

CITY OF SOMERVILLE, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2011

CITY OF SOMERVILLE, MASSACHUSETTS

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JUNE 30, 2011

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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, 2011 (except for the Somerville Contributory Retirement System which is as of and for the year ended December 31, 2010), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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, 2011 (except for the Somerville Contributory Retirement System which is as of December 31, 2010), 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 February 21, 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.

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

February 21, 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, 2011. 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.

Fiscal year 2011 was the City's initial year of implementation of GASB #54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of this standard has changed the fund balance components into nonspendable, restricted, committed, assigned and unassigned. Additionally, under the new standard, the City's stabilization funds are reported within the general fund as unassigned and committed.

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 and the capital projects fund in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. Data for certain governmental funds are combined into a single aggregated presentation under the caption *nonmajor governmental funds*.

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

Proprietary funds. Proprietary funds provide the same information shown as business-type activities in the government wide financial statements, only in more detail. The City uses proprietary funds to account for its 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 \$141.7 million and the business-type assets exceeded liabilities by \$41.1 million at the close of the most recent fiscal year. Key components of the City's activities are presented on the following pages.

Governmental Activities

	FY 2011
Assets:	
Current assets.....	\$ 108,006,646
Noncurrent assets (excluding capital).....	23,453,659
Capital assets.....	<u>159,302,299</u>
Total assets.....	<u>290,762,604</u>
Liabilities:	
Current liabilities (excluding debt).....	11,517,903
Noncurrent liabilities (excluding debt).....	66,384,970
Current debt.....	10,007,882
Noncurrent debt.....	<u>61,154,301</u>
Total liabilities.....	<u>149,065,056</u>
Net Assets:	
Capital assets net of related debt.....	117,701,275
Restricted.....	25,126,498
Unrestricted.....	<u>(1,130,225)</u>
Total net assets.....	\$ <u>141,697,548</u>

The largest portion of the City of Somerville's net assets, \$117.7 million, 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, \$25.1 million, 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 City has \$60.7 million of unrestricted net assets without considering the recorded liability for a portion of the postemployment healthcare obligation. That liability (\$61.8 million) is long-term in nature, and will not be funded from the \$60.7 million of unrestricted net assets at June 30, 2011.

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, for the government as a whole, for two categories for its governmental activities, and for both categories related to its business-type activities.

Included within the noncurrent assets (excluding capital) is \$22.2 million in future school construction reimbursement grants.

Long-term liabilities include \$61.2 million in general obligation bonds; \$3.3 million in compensated absence liabilities for unused vacation, special leave, and enhanced longevity benefits payable; \$761,000 in future year workers' compensation benefits payable; \$61.8 million in other postemployment benefits and \$522,000 in unamortized premium on bonds payable.

Governmental activities. Governmental activities net assets increased by \$68 thousand in fiscal year 2011.

	FY 2011
Program revenues:	
Charges for services.....	\$ 21,518,457
Operating grants and contributions.....	57,842,184
Capital grants and contributions.....	1,300,151
General Revenues:	
Real estate and personal property taxes.....	99,232,521
Tax liens.....	1,033,519
Motor vehicle and other excise taxes.....	5,067,456
Penalties and interest on taxes.....	1,266,600
Payments in lieu of taxes.....	398,281
Nonrestricted grants and contributions.....	24,479,415
Unrestricted investment income.....	419,721
Gain on sale of capital assets.....	9,355
Other revenues.....	884,039
Total revenues.....	213,451,699
Expenses:	
General government.....	21,655,742
Public safety.....	45,903,858
Education.....	108,813,913
Public works.....	23,346,672
Community development.....	7,491,176
Human services.....	9,560
Culture and recreation.....	3,880,264
Interest.....	2,282,434
Total expenses.....	213,383,619
Change in net assets.....	\$ 68,080

In fiscal 2011 the City received \$1.3 million of capital grants related to Chapter 90 projects, recorded a reduction in the liability associated with Appellate Tax Board cases of \$404 thousand, and had a general fund surplus of \$2.8 million.

These increases were offset by an increase in the liability relating to GASB Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which 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 2011 the City reported an accrual of \$61.8 million for its portion of the liability that was not paid, an increase of \$4.3 million. This increase was \$8.1 million less than anticipated due to a change in assumptions in the City's new actuarial valuation. Please see Note 12 for additional information on the OPEB liability.

Business-type Activities

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

	FY 2011
Assets:	
Current assets.....	\$ 21,810,729
Capital assets.....	33,368,962
Total assets.....	<u>55,179,691</u>
Liabilities:	
Current liabilities (excluding debt).....	122,129
Noncurrent liabilities (excluding debt).....	628,643
Current debt.....	2,051,025
Noncurrent debt.....	11,292,824
Total liabilities.....	<u>14,094,621</u>
Net Assets:	
Capital assets net of related debt.....	20,025,113
Unrestricted.....	21,059,957
Total net assets.....	<u>\$ 41,085,070</u>
Program revenues:	
Charges for services.....	\$ 27,131,220
General Revenues:	
Tax liens.....	1,562,666
Unrestricted investment income.....	162,484
Total revenues.....	<u>28,856,370</u>
Expenses:	
Water.....	9,034,024
Sewer.....	14,185,999
Total expenses.....	<u>23,220,023</u>
Change in net assets.....	<u>\$ 5,636,347</u>

The water enterprise fund net assets increased \$3.1 million. This is primarily due to the fund's ability to set rates designed to cover costs of operations, the fact that there were strong collections of both current year user fees and prior year outstanding receivables, and debt principal payments exceeding depreciation by \$802,000.

The sewer enterprise fund net assets increased \$2.6 million. This is primarily due to the fund's ability to set rates to cover costs of operations, \$980,000 of sewer lien collections, and debt principal payments exceeding depreciation by \$586,000 during fiscal year 2011.

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, *unassigned 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 \$73.3 million, of which \$40.7 million is for the general fund, \$12.3 million is for strategic planning and community development fund, a deficit of (\$42) thousand is for capital projects funds and \$20.3 million is for non-major governmental funds. Cumulatively there was an increase of \$4.9 million in fund balance from prior year.

The general fund is the chief operating fund of the City of Somerville. At the end of the current fiscal year unassigned fund balance of the general fund totaled \$11.7 million and was comprised of two components: an unreserved fund balance of \$8.9 million and a rainy day stabilization fund of \$2.8 million. Assigned fund balance was \$10.2 million which represents amounts designated for the fiscal year 2012 budget, as well as amounts that have been reserved for the use of liquidating prior period purchase orders, contracts, and ongoing capital articles. Committed fund balance was \$18.7 million which represents the City's various use specific stabilization funds now reported within the general fund as a result of the implementation of GASB Statement No. 54. 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. At year end unreserved fund balance equaled 4.8% of total general fund expenditures, while total fund balance equaled 21.8% of the same amount. Please see Note 9 for further details.

The City's general fund increased \$2.8 million in the current fiscal year. The primary reason for the increase is due to a \$1.7 million budgetary surplus, a \$1.1 million net increase in the City's various stabilization funds now included as part of the general fund as a result of the implementation of GASB Statement No. 54, and the health insurance trust also included in the general fund for GAAP reporting.

