energy Conservation..... | 1.25 | 02/19/10 | 771,481 | - | 771,481 | - |
| BAN | Fire Pumper..... | 1.25 | 02/19/10 | 440,000 | - | 440,000 | - |
| BAN | Grimmons Park..... | 1.25 | 02/19/10 | 150,000 | - | 150,000 | - |
| BAN | Albion Park..... | 1.25 | 02/19/10 | 105,000 | - | 105,000 | - |
| BAN | Albion Park..... | 1.25 | 02/19/10 | 345,000 | - | 345,000 | - |
| BAN | Hodgkins Park & Ballfield..... | 1.25 | 02/19/10 | 244,000 | - | 244,000 | - |
| BAN | ESCS Demolition..... | 0.75 | 06/25/10 | - | 445,000 | 445,000 | - |
| BAN | Energy Conservation..... | 0.75 | 06/25/10 | - | 7,771,481 | 7,771,481 | - |
| BAN | Fire Pumper..... | 0.75 | 06/25/10 | - | 440,000 | 440,000 | - |
| BAN | Grimmons Park..... | 0.75 | 06/25/10 | - | 150,000 | 150,000 | - |
| BAN | Albion Park..... | 0.75 | 06/25/10 | - | 345,000 | 345,000 | - |
| BAN | Albion Park..... | 0.75 | 06/25/10 | - | 105,000 | 105,000 | - |
| BAN | Hodgkins Park & Ballfield..... | 0.75 | 06/25/10 | - | 244,000 | 244,000 | - |
| BAN | ESCS Demolition..... | 1.00 | 02/24/11 | - | 445,000 | - | 445,000 |
| BAN | Fire Pumper..... | 1.00 | 02/24/11 | - | 440,000 | - | 440,000 |
| BAN | Grimmons Park..... | 1.00 | 02/24/11 | - | 345,000 | - | 345,000 |
| BAN | Grimmons Park..... | 1.00 | 02/24/11 | - | 480,000 | - | 480,000 |
| BAN | Albion Park..... | 1.00 | 02/24/11 | - | 345,000 | - | 345,000 |
| BAN | Albion Park..... | 1.00 | 02/24/11 | - | 680,000 | - | 680,000 |
| BAN | Hodgkins Park & Ballfield..... | 1.00 | 02/24/11 | - | 735,000 | - | 735,000 |
| BAN | Hodgkins Park & Ballfield..... | 1.00 | 02/24/11 | - | 215,000 | - | 215,000 |
| BAN | Community Path..... | 1.00 | 02/24/11 | - | 288,200 | - | 288,200 |
| BAN | Computer-Financial Integrated Financial System..... | 1.00 | 02/24/11 | - | 1,707,000 | - | 1,707,000 |
| BAN | Departmental Equipment- Fire Rescue Vehicle..... | 1.00 | 02/24/11 | - | 625,000 | - | 625,000 |
| Total..... | | | | \$ 12,424,481 | \$ 15,805,681 | \$ 21,924,962 | \$ 6,305,200 |

Business-Type Activities

| Type | Purpose | Rate (%) | Due Date | June 30, 2009 | Renewed/ Issued | Retired/ Redeemed | June 30, 2010 |
|------------|------------------------------|----------|----------|---------------|-----------------|-------------------|---------------|
| BAN | Water Meters..... | 2.00 | 12/18/09 | \$ 4,400,000 | \$ - | \$ 4,400,000 | \$ - |
| BAN | Water Mains & Equipment..... | 1.50 | 02/19/10 | 1,910,000 | - | 1,910,000 | - |
| BAN | Water Meters..... | 1.00 | 02/24/11 | - | 424,000 | - | 424,000 |
| Total..... | | | | \$ 6,310,000 | \$ 424,000 | \$ 6,310,000 | \$ 424,000 |

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".

