

CITY OF FITCHBURG, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2011

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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, 2011 (except for the Fitchburg Contributory Retirement System which is as of and for the year ended December 31, 2010), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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, 2011 (except the Fitchburg Contributory Retirement System which is as of December 31, 2010), 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 6, 2012 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 6, 2012

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, 2011.

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 \$ 132,601,527 (i.e., net assets), a decrease of \$ (1,976,258) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 21,640,589, an increase of \$ 902,558 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 4,564,690, a decrease of \$ (757,074) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 81,769,789, a decrease of \$ (2,376,590) in comparison to the prior year.
- At the close of the current fiscal year, the Stabilization Fund balance (which is now combined with the General Fund) was \$ 3,051,036, which represents an increase of \$ 1,017,442 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 Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 64,131	\$ 58,904	\$ 7,634	\$ 6,611	\$ 71,765	\$ 65,515
Capital assets	<u>88,620</u>	<u>86,380</u>	<u>96,419</u>	<u>97,907</u>	<u>185,039</u>	<u>184,287</u>
Total assets	152,751	145,284	104,053	104,518	256,804	249,802
Long-term liabilities outstanding	57,880	52,507	52,602	53,122	110,482	105,629
Other liabilities	<u>12,660</u>	<u>7,865</u>	<u>1,060</u>	<u>1,730</u>	<u>13,720</u>	<u>9,595</u>
Total liabilities	70,540	60,372	53,662	54,852	124,202	115,224
Net assets:						
Invested in capital assets, net	60,048	57,296	48,297	47,484	108,345	104,780
Restricted	11,103	10,280	-	-	11,103	10,280
Unrestricted	<u>11,060</u>	<u>17,336</u>	<u>2,094</u>	<u>2,182</u>	<u>13,154</u>	<u>19,518</u>
Total net assets	<u>\$ 82,211</u>	<u>\$ 84,912</u>	<u>\$ 50,391</u>	<u>\$ 49,666</u>	<u>\$ 132,602</u>	<u>\$ 134,578</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:						
Program revenues:						
Charges for services	\$ 7,552	\$ 7,121	\$ 14,272	\$ 14,411	\$ 21,824	\$ 21,532
Operating grants and contributions	74,645	70,981	568	742	75,213	71,723
Capital grants and contributions	3,711	3,897	99	-	3,810	3,897
General revenues:						
Property taxes	38,827	36,957	-	-	38,827	36,957
Excises	3,079	2,787	-	-	3,079	2,787
Penalties, interest on taxes	813	803	262	335	1,075	1,138
Grants and contributions not restricted to specific programs	8,396	9,519	-	-	8,396	9,519
Investment income	346	316	134	4	480	320
Other	399	225	7	17	406	242
Total revenues	<u>137,768</u>	<u>132,606</u>	<u>15,342</u>	<u>15,509</u>	<u>153,110</u>	<u>148,115</u>
Expenses:						
General government	8,002	6,700	-	-	8,002	6,700
Public safety	13,956	13,310	-	-	13,956	13,310
Education	74,296	71,163	-	-	74,296	71,163
Public works	7,341	7,075	-	-	7,341	7,075
Health and human services	1,248	1,095	-	-	1,248	1,095
Culture and recreation	203	1,109	-	-	203	1,109
Employee benefits	28,205	28,351	-	-	28,205	28,351
Interest	1,613	1,784	-	-	1,613	1,784
Intergovernmental	5,059	4,693	-	-	5,059	4,693
Miscellaneous	546	484	-	-	546	484
Water operations	-	-	5,458	5,618	5,458	5,618
Sewer operations	-	-	9,159	9,910	9,159	9,910
Total expenses	<u>140,469</u>	<u>135,764</u>	<u>14,617</u>	<u>15,528</u>	<u>155,086</u>	<u>151,292</u>
Change in net assets	(2,701)	(3,158)	725	(19)	(1,976)	(3,177)
Net assets - beginning 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>
Net assets - end of year	<u>\$ 82,211</u>	<u>\$ 84,912</u>	<u>\$ 50,391</u>	<u>\$ 49,666</u>	<u>\$ 132,602</u>	<u>\$ 134,578</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 \$ 132,601,527, a decrease of \$ (1,976,258) from the prior year.