The City's strategic planning and community development fund balance increased by approximately \$202 thousand. The increase is essentially a break even for the fund. The fund operates on a grant drawdown basis and expenditures are driven based on grant allotments.

The City's capital projects funds increased by \$3.3 million. The increase is primarily due to the net effect of a \$6.3 million bond issuance offset by monies spent on current and prior fiscal year's projects.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase of \$2.6 million. This increase is attributable to increases in public safety and public works line items, as well as transfers to the capital project stabilization fund and the capital projects 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, 2011, amounts to \$159.3 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 \$2.8 million.

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.
- Various public safety machinery & equipment items.

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.

	2011	2010
Land and land improvements.....	\$ 31,779,388	\$ 28,247,536
Construction in progress.....	3,192,942	2,280,622
Books and periodicals.....	512,188	578,542
Buildings and improvements.....	104,840,652	107,497,061
Machinery and equipment.....	2,994,153	3,206,634
Vehicles.....	3,740,307	3,817,902
Infrastructure.....	<u>12,242,669</u>	<u>10,855,116</u>
Total.....	<u>\$ 159,302,299</u>	<u>\$ 156,483,413</u>

Additional information on the City's capital assets may be found in Note 4 to the financial statements.

Long-term debt. At the end of the current fiscal year, the City of Somerville had total governmental bonded debt outstanding of \$68.6 million. Additionally, the City reported governmental short-term borrowing of \$2.8 million is due to various school projects, street resurfacing and building improvements. The chart below summarizes outstanding governmental long term debt at year-end.

General Obligation Bonds Outstanding

Governmental activities:

	2011	2010
Municipal Purpose - August 16, 2006 (Refunding)...	\$ 15,870,000	\$ 18,080,000
Municipal Purpose - February 15, 2002.....	1,255,000	2,475,000
General Obligation Bond - March 15, 2004.....	3,144,540	3,929,386
Municipal Purpose - August 15, 2006.....	4,750,000	5,405,000
MSBA - February 12, 2008.....	8,010,312	8,374,417
Municipal Purpose - February 1, 2009.....	3,900,000	4,435,000
Municipal Purpose - February 15, 2010.....	2,694,000	2,924,000
Municipal Purpose - April 1, 2010 (Refunding).....	14,954,000	15,129,000
Municipal Purpose - June 15, 2010.....	7,445,000	7,771,000
Municipal Purpose - February 23, 2011.....	<u>6,305,000</u>	<u>-</u>
Total bonds payable.....	68,327,852	68,522,803
Section 108 Intergovernmental Loans.....	<u>300,000</u>	<u>600,000</u>
Total.....	<u>\$ 68,627,852</u>	<u>\$ 69,122,803</u>

During fiscal year 2011, the City's long-term debt decreased \$495,000. This change is due to the net effect of current year principal payments combined with the issuance general obligation bonds for various projects during fiscal year 2011. 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 of the City for the period 2006 – 2010 was \$61,731 compared with \$64,509 for the Commonwealth and \$51,914 for the nation. The per capita income was \$32,517, compared with \$33,966 for the Commonwealth and \$27,334 for the nation.
- The unemployment rate for the City of Somerville is approximately 5.0%, which is a 16.6% drop from a rate of 6.0% a year ago. This compares favorably to the state's average unemployment rate of 7.6% and the national average of 8.6%.
- According to the City's Board of Assessors, the average fiscal year 2012 single family home in the city is valued at \$402,000; the average two-family home is valued at \$484,800; the average fiscal year 2012 commercial and industrial property is valued at \$1,459,600. 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, 2011

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 71,184,357	\$ 11,594,000	\$ 82,778,357
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,059,707	-	1,059,707
Tax liens and foreclosures.....	3,517,685	111,925	3,629,610
Motor vehicle excise tax.....	217,360	-	217,360
User fees.....	-	10,104,804	10,104,804
Departmental and other.....	5,989,747	-	5,989,747
Intergovernmental.....	11,312,798	-	11,312,798
Loans.....	14,454,060	-	14,454,060
Other assets.....	896	-	896
Deferred charges on refunding.....	270,036	-	270,036
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	22,204,932	-	22,204,932
Deferred charges on refunding.....	1,248,727	-	1,248,727
Capital assets, net of accumulated depreciation.....	159,302,299	33,368,962	192,671,261
TOTAL ASSETS.....	290,762,604	55,179,691	345,942,295
LIABILITIES			
CURRENT:			
Warrants payable.....	3,262,451	-	3,262,451
Accrued payroll.....	1,911,092	31,123	1,942,215
Health claims payable.....	2,788,084	-	2,788,084
Tax refunds payable.....	958,000	-	958,000
Accrued interest.....	811,224	89,306	900,530
Payroll withholdings.....	244,184	-	244,184
Abandoned property.....	727,830	-	727,830
Compensated absences.....	175,996	1,700	177,696
Workers' compensation.....	253,750	-	253,750
Unamortized premium on bonds payable.....	85,292	-	85,292
Intergovernmental loans payable.....	300,000	-	300,000
Notes payable.....	2,834,331	-	2,834,331
Bonds payable.....	7,173,551	2,051,025	9,224,576
NONCURRENT:			
Compensated absences.....	3,279,404	46,000	3,325,404
Workers' compensation.....	761,250	-	761,250
Other postemployment benefits.....	61,822,396	582,643	62,405,039
Unamortized premium on bonds payable.....	521,920	-	521,920
Bonds payable.....	61,154,301	11,292,824	72,447,125
TOTAL LIABILITIES.....	149,065,056	14,094,621	163,159,677
NET ASSETS			
Invested in capital assets, net of related debt.....	117,701,275	20,025,113	137,726,388
Restricted for:			
Streets.....	2,074,960	-	2,074,960
Community development.....	5,397,405	-	5,397,405
Loans.....	14,454,060	-	14,454,060
Permanent funds:			
Expendable.....	125,130	-	125,130
Nonexpendable.....	433,126	-	433,126
Other specific purposes.....	2,641,817	-	2,641,817
Unrestricted.....	(1,130,225)	21,059,957	19,929,732
TOTAL NET ASSETS.....	\$ 141,697,548	\$ 41,085,070	\$ 182,782,618