In order to take advantage of favorable interest rates, the City issued \$15,810,000 of General Obligation Refunding Bonds during fiscal year 2010. \$15,110,000 of general obligation bonds were defeased by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. The City has decreased its aggregate debt service payments by \$977,432 and will experience an economic gain of \$849,511. At June 30, 2010 \$14,460,000 of Governmental and \$650,000 of Enterprise Fund bonds outstanding from the advance refunding are considered defeased.

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

Bonds and Notes Payable Schedule – Governmental Funds

| Project | Interest Rate (%) | Outstanding at June 30, 2009 | Issued | Redeemed | Outstanding at June 30, 2010 |
|--|-------------------|------------------------------|----------------------|----------------------|------------------------------|
| Municipal Purpose - August 16, 2006 (Refunding)... | 3.5% - 5.0% | \$ 20,240,000 | \$ - | \$ 2,160,000 | \$ 18,080,000 |
| Municipal Purpose - February 15, 2002..... | 3.0% - 5.0% | 18,115,000 | - | 15,640,000 | 2,475,000 |
| General Obligation Bond - March 15, 2004..... | 2.0% - 4.0% | 4,724,258 | - | 794,872 | 3,929,386 |
| Municipal Purpose - August 15, 2006..... | 4.0% - 4.1% | 6,115,000 | - | 710,000 | 5,405,000 |
| MSBA - February 12, 2008..... | 7.1% - 8.0% | 8,738,522 | - | 364,105 | 8,374,417 |
| General Obligation Bond - February 1, 2009..... | 3.6% - 4.0% | 4,975,000 | - | 540,000 | 4,435,000 |
| Municipal Purpose - February 15, 2010..... | 2.0% - 5.0% | - | 2,924,000 | - | 2,924,000 |
| Municipal Purpose - April 1, 2010 (Refunding)..... | 2.0% - 5.0% | - | 15,129,000 | - | 15,129,000 |
| Municipal Purpose - June 15, 2010..... | 2.0% - 5.0% | - | 7,771,000 | - | 7,771,000 |
| Total bonds and notes payable..... | | <u>62,907,780</u> | <u>25,824,000</u> | <u>20,208,977</u> | <u>68,522,803</u> |
| Section 108 Intergovernmental Loans..... | 7.1% - 8.0% | <u>900,000</u> | <u>-</u> | <u>300,000</u> | <u>600,000</u> |
| Total..... | | <u>\$ 63,807,780</u> | <u>\$ 25,824,000</u> | <u>\$ 20,508,977</u> | <u>\$ 69,122,803</u> |

Bonds and Notes Payable Schedule – Enterprise Funds

| Project | Interest Rate (%) | Outstanding at June 30, 2009 | Issued | Redeemed | Outstanding at June 30, 2010 |
|--|-------------------|------------------------------|---------------------|---------------------|------------------------------|
| MWRA Notes..... | 0.0% | \$ 4,171,433 | \$ - | \$ 758,440 | \$ 3,412,993 |
| Municipal Purpose February 15, 2002..... | 4.5% | 325,000 | - | 275,000 | 50,000 |
| General Obligation Bond March 15, 2004..... | 4.0% | 841,157 | - | 127,843 | 713,314 |
| Municipal Purpose August 15, 2006..... | 4.0% | 1,200,000 | - | 150,000 | 1,050,000 |
| General Obligation Bond - December 15, 2009..... | 2.0% | 4,400,000 | - | - | 4,400,000 |
| Municipal Purpose - February 15, 2010..... | 2.0% - 5.0% | - | 1,910,000 | - | 1,910,000 |
| Municipal Purpose - April 1, 2010 (Refunding)..... | 2.0% - 5.0% | - | 262,000 | - | 262,000 |
| Total Water Enterprise..... | | 10,937,590 | 2,172,000 | 1,311,283 | 11,798,307 |
| MWRA Notes..... | 0.0% | 1,313,660 | - | 580,990 | 732,670 |
| Municipal Purpose February 15, 2002..... | 4.5% | 520,000 | - | 440,000 | 80,000 |
| General Obligation Bond March 15, 2004..... | 4.0% | 804,585 | - | 122,285 | 682,300 |
| Municipal Purpose - August 15, 2006..... | 4.0% | 1,805,000 | - | 140,000 | 1,665,000 |
| Municipal Purpose - April 1, 2010 (Refunding)..... | 2.0% - 5.0% | - | 419,000 | - | 419,000 |
| Total Sewer Enterprise..... | | 4,443,245 | 419,000 | 1,283,275 | 3,578,970 |
| Total..... | | \$ 15,380,835 | \$ 2,591,000 | \$ 2,594,558 | \$ 15,377,277 |

