

CITY OF FITCHBURG, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Fitchburg, 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 Fitchburg, Massachusetts, as of and for the year ended June 30, 2010 (except for the Fitchburg Contributory Retirement System which is as of and for the year ended December 31, 2009), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fitchburg's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Additional Offices:

Andover, MA • Manchester, NH • Nashua, NH • Ellsworth, ME

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 Fitchburg, as of June 30, 2010 (except the Fitchburg Contributory Retirement System which is as of December 31, 2009), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information appearing in the back of this report, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not 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 considered in assessing the results of our audit.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
March 1, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fitchburg, we offer readers this narrative overview and analysis of the financial activities of the City of Fitchburg for the fiscal year ended June 30, 2010.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Fitchburg's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) 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 our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all 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 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 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 include general government, public safety, education, public works, health and human services, culture and recreation, employee benefits, interest, intergovernmental and miscellaneous. The business-type activities include water and sewer activities.

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be

divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal services funds are used to account for self-insured employee health programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

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

Notes to 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 which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 134,577,785 (i.e., net assets), a decrease of \$ (3,177,619) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 20,738,031, an increase of \$ 5,159,849 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 5,321,764, an increase of \$ 942,809 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 84,146,379, a decrease of \$ (6,121,601) in comparison to the prior year.
- At the close of the current fiscal year, the Stabilization Fund balance was \$ 2,033,594, which represents an increase of \$ 1,012,276 in comparison with the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years. All amounts are presented in thousands.

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 58,904	\$ 59,151	\$ 6,611	\$ 10,115	\$ 65,515	\$ 69,266
Capital assets	86,380	87,510	97,907	96,960	184,287	184,470
Total assets	145,284	146,661	104,518	107,075	249,802	253,736
Long-term liabilities outstanding	52,507	48,815	53,122	55,020	105,629	103,835
Other liabilities	7,865	9,776	1,730	2,370	9,595	12,146
Total liabilities	60,372	58,591	54,852	57,390	115,224	115,981
Net assets:						
Invested in capital assets, net	57,296	55,667	47,484	46,403	104,780	102,070
Restricted	10,280	8,693	-	-	10,280	8,693
Unrestricted	17,336	23,710	2,182	3,282	19,518	26,992
Total net assets	\$ 84,912	\$ 88,070	\$ 49,666	\$ 49,685	\$ 134,578	\$ 137,755

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:						
Program revenues:						
Charges for services	\$ 7,121	\$ 5,696	\$ 14,411	\$ 15,604	\$ 21,532	\$ 21,300
Operating grants and contributions	70,981	71,897	742	306	71,723	72,203
Capital grants and contributions	3,897	6,655	-	88	3,897	6,743
General revenues:						
Property taxes	36,957	36,606	-	-	36,957	36,606
Excises	2,787	2,820	-	-	2,787	2,820
Penalties and interest on taxes	803	713	335	-	1,138	713
Grants and contributions not restricted to specific programs	9,519	13,301	-	1,222	9,519	14,523
Investment income	316	125	4	43	320	168
Other	225	301	17	-	242	301
Total revenues	<u>132,606</u>	<u>138,114</u>	<u>15,509</u>	<u>17,263</u>	<u>148,115</u>	<u>155,377</u>
Expenses:						
General government	6,700	7,875	-	-	6,700	7,875
Public safety	13,310	13,617	-	-	13,310	13,617
Education	71,163	73,368	-	-	71,163	73,368
Public works	7,075	10,036	-	-	7,075	10,036
Health and human services	1,095	1,004	-	-	1,095	1,004
Culture and recreation	1,109	1,186	-	-	1,109	1,186
Employee benefits	28,351	27,226	-	-	28,351	27,226
Interest	1,784	1,967	-	-	1,784	1,967
Intergovernmental	4,693	4,198	-	-	4,693	4,198
Miscellaneous	484	1,752	-	-	484	1,752
Water operations	-	-	5,618	6,551	5,618	6,551
Sewer operations	-	-	9,910	9,166	9,910	9,166
Total expenses	<u>135,764</u>	<u>142,229</u>	<u>15,528</u>	<u>15,717</u>	<u>151,292</u>	<u>157,946</u>
Change in net assets	(3,158)	(4,115)	(19)	1,546	(3,177)	(2,569)
Net assets - beginning of year	<u>88,070</u>	<u>92,185</u>	<u>49,685</u>	<u>48,139</u>	<u>137,755</u>	<u>140,324</u>
Net assets - end of year	<u>\$ 84,912</u>	<u>\$ 88,070</u>	<u>\$ 49,666</u>	<u>\$ 49,685</u>	<u>\$ 134,578</u>	<u>\$ 137,755</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 134,577,785, a decrease of \$ (3,177,619) from the prior year.

By far the largest portion of net assets, \$ 104,779,803, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the re-

sources 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 net assets, \$ 10,280,334, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 19,517,648, may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a decrease in net assets of \$ (3,157,840). Key elements of this change are as follows:

General fund operations	\$ 3,034,601
Major fund - CDBG expenditures in excess of revenues	(52,644)
Major fund - City Grants fund expenditures in excess of revenues	(588,878)
Special revenue fund and trust revenues over expenditures	2,766,770
Depreciation expense in excess of principal debt service	(841,838)
Internal service fund operations	103,930
Capital assets purchased with tax levy and grant funds and donated assets	3,516,408
Capital asset dispositions	(200)
Current year amortization of state (MSBA) reimbursements of school building projects, accrued in a prior year	(2,771,330)
Current year accrual of other post-employment benefit liability	(7,830,626)
Other	<u>(494,033)</u>
Total	<u>\$ (3,157,840)</u>

Business-Type Activities. Business-type activities for the year resulted in a decrease in net assets of \$ (19,779). Key elements of this change are as follows:

Water enterprise	\$ (147,293)
Sewer enterprise	<u>127,514</u>
Total	<u>\$ (19,779)</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular,

unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 20,738,031, an increase of \$ 5,159,849 in comparison with the prior year. Key elements of this increase are as follows:

General fund operations	\$ 3,034,601
Major fund - CDBG expenditures in excess of revenues	(52,644)
Major fund - City Grants fund expenditures in excess of revenues	(588,878)
Special revenue, capital projects, and trust fund revenues over expenditures	<u>2,766,770</u>
Total	<u>\$ 5,159,849</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 5,321,764, while total fund balance was \$ 9,149,200. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5 percent of total general fund expenditures, while total fund balance represents 9 percent of that same amount.

The fund balance of the general fund increased by \$ 3,034,601 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

Excess of tax collections compared to budget	\$ 443,938
Excess of State and local revenues over budget	1,268,048
Budgetary appropriations unspent by departments	2,056,837
Use of free cash (fund balance) as a funding source	(2,126,014)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	<u>1,391,792</u>
Total	<u>\$ 3,034,601</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 2,181,402, a decrease of \$ (1,101,129) in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 834,783. Major reasons for these amendments include:

- \$ 93,000 increase in various departmental appropriations.
- \$ 233,783 for fire personal services, expense and capital appropriations.
- \$ 300,000 increase for unemployment appropriations.
- \$ 135,000 increase for snow and ice appropriations.
- \$ 73,000 increase in Veterans appropriations.

Of this increase, \$ 798,000 was funded from surplus (free cash) and \$ 36,783 was funded by transfers from other funds.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 184,286,786 (net of accumulated depreciation), a decrease of \$ (183,382) from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure.