By far the largest portion of net assets, \$ 108,344,905, 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, \$ 11,103,328, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 13,153,384, 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 \$ (2,701,313). Key elements of this change are as follows:

Consolidated General fund operations	\$ 598,916
Major fund - CDBG revenues in excess of expenditures	43,789
Major fund - City Grants fund expenditures in excess of revenues	(428,082)
Major fund - Capital Project fund expenditures in excess of revenues	(519,262)
Special revenue fund and trust revenues over expenditures	1,207,197
Depreciation expense in excess of principal debt service	(1,022,502)
Internal service fund operations	2,398,346
Capital assets purchased with tax levy and grant funds and donated assets	4,917,873
Capital asset dispositions	(22,162)
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	(6,661,699)
Other	<u>(442,397)</u>
Total	<u>\$ (2,701,313)</u>

Business-Type Activities. Business-type activities for the year resulted in an increase in net assets of \$ 725,055. Key elements of this change are as follows:

Water enterprise	\$ 338,449
Sewer enterprise	<u>386,606</u>
Total	<u>\$ 725,055</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 \$ 21,640,589, an increase of \$ 902,558 in comparison with the prior year. Key elements of this increase are as follows:

Consolidated General fund operations	\$ 598,916
Major fund - CDBG revenues in excess of expenditures	43,789
Major fund - City Grants fund expenditures in excess of revenues	(428,082)
Major fund - Capital Project fund expenditures in excess of revenues	(519,262)
Special revenue and trust fund revenues over expenditures	<u>1,207,197</u>
Total	<u>\$ 902,558</u>

In fiscal year 2011, the City implemented *Governmental Accounting Standards Board Statement #54 Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported as unassigned fund balance. Full definitions of all fund balance classifications can be found in the notes to the financial statements. Additionally, amounts previously reported in stabilization funds, are now required to be presented as committed fund balance in the general fund.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 4,564,690, while total fund balance was \$ 11,781,710. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>	% of <u>Total 2011 General Fund Expenditures</u>
Unassigned fund balance	\$ 4,564,690	\$ 5,321,764	\$ (757,074)	4.2%
Total fund balance ¹	11,781,710	11,182,794	598,916	10.8%

¹Now includes Stabilization Fund. Prior period balances have been revised to conform to current presentation.

The total fund balance of the general fund increased by \$ 598,916 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

Excess of tax collections compared to budget	\$ 501,238
Excess of state and local revenues over budget	1,021,321
Budgetary appropriations unspent by departments	1,272,767
Use of free cash (fund balance) as a funding source/use	(2,680,400)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	(533,452)
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Other:

Stabilization Fund interest and transfers in	<u>1,017,442</u>
Total	<u>\$ 598,916</u>

Included in the total general fund balance is the City's Stabilization Fund with the following balances:

	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
General stabilization	\$ <u>3,051,036</u>	\$ <u>2,033,594</u>	\$ <u>1,017,442</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 \$ 2,093,743, a decrease of \$ (87,659) 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 \$ 527,900. Major reasons for these amendments include:

- \$ 140,000 increase for police personal services, expense and capital appropriations.
- \$ 43,400 increase for Library appropriations.
- \$ 20,000 increase for snow and ice appropriations.
- \$ 210,000 increase in Veterans appropriations.
- \$ 57,000 increase in Recreation appropriations.
- \$ 57,500 increase in various other departmental appropriations.