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

Governmental Funds

| Fiscal Year | Principal | Interest | Total |
|-------------------|----------------------|----------------------|----------------------|
| 2011..... | \$ 6,799,951 | \$ 2,370,811 | \$ 9,170,762 |
| 2012..... | 6,843,551 | 2,205,503 | 9,049,054 |
| 2013..... | 6,266,187 | 1,968,410 | 8,234,597 |
| 2014..... | 6,296,599 | 1,753,616 | 8,050,215 |
| 2015..... | 6,166,123 | 1,543,577 | 7,709,700 |
| 2016..... | 5,675,105 | 1,327,324 | 7,002,429 |
| 2017..... | 5,771,605 | 1,100,744 | 6,872,349 |
| 2018..... | 4,210,105 | 887,968 | 5,098,073 |
| 2019..... | 3,005,105 | 730,162 | 3,735,267 |
| 2020..... | 2,885,105 | 610,928 | 3,496,033 |
| 2021..... | 2,950,105 | 511,659 | 3,461,764 |
| 2022..... | 3,011,105 | 405,901 | 3,417,006 |
| 2023..... | 1,421,105 | 281,620 | 1,702,725 |
| 2024..... | 1,229,105 | 235,087 | 1,464,192 |
| 2025..... | 1,234,105 | 194,843 | 1,428,948 |
| 2026..... | 1,204,105 | 153,819 | 1,357,924 |
| 2027..... | 1,219,105 | 112,809 | 1,331,914 |
| 2028..... | 1,074,105 | 73,943 | 1,148,048 |
| 2029..... | 404,105 | 38,011 | 442,116 |
| 2030..... | 364,105 | 29,128 | 393,233 |
| 2031..... | 364,105 | 21,846 | 385,951 |
| 2032..... | 364,105 | 14,564 | 378,669 |
| 2033..... | 364,107 | 7,282 | 371,389 |
| Total..... | \$ 69,122,803 | \$ 16,579,555 | \$ 85,702,358 |

Water Enterprise Funds

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|----------------------|
| 2011..... | \$ 1,667,741 | \$ 132,449 | \$ 1,800,190 |
| 2012..... | 1,566,096 | 125,528 | 1,691,624 |
| 2013..... | 1,466,412 | 112,136 | 1,578,548 |
| 2014..... | 1,368,841 | 99,176 | 1,468,017 |
| 2015..... | 1,269,436 | 85,654 | 1,355,090 |
| 2016..... | 1,172,864 | 72,811 | 1,245,675 |
| 2017..... | 965,111 | 59,885 | 1,024,996 |
| 2018..... | 713,806 | 50,640 | 764,446 |
| 2019..... | 594,000 | 44,315 | 638,315 |
| 2020..... | 109,000 | 39,115 | 148,115 |
| 2021..... | 109,000 | 34,165 | 143,165 |
| 2022..... | 113,000 | 30,435 | 143,435 |
| 2023..... | 83,000 | 26,105 | 109,105 |
| 2024..... | 80,000 | 23,200 | 103,200 |
| 2025..... | 80,000 | 20,400 | 100,400 |
| 2026..... | 80,000 | 17,400 | 97,400 |
| 2027..... | 80,000 | 14,400 | 94,400 |
| 2028..... | 80,000 | 11,200 | 91,200 |
| 2029..... | 100,000 | 8,000 | 108,000 |
| 2030..... | 100,000 | 4,000 | 104,000 |
| Total..... | \$ <u>11,798,307</u> | \$ <u>1,011,014</u> | \$ <u>12,809,321</u> |