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

- Depreciation expense of \$ (4,645,883), \$ (1,851,931) and \$ (1,520,647) for governmental, water and sewer activities, respectively.
- Loss on disposition of assets of \$ (200) in governmental funds, \$ (3,327) in the water fund.
- Various school building improvements including roof replacements and boilers of \$ 601,095.
- Machinery and equipment purchases, including a street sweeper and loader for public works, and library books totaling \$ 354,203.
- Various park and field improvements of \$ 550,296. (Riverfront Park, Gateway Park and Crocker Grandstand/Fieldhouse).
- Streetscape improvements and street construction of \$ 1,318,285, \$ 540,000 of which was paid for by developers and grant funding.
- Senior Center insulation of \$ 111,930 and boiler of \$ 50,000.
- Fire department radio system of \$ 175,609.

- City Hall wheelchair/ramp construction of \$ 124,989.
- Coggshall Stonehouse restoration of \$ 230,000, all of which was donated.
- Water main improvements/replacements and hydrant replacements of \$ 38,042, \$ 19,200 of which was paid for by developers.
- Reservoir land purchases of \$ 325,000 in the water fund.
- Equipment replacement at the water filtration facility (in process) of \$ 48,860.
- Sewer East Plant odor control and grit compliance costs of \$ 3,391,878 (in progress).
- Sewer infrastructure, including sewer lines and storm drains of \$ 174,686.
- Equipment for pumping stations and settling basins of \$ 164,233.
- General incinerator repair in the sewer fund of \$ 179,500.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 84,146,379, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Fitchburg'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:

Mr. Richard Sarasin
 City Auditor
 City of Fitchburg
 718 Main Street
 Fitchburg, MA 01420

CITY OF FITCHBURG, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 22,073,330	\$ 2,416,740	\$ 24,490,070
Investments	3,840,156	-	3,840,156
Receivables, net of allowance for uncollectibles:			
Property taxes	961,241	-	961,241
Excises	514,791	-	514,791
User fees	-	3,894,027	3,894,027
Departmental and other	210,870	-	210,870
Intergovernmental	5,782,041	300,621	6,082,662
Loans	614,302	-	614,302
Deferred loss on early retirement of debt	27,077	-	27,077
Other assets	60,000	-	60,000
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	858,776	-	858,776
Intergovernmental	18,416,914	-	18,416,914
Loans	5,328,282	-	5,328,282
Deferred loss on early retirement of debt, net of current portion	216,615	-	216,615
Land and construction in progress	5,066,927	10,210,000	15,276,927
Capital assets, net of accumulated depreciation	<u>81,313,295</u>	<u>87,696,564</u>	<u>169,009,859</u>
TOTAL ASSETS	145,284,617	104,517,952	249,802,569
LIABILITIES			
Current:			
Warrants payable	1,998,410	121,331	2,119,741
Accounts payable	429,425	177,899	607,324
Accrued payroll and withholdings	2,476,011	35,202	2,511,213
Deferred revenue	454,175	-	454,175
Accrued interest payable	371,163	295,679	666,842
Accrued claims payable	409,335	-	409,335
Notes payable	1,450,000	1,100,000	2,550,000
Other current liabilities	277,334	-	277,334
Current portion of long-term liabilities:			
Bonds payable	3,485,000	3,766,590	7,251,590
Other liabilities	23,545	-	23,545
Noncurrent:			
Bonds payable, net of current portion	28,843,500	48,051,289	76,894,789
Other liabilities, net of current portion	<u>20,154,514</u>	<u>1,304,382</u>	<u>21,458,896</u>
TOTAL LIABILITIES	60,372,412	54,852,372	115,224,784
NET ASSETS			
Invested in capital assets, net of related debt	57,295,625	47,484,178	104,779,803
Restricted for:			
Grants and other statutory restrictions	6,006,189	-	6,006,189
Permanent funds:			
Nonexpendable	2,010,493	-	2,010,493
Expendable	2,263,652	-	2,263,652
Unrestricted	<u>17,336,246</u>	<u>2,181,402</u>	<u>19,517,648</u>
TOTAL NET ASSETS	\$ <u>84,912,205</u>	\$ <u>49,665,580</u>	\$ <u>134,577,785</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 6,699,979	\$ 2,522,452	\$ 789,830	\$ 2,965,386	\$ (422,311)	\$ -	\$ (422,311)
Public safety	13,309,774	1,056,668	997,186	-	(11,255,920)	-	(11,255,920)
Education	71,163,484	925,431	62,991,153	-	(7,246,900)	-	(7,246,900)
Public works	7,074,714	2,533,700	686,242	931,406	(2,923,366)	-	(2,923,366)
Health and human services	1,094,878	41,245	194,490	-	(859,143)	-	(859,143)
Culture and recreation	1,108,596	41,493	359,713	29	(707,361)	-	(707,361)
Employee benefits	28,350,749	-	4,751,102	-	(23,599,647)	-	(23,599,647)
Interest	1,784,558	-	210,865	-	(1,573,693)	-	(1,573,693)
Intergovernmental	4,693,370	-	-	-	(4,693,370)	-	(4,693,370)
Miscellaneous	483,613	-	-	-	(483,613)	-	(483,613)
Total Governmental Activities	135,763,715	7,120,989	70,980,581	3,896,821	(53,765,324)	-	(53,765,324)
Business-Type Activities:							
Water services	5,618,282	4,563,243	704,995	-	-	(350,044)	(350,044)
Sewer services	9,910,385	9,847,762	36,695	-	-	(25,928)	(25,928)
Total Business-type Activities	15,528,667	14,411,005	741,690	-	-	(375,972)	(375,972)
Total	\$ <u>151,292,382</u>	\$ <u>21,531,994</u>	\$ <u>71,722,271</u>	\$ <u>3,896,821</u>	(53,765,324)	(375,972)	(54,141,296)
General Revenues:							
Property taxes					36,956,765	-	36,956,765
Excises					2,787,118	-	2,787,118
Penalties, interest and other taxes					802,841	334,905	1,137,746
Grants and contributions not restricted to specific programs					9,518,969	-	9,518,969
Investment income					316,434	4,632	321,066
Miscellaneous					225,357	16,656	242,013
Total general revenues					<u>50,607,484</u>	<u>356,193</u>	<u>50,963,677</u>
Change in Net Assets					(3,157,840)	(19,779)	(3,177,619)
Net Assets:							
Beginning of year					<u>88,070,045</u>	<u>49,685,359</u>	<u>137,755,404</u>
End of year					\$ <u>84,912,205</u>	\$ <u>49,665,580</u>	\$ <u>134,577,785</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	<u>General</u>	<u>Community Development Block Grant</u>	<u>City Grants Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 11,578,190	\$ 346,245	\$ -	\$ 9,230,314	\$ 21,154,749
Investments	-	-	-	3,840,156	3,840,156
Receivables:					
Property taxes	989,183	-	-	-	989,183
Tax title and demolition liens	3,517,150	-	-	-	3,517,150
Excises	847,970	-	-	-	847,970
Departmental and other, net of allowance	179,010	-	-	148,673	327,683
Intergovernmental	176,917	804,028	1,309,484	659,368	2,949,797
Loans, net of allowance for uncollectibles	-	5,927,896	5,813,723	-	11,741,619
Due from other funds	490,680	-	-	-	490,680
Other assets	60,000	-	-	-	60,000
TOTAL ASSETS	\$ <u>17,839,100</u>	\$ <u>7,078,169</u>	\$ <u>7,123,207</u>	\$ <u>13,878,511</u>	\$ <u>45,918,987</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 814,482	\$ 110,185	\$ -	\$ 1,073,743	\$ 1,998,410
Accounts payable	72,329	-	-	357,096	429,425
Accrued payroll and withholdings	2,136,740	14,731	-	324,540	2,476,011
Deferred revenues	5,389,015	6,707,685	5,813,723	148,673	18,059,096
Notes payable	-	-	300,000	1,150,000	1,450,000
Due to other funds	-	-	490,680	-	490,680
Other liabilities	277,334	-	-	-	277,334
TOTAL LIABILITIES	8,689,900	6,832,601	6,604,403	3,054,052	25,180,956
Fund Balances:					
Reserved for:					
Encumbrances	3,127,436	-	-	-	3,127,436
Expenditures	700,000	-	-	-	700,000
Perpetual (nonexpendable) permanent funds	-	-	-	2,010,493	2,010,493
Unreserved:					
Undesignated, reported in:					
General fund	5,321,764	-	-	-	5,321,764
Special revenue funds	-	245,568	518,804	7,275,411	8,039,783
Capital project funds	-	-	-	(725,097)	(725,097)
Permanent funds	-	-	-	2,263,652	2,263,652
TOTAL FUND BALANCES	<u>9,149,200</u>	<u>245,568</u>	<u>518,804</u>	<u>10,824,459</u>	<u>20,738,031</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>17,839,100</u>	\$ <u>7,078,169</u>	\$ <u>7,123,207</u>	\$ <u>13,878,511</u>	\$ <u>45,918,987</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2010