Of this increase, \$ 502,400 was funded from surplus (free cash) and \$ 25,500 was funded by a transfer from Sale of City Property Fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 185,039,281 (net of accumulated depreciation), an increase of \$ 752,495 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 \$ (4,531,047), \$ (1,854,283) and \$ (1,522,853) for governmental, water and sewer activities, respectively.
- Loss on disposition of assets of \$ (22,162) in governmental funds, and \$ (739) in the water fund.
- Various school building improvements including roof replacements and boilers of \$ 2,505,958.
- Machinery and equipment purchases, including surveillance systems and a truck for various schools, a mower for public works, and library books totaling \$ 192,735.
- Various park and field improvements of \$ 913,892. (Riverfront Park, Gateway Park, Horwath Park and Park Hill Park).
- Streetscape improvements and street construction of \$ 1,709,899 and bridge repair work of \$ 1,260,000, \$ 2,040,000 of which was paid for by developers and grant funding.

- Coggshall Stonehouse restoration of \$ 210,375, all of which was donated.
- Water main improvements/replacements and hydrant replacements of \$ 243,277, \$ 160,500 of which was paid for by developers.
- Regional Water Plant Clarifier Retrofit project of \$ 827,574.
- Vehicle purchases for water operations of \$ 36,626.
- Sewer East Plant grit compliance costs of \$ 80,571 (in progress).
- Sewer infrastructure, including sewer lines and storm drains which are part of the Combined Sewer Separation project of \$ 556,001.
- Equipment for pumping stations and East Plant of \$ 8,910.
- A tractor, camera and utility truck used in sewer operations of \$ 137,761.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 81,769,789, 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, 2011