Sewer Enterprise Funds

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|---------------------|-------------------|---------------------|
| 2011..... | \$ 789,688 | \$ 104,197 | \$ 893,885 |
| 2012..... | 445,928 | 96,636 | 542,564 |
| 2013..... | 265,338 | 87,139 | 352,477 |
| 2014..... | 262,692 | 78,002 | 340,694 |
| 2015..... | 252,769 | 68,382 | 321,151 |
| 2016..... | 255,555 | 59,290 | 314,845 |
| 2017..... | 147,000 | 50,036 | 197,036 |
| 2018..... | 145,000 | 44,576 | 189,576 |
| 2019..... | 145,000 | 38,976 | 183,976 |
| 2020..... | 145,000 | 33,176 | 178,176 |
| 2021..... | 145,000 | 27,776 | 172,776 |
| 2022..... | 140,000 | 22,076 | 162,076 |
| 2023..... | 95,000 | 16,129 | 111,129 |
| 2024..... | 95,000 | 12,234 | 107,234 |
| 2025..... | 105,000 | 8,134 | 113,134 |
| 2026..... | 75,000 | 4,435 | 79,435 |
| 2027..... | 70,000 | 1,444 | 71,444 |
| Total..... | \$ <u>3,578,970</u> | \$ <u>752,638</u> | \$ <u>4,331,608</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. At June 30, 2010, the outstanding principal amount of these loans totaled \$4,145,663.

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 2010 \$4,281,136 of such assistance was received. Approximately \$35,521,000 will be received in future fiscal years. Of this amount, approximately \$6,019,000 represents reimbursement of long-term interest costs, and approximately \$29,502,000 represents reimbursement of approved construction costs. Accordingly, a \$29,502,000 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.

At June 30, 2010 the City carried \$600,000 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, 2010, the City had the following authorized and unissued debt:

| Purpose | Amount |
|--|----------------------|
| Lincoln Park School Project..... | \$ 8,161,478 |
| Powder House Building..... | 5,800,000 |
| Sewer..... | 76,975 |
| Communications & Equipment..... | 55,000 |
| Ladder Truck..... | 34,199 |
| Albion Park | 1,025,000 |
| Grimmons Park..... | 825,000 |
| Fire Pumper..... | 440,000 |
| Hodgkins Park & Ballfield..... | 950,000 |
| Central Hill Memorial Park..... | 450,000 |
| East Somerville Community School Demolition..... | 445,000 |
| MWRA Water Loan Bond..... | 948,053 |
| New Financial Management Integrated System..... | 1,707,000 |
| Fire Rescue Truck..... | 625,000 |
| Community Path Extension..... | 288,200 |
| Water Meters..... | 424,000 |
| Veterans Ice Rink..... | 227,500 |
| Resurfacing of Streets..... | 354,166 |
| Public Safety Building..... | 584,157 |
| Somerville High School Flooring..... | 313,635 |
| 42 Cross Street..... | 336,000 |
| Total..... | <u>\$ 24,070,363</u> |