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 21,655,742	\$ 5,111,948	\$ 2,190,637	\$ -	\$ (14,353,157)
Public safety.....	45,903,858	11,168,627	984,665	-	(33,750,566)
Education.....	108,813,913	2,773,301	46,517,454	-	(59,523,158)
Public works.....	23,346,672	1,299,535	20,000	1,300,151	(20,726,986)
Community development.....	7,491,176	641,919	6,754,407	-	(94,850)
Human services.....	9,560	94,528	667,704	-	752,672
Culture and recreation.....	3,880,264	428,599	124,660	-	(3,327,005)
Interest.....	2,282,434	-	582,657	-	(1,699,777)
Total Governmental Activities.....	213,383,619	21,518,457	57,842,184	1,300,151	(132,722,827)
<i>Business-Type Activities:</i>					
Water	9,034,024	11,499,958	-	-	2,465,934
Sewer.....	14,185,999	15,631,262	-	-	1,445,263
Total Business-Type Activities.....	23,220,023	27,131,220	-	-	3,911,197
Total Primary Government.....	\$ 236,603,642	\$ 48,649,677	\$ 57,842,184	\$ 1,300,151	\$ (128,811,630)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (132,722,827)	\$ 3,911,197	\$ (128,811,630)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	99,232,521	-	99,232,521
Tax and utility liens.....	1,033,519	1,562,666	2,596,185
Motor vehicle and other excise taxes.....	5,067,456	-	5,067,456
Penalties and interest on taxes.....	1,266,600	-	1,266,600
Payments in lieu of taxes.....	398,281	-	398,281
Grants and contributions not restricted to specific programs.....	24,479,415	-	24,479,415
Unrestricted investment income.....	419,721	162,484	582,205
Gain on disposal of assets.....	9,355	-	9,355
Miscellaneous.....	884,039	-	884,039
Total general revenues and transfers.....	132,790,907	1,725,150	134,516,057
Change in net assets.....	68,080	5,636,347	5,704,427
<i>Net Assets:</i>			
Beginning of year.....	141,629,468	35,448,723	177,078,191
End of year.....	\$ 141,697,548	\$ 41,085,070	\$ 182,782,618

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2011

ASSETS	<u>General</u>	<u>Strategic Planning & Community Development</u>	<u>Capital Projects Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 50,177,803	\$ -	\$ 2,796,378	\$ 18,210,176	\$ 71,184,357
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	1,059,707	-	-	-	1,059,707
Tax liens and foreclosures.....	3,517,685	-	-	-	3,517,685
Motor vehicle excise taxes.....	217,360	-	-	-	217,360
Departmental and other.....	5,989,747	-	-	-	5,989,747
Intergovernmental.....	25,853,230	5,397,405	-	2,267,095	33,517,730
Loans.....	-	12,743,399	-	1,710,661	14,454,060
Due from other funds.....	-	-	-	435,437	435,437
Other assets.....	896	-	-	-	896
TOTAL ASSETS.....	\$ 86,816,428	\$ 18,140,804	\$ 2,796,378	\$ 22,623,369	\$ 130,376,979
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 3,262,296	\$ -	\$ -	\$ 155	\$ 3,262,451
Accrued payroll.....	1,656,542	48,997	4,396	201,157	1,911,092
Health claims payable.....	2,788,084	-	-	-	2,788,084
Tax refunds payable.....	958,000	-	-	-	958,000
Payroll withholdings.....	244,184	-	-	-	244,184
Abandoned property.....	727,830	-	-	-	727,830
Deferred revenues.....	36,479,332	5,397,405	-	2,074,960	43,951,697
Due to other funds.....	-	435,437	-	-	435,437
Notes payable.....	-	-	2,834,331	-	2,834,331
TOTAL LIABILITIES.....	46,116,268	5,881,839	2,838,727	2,276,272	57,113,106
FUND BALANCES:					
Nonspendable.....	-	-	-	433,126	433,126
Restricted.....	-	12,258,965	-	19,913,971	32,172,936
Committed.....	18,712,499	-	-	-	18,712,499
Assigned.....	10,242,471	-	-	-	10,242,471
Unassigned.....	11,745,190	-	(42,349)	-	11,702,841
TOTAL FUND BALANCES.....	40,700,160	12,258,965	(42,349)	20,347,097	73,263,873
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 86,816,428	\$ 18,140,804	\$ 2,796,378	\$ 22,623,369	\$ 130,376,979

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, 2011

Total governmental fund balances.....		\$ 73,263,873
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		159,302,299
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		43,951,697
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(811,224)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(68,627,852)	
Workers compensation.....	(1,015,000)	
Compensated absences.....	(3,455,400)	
Other postemployment benefits.....	<u>(61,822,396)</u>	
Net effect of reporting long-term liabilities.....		(134,920,648)
In the statement of activities, material bond premiums are amortized over the life of the debt issuance.....		(607,212)
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>1,518,763</u>
Net assets of governmental activities.....		<u>\$ 141,697,548</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	General	Strategic Planning & Community Development	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 98,921,096	\$ -	\$ -	\$ -	\$ 98,921,096
Tax liens.....	1,161,723	-	-	-	1,161,723
Motor vehicle and other excise taxes.....	4,894,601	-	-	-	4,894,601
Payments in lieu of taxes.....	398,281	-	-	-	398,281
Intergovernmental.....	64,689,557	7,545,929	-	13,058,328	85,293,814
Departmental and other.....	17,424,907	464,300	-	6,056,839	23,946,046
Contributions.....	11,515	-	-	1,342,734	1,354,249
Investment income.....	409,134	3,225	-	7,362	419,721
Miscellaneous.....	229,144	-	-	-	229,144
TOTAL REVENUES.....	188,139,958	8,013,454	-	20,465,263	216,618,675
EXPENDITURES:					
Current:					
General government.....	11,810,847	-	647,737	2,385,013	14,843,597
Public safety.....	31,234,105	-	442,187	1,310,428	32,986,720
Education.....	47,840,453	-	3,822,903	12,811,140	64,474,496
Public works.....	19,334,968	-	1,253,896	726,666	21,315,530
Community development.....	-	7,490,614	-	562	7,491,176
Human services.....	-	-	-	7,095	7,095
Culture and recreation.....	1,886,129	-	5,354	506,059	2,397,542
Pension benefits.....	25,986,011	-	-	-	25,986,011
Employee benefits.....	28,783,865	-	-	-	28,783,865
State and county charges.....	10,990,847	-	-	-	10,990,847
Debt service:					
Principal.....	6,499,951	300,000	-	-	6,799,951
Interest.....	2,389,746	14,985	-	-	2,404,731
TOTAL EXPENDITURES.....	186,756,922	7,805,599	6,172,077	17,746,963	218,481,561
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	1,383,036	207,855	(6,172,077)	2,718,300	(1,862,886)
OTHER FINANCING SOURCES (USES):					
Proceeds from long-term bonds.....	-	-	6,305,000	-	6,305,000
Premium from issuance of bonds.....	31,659	-	-	390,689	422,348
Sale of assets.....	9,355	-	-	-	9,355
Transfers in.....	1,810,534	-	3,140,788	327,513	5,278,835
Transfers out.....	(427,513)	(5,784)	-	(4,845,538)	(5,278,835)
TOTAL OTHER FINANCING SOURCES (USES).....	1,424,035	(5,784)	9,445,788	(4,127,336)	6,736,703
NET CHANGE IN FUND BALANCES.....	2,807,071	202,071	3,273,711	(1,409,036)	4,873,817
FUND BALANCES (DEFICITS) AT BEGINNING OF YEAR (AS REVISED)..	37,893,089	12,056,894	(3,316,060)	21,756,133	68,390,056
FUND BALANCES (DEFICITS) AT END OF YEAR.....	\$ 40,700,160	\$ 12,258,965	\$ (42,349)	\$ 20,347,097	\$ 73,263,873