Total Governmental Fund Balances	\$ 20,738,031
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	86,380,222
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection. This accrual also includes future years' State reimbursement of school projects costs.	30,269,578
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	158,404
<ul style="list-style-type: none">• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(371,163)
<ul style="list-style-type: none">• Long-term liabilities, including bonds and loans payable, compensated absences, and other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(52,506,559)
<ul style="list-style-type: none">• As noted above, bonds payable are not reported in the governmental funds. Accordingly, deferred loss on early retirement of debt, resulting from an advance refunding, is also not recorded in governmental funds.	<u>243,692</u>
Net Assets of Governmental Activities	<u><u>\$ 84,912,205</u></u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u>	<u>Community Development Block Grant</u>	<u>City Grants Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 37,151,107	\$ -	\$ -	\$ -	\$ 37,151,107
Excises	2,775,274	-	-	-	2,775,274
Penalties, interest and other taxes	802,841	-	-	-	802,841
Charges for services	4,400,291	-	-	1,915,547	6,315,838
Intergovernmental	62,410,851	1,127,666	5,275,561	13,177,092	81,991,170
Licenses and permits	593,228	-	-	-	593,228
Fines and forfeitures	275,307	-	-	-	275,307
Investment income	67,042	-	-	249,392	316,434
Miscellaneous	-	217,057	-	-	217,057
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	108,475,941	1,344,723	5,275,561	15,342,031	130,438,256
Expenditures:					
Current:					
General government	3,302,761	1,397,367	2,378,753	414,087	7,492,968
Public safety	11,534,062	-	1,202,196	96,323	12,832,581
Education	53,005,770	-	-	12,576,104	65,581,874
Public works	4,488,723	-	1,386,667	15,877	5,891,267
Health and human services	888,454	-	105,960	3,806	998,220
Culture and recreation	604,903	-	31,998	97,880	734,781
Employee benefits	20,993,845	-	-	-	20,993,845
Miscellaneous	483,613	-	-	-	483,613
Debt service	4,817,023	-	758,865	-	5,575,888
Intergovernmental	4,693,370	-	-	-	4,693,370
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	104,812,524	1,397,367	5,864,439	13,204,077	125,278,407
Excess (deficiency) of revenues over expenditures	3,663,417	(52,644)	(588,878)	2,137,954	5,159,849
Other Financing Sources (Uses):					
Transfers in	371,184	-	-	1,000,000	1,371,184
Transfers out	(1,000,000)	-	-	(371,184)	(1,371,184)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(628,816)	-	-	628,816	-
Change in fund balance	3,034,601	(52,644)	(588,878)	2,766,770	5,159,849
Fund Equity, at Beginning of Year, as reclassified	6,114,599	298,212	1,107,682	8,057,689	15,578,182
Fund Equity, at End of Year	<u>\$ 9,149,200</u>	<u>\$ 245,568</u>	<u>\$ 518,804</u>	<u>\$ 10,824,459</u>	<u>\$ 20,738,031</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2010

Net Changes in Fund Balances - Total Governmental Funds	\$ 5,159,849																		
<ul style="list-style-type: none"> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases, net of dispositions</td> <td style="text-align: right;">3,516,208</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(4,645,883)</td> </tr> </table> • 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, loans, etc.) differ between the two statements. This amount represents the net change in deferred revenue and allowance for uncollectible accounts. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(3,611,062)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and loans) 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Repayments of debt (bonds and loans)</td> <td style="text-align: right;">3,804,045</td> </tr> <tr> <td>Amortization of deferred loss on early retirement of debt</td> <td style="text-align: right;">(27,077)</td> </tr> </table> • In the Statement of Activities, interest on outstanding long-term debt is accrued, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">37,907</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences and other post-employment benefits (OPEB), do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table border="0" style="margin-left: 40px;"> <tr> <td>Change in compensated absence liability</td> <td style="text-align: right;">334,869</td> </tr> <tr> <td>Change in OPEB liability</td> <td style="text-align: right;">(7,830,626)</td> </tr> </table> • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>103,930</u></td> </tr> </table> 		Capital outlay purchases, net of dispositions	3,516,208	Depreciation	(4,645,883)		(3,611,062)	Repayments of debt (bonds and loans)	3,804,045	Amortization of deferred loss on early retirement of debt	(27,077)		37,907	Change in compensated absence liability	334,869	Change in OPEB liability	(7,830,626)		<u>103,930</u>
Capital outlay purchases, net of dispositions	3,516,208																		
Depreciation	(4,645,883)																		
	(3,611,062)																		
Repayments of debt (bonds and loans)	3,804,045																		
Amortization of deferred loss on early retirement of debt	(27,077)																		
	37,907																		
Change in compensated absence liability	334,869																		
Change in OPEB liability	(7,830,626)																		
	<u>103,930</u>																		
Changes in Net Assets of Governmental Activities	\$ <u>(3,157,840)</u>																		

CITY OF FITCHBURG, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 36,707,169	\$ 36,707,169	\$ 36,707,169	\$ -
Excise	2,817,471	2,817,471	2,775,274	(42,197)
Penalties, interest and other taxes	587,676	587,676	802,841	215,165
Charges for services	4,133,111	4,133,111	4,400,291	267,180
Intergovernmental	52,470,484	52,470,484	53,316,807	846,323
Licenses and permits	558,500	558,500	593,228	34,728
Fines and forfeits	275,500	275,500	275,307	(193)
Investment income	120,000	120,000	67,042	(52,958)
Transfers in	334,401	371,184	371,184	-
Other sources	1,328,014	2,126,014	2,126,014	-
Total Revenues and Other Sources	99,332,326	100,167,109	101,435,157	1,268,048
Expenditures and Other Uses:				
General government	3,484,785	3,562,008	3,334,538	227,470
Public safety	11,554,949	11,781,459	11,568,517	212,942
Education	45,262,177	45,262,177	45,221,619	40,558
Public works	4,597,610	4,752,660	4,492,695	259,965
Health and human services	826,508	953,008	888,671	64,337
Culture and recreation	617,666	617,166	602,258	14,908
Debt service	5,230,828	5,230,828	4,817,023	413,805
Intergovernmental	4,530,803	4,530,803	4,693,370	(162,567)
Employee benefits	21,660,000	21,960,000	21,007,968	952,032
Miscellaneous	567,000	517,000	483,613	33,387
Transfers out	1,000,000	1,000,000	1,000,000	-
Total Expenditures and Other Uses	99,332,326	100,167,109	98,110,272	2,056,837
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 3,324,885	\$ 3,324,885