Changes in Long-term Liabilities

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

| | Balance June 30, 2009 | Additions | Reductions | Balance June 30, 2010 | Current Portion |
|---|-----------------------------|----------------------|------------------------|-----------------------------|---------------------|
| Governmental Activities: | | | | | |
| Long-Term Bonds and Notes..... | \$ 62,907,780 | \$ 25,824,000 | \$ (20,208,977) | \$ 68,522,803 | \$ 6,499,951 |
| Long-Term Intergovernmental Loans..... | 900,000 | - | (300,000) | 600,000 | 300,000 |
| Unamortized Premium on Bonds Payable... | - | 682,609 | - | 682,609 | 75,397 |
| Workers' Compensation..... | 1,505,000 | - | (543,000) | 962,000 | 240,500 |
| Other Postemployment Benefits..... | 38,496,393 | 35,197,170 | (16,173,359) | 57,520,204 | - |
| Compensated Absences..... | 3,407,000 | 1,671,962 | (1,911,562) | 3,167,400 | 159,352 |
| Total..... | <u>\$ 107,216,173</u> | <u>\$ 63,375,741</u> | <u>\$ (39,136,898)</u> | <u>\$ 131,455,016</u> | <u>\$ 7,275,200</u> |
| | Balance June 30, 2009 | Additions | Reductions | Balance June 30, 2010 | Current Portion |
| Business-Type Activities: | | | | | |
| Long-Term Bonds and Notes..... | \$ 15,380,835 | \$ 2,591,000 | \$ (2,594,558) | \$ 15,377,277 | \$ 2,457,429 |
| Other Postemployment Benefits..... | 362,808 | 331,715 | (152,426) | 542,097 | - |
| Compensated Absences..... | 50,400 | 12,700 | (5,000) | 58,100 | 2,300 |
| Total..... | <u>\$ 15,794,043</u> | <u>\$ 2,935,415</u> | <u>\$ (2,751,984)</u> | <u>\$ 15,977,474</u> | <u>\$ 2,459,729</u> |

The long-term liabilities will be liquidated in the future by the general fund and enterprise funds.

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 is based on a three month claims paid average. At June 30, 2010, the amount of the liability for health insurance claims totaled \$1,861,562. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2008, are as follows:

| | Balance at Beginning of Fiscal Year | Current Year Claims and Changes in Estimate | Claims Payments | Balance at Fiscal Year-End |
|-----------------------|---|--|--------------------|----------------------------------|
| Fiscal Year 2009..... | \$ 2,025,097 | \$ 26,790,504 | \$ (25,939,404) | \$ 2,876,197 |
| Fiscal Year 2010..... | 2,876,197 | 26,815,401 | (27,830,036) | 1,861,562 |

(b) *Workers' Compensation*

Workers' compensation claims are administered in house 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, 2010, the amount of the liability for workers' compensation claims totaled \$962,000. Changes in the reported liability since July 1, 2008, are as follows:

| | Balance at Beginning of Fiscal Year | Current Year Claims and Changes in Estimate | Claims Payments | Balance at Fiscal Year-End |
|-----------------------|---|--|--------------------|----------------------------------|
| Fiscal Year 2009..... | \$ 1,221,000 | \$ 676,415 | \$ (392,415) | \$ 1,505,000 |
| Fiscal Year 2010..... | 1,505,000 | (149,647) | (393,353) | 962,000 |

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 \$14,368,000 for the fiscal year ended June 30, 2010, 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, 2009, the System's membership consists of the following:

| | |
|--|-------------------------|
| Active members..... | 1,166 |
| Inactive members..... | 282 |
| Retirees and beneficiaries currently receiving benefits..... | <u>920</u> |
| Total..... | <u><u>2,368</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, 2010, 2009, and 2008 were \$10,399,034, \$11,789,638, and \$11,121,546, , respectively, which equaled its required contribution for each fiscal year. At June 30, 2010, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2008, 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 4.25% 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, 2008, was 15 years.

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Entry Age (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 01/01/08 | \$ 183,769,256 | \$ 280,399,899 | \$ 96,630,643 | \$ 65.5% | \$ 54,546,918 | \$ 177.2% |
| 01/01/07 | 167,527,653 | 266,454,022 | 98,926,369 | 62.9% | 48,837,222 | 202.6% |
| 01/01/04 | 145,850,905 | 246,797,910 | 100,947,005 | 59.1% | 43,875,838 | 230.1% |
| 01/01/01 | 134,378,449 | 204,557,523 | 70,179,074 | 65.7% | 44,779,084 | 156.7% |
| 01/01/98 | 103,343,920 | 168,736,337 | 65,392,417 | 61.2% | 38,969,295 | 167.8% |
| 01/01/95 | 67,754,043 | 127,119,756 | 59,365,713 | 53.3% | 31,711,990 | 187.2% |
| 01/01/92 | 58,351,419 | 115,469,624 | 57,118,205 | 50.5% | 28,547,090 | 200.1% |
| 01/01/87 | 36,135,000 | 91,470,000 | 55,335,000 | 39.5% | 22,342,000 | 247.7% |

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 2010 totaled \$308,000.