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, 2011

Net change in fund balances - total governmental funds.....		\$ 4,873,817
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	9,937,843	
Depreciation expense.....	<u>(7,118,957)</u>	
Net effect of reporting capital assets.....		2,818,886
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(3,176,331)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any 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.</p>		
Proceeds from bonds and notes.....	(6,305,000)	
Debt service principal payments.....	6,799,951	
Amortization of bond premiums.....	75,397	
Amortization of deferred charge on refunding.....	<u>(282,573)</u>	
Net effect of reporting long-term debt.....		287,775
<p>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.</p>		
Net change in compensated absences accrual.....	(288,000)	
Net change in accrued interest on long-term debt.....	(92,875)	
Net change in workers' compensation accrual.....	(53,000)	
Net change in postemployment benefits liability.....	<u>(4,302,192)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		<u>(4,736,067)</u>
Change in net assets of governmental activities.....		<u>\$ 68,080</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and cash equivalents..... \$	3,386,838	8,207,162	\$ 11,594,000
Receivables, net of allowance for uncollectibles:			
User fees.....	4,071,951	6,032,853	10,104,804
Tax liens.....	33,967	77,958	111,925
Total current assets.....	<u>7,492,756</u>	<u>14,317,973</u>	<u>21,810,729</u>
NONCURRENT:			
Capital assets, net of accumulated depreciation.....	<u>24,369,503</u>	<u>8,999,459</u>	<u>33,368,962</u>
TOTAL ASSETS.....	<u>31,862,259</u>	<u>23,317,432</u>	<u>55,179,691</u>
LIABILITIES			
CURRENT:			
Accrued payroll.....	22,270	8,853	31,123
Accrued interest.....	57,347	31,959	89,306
Compensated absences.....	900	800	1,700
Bonds payable.....	1,605,097	445,928	2,051,025
Total current liabilities.....	<u>1,685,614</u>	<u>487,540</u>	<u>2,173,154</u>
NONCURRENT:			
Compensated absences.....	30,700	15,300	46,000
Other postemployment benefits.....	476,204	106,439	582,643
Bonds and notes payable.....	8,949,470	2,343,354	11,292,824
Total noncurrent liabilities.....	<u>9,456,374</u>	<u>2,465,093</u>	<u>11,921,467</u>
TOTAL LIABILITIES.....	<u>11,141,988</u>	<u>2,952,633</u>	<u>14,094,621</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	13,814,936	6,210,177	20,025,113
Unrestricted.....	6,905,335	14,154,622	21,059,957
TOTAL NET ASSETS..... \$	<u><u>20,720,271</u></u>	<u><u>20,364,799</u></u>	<u><u>\$ 41,085,070</u></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>OPERATING REVENUES:</u>			
Charges for services	\$ 11,488,263	\$ 15,631,261	\$ 27,119,524
Utility liens.....	583,101	979,566	1,562,667
TOTAL OPERATING REVENUES	<u>12,071,364</u>	<u>16,610,827</u>	<u>28,682,191</u>
<u>OPERATING EXPENSES:</u>			
Cost of services and administration	7,858,307	13,879,459	21,737,766
Depreciation.....	865,297	203,666	1,068,963
TOTAL OPERATING EXPENSES	<u>8,723,604</u>	<u>14,083,125</u>	<u>22,806,729</u>
OPERATING INCOME (LOSS).....	<u>3,347,760</u>	<u>2,527,702</u>	<u>5,875,462</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Investment income.....	13,175	161,004	174,179
Interest expense.....	(310,420)	(102,874)	(413,294)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(297,245)</u>	<u>58,130</u>	<u>(239,115)</u>
CHANGE IN NET ASSETS.....	3,050,515	2,585,832	5,636,347
NET ASSETS AT BEGINNING OF YEAR.....	<u>17,669,756</u>	<u>17,778,967</u>	<u>35,448,723</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 20,720,271</u>	<u>\$ 20,364,799</u>	<u>\$ 41,085,070</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2011

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Receipts from customers and users.....	\$ 12,737,973	\$ 18,357,464	\$ 31,095,437
Payments to vendors.....	(7,109,122)	(13,621,765)	(20,730,887)
Payments to employees.....	(757,734)	(239,301)	(997,035)
NET CASH FROM OPERATING ACTIVITIES.....	4,871,117	4,496,398	9,367,515
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Proceeds from the issuance of bonds and notes.....	424,000	-	424,000
Acquisition and construction of capital assets.....	(1,845,970)	(846,395)	(2,692,365)
Principal payments on bonds and notes.....	(2,091,740)	(789,688)	(2,881,428)
Interest expense.....	(275,136)	(104,197)	(379,333)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(3,788,846)	(1,740,280)	(5,529,126)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Investment income.....	13,175	161,004	174,179
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,095,446	2,917,122	4,012,568
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	2,291,392	5,290,040	7,581,432
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 3,386,838	\$ 8,207,162	\$ 11,594,000
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>			
Operating income (loss).....	\$ 3,347,760	\$ 2,527,702	\$ 5,875,462
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	865,297	203,666	1,068,963
Changes in assets and liabilities:			
Tax Liens.....	(16,114)	(41,846)	(57,960)
User fees.....	682,723	1,788,483	2,471,206
Warrants payable.....	(21,249)	-	(21,249)
Accrued payroll.....	(1,839)	2,786	947
Accrued compensated absences.....	(18,600)	8,200	(10,400)
Other postemployment benefits.....	33,139	7,407	40,546
Total adjustments.....	1,523,357	1,968,696	3,492,053
NET CASH FROM OPERATING ACTIVITIES.....	\$ 4,871,117	\$ 4,496,398	\$ 9,367,515

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 6,399,972	\$ 76,265	\$ 512,834
Investments.....	174,170,842	-	-
Interest and dividends.....	84,355	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	-	-	52,439
Intergovernmental.....	14,769	-	-
TOTAL ASSETS.....	180,669,938	76,265	565,273
LIABILITIES			
Warrants payable.....	111,053	-	-
Accrued liabilities.....	-	-	96,619
Liabilities due depositors.....	-	-	468,654
TOTAL LIABILITIES.....	111,053	-	565,273
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ 180,558,885	\$ 76,265	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 12,051,425	\$ -
Employee.....	5,194,330	-
Private donations.....	-	3,401
Total contributions.....	<u>17,245,755</u>	<u>3,401</u>
Net investment income (loss):		
Net change in fair value of investments.....	16,164,538	-
Interest.....	<u>5,721,078</u>	<u>440</u>
Total investment income (loss).....	21,885,616	440
Less: investment expense.....	<u>(833,250)</u>	<u>-</u>
Net investment income (loss).....	<u>21,052,366</u>	<u>440</u>
Intergovernmental.....	<u>703,845</u>	<u>-</u>
Transfers from other systems.....	<u>488,268</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>39,490,234</u>	<u>3,841</u>
DEDUCTIONS:		
Administration.....	331,537	-
Transfers to other systems.....	913,205	-
Retirement benefits and refunds.....	20,820,209	-
Educational scholarships.....	<u>-</u>	<u>12,349</u>
TOTAL DEDUCTIONS.....	<u>22,064,951</u>	<u>12,349</u>
CHANGE IN NET ASSETS.....	17,425,283	(8,508)
NET ASSETS AT BEGINNING OF YEAR.....	<u>163,133,602</u>	<u>84,773</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 180,558,885</u>	<u>\$ 76,265</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 *capital projects fund* is used to account for activities associated with constructing and acquiring assets for both general city-wide and school construction projects.