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 2,192,120	\$ 224,620	\$ 2,416,740	\$ 918,581
User fees, net of allowance for uncollectibles	1,367,064	2,526,963	3,894,027	-
Intergovernmental receivables	-	300,621	300,621	60,914
Total current assets	3,559,184	3,052,204	6,611,388	979,495
Noncurrent:				
Land and construction in progress	999,860	9,210,140	10,210,000	-
Capital assets, net of accumulated depreciation	51,198,151	36,498,413	87,696,564	-
Total noncurrent assets	52,198,011	45,708,553	97,906,564	-
TOTAL ASSETS	55,757,195	48,760,757	104,517,952	979,495
<u>LIABILITIES</u>				
Current:				
Warrants payable	72,064	49,267	121,331	-
Accounts payable	4,536	173,363	177,899	-
Accrued payroll	14,354	20,848	35,202	-
Deferred revenue	-	-	-	411,756
Accrued interest payable	110,719	184,960	295,679	-
Accrued claims payable	-	-	-	409,335
Notes payable	1,100,000	-	1,100,000	-
Current portion of long-term liabilities:				
Bonds payable	1,694,754	2,071,836	3,766,590	-
Total current liabilities	2,996,427	2,500,274	5,496,701	821,091
Noncurrent:				
Bonds payable, net of current portion	22,423,453	25,627,836	48,051,289	-
Other liabilities, net of current portion	613,090	691,292	1,304,382	-
Total noncurrent liabilities	23,036,543	26,319,128	49,355,671	-
TOTAL LIABILITIES	26,032,970	28,819,402	54,852,372	821,091
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	28,049,804	19,434,374	47,484,178	-
Unrestricted	1,674,421	506,981	2,181,402	158,404
TOTAL NET ASSETS	\$ 29,724,225	\$ 19,941,355	\$ 49,665,580	\$ 158,404

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 4,762,785	\$ 9,999,781	\$ 14,762,566	\$ -
Employee contributions	-	-	-	4,407,326
Employer contributions	-	-	-	11,724,215
Total Operating Revenues	4,762,785	9,999,781	14,762,566	16,131,541
Operating Expenses:				
Salary and wages	1,207,421	1,850,586	3,058,007	-
Operating expenses	1,274,009	4,446,296	5,720,305	-
Depreciation	1,851,931	1,520,647	3,372,578	-
Administrative assessments	926,781	1,069,567	1,996,348	-
Employee benefits	-	-	-	16,027,611
Other	57,875	227,485	285,360	-
Total Operating Expenses	5,318,017	9,114,581	14,432,598	16,027,611
Operating Income (Loss)	(555,232)	885,200	329,968	103,930
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	704,995	36,695	741,690	-
Investment income	3,209	1,423	4,632	-
Interest expense	(300,265)	(795,804)	(1,096,069)	-
Total Nonoperating Revenues (Expenses), Net	407,939	(757,686)	(349,747)	-
Change in Net Assets	(147,293)	127,514	(19,779)	103,930
Net Assets at Beginning of Year	29,871,518	19,813,841	49,685,359	54,474
Net Assets at End of Year	\$ 29,724,225	\$ 19,941,355	\$ 49,665,580	\$ 158,404

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 4,857,106	\$ 10,065,003	\$ 14,922,109	\$ -
Payments to vendors and employees	(3,997,093)	(8,375,526)	(12,372,619)	-
Receipts from employees and employer	-	-	-	16,067,462
Payments of employee benefits and expenses	-	-	-	(16,849,014)
Net Cash Provided By Operating Activities	860,013	1,689,477	2,549,490	(781,552)
<u>Cash Flows From Non-Capital Financing Activities:</u>				
Receipts from governments	786,744	-	786,744	-
Net Cash Provided By Non-Capital Financing Activities	786,744	-	786,744	-
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Proceeds of notes and governmental loans	1,100,000	4,015,370	5,115,370	-
Acquisition and construction of capital assets	(64,375)	(3,910,296)	(3,974,671)	-
Principal payments on bonds and notes	(1,435,391)	(2,081,655)	(3,517,046)	-
Interest expense paid	(310,338)	(769,590)	(1,079,928)	-
Net Cash (Used For) Capital and Related Financing Activities	(710,104)	(2,746,171)	(3,456,275)	-
<u>Cash Flows From Investing Activities:</u>				
Investment income	3,209	1,423	4,632	-
Net Cash Provided by Investing Activities	3,209	1,423	4,632	-
Net Change in Cash and Short-Term Investments	939,862	(1,055,271)	(115,409)	(781,552)
Cash and Short Term Investments, Beginning of Year	1,252,258	1,279,891	2,532,149	1,700,133
Cash and Short Term Investments, End of Year	\$ 2,192,120	\$ 224,620	\$ 2,416,740	\$ 918,581
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ (555,232)	\$ 885,200	\$ 329,968	\$ 103,930
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,851,931	1,520,647	3,372,578	-
Changes in assets and liabilities:				
User fee receivables	94,321	65,222	159,543	(60,914)
Warrants and other payables	(774,706)	(984,387)	(1,759,093)	(821,403)
Accrued / other liabilities	243,699	202,795	446,494	(3,165)
Net Cash Provided By Operating Activities	\$ 860,013	\$ 1,689,477	\$ 2,549,490	\$ (781,552)

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2009

	Pension <u>Trust Fund</u>
<u>ASSETS</u>	
Cash and short-term investments	\$ 1,373,594
Investments	71,967,255
Accounts receivable	<u>105,489</u>
 Total Assets	 73,446,338
<u>LIABILITIES AND NET ASSETS</u>	
Accounts payable	3,877
Deferred revenue	<u>3,530,285</u>
 Total Liabilities	 <u>3,534,162</u>
<u>NET ASSETS</u>	
Total net assets held in trust for pension benefits	\$ <u><u>69,912,176</u></u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 7,103,602
Other systems and Commonwealth of Massachusetts	455,210
Plan members	<u>2,449,315</u>
Total contributions	10,008,127
Investment Income:	
Interest and dividends	1,857,741
Increase in fair value of investments	7,069,726
Less: management fees	<u>(354,966)</u>
Net investment income	<u>8,572,501</u>
Total additions	18,580,628
Deductions:	
Benefit payments to plan members and beneficiaries	10,955,330
Refunds to plan members and other systems	833,554
Administrative expenses	<u>142,156</u>
Total deductions	<u>11,931,040</u>
Net increase	6,649,588
Net assets:	
Beginning of year	<u>63,262,588</u>
End of year	<u>\$ 69,912,176</u>

See notes to financial statements.

City of Fitchburg, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Fitchburg (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2010, it was determined that no entities met the required GASB-39 criteria of component units, other than as noted below.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Fitchburg Contributory Retirement System, which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at City Hall, City of Fitchburg, 718 Main Street, Fitchburg, MA 01420.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type*

activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given 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 (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Community Development Block Grant* is used to account for grant and program income resulting from one of the City's Federal Housing and Urban Development Agency grants.
- The *City Grants Fund* is used to account for the City's non-education related federal and state grants.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water fund
- Sewer fund

The self-insured employee health program is reported as an internal service fund in the accompanying financial statements.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as “Proposition 2 1/2” limits the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 910.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 20,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	40
Infrastructure	40 - 50
Machinery and equipment	5 - 15
Office equipment and furniture	5 - 20
Computer equipment	5

H. Interfund Receivables and Payables

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds” (i.e., the current portion of interfund loans).