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The City of Somerville administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City’s health and life insurance plans, which covers both active and retired members, including teachers. Chapter 32b of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The City contributes 90 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 10 percent of their premium costs. For fiscal year 2010, the City’s estimated benefit payments total is \$16,325,784.

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

| | | |
|---|----|--------------------------|
| Normal cost..... | \$ | 18,453,250 |
| Amortization of unfunded actuarial accrued liability..... | | 17,830,462 |
| Interest on existing net OPEB obligation..... | | 1,360,072 |
| Adjustments to annual required contribution..... | | (2,114,900) |
| Annual OPEB cost (expense)..... | | <u>35,528,884</u> |
| Expected Benefit Payments..... | | <u>(16,325,784)</u> |
| Increase/Decrease in net OPEB obligation..... | | 19,203,100 |
| Net OPEB obligation--beginning of year..... | | <u>38,859,201</u> |
| Net OPEB obligation--end of year..... | \$ | <u><u>58,062,301</u></u> |

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 was as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------------|---------------------|--|------------------------|
| 6/30/2008 | \$ 33,234,694 | 41% | \$ 19,544,188 |
| 6/30/2009 | 34,352,866 | 44% | 38,859,201 |
| 6/30/2010 | 35,528,884 | 46% | 58,062,301 |

Funded Status and Funding Progress.

As of June 30, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$571 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$161 million, and the ratio of the UAAL to the covered payroll was 354 percent.

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

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

In the June 30, 2008, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 3.5 percent investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, and an annual medical/drug cost trend rate of 9 percent initially, graded to 5 percent over 8 years. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 4.5% per year. The remaining amortization period at June 30, 2010 is 28 years.

NOTE 12 - 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 \$1,790,692 and expires on June 30, 2010. Annual appropriations for this contract are not to exceed \$5,227,035 over the term of the contract.

The City has entered into, or is planning to enter into, contracts totaling approximately \$24,070,363 for the reconstruction of the Lincoln School, for projects relating to energy conservation and alternative energy source improvements, for the renovation of the Powder House building, demolition of a wing of the East Somerville Community School and for various street and sidewalk projects throughout the City.

NOTE 13 - 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, 2010, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although 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, 2010, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2010.

NOTE 14 – FUTURE IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2010, the following GASB pronouncements were implemented:

- The GASB issued Statement # 53, Accounting and Financial Reporting for Derivative Instruments, which is required to be implemented in fiscal year 2010. The standards in this statement require all derivative instruments be reported at fair value. This pronouncement did not impact the basic financial statements.
- The GASB issued Statement #58, Accounting and Financial Reporting for Chapter 9 Bankruptcies. The standards in this statement provide guidance for bankrupt state and local governments by establishing requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities and for classifying changes in those items and related costs. Management elected to implement this standard early and this standard did not impact the basic financial statements.

Future Implementation of GASB Pronouncements:

- The GASB issued Statement # 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.
- The GASB issued Statement #59, Financial Statements Omnibus, which is required to be implemented in fiscal year 2011. Management believes this pronouncement will require additional disclosure relative to investments held by the Town.
- The GASB issued Statement #60, Accounting and Financial Reporting for Service Concession Arrangements, which is required to be implemented in fiscal year 2013. This Statement addresses service concession arrangements, which are a type of public-private or public-public partnership. Management is evaluating whether this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No.34, which is required to be implemented in fiscal year 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.
- The GASB issued Statement #62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is required to be implemented in fiscal year 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that does not conflict with or contradict GASB pronouncements. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2010