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

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report 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)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

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, 2011, the Capital Projects Fund reports a fund deficit of \$42,349. This deficit will be funded with available funds and future bond proceeds.

Q. Fund Balance Revisions

The beginning balance of the Strategic Planning & Community Development and the Non-Major Funds have been revised to reflect the reclass of activity previously recorded as part of the Strategic Planning & Community Development Fund in fiscal year 2010. The prior year ending balances of the Strategic Planning & Community Development and the Non-Major Fund of \$13,354,191 and \$20,458,836 have been revised to \$12,056,894 and \$21,756,133 respectfully.

The School Construction Fund and the Bonded Capital Projects Fund have been combined and are being reported as one fund in the current fiscal year. No balance changes have occurred, the sum of the prior years ending balances by fund is now the beginning balance of the new fund.

R. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and 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 \$79,442,921 and the bank balance totaled \$82,111,935. Of the bank balance, \$1,688,404 was covered by Federal Depository Insurance, \$2,811,019 was covered by Share Insurance Fund, \$57,103,312 was collateralized, and \$20,509,200 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2010, carrying amount of deposits for the System totaled \$5,621,774 and the bank balance totaled \$5,854,399. The entire bank balance of the System was covered by Federal Depository Insurance and is collateralized.

Investments

As of June 30, 2011, the City of Somerville had the following investments:

<u>Other Investments</u>	
MMDT.....	\$ <u>3,924,535</u>

As of December 31, 2010, the System had the following investments:

Investment Type	Fair Value	Maturity		Rating
		6-10 Years	Over 10 Years	
<u>Debt Securities</u>				
(1) Loomis Sayles Fixed Income Fund	\$ 55,954,523	\$ -	\$ 55,954,523	Baa1 / BBB+
(1) Cypress Asset Management Fixed Income Fund.....	4,994,645	4,994,645	-	AA1
Total Debt Securities.....	60,949,168	\$ <u>4,994,645</u>	\$ <u>55,954,523</u>	
<u>Other Investments</u>				
Equity Mutual Funds (Domestic).....	4,817,833			
Equity Mutual Funds (International).....	11,009,776			
Equities.....	84,400,366			
Real Estate.....	12,993,699			
Money Market Mutual Funds.....	778,198			
Total Investments.....	\$ <u>174,949,040</u>			

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

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City does not have custodial credit risk exposure because the City’s investment of \$3,924,535 is invested with MMDT. The City does not have a formal investment policy to manage custodial credit risk.

Of the System’s \$84,400,366 in equity securities, the System has custodial credit risk exposure of \$84,400,366 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, 2011.

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, 2011, receivables for the individual major governmental funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,236,777	\$ (177,070)	\$ 1,059,707
Tax liens and foreclosures.....	3,517,685	-	3,517,685
Motor vehicle excise taxes.....	2,770,468	(2,553,108)	217,360
Departmental and other.....	10,647,826	(4,658,079)	5,989,747
Intergovernmental.....	33,517,730	-	33,517,730
Loans.....	14,454,060	-	14,454,060
	<u>\$ 66,144,546</u>	<u>\$ (7,388,257)</u>	<u>\$ 58,756,289</u>
Total.....	\$ 66,144,546	\$ (7,388,257)	\$ 58,756,289

At June 30, 2011, receivables for the enterprise funds, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer.....	\$ 6,032,853	\$ -	\$ 6,032,853
Water.....	4,071,951	-	4,071,951
Sewer liens.....	77,958	-	77,958
Water liens.....	33,967	-	33,967
Total.....	<u>\$ 10,216,729</u>	<u>\$ -</u>	<u>\$ 10,216,729</u>

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

	General Fund	Community Development	Governmental Funds	Nonmajor Total
<u>Receivable type:</u>				
Real estate and personal property taxes.....	\$ 901,310	\$ -	\$ -	\$ 901,310
Tax liens and foreclosures.....	3,517,685	-	-	3,517,685
Motor vehicle excise.....	217,360	-	-	217,360
Departmental and other.....	5,989,747	-	-	5,989,747
Intergovernmental.....	25,853,230	5,397,405	2,074,960	33,325,595
Total.....	<u>\$ 36,479,332</u>	<u>\$ 5,397,405</u>	<u>\$ 2,074,960</u>	<u>\$ 43,951,697</u>

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 15,028,274	\$ 192,000	\$ -	\$ 15,220,274
Construction in progress.....	2,280,622	3,192,942	(2,280,622)	3,192,942
Total capital assets not being depreciated.....	17,308,896	3,384,942	(2,280,622)	18,413,216
<u>Capital assets being depreciated:</u>				
Land improvements.....	20,702,074	4,248,878	-	24,950,952
Books and periodicals.....	2,558,754	67,735	-	2,626,489
Buildings and improvements.....	158,209,867	1,491,617	-	159,701,484
Machinery and equipment.....	8,180,625	285,458	(15,111)	8,450,972
Vehicles.....	10,856,958	885,601	(191,647)	11,550,912
Infrastructure.....	35,039,094	1,854,234	-	36,893,328
Total capital assets being depreciated.....	235,547,372	8,833,523	(206,758)	244,174,137
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(7,482,812)	(909,026)	-	(8,391,838)
Books and periodicals.....	(1,980,212)	(134,089)	-	(2,114,301)
Buildings and improvements.....	(50,712,806)	(4,148,026)	-	(54,860,832)
Machinery and equipment.....	(4,973,991)	(497,939)	15,111	(5,456,819)
Vehicles.....	(7,039,056)	(963,196)	191,647	(7,810,605)
Infrastructure.....	(24,183,978)	(466,681)	-	(24,650,659)
Total accumulated depreciation.....	(96,372,855)	(7,118,957)	206,758	(103,285,054)
Total capital assets being depreciated, net.....	139,174,517	1,714,566	-	140,889,083
Total governmental activities capital assets, net.....	\$ 156,483,413	\$ 5,099,508	\$ (2,280,622)	\$ 159,302,299

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities: Water				
<u>Capital assets being depreciated:</u>				
Buildings.....	\$ 16,087	\$ -	\$ -	\$ 16,087
Machinery and equipment.....	5,176,415	91,549	-	5,267,964
Vehicles.....	417,030	-	-	417,030
Infrastructure.....	<u>23,662,861</u>	<u>1,659,149</u>	<u>-</u>	<u>25,322,010</u>
Total capital assets being depreciated.....	<u>29,272,393</u>	<u>1,750,698</u>	<u>-</u>	<u>31,023,091</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(4,426)	(804)	-	(5,230)
Machinery and equipment.....	(211,247)	(356,809)	-	(568,056)
Vehicles.....	(149,429)	(43,422)	-	(192,851)
Infrastructure.....	<u>(5,423,189)</u>	<u>(464,262)</u>	<u>-</u>	<u>(5,887,451)</u>
Total accumulated depreciation.....	<u>(5,788,291)</u>	<u>(865,297)</u>	<u>-</u>	<u>(6,653,588)</u>
Total capital assets being depreciated, net.....	<u>\$ 23,484,102</u>	<u>\$ 885,401</u>	<u>\$ -</u>	<u>\$ 24,369,503</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities: Sewer				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ 12,467	\$ -	\$ -	\$ 12,467
Vehicles.....	139,786	-	-	139,786
Infrastructure.....	<u>20,355,710</u>	<u>846,395</u>	<u>-</u>	<u>21,202,105</u>
Total capital assets being depreciated.....	<u>20,507,963</u>	<u>846,395</u>	<u>-</u>	<u>21,354,358</u>
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(6,234)	(2,494)	-	(8,728)
Vehicles.....	(29,782)	(17,162)	-	(46,944)
Infrastructure.....	<u>(12,115,217)</u>	<u>(184,010)</u>	<u>-</u>	<u>(12,299,227)</u>
Total accumulated depreciation.....	<u>(12,151,233)</u>	<u>(203,666)</u>	<u>-</u>	<u>(12,354,899)</u>
Total capital assets being depreciated, net.....	<u>\$ 8,356,730</u>	<u>\$ 642,729</u>	<u>\$ -</u>	<u>\$ 8,999,459</u>