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick, personal pay and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

2. **Stewardship, Compliance and Accountability**

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the

Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 108,475,941	\$ 104,812,524
Other financing sources/uses (GAAP basis)	371,184	1,000,000
Adjust tax revenue to accrual basis	(443,938)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(1,735,644)
Add end of year appropriation carryforwards to expenditures	-	3,127,436
To reverse the effect of non-budgeted State contributions for teachers retirement	(9,094,044)	(9,094,044)
Recognize use of fund balance as funding source	<u>2,126,014</u>	<u>-</u>
Budgetary basis	<u>\$ 101,435,157</u>	<u>\$ 98,110,272</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2010:

Special Revenue Funds:	
Title IV Safe and Drug Free grant	\$ 8,348
Title IID Enhancing Technology grant	3,728
Community Partnership grant	18,861
Title IIA grant	7,548
Capital Project Funds:	
School building project	\$ 310,010
School roof repairs	415,087

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Massachusetts general law Chapter 44, section 55, limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City does not have a deposit policy for custodial credit risk.

As of June 30, 2010, \$ 813,075 of the City's bank balance of \$ 24,764,866 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's name.

As of December 31, 2009, none of the Retirement System's bank balance of \$ 1,361,361 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Retirement System's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues (which excludes investments purchased with Library funds), Massachusetts General Law,

Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of June 30, 2010 for each investment of the City (All federal agency securities have an implied credit rating of AAA.):

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End				Rating Withdrawn
			AAA / A1	AA2 / A2	AA3 / A3	B2 / Baa3	
Federal agency securities	\$ 2,758	\$ -	\$ 2,758	\$ -	\$ -	\$ -	\$ -
Equity securities	280	280	-	-	-	-	-
Corporate bonds	802	-	148	432	146	63	13
Total investments	<u>\$ 3,840</u>	<u>\$ 280</u>	<u>\$ 2,906</u>	<u>\$ 432</u>	<u>\$ 146</u>	<u>\$ 63</u>	<u>\$ 13</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of Retirement System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

Presented below is the composition of the Fitchburg Retirement System investments as of December 31, 2009 (in millions), none of which are subject to credit risk disclosure:

Investment Type	Fair Value
PRIT *	\$ 70
Realty Associates Fund VII Corp (equity investments)	2
Total investments	<u>\$ 72</u>

* Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and Retirement System do not have policies for custodial credit risk.

Of the total City investments of \$ 3,840,156, the government has a custodial credit risk exposure of \$ 2,613,634 because the related securities are uninsured, unregistered and held by the City's brokerage firm (which is also the Counterparty to these securities) but are not in the City's name.

All of the Retirement System's investments are in either an equity investment fund or state pension investment trust fund, neither of which are exposed to custodial credit risk.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City has no investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments.

The Retirement System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and Retirement System do not 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.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>					
	<u>Fair Value</u>	<u>N/A</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Federal agency securities	\$ 2,758	\$ -	\$ 155	\$ 1,709	\$ 893	\$ 1
Equity securities	280	280	-	-	-	-
Corporate bonds	802	-	119	528	155	-
Total	<u>\$ 3,840</u>	<u>\$ 280</u>	<u>\$ 274</u>	<u>\$ 2,237</u>	<u>\$ 1,048</u>	<u>\$ 1</u>

None of the Retirement System's investments are subject to market interest rate fluctuations.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and Retirement System do not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 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 a quarterly basis 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 they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2010 consist of the following (in thousands):

Real Estate		
2010	\$ 884	
2009 & prior	<u>17</u>	901
Personal Property		
2010	18	
2009	13	
Prior	<u>25</u>	56
Deferred Taxes		<u>32</u>
Total		<u>\$ 989</u>

6. Allowance for Doubtful Accounts

The departmental (parking ticket) and loan receivable balances reported in the accompanying governmental funds balance sheet are presented net of allowances for uncollectibles of \$ 513,974 and \$ 121,841 respectively. In addition, the receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 28	\$ -
Tax title and demolition liens	2,658	-
Excises	333	-
Departmental (Airport)	117	-
Loans	5,799	-
Water charges	-	166
Sewer charges	-	255

7. Intergovernmental Receivables

The balance reported in the accompanying governmental funds balance sheet represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010 and are expected to be reimbursed in fiscal year 2011.

The balance reported in the governmental activities statement of net assets includes an additional amount (\$ 2,771,330 current and \$ 18,416,914 non-current) that represents future school building project cost reimbursements. This receivable will be paid to the City by the Massachusetts School Building Authority in annual installments of approximately \$ 2.1 to \$ 2.7 million through fiscal year 2019.

8. Loans Receivable

The loan receivable balance represents loans issued to individuals for home improvement and mortgage financing, one loan to a Community Development Corporation located in Fitchburg to renovate a building for use as housing for pregnant teenagers and a loan to the Fitchburg Redevelopment Authority described below. The loans were issued through the City's Community Development Block Grant and HOME Grant programs.

In October 2004, the City executed a loan to the Fitchburg Redevelopment Authority (FRA) for \$ 6,000,000. The note coincides with a City loan received in June 2004 through the U.S. Department of Housing and Urban Development, Section 108 program. The note with the FRA is collateralized with a mortgage and assignment of lease/rental and other income on property

known as Putnam Place Business and Industrial Center. The note carries an interest rate of 4.5 percent and is scheduled to mature in July 2015.

Loan balances as of June 30, 2010 consist of the following:

	Total Loan Balance	Less Current Portion	Equals Long-Term Portion	Less Allowance for Uncollect.	Equals Long-term Portion, Net of Allowance
CDBG - consumer loans	\$ 89,756	\$ -	\$ 89,756	\$ (8,127)	\$ 81,629
CDBG - mortgage/financing loans	1,616,812	-	1,616,812	(414,334)	1,202,478
CDBG - Community Development Corporation loan	148,611	(36,302)	112,309	-	112,309
CDBG - deferred payment loans	225,558	-	225,558	(225,558)	-
CDBG - HUD 108 loan to FRA	3,969,000	(578,000)	3,391,000	-	3,391,000
HOME - mortgage/financing loans	676,082	-	676,082	(135,216)	540,866
Other City grants - deferred payment loans	5,137,641	-	5,137,641	(5,137,641)	-
Total	<u>\$ 11,863,460</u>	<u>\$ (614,302)</u>	<u>\$ 11,249,158</u>	<u>\$ (5,920,876)</u>	<u>\$ 5,328,282</u>

9. Deferred Loss on Early Retirement of Debt

This balance represents the unamortized net increase in long-term debt outstanding resulting from the City's issuance of refunding bonds in fiscal year 2006. The balance will be amortized (as annual interest expense of \$ 27,077) until fiscal year 2019.

10. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2010 balances in interfund receivable and payable accounts:

Fund	Due From Other Funds	Due To Other Funds
General fund	\$ 490,680	\$ -
City Grants fund	-	490,680
Total	<u>\$ 490,680</u>	<u>\$ 490,680</u>

11. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Governmental Activities:					
Capital assets, being depreciated:					
Land improvements	\$ 11,014	\$ 361	\$ -	\$ -	\$ 11,375
Buildings and improvements	72,256	112	-	911	73,279
Machinery, equipment, and furnishings	12,872	354	(274)	636	13,588
Infrastructure	<u>69,037</u>	<u>778</u>	<u>(365)</u>	<u>-</u>	<u>69,450</u>
Total capital assets, being depreciated	165,179	1,605	(639)	1,547	167,692
Less accumulated depreciation for:					
Land improvements	(2,882)	(298)	-	-	(3,180)
Buildings and improvements	(28,398)	(1,876)	-	-	(30,274)
Machinery, equipment, and furnishings	(10,272)	(747)	274	-	(10,745)
Infrastructure	<u>(40,820)</u>	<u>(1,725)</u>	<u>365</u>	<u>-</u>	<u>(42,180)</u>
Total accumulated depreciation	<u>(82,372)</u>	<u>(4,646)</u>	<u>639</u>	<u>-</u>	<u>(86,379)</u>
Total capital assets, being depreciated, net	82,807	(3,041)	-	1,547	81,313
Capital assets, not being depreciated:					
Land	3,936	-	-	-	3,936
Construction in progress	<u>767</u>	<u>1,911</u>	<u>-</u>	<u>(1,547)</u>	<u>1,131</u>
Total capital assets, not being depreciated	<u>4,703</u>	<u>1,911</u>	<u>-</u>	<u>(1,547)</u>	<u>5,067</u>
Governmental activities capital assets, net	<u>\$ 87,510</u>	<u>\$ (1,130)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,380</u>
	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Business-Type Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 89,232	\$ -	\$ -	\$ -	\$ 89,232
Machinery, equipment, and furnishings	5,240	344	(16)	1,326	6,894
Infrastructure	<u>43,128</u>	<u>213</u>	<u>(5)</u>	<u>-</u>	<u>43,336</u>
Total capital assets, being depreciated	137,600	557	(21)	1,326	139,462
Less accumulated depreciation for:					
Buildings and improvements	(33,774)	(2,355)	-	-	(36,129)
Machinery, equipment, and furnishings	(937)	(422)	16	-	(1,343)
Infrastructure	<u>(13,699)</u>	<u>(596)</u>	<u>2</u>	<u>-</u>	<u>(14,293)</u>
Total accumulated depreciation	<u>(48,410)</u>	<u>(3,373)</u>	<u>18</u>	<u>-</u>	<u>(51,765)</u>
Total capital assets, being depreciated, net	89,190	(2,816)	(3)	1,326	87,697
Capital assets, not being depreciated:					
Land	910	325	-	-	1,235
Construction in progress	<u>6,860</u>	<u>3,441</u>	<u>-</u>	<u>(1,326)</u>	<u>8,975</u>
Total capital assets, not being depreciated	<u>7,770</u>	<u>3,766</u>	<u>-</u>	<u>(1,326)</u>	<u>10,210</u>
Business-type activities capital assets, net	<u>\$ 96,960</u>	<u>\$ 950</u>	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ 97,907</u>

Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:	
General government	\$ 69
Public safety	678
Education	1,379
Public works	2,002
Culture and recreation	415
Human services	<u>103</u>
Total depreciation expense - governmental activities	<u>\$ 4,646</u>
Business-Type Activities:	
Water	\$ 1,852
Sewer	<u>1,521</u>
Total depreciation expense - business-type activities	<u>\$ 3,373</u>

12. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law. Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

13. Deferred Revenue

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.

On the fund-basis financial statements, the balance of the General Fund deferred revenues account is equal to the total of all June 30, 2010 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

On the government-wide basis financial statements, the balance represents fiscal year 2011 tax revenue received in advance and (in the Internal Service Fund) teachers' withholdings to be applied over July and August 2010.

14. Notes Payable

The City had the following notes outstanding at June 30, 2010:

	Interest Rate %	Date of Issue	Date of Maturity	Balance at June 30, 2010
Bond anticipation note	1.00	06/30/10	06/30/11	\$ 1,000,000
Bond anticipation note	1.50	06/30/10	06/30/11	1,250,000
State grant anticipation	1.49	06/30/10	06/30/11	<u>300,000</u>
				<u>\$ 2,550,000</u>

The following summarizes activity in notes payable during fiscal year 2010:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Revenue anticipation	\$ -	\$ 6,000,000	\$ (6,000,000)	\$ -
Bond anticipation	2,000,000	3,800,000	(3,550,000)	2,250,000
State grant anticipation	<u>300,000</u>	<u>300,000</u>	<u>(300,000)</u>	<u>300,000</u>
Total	<u>\$ 2,300,000</u>	<u>\$ 10,100,000</u>	<u>\$ (9,850,000)</u>	<u>\$ 2,550,000</u>

15. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2010
<u>Governmental Activities:</u>			
Multi-purpose (2002)	05/15/12	3.6	\$ 30,000
Multi-purpose (2003 refunding)	08/01/13	3.0 - 4.25	730,000
Section 108 Loan (through U.S. HUD)	08/01/15	4.5	3,969,000
Multi-purpose (2008)	06/01/16	3.5 - 5.5	750,000
Multi-purpose (2006 refunding)	11/15/18	3.0 - 4.0	4,349,500
Multi-purpose (1998)	02/15/19	4	<u>22,500,000</u>
Total Governmental Activities			<u>\$ 32,328,500</u>
<u>Business-Type Activities:</u>			
<u>Water Fund:</u>			
General obligation 2004 - water portion	03/15/14	2.5 - 5.0	\$ 400,000
Water treatment (MWPAT 99-06)	08/01/20	1.0 - 2.0	7,502,336
Water treatment (MWPAT 00-10)	08/01/20	1.0 - 2.0	4,064,231
Water treatment (MWPAT 00-10A)	08/01/24	1.0 - 2.0	4,671,186
Water treatment (MWPAT 01-16)	07/15/25	-	<u>7,480,454</u>
Total Water Fund			\$ 24,118,207

	Serial Maturities Through	Interest Rate(s)%	Amount Outstanding as of June 30, 2010
<u>Sewer Fund:</u>			
Multi-purpose 2002 - sewer portion	05/15/12	3.6	\$ 390,000
Equipment and CSO project 2006	06/01/15	4	620,000
2006 refunding - sewer portion	11/15/15	3.00 - 4.00	1,780,500
Sewer inflow (MWPAT 97-30)	08/01/18	1.00 - 2.00	1,201,203
General obligation 2004 - sewer portion	03/15/19	2.50 - 5.00	1,750,000
Sewer inflow (MWPAT 03-12)	08/01/24	2	520,170
Sewer (MWPAT 03-12A)	07/15/25	2	5,189,400
Sewer (MWPAT 03-12B)	07/15/26	2	1,424,520
Multi-purpose 2008 - sewer portion	06/01/28	3.5 - 5.5	6,300,000
Sewer (MWPAT 08-03)	07/15/28	2	7,028,883
Sewer (MWPAT 08-03A)	07/15/30	2	1,169,996
Sewer (MWPAT 03-12C)	07/15/30	2	325,000
Total Sewer Fund:			<u>27,699,672</u>
Total Business-Type Activities:			<u>\$ 51,817,879</u>

B. State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low-interest rate loan program. The loans are administered by the Massachusetts Water Pollution Abatement Trust (MWPAT) and are used by local communities to improve their sewer and water systems.