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 30,312,026	\$ 3,478,884	\$ 33,790,910
Investments	4,121,550	-	4,121,550
Receivables, net of allowance for uncollectibles:			
Property taxes	966,786	-	966,786
Excises	617,287	-	617,287
User fees	-	3,954,777	3,954,777
Departmental and other	191,970	-	191,970
Intergovernmental	5,578,548	199,682	5,778,230
Loans	646,406	-	646,406
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	1,030,603	-	1,030,603
Intergovernmental	15,782,204	-	15,782,204
Loans	4,607,476	-	4,607,476
Deferred loss on early retirement of debt, net of current portion	189,538	-	189,538
Land and construction in progress	8,787,085	10,703,942	19,491,027
Capital assets, net of accumulated depreciation	<u>79,832,787</u>	<u>85,715,467</u>	<u>165,548,254</u>
TOTAL ASSETS	152,751,343	104,052,752	256,804,095
LIABILITIES			
Current:			
Warrants payable	3,452,514	565,371	4,017,885
Accounts payable	1,151,289	165,181	1,316,470
Accrued payroll and withholdings	2,556,484	49,227	2,605,711
Deferred revenue	447,245	-	447,245
Accrued interest payable	339,428	280,681	620,109
Accrued claims payable	174,019	-	174,019
Notes payable	4,300,000	-	4,300,000
Other current liabilities	239,632	-	239,632
Current portion of long-term liabilities:			
Bonds payable	3,904,000	4,047,724	7,951,724
Other liabilities	23,545	-	23,545
Noncurrent:			
Bonds payable, net of current portion	26,814,500	47,003,565	73,818,065
Other liabilities, net of current portion	<u>27,137,795</u>	<u>1,550,368</u>	<u>28,688,163</u>
TOTAL LIABILITIES	70,540,451	53,662,117	124,202,568
NET ASSETS			
Invested in capital assets, net of related debt	60,048,013	48,296,892	108,344,905
Restricted for:			
Grants and other statutory restrictions	6,715,544	-	6,715,544
Permanent funds:			
Nonexpendable	2,028,048	-	2,028,048
Expendable	2,359,646	-	2,359,646
Unrestricted	<u>11,059,641</u>	<u>2,093,743</u>	<u>13,153,384</u>
TOTAL NET ASSETS	\$ <u>82,210,892</u>	\$ <u>50,390,635</u>	\$ <u>132,601,527</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 8,002,227	\$ 2,775,718	\$ 1,691,316	\$ 2,450,278	\$ (1,084,915)	\$ -	\$ (1,084,915)
Public safety	13,956,580	1,342,202	1,201,610	167,979	(11,244,789)	-	(11,244,789)
Education	74,295,607	743,854	63,020,667	159,696	(10,371,390)	-	(10,371,390)
Public works	7,341,336	2,493,351	2,164,833	933,422	(1,749,730)	-	(1,749,730)
Health and human services	1,247,645	168,486	221,375	-	(857,784)	-	(857,784)
Culture and recreation	202,930	28,940	279,009	-	105,019	-	105,019
Employee benefits	28,205,430	-	5,880,006	-	(22,325,424)	-	(22,325,424)
Interest	1,613,069	-	185,821	-	(1,427,248)	-	(1,427,248)
Intergovernmental	5,058,933	-	-	-	(5,058,933)	-	(5,058,933)
Miscellaneous	546,122	-	-	-	(546,122)	-	(546,122)
Total Governmental Activities	140,469,879	7,552,551	74,644,637	3,711,375	(54,561,316)	-	(54,561,316)
Business-Type Activities:							
Water services	5,458,491	5,084,480	532,855	-	-	158,844	158,844
Sewer services	9,159,457	9,187,868	35,394	99,302	-	163,107	163,107
Total Business-type Activities	14,617,948	14,272,348	568,249	99,302	-	321,951	321,951
Total	\$ <u>155,087,827</u>	\$ <u>21,824,899</u>	\$ <u>75,212,886</u>	\$ <u>3,810,677</u>	(54,561,316)	321,951	(54,239,365)
General Revenues:							
Property taxes					38,826,765	-	38,826,765
Excises					3,078,724	-	3,078,724
Penalties, interest and other taxes					812,998	261,412	1,074,410
Grants and contributions not restricted to specific programs					8,396,435	-	8,396,435
Investment income					346,328	134,265	480,593
Miscellaneous					398,753	7,427	406,180
Total general revenues					51,860,003	403,104	52,263,107
Change in Net Assets					(2,701,313)	725,055	(1,976,258)
Net Assets:							
Beginning of year					84,912,205	49,665,580	134,577,785
End of year					\$ <u>82,210,892</u>	\$ <u>50,390,635</u>	\$ <u>132,601,527</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	<u>General</u>	<u>Community Development Block Grant</u>	<u>City Grants Funds</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and short-term investments	\$ 15,116,731	\$ 339,879	\$ -	\$ 4,265,105	\$ 7,456,821	\$ 27,178,536
Investments	-	-	-	-	4,121,550	4,121,550
Receivables:						
Property taxes	1,003,040	-	-	-	-	1,003,040
Tax title and demolition liens	4,105,749	-	-	-	-	4,105,749
Excises	993,949	-	-	-	-	993,949
Departmental and other, net of allowance	160,296	-	-	-	34,068	194,364
Intergovernmental	226,296	1,196,325	1,274,398	-	246,819	2,943,838
Loans, net of allowance for uncollectibles	-	5,401,361	5,726,324	-	-	11,127,685
Due from other funds	238,107	-	-	-	-	238,107
Other assets	60,000	-	-	-	-	60,000
TOTAL ASSETS	\$ <u>21,904,168</u>	\$ <u>6,937,565</u>	\$ <u>7,000,722</u>	\$ <u>4,265,105</u>	\$ <u>11,859,258</u>	\$ <u>51,966,818</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Warrants payable	\$ 1,284,091	\$ 34,991	\$ 570,745	\$ 901,395	\$ 661,292	\$ 3,452,514
Accounts payable	315,543	-	167,979	608,069	59,698	1,151,289
Accrued payroll and withholdings	2,253,067	15,531	14,117	-	273,769	2,556,484
Deferred revenues	6,030,125	6,597,686	5,726,324	-	34,068	18,388,203
Notes payable	-	-	300,000	4,000,000	-	4,300,000
Due to other funds	-	-	238,107	-	-	238,107
Other liabilities	239,632	-	-	-	-	239,632
TOTAL LIABILITIES	10,122,458	6,648,208	7,017,272	5,509,464	1,028,827	30,326,229
Fund Balances:						
Nonspendable	-	-	-	-	2,028,048	2,028,048
Restricted	-	289,357	148,770	364,530	8,875,426	9,678,083
Committed	3,051,036	-	-	-	-	3,051,036
Assigned	4,165,984	-	-	-	-	4,165,984
Unassigned	4,564,690	-	(165,320)	(1,608,889)	(73,043)	2,717,438
TOTAL FUND BALANCES	<u>11,781,710</u>	<u>289,357</u>	<u>(16,550)</u>	<u>(1,244,359)</u>	<u>10,830,431</u>	<u>21,640,589</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>21,904,168</u>	\$ <u>6,937,565</u>	\$ <u>7,000,722</u>	\$ <u>4,265,105</u>	\$ <u>11,859,258</u>	\$ <u>51,966,818</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, 2011