| | Budgeted Amounts | | | |
|---|---|-----------------------------------|---------------------|---------------------|
| | Amounts Carried forward From Prior Year | Current Year Initial Budget | Original Budget | Final Budget |
| REVENUES: | | | | |
| Real estate and personal property taxes, net of tax refunds..... | \$ - | \$ 95,010,127 | \$ 95,010,127 | \$ 95,010,127 |
| Tax liens..... | - | - | - | - |
| Motor vehicle and other excise taxes..... | - | 4,035,000 | 4,035,000 | 4,035,000 |
| Payments in lieu of taxes..... | - | 155,941 | 155,941 | 155,941 |
| Intergovernmental..... | - | 48,481,892 | 48,481,892 | 48,481,892 |
| Departmental and other..... | - | 17,315,989 | 17,315,989 | 17,315,989 |
| Investment income..... | - | 624,000 | 624,000 | 624,000 |
| TOTAL REVENUES..... | - | 165,622,949 | 165,622,949 | 165,622,949 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government..... | 4,196,166 | 11,501,575 | 15,697,741 | 15,695,865 |
| Public safety..... | 209,964 | 30,803,627 | 31,013,591 | 31,133,925 |
| Education..... | 228,342 | 47,704,034 | 47,932,376 | 47,983,028 |
| Public works..... | 375,404 | 20,688,617 | 21,064,021 | 21,287,254 |
| Culture and recreation..... | - | 2,149,474 | 2,149,474 | 2,149,282 |
| Pension benefits..... | - | 10,685,783 | 10,685,783 | 10,685,783 |
| Employee benefits..... | - | 27,892,774 | 27,892,774 | 27,892,774 |
| State and county charges..... | - | 10,227,323 | 10,227,323 | 10,227,323 |
| Debt service: | | | | |
| Principal..... | - | 5,748,976 | 5,748,976 | 5,748,976 |
| Interest..... | - | 2,857,863 | 2,857,863 | 2,822,863 |
| TOTAL EXPENDITURES..... | 5,009,876 | 170,260,046 | 175,269,922 | 175,627,073 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURE | (5,009,876) | (4,637,097) | (9,646,973) | (10,004,124) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from refunding bonds..... | - | - | - | - |
| Premium from issuance of bonds..... | - | - | - | - |
| Premium from issuance of refunding bonds..... | - | - | - | - |
| Payments to refunded bond escrow agent..... | - | - | - | - |
| Sale of assets..... | - | - | - | - |
| Transfers in..... | - | 677,816 | 677,816 | 677,816 |
| Transfers out..... | - | - | - | (850,000) |
| TOTAL OTHER FINANCING SOURCES (USES)..... | - | 677,816 | 677,816 | (172,184) |
| NET CHANGE IN FUND BALANCE..... | (5,009,876) | (3,959,281) | (8,969,157) | (10,176,308) |
| BUDGETARY FUND BALANCE, Beginning of year..... | - | 18,183,117 | 18,183,117 | 18,183,117 |
| BUDGETARY FUND BALANCE, End of year..... | \$(5,009,876) | \$ 14,223,836 | \$ 9,213,960 | \$ 8,006,809 |

See notes to required supplementary information.