The City's loan authorizations and status are as follows:

<u>Purpose</u>	<u>Authorized</u>	<u>Issued</u>
Sewer inflow project (#97-30)	\$ 2,437,500	\$ 2,437,500
Water treatment facility (#99-06)	11,959,500	11,959,500
Water treatment facility (#00-10)	12,712,000	6,471,885
Water treatment facility (#00-10A)	5,804,788	5,804,788
Water treatment facility (#01-16) *	11,903,000	9,605,810
Sewer inflow project (#03-12)	640,716	640,716
Sewer project (#03-12A)	6,221,670	6,221,670
Sewer project (#08-03)	9,650,000	8,525,439
Sewer project (#03-12C)	325,000	325,000

In addition to offering these loans at a reduced interest rate, MWPAT has also subsidized certain loan's principal as follows:

	<u>Original Loan</u>	<u>Principal Subsidy</u>	<u>Net Repayment</u>	<u>Balance June 30, 2010</u>
Loan # 97-30	\$ 2,437,500	\$ (513,780)	\$ 1,923,720	\$ 1,201,203
Loan # 99-06	11,959,500	(3,177,704)	8,781,796	7,502,336
Loan # 00-10	6,471,885	(1,718,182)	4,753,703	4,064,231
Loan # 00-10A	<u>5,804,788</u>	<u>(1,350,381)</u>	<u>4,454,407</u>	<u>4,671,186</u>
Total	<u>\$ 26,673,673</u>	<u>\$ (6,760,047)</u>	<u>\$ 19,913,626</u>	<u>\$ 17,438,956</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,485,000	\$ 1,496,121	\$ 4,981,121
2012	3,614,000	1,331,240	4,945,240
2013	3,724,500	1,158,003	4,882,503
2014	3,871,000	976,717	4,847,717
2015	3,853,000	791,061	4,644,061
2016 - 2019	<u>13,781,000</u>	<u>1,466,096</u>	<u>15,247,096</u>
Total	<u>\$ 32,328,500</u>	<u>\$ 7,219,238</u>	<u>\$ 39,547,738</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,766,590	\$ 1,039,255	\$ 4,805,845
2012	3,847,694	965,684	4,813,378
2013	3,636,532	885,515	4,522,047
2014	3,750,863	759,484	4,510,347
2015	3,594,383	1,469,811	5,064,194
2016 - 2020	17,000,081	2,220,276	19,220,357
2021 - 2025	11,912,994	982,571	12,895,565
2026 and thereafter	<u>4,308,742</u>	<u>197,065</u>	<u>4,505,807</u>
Total	<u>\$ 51,817,879</u>	<u>\$ 8,519,661</u>	<u>\$ 60,337,540</u>

D. Changes in General Long-Term Liabilities

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

	<u>Total Balance</u>		<u>Reduction</u>	<u>Total Balance</u>		<u>Less Current Portion</u>	<u>Equals Long-Term Portion</u>
	<u>July 1, 2009</u>	<u>Addition</u>		<u>June 30, 2010</u>			<u>June 30, 2010</u>
<u>Governmental Activities</u>							
Bonds payable	\$ 36,109	\$ -	\$ (3,781)	\$ 32,328	\$ (3,485)	\$	28,843
Other:							
Loan payable	130	-	(24)	106	(23)		83
Accrued employee benefits	5,277	-	(335)	4,942	-		4,942
Other post-employment benefits	<u>7,299</u>	<u>7,831</u>	<u>-</u>	<u>15,130</u>	<u>-</u>		<u>15,130</u>
Totals	<u>\$ 48,815</u>	<u>\$ 7,831</u>	<u>\$ (4,140)</u>	<u>\$ 52,506</u>	<u>\$ (3,508)</u>	<u>\$</u>	<u>\$ 48,998</u>

	Total Balance			Total Balance		Less Current	Equals Long-Term
	July 1, 2009	Addition	Reduction	June 30, 2010	Portion	Portion	June 30, 2010
<u>Business-Type Activities</u>							
Bonds payable	\$ 54,159	\$ 1,495	\$ (3,836)	\$ 51,818	\$ (3,767)		\$ 48,051
Accrued employee benefits	445	-	(3)	442	-		442
Other post-employment benefits	416	446	-	862	-		862
Totals	<u>\$ 55,020</u>	<u>\$ 1,941</u>	<u>\$ (3,839)</u>	<u>\$ 53,122</u>	<u>\$ (3,767)</u>		<u>\$ 49,355</u>

16. Loan Payable

In fiscal year 2008, capital improvements valued at \$ 164,815 were made to certain Fitchburg Airport buildings, and were paid for by a company that leases space at the Airport. In exchange, the City entered into an agreement with the company to repay the cost of the improvements over a 7 year period by reducing the amount of rent charged. The agreement began in November 2007 and calls for the equivalent of an annual rent reduction of approximately \$ 23,500. In the event the lease agreement is terminated prematurely, the City agrees to pay the unamortized balance over the following 5 years. The total balance due to the company at June 30, 2010 was \$ 105,952, (\$ 23,545 current and \$ 82,407 non-current).

17. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

18. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2010:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

19. Subsequent Events

Debt

Subsequent to June 30, 2010, the City has incurred the following temporary debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Revenue anticipation note	\$ 6,000,000	1.25%	09/28/10	06/30/11

20. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

West Plant Lagoon - Groundwater Violations – In fiscal year 2005, the City incurred the final costs to comply with an EPA mandate to correct a violation of groundwater regulations for the west plant water treatment facility lagoon by constructing an alternative facility. The total cost was approximately \$ 2.2 million, for which the City issued bonds in fiscal year 2004. The principal and interest payments were expected to be reimbursed by four local paper mills;

however, one of these closed their Fitchburg location in fiscal year 2001. As a result, the City will receive reimbursement for approximately 55% of all related debt (principal and interest), estimated at \$ 1.4 million over a 10 year period, beginning in fiscal year 2005.

Combined Sewer Overflow and Related Potential Liabilities - The City has been made aware of combined sewer overflow and inflow/infiltration environmental issues which may become a material liability of the City in the future. The City continues to negotiate various requirements with the Environmental Protection Agency. The City expects a final consent decree to be issued in late 2011 and that it will include a compliance schedule that could last up to 20 years with a total cost of approximately \$ 150 million (in 2010 dollars). The City has established several projects to address different aspects of the sewer overflow/separation/treatment issues. The City has authorized and issued borrowing of approximately \$ 21.5 million as of June 30, 2010, \$ 17.4 million of which was issued through the Massachusetts Water Pollution Abatement Trust. As of June 30, 2010, the City has incurred approximately \$ 21.6 million of engineering and construction costs related to these projects.

East Plant Odor Control - In May 2003, the City was ordered by DEP to reduce odor at its east plant sewer facility by replacing certain equipment. Although the order did not contain any specific deadline for completion, the project was substantially completed by December 2009 and fully completed by June 30, 2010. The total cost of the project was approximately \$ 5.4 million, which was funded by a City bond for a similar amount in fiscal year 2008. The City is currently awaiting documentation from DEP to recognize that all work has been completed and that the City has fulfilled all requirements related to this issue.

Dam Repairs - The City owns and is responsible for 15 dams, 12 of which operate under the control of the Water Enterprise Fund. In fiscal year 2009, it was noted that four of the fifteen had been classified by the Commonwealth as "high hazard" and in poor condition. In 2010 the City retained the services of a local professional engineer, qualified to perform dam inspections. This individual is responsible for performing all required follow-up inspections and reporting the results to the Office of Dam Safety.

The new consultant also initiated a review of previous inspections performed by prior consultants, which has resulted in modifications (reductions) to the City's initial estimate of the cost to comply with State regulations. In one case, the dam in question may be able to be maintained at a low priority level because it is inactive; in other cases, the re-evaluation found that less repairs may be needed and/or that the dam may qualify for a reclassification in the State's severity categories (from "high hazard" to the less severe "significant

hazard”). Since the re-evaluation is still in process, the estimated cost to comply and remedy all deficiencies is undeterminable at the present time.

NPDES Permit – A Federal National Pollutant Discharge Elimination System (NPDES) permit enables and regulates the discharge of waste. It is renewable every 5 years and includes various limitations, including phosphorous limits. The City’s permit expired in 2005, at which time the City compiled and submitted all necessary documentation for renewal; however, a draft permit was not issued until the summer of 2009. Under Federal guidelines, the City could continue to operate under the expired permit until a final permit was issued.

A final permit was issued in September 2010; however, the City filed an appeal due to the significantly lower phosphorous limits contained in the permit, which are 1/5th of the current limits. The appeal has been granted a stay while a consent decree is negotiated, with the understanding that phosphorous compliance will be addressed as part of the decree. Exceeding the limits of items under appeal is not considered a violation.