Total Governmental Fund Balances	\$ 21,640,589
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	88,619,872
• 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.	27,396,334
• 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.	2,556,750
• In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(339,428)
• 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.	(57,879,840)
• 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>216,615</u>
Net Assets of Governmental Activities	\$ <u><u>82,210,892</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, 2011

	General	Community Development Block Grant	City Grants Funds	Capital Project Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Property taxes	\$ 38,861,387	\$ -	\$ -	\$ -	\$ -	\$ 38,861,387
Excises	2,976,228	-	-	-	-	2,976,228
Penalties, interest and other taxes	812,998	-	-	-	-	812,998
Charges for services	4,447,464	-	4,080	-	1,956,502	6,408,046
Intergovernmental	60,976,618	820,347	5,577,443	159,696	14,107,913	81,642,017
Licenses and permits	774,879	-	-	-	-	774,879
Fines and forfeitures	267,248	-	-	-	-	267,248
Investment income	205,473	-	-	-	140,855	346,328
Miscellaneous	-	420,915	-	-	-	420,915
Total Revenues	109,322,295	1,241,262	5,581,523	159,696	16,205,270	132,510,046
Expenditures:						
Current:						
General government	3,587,107	1,197,473	2,862,194	-	291,866	7,938,640
Public safety	11,673,243	-	1,316,124	-	86,180	13,075,547
Education	55,692,716	-	-	2,553,958	13,380,736	71,627,410
Public works	4,458,352	-	942,189	-	820,830	6,221,371
Health and human services	1,023,292	-	117,633	-	10,730	1,151,655
Culture and recreation	651,044	-	7,644	-	86,057	744,745
Employee benefits	22,015,352	-	-	-	-	22,015,352
Miscellaneous	546,122	-	-	-	-	546,122
Debt service	4,338,892	-	763,821	-	-	5,102,713
Intergovernmental	5,058,933	-	-	-	-	5,058,933
Total Expenditures	109,045,053	1,197,473	6,009,605	2,553,958	14,676,399	133,482,488
Excess (deficiency) of revenues over expenditures	277,242	43,789	(428,082)	(2,394,262)	1,528,871	(972,442)
Other Financing Sources (Uses):						
Bond proceeds	-	-	-	1,875,000	-	1,875,000
Transfers in	321,674	-	-	-	-	321,674
Transfers out	-	-	-	-	(321,674)	(321,674)
Total Other Financing Sources (Uses)	321,674	-	-	1,875,000	(321,674)	1,875,000
Change in fund balance	598,916	43,789	(428,082)	(519,262)	1,207,197	902,558
Fund Equity, at Beginning of Year, as reclassified	11,182,794	245,568	411,532	(725,097)	9,623,234	20,738,031
Fund Equity, at End of Year	\$ 11,781,710	\$ 289,357	\$ (16,550)	\$ (1,244,359)	\$ 10,830,431	\$ 21,640,589