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

Governmental Activities:

General government.....	\$	411,580
Public safety.....		943,063
Education.....		3,943,828
Public works.....		1,098,643
Human services.....		268
Culture and recreation.....		<u>721,575</u>
 Total depreciation expense - governmental activities.....	 \$	 <u><u>7,118,957</u></u>

Business-Type Activities:

Water.....	\$	865,297
Sewer.....		<u>203,666</u>
 Total depreciation expense - business-type activities.....	 \$	 <u><u>1,068,963</u></u>

NOTE 5 – INTERFUND TRANSFERS

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

Operating Transfers Out:	Transfers In:			
	General Fund	Capital Projects Fund	Nonmajor Governmental Fund	Total
General Fund.....	\$ -	\$ 100,000	\$ 327,513	\$ 427,513
Strategic Planning & Community Development Fund.....	5,784	-	-	5,784
Nonmajor Governmental Funds.....	<u>1,804,750</u>	<u>3,040,788</u>	<u>-</u>	<u>4,845,538</u>
 Total.....	 <u><u>\$ 1,810,534</u></u>	 <u><u>\$ 3,140,788</u></u>	 <u><u>\$ 327,513</u></u>	 <u><u>\$ 5,278,835</u></u>

Transfers relate to amounts voted to fund the fiscal year 2011 budget, transfers to fund various capital projects, 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, 2011 was approximately

\$184,000 and is reported as general government, education and public safety expenditures in the basic financial statements. The future minimum lease payments are as follows:

Fiscal Years Ending June 30	Governmental Activities
2012.....	\$ 52,302
2013.....	32,136
Total.....	\$ 84,438

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, 2011, is as follows:

Governmental Activities

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2010	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2011
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	-
BAN	Building Renovations.....	1.50	06/29/12	-	336,000	-	336,000
BAN	Veterans Memorial Ice Rink.....	1.50	06/29/12	-	189,193	-	189,193
BAN	School Renovations.....	1.50	06/29/12	-	313,635	-	313,635
BAN	Street Resurfacing.....	1.50	06/29/12	-	338,187	-	338,187
BAN	Public Safety Building Repairs.....	1.50	06/29/12	-	399,067	-	399,067
BAN	School Remodeling.....	1.50	06/29/12	-	1,258,249	-	1,258,249
Total.....				<u>\$ 6,305,200</u>	<u>\$ 2,834,331</u>	<u>\$ 6,305,200</u>	<u>\$ 2,834,331</u>

Business-Type Activities

Type	Purpose	Rate (%)	Due Date	June 30, 2010	Renewed/ Issued	Retired/ Redeemed	June 30, 2011
BAN	Water Meters.....	1.00	02/24/11	\$ 424,000	\$ -	\$ 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".

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

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
Municipal Purpose - August 16, 2006 (Refunding)....	3.5% - 5.0%	\$ 18,080,000	\$ -	\$ 2,210,000	\$ 15,870,000
Municipal Purpose - February 15, 2002.....	3.0% - 5.0%	2,475,000	-	1,220,000	1,255,000
General Obligation Bond - March 15, 2004.....	2.0% - 4.0%	3,929,386	-	784,846	3,144,540
Municipal Purpose - August 15, 2006.....	4.0% - 4.1%	5,405,000	-	655,000	4,750,000
MSBA - February 12, 2008.....	7.1% - 8.0%	8,374,417	-	364,105	8,010,312
General Obligation Bond - February 1, 2009.....	3.6% - 4.0%	4,435,000	-	535,000	3,900,000
Municipal Purpose - February 15, 2010.....	2.0% - 5.0%	2,924,000	-	230,000	2,694,000
Municipal Purpose - April 1, 2010 (Refunding).....	2.0% - 5.0%	15,129,000	-	175,000	14,954,000
Municipal Purpose - June 15, 2010.....	2.0% - 5.0%	7,771,000	-	326,000	7,445,000
Municipal Purpose - February 23, 2011.....	2.0% - 5.0%	-	6,305,000	-	6,305,000
Total bonds and notes payable.....		68,522,803	6,305,000	6,499,951	68,327,852
Section 108 Intergovernmental Loans.....	7.1% - 8.0%	600,000	-	300,000	300,000
Total.....		\$ 69,122,803	\$ 6,305,000	\$ 6,799,951	\$ 68,627,852

Bonds and Notes Payable Schedule – Enterprise Funds

Project	Interest Rate (%)	Outstanding at June 30, 2010	Issued	Redeemed	Outstanding at June 30, 2011
MWRA Notes.....	0.0%	\$ 3,412,993	\$ -	\$ 758,441	\$ 2,654,552
Municipal Purpose February 15, 2002.....	4.5%	50,000	-	25,000	25,000
General Obligation Bond March 15, 2004.....	4.0%	713,314	-	125,299	588,015
Municipal Purpose August 15, 2006.....	4.0%	1,050,000	-	150,000	900,000
General Obligation Bond - December 15, 2009.....	2.0%	4,400,000	-	490,000	3,910,000
Municipal Purpose - February 15, 2010.....	2.0% - 5.0%	1,910,000	-	119,000	1,791,000
Municipal Purpose - April 1, 2010 (Refunding).....	2.0% - 5.0%	262,000	-	-	262,000
Municipal Purpose - February 23, 2011.....	2.0% - 5.0%	-	424,000	-	424,000
Total Water Enterprise.....		11,798,307	424,000	1,667,740	10,554,567
MWRA Notes.....	0.0%	732,670	-	534,835	197,835
Municipal Purpose February 15, 2002.....	4.5%	80,000	-	40,000	40,000
General Obligation Bond March 15,2004.....	4.0%	682,300	-	119,853	562,447
Municipal Purpose - August 15, 2006.....	4.0%	1,665,000	-	95,000	1,570,000
Municipal Purpose - April 1, 2010 (Refunding).....	2.0% - 5.0%	419,000	-	-	419,000
Total Sewer Enterprise.....		3,578,970	-	789,688	2,789,282
Total.....		\$ 15,377,277	\$ 424,000	\$ 2,457,428	\$ 13,343,849