| | Actual Budgetary Amounts | Amounts Carried Forward To Next Year | Variance Final Budget |
|----|--------------------------------|--|--------------------------|
| \$ | 94,988,009 | \$ - | \$ (22,118) |
| | 1,078,578 | - | 1,078,578 |
| | 4,563,267 | - | 528,267 |
| | 163,644 | - | 7,703 |
| | 48,419,400 | - | (62,492) |
| | 16,472,773 | - | (843,216) |
| | 537,733 | - | (86,267) |
| | <u>166,223,404</u> | <u>-</u> | <u>600,455</u> |
| | 10,326,740 | 3,982,794 | 1,386,331 |
| | 30,000,336 | 290,421 | 843,168 |
| | 47,550,217 | 59,565 | 373,246 |
| | 19,158,918 | 428,045 | 1,700,291 |
| | 2,109,456 | 1,945 | 37,881 |
| | 10,660,473 | - | 25,310 |
| | 27,695,255 | 45,508 | 152,011 |
| | 9,815,484 | - | 411,839 |
| | 5,748,976 | - | - |
| | 2,779,156 | - | 43,707 |
| | <u>165,845,011</u> | <u>4,808,278</u> | <u>4,973,784</u> |
| | <u>378,393</u> | <u>(4,808,278)</u> | <u>5,574,239</u> |
| | 15,129,000 | - | 15,129,000 |
| | 10,000 | - | 10,000 |
| | 682,609 | - | 682,609 |
| | (15,811,609) | - | (15,811,609) |
| | 8,635 | - | 8,635 |
| | 960,976 | - | 283,160 |
| | (850,000) | - | - |
| | <u>129,611</u> | <u>-</u> | <u>301,795</u> |
| | 508,004 | (4,808,278) | 5,876,034 |
| | <u>18,183,117</u> | <u>-</u> | <u>-</u> |
| \$ | <u>18,691,121</u> | <u>(4,808,278)</u> | <u>5,876,034</u> |

Other Postemployment Benefit Plan Schedules

The Schedule of Funding progress and employer contributions compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

June 30, 2010

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Actuarial Accrued Liability (AAL) Projected Unit Credit (B) | Unfunded AAL (UAAL) (B-A) | Funded Ratio (A/B) | Covered Payroll (C) | UAAL as a Percentage of Covered Payroll ((B-A)/C) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 6/30/2008 | \$ - | \$ 570,928,572 | \$ 570,928,572 | 0% | \$ 161,325,500 | 353.9% |

Schedule of Employer Contributions

| Fiscal Year Ended | Annual Required Contribution | Actual Contributions Made | Percentage Contributed |
|-------------------------|------------------------------------|---------------------------------|---------------------------|
| 6/30/2010 | \$ 36,283,712 | \$ 16,325,784 | 45% |
| 6/30/2009 | 34,732,505 | 15,037,853 | 43% |
| 6/30/2008 | 33,234,694 | 13,690,506 | 41% |

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

| | |
|-------------------------------|--|
| Valuation date | June 30, 2008 |
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Amortization payments increasing at 4.5%, closed |
| Remaining amortization period | 28 years as of June 30, 2010 |

Actuarial Assumptions:

| | |
|------------------------------|----------------------------------|
| Investment rate of return | 3.5%, pay-as-you-go scenario |
| Medical/drug cost trend rate | 9.0% graded to 5.0% over 8 years |

Plan Membership:

| | |
|------------------------------------|---------------------|
| Current retirees and beneficiaries | 1,880 |
| Current active members | <u>1,497</u> |
| Total | <u><u>3,377</u></u> |

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**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 2010 approved budget authorized \$175,269,922 in appropriations and other amounts to be raised. During fiscal year 2010, the Board also increased appropriations by approximately \$1.2 million.

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, 2010, is on the following page:

| | |
|---|---------------------|
| Excess (deficiency) of revenues and other financing sources (uses) over expenditures - budgetary basis..... | \$ 508,004 |
| <u>Perspective difference:</u> | |
| Unemployment insurance trust recorded in the General Fund for GAAP..... | (330,290) |
| Stabilization fund recorded in the General Fund for GAAP..... | 1,002,224 |
| <u>Basis of accounting differences:</u> | |
| Net change in recording 60-day receipts accrual..... | 65,400 |
| Net change in recording tax refunds payable..... | (22,000) |
| Net change in recording unrecorded liabilities..... | (18,206) |
| Recognition of revenue for on-behalf payments..... | (14,368,000) |
| Recognition of expenditures for on-behalf payments..... | <u>14,368,000</u> |
| Excess (deficiency) of revenues and other financing sources (uses) over expenditures - GAAP basis..... | <u>\$ 1,205,132</u> |

NOTE B - OTHER POSTEMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City’s health and life insurance plans, which covers both active and retired members, including teachers.

The City currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multi-year trend information for required and actual contributions relating to the plan.

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

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.