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, 2011

Net Changes in Fund Balances - Total Governmental Funds	\$ 902,558																				
<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> <tr> <td> Capital outlay purchases, net of dispositions</td> <td style="text-align: right;">6,770,711</td> </tr> <tr> <td> Depreciation</td> <td style="text-align: right;">(4,531,047)</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> <tr> <td></td> <td style="text-align: right;">(2,873,244)</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> <tr> <td> Bond proceeds</td> <td style="text-align: right;">(1,875,000)</td> </tr> <tr> <td> Repayments of debt (bonds and loans)</td> <td style="text-align: right;">3,508,545</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> <tr> <td></td> <td style="text-align: right;">31,721</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> <tr> <td> Change in compensated absence liability</td> <td style="text-align: right;">(345,127)</td> </tr> <tr> <td> Change in OPEB liability</td> <td style="text-align: right;">(6,661,699)</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> <tr> <td></td> <td style="text-align: right;"><u>2,398,346</u></td> </tr> </table> 	Capital outlay purchases, net of dispositions	6,770,711	Depreciation	(4,531,047)		(2,873,244)	Bond proceeds	(1,875,000)	Repayments of debt (bonds and loans)	3,508,545	Amortization of deferred loss on early retirement of debt	(27,077)		31,721	Change in compensated absence liability	(345,127)	Change in OPEB liability	(6,661,699)		<u>2,398,346</u>	
Capital outlay purchases, net of dispositions	6,770,711																				
Depreciation	(4,531,047)																				
	(2,873,244)																				
Bond proceeds	(1,875,000)																				
Repayments of debt (bonds and loans)	3,508,545																				
Amortization of deferred loss on early retirement of debt	(27,077)																				
	31,721																				
Change in compensated absence liability	(345,127)																				
Change in OPEB liability	(6,661,699)																				
	<u>2,398,346</u>																				
Changes in Net Assets of Governmental Activities	\$ <u>(2,701,313)</u>																				

See notes to financial statements.

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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 38,360,149	\$ 38,360,149	\$ 38,360,149	\$ -
Excise	2,767,723	2,767,723	2,976,228	208,505
Penalties, interest and other taxes	601,541	601,541	812,998	211,457
Charges for services	4,291,400	4,291,400	4,447,464	156,064
Intergovernmental	51,094,318	51,094,318	51,179,555	85,237
Licenses and permits	547,100	547,100	774,879	227,779
Fines and forfeits	260,000	260,000	267,248	7,248
Investment income	63,000	63,000	188,031	125,031
Transfers in	296,174	321,674	321,674	-
Other sources	3,250,000	3,752,400	3,752,400	-
Total Revenues and Other Sources	101,531,405	102,059,305	103,080,626	1,021,321
Expenditures and Other Uses:				
General government	4,677,267	3,845,267	3,622,045	223,222
Public safety	11,739,903	11,873,403	11,718,538	154,865
Education	45,213,891	45,213,891	45,192,463	21,428
Public works	4,684,309	4,704,309	4,474,242	230,067
Health and human services	888,418	1,098,418	1,025,220	73,198
Culture and recreation	614,983	719,383	709,386	9,997
Debt service	4,639,000	4,539,000	4,339,869	199,131
Intergovernmental	4,918,240	4,918,240	5,058,933	(140,693)
Employee benefits	22,593,394	22,513,394	22,019,417	493,977
Miscellaneous	562,000	562,000	554,425	7,575
Transfers out	1,000,000	1,000,000	1,000,000	-
Other Uses	-	1,072,000	1,072,000	-
Total Expenditures and Other Uses	101,531,405	102,059,305	100,786,538	1,272,767
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,294,088	\$ 2,294,088