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

Governmental Funds

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012.....	\$ 7,473,551	\$ 2,441,379	\$ 9,914,930
2013.....	6,921,187	2,197,045	9,118,232
2014.....	6,971,599	1,962,606	8,934,205
2015.....	6,876,123	1,732,313	8,608,436
2016.....	5,990,105	1,487,662	7,477,767
2017.....	6,101,605	1,248,482	7,350,087
2018.....	4,555,105	1,022,506	5,577,611
2019.....	3,360,105	847,446	4,207,551
2020.....	3,260,105	710,468	3,970,573
2021.....	3,330,105	592,445	3,922,550
2022.....	3,396,105	467,689	3,863,794
2023.....	1,831,105	328,009	2,159,114
2024.....	1,659,105	265,079	1,924,184
2025.....	1,544,105	207,629	1,751,734
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.....	\$ <u>68,627,852</u>	\$ <u>15,962,160</u>	\$ <u>84,590,012</u>

Water Enterprise Funds

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012.....	\$ 1,605,097	\$ 125,528	\$ 1,730,625
2013.....	1,506,412	112,136	1,618,548
2014.....	1,413,841	99,176	1,513,017
2015.....	1,314,436	85,654	1,400,090
2016.....	1,217,864	72,811	1,290,675
2017.....	1,015,111	59,885	1,074,996
2018.....	763,806	50,640	814,446
2019.....	649,000	44,315	693,315
2020.....	164,000	39,115	203,115
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>10,554,567</u>	\$ <u>878,565</u>	\$ <u>11,433,132</u>

Sewer Enterprise Funds

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>2,789,282</u>	\$ <u>648,441</u>	\$ <u>3,437,723</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

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2011, the following changes occurred in long-term liabilities:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Governmental Activities:					
Long-Term Bonds and Notes.....	\$ 68,522,803	\$ 6,305,000	\$ (6,499,951)	\$ 68,327,852	\$ 7,173,551
Long-Term Intergovernmental Loans.....	600,000	-	(300,000)	300,000	300,000
Unamortized Premium on Bonds Payable....	682,609	-	(75,397)	607,212	85,292
Workers' Compensation.....	962,000	343,916	(290,916)	1,015,000	253,750
Other Postemployment Benefits.....	57,520,204	22,480,414	(18,178,222)	61,822,396	-
Compensated Absences.....	3,167,400	447,352	(159,352)	3,455,400	175,996
Total.....	<u>\$ 131,455,016</u>	<u>\$ 29,576,682</u>	<u>\$ (25,503,838)</u>	<u>\$ 135,527,860</u>	<u>\$ 7,988,589</u>
Business-Type Activities:					
Long-Term Bonds and Notes.....	\$ 15,377,277	\$ 424,000	\$ (2,457,428)	\$ 13,343,849	\$ 2,051,025
Other Postemployment Benefits.....	542,097	211,866	(171,320)	582,643	-
Compensated Absences.....	58,100	-	(10,400)	47,700	1,700
Total.....	<u>\$ 15,977,474</u>	<u>\$ 635,866</u>	<u>\$ (2,639,148)</u>	<u>\$ 13,974,192</u>	<u>\$ 2,052,725</u>

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

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The City has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as part of its fiscal year 2011 reporting. Implementation of GASB 54 is required for fiscal years beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

In accordance with GASB 54, the stabilization funds has been reported in the general fund and accordingly, the general fund and major stabilization funds beginning balances have been revised from \$27,898,438 to \$37,893,089 and from \$9,994,651 to zero, respectively.

GASB 54 provides for two major types of fund balances, which are Nonspendable and Spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as Nonspendable.

In addition to the Nonspendable fund balance, GASB 54 has provided a hierarchy of Spendable fund balances, based on a hierarchy of spending constraints.

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose

As of June 30, 2011, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS				
	General	Strategic Planning & Community Development	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES					
Nonspendable:					
Permanent fund principal.....	\$ -	\$ -	\$ -	\$ 433,126	\$ 433,126
Restricted for:					
Strategic Planning & Community Development...	-	12,258,965	-	-	12,258,965
School special revenue funds.....	-	-	-	1,315,697	1,315,697
School federal grants.....	-	-	-	350,065	350,065
School state & private grants	-	-	-	1,404,084	1,404,084
City federal grant funds.....	-	-	-	169,943	169,943
City state grant funds.....	-	-	-	603,550	603,550
Highway Improvement funds.....	-	-	-	108,045	108,045
City revolving funds.....	-	-	-	1,126,382	1,126,382
City receipts reserved.....	-	-	-	9,233,286	9,233,286
City Private grants.....	-	-	-	114,175	114,175
School lunch.....	-	-	-	584,928	584,928
Other special revenue funds.....	-	-	-	4,778,686	4,778,686
Other permanent funds.....	-	-	-	125,130	125,130
Committed to:					
Health Claims Trust Fund.....	9,859,377	-	-	-	9,859,377
Max-Pak Stabilization Fund.....	20,034	-	-	-	20,034
East Somerville Stabilization Fund.....	102,277	-	-	-	102,277
Street Tree Stabilization Fund.....	1,903	-	-	-	1,903
Alpine Restaurant Stabilization Fund.....	2,502	-	-	-	2,502
Rockwell Restaurant Stabilization Fund.....	9,020	-	-	-	9,020
Capital Projects Stabilization Fund.....	3,904,026	-	-	-	3,904,026
Construction Stabilization Fund.....	3,045,956	-	-	-	3,045,956
Traffic Safety Stabilization Fund.....	239,578	-	-	-	239,578
Mitigation Stabilization Fund.....	1,527,826	-	-	-	1,527,826
Assigned to:					
General government.....	5,345,336	-	-	-	5,345,336
Public safety.....	190,336	-	-	-	190,336
Education.....	370,787	-	-	-	370,787
Public works.....	832,070	-	-	-	832,070
Culture and recreation.....	3,942	-	-	-	3,942
Free cash used for the fiscal year 2012 budget..	3,500,000	-	-	-	3,500,000
Unassigned.....	11,745,190	-	(42,349)	-	11,702,841
TOTAL FUND BALANCES (DEFICIT).....	\$ 40,700,160	\$ 12,258,965	\$ (42,349)	\$ 20,347,097	\$ 73,263,873

NOTE 10 – 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, 2011, the amount of the liability for health insurance claims totaled \$2,788,084. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2010.....	\$ 2,876,197	\$	26,815,401	\$	(27,830,036)	\$	1,861,562
Fiscal Year 2011.....	1,861,562		31,402,143		(30,475,621)		2,788,084

(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, 2011, the amount of the liability for workers’ compensation claims totaled \$1,015,000. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claims Payments		Balance at Fiscal Year-End
Fiscal Year 2010.....	\$ 1,505,000	\$	(149,647)	\$	(393,353)	\$	962,000
Fiscal Year 2011.....	962,000		343,916		(290,916)		1,015,000

NOTE 11 - 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 \$15,139,000 for the fiscal year ended June 30, 2011, 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, 2010, the System's membership consists of the following:

Active members.....	1,154
Inactive members.....	276
Retirees and beneficiaries currently receiving benefits.....	<u>1,218</u>
Total.....	<u><u>2,648</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 95% 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, 2011, 2010, and 2009 were \$10,830,988, \$10,399,034, and \$11,789,638, respectively, which equaled its required contribution for each fiscal year. At June 30, 2011, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2011, 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 3.00% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at January 1, 2011, was 23 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)
01/01/11	\$ 188,324,959	\$ 311,654,245	\$ 123,329,286	60.4%	\$ 56,709,233	217.5%
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 2011 totaled \$257,000.