The cost to comply with the final permit requirements and expected consent decree has not been determined but could not be reached without major capital outlay. Compliance with the phosphorous limitation portion alone is currently estimated to be \$ 20 million.

21. Long-term Contracts

McKay Campus School – In July 1995, the City entered into an agreement with the Commonwealth of Massachusetts (acting through Fitchburg State College, FSC) whereby FSC would operate the elementary school located at the City’s McKay school building. FSC provides staff and pays overhead costs, while the City provides textbooks, supplies, and use of the building. Per the terms of the agreement, the cost to the City is negotiated annually but cannot be less than the prior year, plus an increase equal to the increase in the Consumer Price Index. The agreement can be terminated by either party, with two year’s notice. The cost of this agreement for fiscal year 2010 was \$ 994,887.

Ambulance Services – Effective with fiscal year 2008, the City entered into a three year agreement with a private company to provide ambulance services to its residents. Under the terms of the initial agreement, the City is guaranteed to receive approximately \$ 400,000 per year from the private company. Effective with fiscal year 2011, the City extended the agreement for 5 years, with an increase in annual guaranteed revenue to \$ 450,000.

22. Post-Employment Health Care and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described in the following footnote, the City provides post-employment health care and life insurance benefits for retired employees through the City's insurance plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of January 1, 2009, the actuarial valuation date, approximately 939 retirees and 1090 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 25% of the cost of the health plan (51% for surviving spouses), as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2010 annual OPEB 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 per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year

ending June 30, 2010, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of January 1, 2009.

Annual Required Contribution (ARC)	\$ 13,979,589
Interest on net OPEB obligation	327,893
Adjustment to ARC	<u>(293,801)</u>
Annual OPEB cost	14,013,681
Contributions made	<u>(5,736,707)</u>
Increase in net OPEB obligation	8,276,974
Net OPEB obligation - beginning of year	<u>7,715,121</u>
Net OPEB obligation - end of year	<u><u>\$ 15,992,095</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 13,158,849	41%	\$ 7,715,121
2010	\$ 14,013,681	41%	\$ 8,276,974

The City's net OPEB obligation as of June 30, 2010 is recorded as a component of the "other long-term liabilities" line item reported in the accompanying government wide financial statements.

E. Funded Status and Funding Progress

The funded status of the plan as of January 1, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 186,633,518
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>186,633,518</u></u>
Funded ratio (actuarial value of plan assets/AAL)	<u><u>0%</u></u>
Covered payroll (active plan members)	<u><u>\$ N/A</u></u>
UAAL as a percentage of covered payroll	<u><u>N/A</u></u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included 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 that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City 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 City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4.25% investment rate of return and an initial annual health-care cost trend rate of 9% - 11% which decrease to a 5% - 6% long-term rate after ten years, depending on the type of healthcare coverage (managed care or indemnity). The UAAL is amortized over a period of 30 years, on a closed basis and using an increasing amortization payment at the rate of assumed payroll increase due to inflation of 3.5%.

23. Contributory Retirement System

A. Plan Description and Contribution Information

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Fitchburg Contributory Retirement System (FCRS), a cost-sharing, multiple-employer defined benefit PERS. Eligible employees must participate in the FCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the FCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The FCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at January 1, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	535
Terminated plan members entitled to but not yet receiving benefits	121
Active plan members	<u>589</u>
Total	<u><u>1,245</u></u>
Number of participating employers	3

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The City's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2001	\$ 4,116,296	100%
2002	4,253,150	100%
2003	4,420,673	100%
2004	4,955,597	100%
2005	5,103,294	100%
2006	5,768,349	100%
2007	5,999,910	100%
2008	6,519,244	100%
2009	6,783,664	100%
2010	7,052,211	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member

contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Fitchburg Contributory Retirement System's most recent valuation (amounts in thousands).

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/10	\$ 82,821	\$ 176,105	\$ 93,284	47.0%	\$ 26,151	356.7%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 176 million was calculated. The actuarial assumptions included (a) 7.95% investment rate of return and (b) a projected salary increase of 4.25% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is based on market value adjusted by accounts payable and receivables, adjusted to phase in over 3 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 85% of the adjusted market value nor more than 115% of the adjusted market value. As of the date of the valuation, the unfunded actuarially accrued liability is being amortized over 19 years for the fresh start retirement benefits and 9 years for the 2003 Early Retirement Incentive retirees. The amortization method used a closed group method and assumed an approximate level percent of payroll.

E. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%*
January 1, 1984 - June 30, 1996	8%*
July 1, 1996 - June 30, 2001	9%*
Beginning July 1, 2001	11%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The City's current year covered payroll for teachers and administrators was \$ 27,372,306.

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 9,094,044 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

24. Self Insurance

The City self insures against claims for most employee health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

The City's insurance plans are retrospectively rated policies. In other words, the City contributes a level monthly premium which is adjusted quarterly for actual claims paid.

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable for up to \$ 110,000 per incident or any

amount over \$ 2 million per person (lifetime). The City has no maximum aggregate liability for all claims paid within one year. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2010 are as follows:

Claims liability, July 1, 2009	\$ 1,185,700
Claims incurred/recognized in fiscal year 2010	16,027,611
Claims paid in fiscal year 2010	<u>(16,803,976)</u>
Claims liability, June 30, 2010	<u>\$ 409,335</u>

The claims liability at year end was comprised of the following:

Settlement for claims incurred in 4th quarter of fiscal year 2010 (over/(under) the level monthly premium contributions) and adjusted for in fiscal year 2011	\$ (241,500)
Estimated incurred but not reported claims	<u>650,835</u>
Total claims liability	<u>\$ 409,335</u>

25. Risk Management

The government 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 government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

26. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously reported)	Reclassification	Fund Equity 6/30/09 (as restated)
Nonmajor funds	\$ 9,165,371	\$ (1,107,682)	\$ 8,057,689
City Grants fund	<u>-</u>	<u>1,107,682</u>	<u>1,107,682</u>
Total	<u>\$ 9,165,371</u>	<u>\$ -</u>	<u>\$ 9,165,371</u>

CITY OF FITCHBURG, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010
(Unaudited)
(Amounts Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/94	\$ 34,060	\$ 63,195	\$ 29,135	53.9%	\$ 13,902	209.6%
01/01/97	\$ 45,057	\$ 71,872	\$ 26,815	62.7%	\$ 18,818	142.5%
01/01/98	\$ 52,449	\$ 87,683	\$ 35,234	59.8%	\$ 19,536	180.4%
01/01/00	\$ 65,756	\$ 98,667	\$ 32,911	66.6%	\$ 21,970	149.8%
01/01/02	\$ 70,662	\$ 115,986	\$ 45,324	60.9%	\$ 26,518	170.9%
01/01/04	\$ 70,510	\$ 135,276	\$ 64,766	52.1%	\$ 24,357	265.9%
01/01/06	\$ 78,944	\$ 151,248	\$ 72,304	52.2%	\$ 28,483	253.8%
01/01/08	\$ 92,018	\$ 167,874	\$ 75,856	54.8%	\$ 28,371	267.4%
01/01/10	\$ 82,821	\$ 176,105	\$ 93,284	47.0%	\$ 26,151	356.7%

Other Post-Employment Benefits

Actuarial Valuation Date	Year	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/09	2009	\$ -	\$ 177,764	\$ 177,764	0.0%	N/A	N/A
01/01/09	2010	\$ -	\$ 186,634	\$ 186,634	0.0%	N/A	N/A

See Independent Auditors' Report