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 1,581,321	\$ 1,897,563	\$ 3,478,884	\$ 3,133,490
User fees, net of allowance for uncollectibles	1,530,189	2,424,588	3,954,777	-
Intergovernmental receivables	-	199,682	199,682	-
Total current assets	3,111,510	4,521,833	7,633,343	3,133,490
Noncurrent:				
Land and construction in progress	951,000	9,752,942	10,703,942	-
Capital assets, net of accumulated depreciation	50,499,466	35,216,001	85,715,467	-
Total noncurrent assets	51,450,466	44,968,943	96,419,409	-
TOTAL ASSETS	54,561,976	49,490,776	104,052,752	3,133,490
<u>LIABILITIES</u>				
Current:				
Warrants payable	228,874	336,497	565,371	-
Accounts payable	-	165,181	165,181	-
Accrued payroll	20,993	28,234	49,227	-
Deferred revenue	-	-	-	402,721
Accrued interest payable	104,082	176,599	280,681	-
Accrued claims payable	-	-	-	174,019
Current portion of long-term liabilities:				
Bonds payable	1,829,580	2,218,144	4,047,724	-
Total current liabilities	2,183,529	2,924,655	5,108,184	576,740
Noncurrent:				
Bonds payable, net of current portion	21,593,873	25,409,692	47,003,565	-
Other liabilities, net of current portion	721,900	828,468	1,550,368	-
Total noncurrent liabilities	22,315,773	26,238,160	48,553,933	-
TOTAL LIABILITIES	24,499,302	29,162,815	53,662,117	576,740
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	28,337,373	19,959,519	48,296,892	-
Unrestricted	1,725,301	368,442	2,093,743	2,556,750
TOTAL NET ASSETS	\$ 30,062,674	\$ 20,327,961	\$ 50,390,635	\$ 2,556,750

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, 2011

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 5,216,346	\$ 9,324,841	\$ 14,541,187	\$ -
Employee contributions	-	-	-	4,859,984
Employer contributions	-	-	-	13,044,396
Total Operating Revenues	5,216,346	9,324,841	14,541,187	17,904,380
Operating Expenses:				
Salary and wages	1,152,331	1,735,033	2,887,364	-
Operating expenses	1,191,589	3,635,922	4,827,511	-
Depreciation	1,854,283	1,522,853	3,377,136	-
Administrative assessments	815,872	1,022,024	1,837,896	-
Employee benefits	-	-	-	15,983,734
Other	140,928	504,140	645,068	-
Total Operating Expenses	5,155,003	8,419,972	13,574,975	15,983,734
Operating Income (Loss)	61,343	904,869	966,212	1,920,646
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	532,855	134,696	667,551	477,700
Investment income	47,739	86,526	134,265	-
Interest expense	(303,488)	(739,485)	(1,042,973)	-
Total Nonoperating Revenues (Expenses), Net	277,106	(518,263)	(241,157)	477,700
Change in Net Assets	338,449	386,606	725,055	2,398,346
Net Assets at Beginning of Year	29,724,225	19,941,355	49,665,580	158,404
Net Assets at End of Year	\$ 30,062,674	\$ 20,327,961	\$ 50,390,635	\$ 2,556,750