NOTE 12 – 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 2011, the City’s estimated benefit payments total is \$10,200,914.

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 No. 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:

Annual Required Contribution.....	\$ 22,387,563
Interest on existing net OPEB obligation.....	1,746,979
Adjustments to annual required contribution.....	<u>(1,442,262)</u>
Annual OPEB cost (expense).....	22,692,280
Expected Benefit Payments.....	(10,200,914)
Adjustment to reflect change in actuarial assumptions.....	<u>(8,148,628)</u>
Increase/Decrease in net OPEB obligation.....	4,342,738
Net OPEB obligation--beginning of year.....	<u>58,062,301</u>
Net OPEB obligation--end of year.....	<u><u>\$ 62,405,039</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 2011 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
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
6/30/2011	22,692,280	45%	62,405,039

Funded Status and Funding Progress.

As of June 30, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$357 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$98 million, and the ratio of the UAAL to the covered payroll was 363 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, 2010, 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 8 percent initially, graded to 5 percent over 6 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, 2011 is 29 years.

NOTE 13 - 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 S.P&R. Transportation, Inc. to provide for the transportation of its students. The contract bears an annual cost of approximately \$1,585,896 and expires on June 30, 2013. Annual appropriations for this contract are not to exceed \$5,257,688 over the term of the contract.

The City has entered into, or is planning to enter into, contracts totaling approximately \$79,179,000 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, various district improvements and for various street and sidewalk projects throughout the City.

NOTE 14 - 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, 2011, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although 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, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

NOTE 15 – FUTURE IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

- GASB Statement #54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented in fiscal year 2011. Financial statements changes include new fund balance designations and the reclassification of stabilization funds from the special revenue fund to the general fund. Notes to the basic financial statements were changed to provide additional disclosure on the new designations of fund balance.
- GASB Statement #59, *Financial Instruments Omnibus*, was implemented in fiscal year 2011 and did not impact the financial statements.

Future implementation of GASB pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on 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. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.

- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

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Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		
	Amounts Carried forward From Prior Year	Original Budget	Final Budget
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 99,175,528	\$ 99,175,528
Tax liens.....	-	-	-
Motor vehicle and other excise taxes.....	-	4,434,879	4,434,879
Payments in lieu of taxes.....	-	143,472	143,472
Intergovernmental.....	-	47,567,961	47,567,961
Departmental and other.....	-	17,693,894	17,693,894
Investment income.....	-	396,000	396,000
Miscellaneous.....	-	-	-
TOTAL REVENUES.....	-	169,411,734	169,411,734
EXPENDITURES:			
Current:			
General government.....	4,868,488	15,999,578	15,998,758
Public safety.....	290,421	31,554,676	31,745,326
Education.....	59,565	48,737,031	48,726,964
Public works.....	428,045	19,551,136	20,135,551
Culture and recreation.....	1,945	1,947,034	1,949,709
Pension benefits.....	-	10,923,412	10,923,412
Employee benefits.....	45,508	32,452,669	32,434,878
State and county charges.....	-	11,758,594	11,758,594
Debt service:			
Principal.....	-	6,503,952	6,503,952
Interest.....	-	2,654,105	2,604,799
TOTAL EXPENDITURES.....	5,693,972	182,082,186	182,781,943
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURE	(5,693,972)	(12,670,452)	(13,370,209)
OTHER FINANCING SOURCES (USES):			
Premium from issuance of bonds.....	-	-	-
Sale of assets.....	-	-	-
Transfers in.....	-	3,476,480	3,549,215
Transfers out.....	-	-	(1,900,000)
TOTAL OTHER FINANCING SOURCES (USES).....	-	3,476,480	1,649,215
NET CHANGE IN FUND BALANCE.....	(5,693,972)	(9,193,972)	(11,720,994)
BUDGETARY FUND BALANCE, Beginning of year.....	-	18,691,121	18,691,121
BUDGETARY FUND BALANCE, End of year.....	\$ (5,693,972)	\$ 9,497,149	\$ 6,970,127

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Final Budget
\$ 98,703,496	\$ -	\$ (472,032)
1,161,723	-	1,161,723
4,894,601	-	459,722
398,281	-	254,809
49,550,557	-	1,982,596
16,949,907	-	(743,987)
384,630	-	(11,370)
229,144	-	229,144
<u>172,272,339</u>	<u>-</u>	<u>2,860,605</u>
10,234,910	5,345,336	418,512
30,678,877	190,336	876,113
47,840,453	370,787	515,724
18,927,926	832,070	375,555
1,886,129	3,942	59,638
10,847,011	-	76,401
32,243,008	-	191,870
10,990,847	-	767,747
6,499,951	-	4,001
2,389,746	-	215,053
<u>172,538,858</u>	<u>6,742,471</u>	<u>3,500,614</u>
<u>(266,519)</u>	<u>(6,742,471)</u>	<u>6,361,219</u>
31,659	-	31,659
9,355	-	9,355
3,810,534	-	261,319
(1,900,000)	-	-
<u>1,951,548</u>	<u>-</u>	<u>302,333</u>
1,685,029	(6,742,471)	6,663,552
<u>18,691,121</u>	<u>-</u>	<u>-</u>
<u>\$ 20,376,150</u>	<u>\$ (6,742,471)</u>	<u>\$ 6,663,552</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, 2011

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)
6/30/2010	\$ -	\$ 356,691,278	\$ 356,691,278	0%	\$ 98,234,425	363.1%
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
6/30/2011	\$ 22,387,563	\$ 10,200,914	46%
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, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	Amortization payments increasing at 4.5%, open
Remaining amortization period	29 years as of June 30, 2011

Actuarial Assumptions:

Investment rate of return	3.5%, pay-as-you-go scenario
Medical/drug cost trend rate	8.0% graded to 5.0% over 6 years

Plan Membership:

Current retirees and beneficiaries	1,614
Current active members	<u>1,590</u>
Total	<u><u>3,204</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 2011 approved budget authorized \$182.1 million in appropriations and other amounts to be raised. During fiscal year 2011, the Board also increased appropriations by approximately \$2.6 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, 2011, is on the following page:

Excess (deficiency) of revenues and other financing sources (uses) over expenditures - budgetary basis.....	\$ 1,685,029
 <u>Perspective difference:</u>	
Unemployment insurance trust recorded in the General Fund for GAAP.....	3,459,143
Stabilization funds recorded in the General Fund for GAAP.....	(2,334,819)
 <u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts accrual.....	(186,400)
Net change in recording tax refunds payable.....	404,000
Net change in recording unrecorded liabilities.....	(219,882)
Recognition of revenue for on-behalf payments.....	(15,139,000)
Recognition of expenditures for on-behalf payments.....	<u>15,139,000</u>
 Excess (deficiency) of revenues and other financing sources (uses) over expenditures - GAAP basis.....	 \$ <u><u>2,807,071</u></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.