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	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	\$ 5,053,221	\$ 9,427,216	\$ 14,480,437	\$ -
Payments to vendors and employees	(3,032,997)	(6,473,509)	(9,506,506)	-
Receipts from employees and employer	-	-	-	17,956,259
Payments of employee benefits and expenses	-	-	-	(16,219,050)
Net Cash Provided By Operating Activities	2,020,224	2,953,707	4,973,931	1,737,209
<u>Cash Flows From Non-Capital Financing Activities:</u>				
Receipts from governments	-	-	-	477,700
Net Cash Provided By Non-Capital Financing Activities	-	-	-	477,700
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Receipts from governments	33,485	99,302	132,787	-
Proceeds of notes and governmental loans	1,000,000	2,100,939	3,100,939	-
Acquisition and construction of capital assets	(946,238)	(783,243)	(1,729,481)	-
Principal payments on bonds and notes	(2,455,884)	(2,036,442)	(4,492,326)	-
Interest expense paid	(310,125)	(747,846)	(1,057,971)	-
Net Cash (Used For) Capital and Related Financing Activities	(2,678,762)	(1,367,290)	(4,046,052)	-
<u>Cash Flows From Investing Activities:</u>				
Investment income	47,739	86,526	134,265	-
Net Cash Provided by Investing Activities	47,739	86,526	134,265	-
Net Change in Cash and Short-Term Investments	(610,799)	1,672,943	1,062,144	2,214,909
Cash and Short Term Investments, Beginning of Year	2,192,120	224,620	2,416,740	918,581
Cash and Short Term Investments, End of Year	\$ 1,581,321	\$ 1,897,563	\$ 3,478,884	\$ 3,133,490
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ 61,343	\$ 904,869	\$ 966,212	\$ 1,920,646
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,854,283	1,522,853	3,377,136	-
Changes in assets and liabilities:				
User fee receivables	(163,125)	102,375	(60,750)	60,914
Warrants and other payables	152,274	279,048	431,322	(235,316)
Accrued / other liabilities	115,449	144,562	260,011	(9,035)
Net Cash Provided By Operating Activities	\$ 2,020,224	\$ 2,953,707	\$ 4,973,931	\$ 1,737,209

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2010

	Pension <u>Trust Fund</u>
<u>ASSETS</u>	
Cash and short-term investments	\$ 1,738,709
Investments	78,187,086
Accounts receivable	<u>144,229</u>
Total Assets	80,070,024
<u>LIABILITIES AND NET ASSETS</u>	
Accounts payable	8,964
Deferred revenue	<u>3,672,009</u>
Total Liabilities	<u>3,680,973</u>
<u>NET ASSETS</u>	
Total net assets held in trust for pension benefits	\$ <u><u>76,389,051</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, 2010

	Pension <u>Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 7,390,885
Other systems and Commonwealth of Massachusetts	445,649
Plan members	<u>2,600,496</u>
Total contributions	10,437,030
Investment Income:	
Interest and dividends	1,981,698
Gain on sale of investments	1,790,881
Increase in fair value of investments	5,083,068
Less: management fees	<u>(319,812)</u>
Net investment income	<u>8,535,835</u>
Total additions	18,972,865
Deductions:	
Benefit payments to plan members and beneficiaries	11,966,512
Refunds to plan members and other systems	390,553
Administrative expenses	<u>138,925</u>
Total deductions	<u>12,495,990</u>
Net increase	6,476,875
Net assets:	
Beginning of year	<u>69,912,176</u>
End of year	<u>\$ 76,389,051</u>

See notes to the 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 2011, 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.
- The *Capital Projects Fund* is used to account for the City's large, ongoing Capital Projects, which are primarily funded by bond proceeds.

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 2011 tax levy reflected an excess capacity of \$ 21,881.

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

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net assets”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).

- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

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>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 109,322,295	\$ 109,045,053
Other financing sources/uses (GAAP basis)	321,674	-
Adjust tax revenue to accrual basis	(501,238)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(3,127,436)
Add end of year appropriation carryforwards to expenditures	-	2,593,984
To reverse the effect of non-budgeted State contributions for teachers retirement	(9,797,063)	(9,797,063)
To reverse the effect of including Stabilization Fund and General Fund activity	(17,442)	1,000,000
Recognize fund balance as funding source / use	<u>3,752,400</u>	<u>1,072,000</u>
Budgetary basis	<u>\$ 103,080,626</u>	<u>\$ 100,786,538</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2011:

Special Revenue Funds:	
Neighborhood Stabilization Grants	\$ 165,320
Airport Fund	73,043
Capital Project Funds:	
School renovation / upgrade Phase II	\$ 1,347,373
School boiler / other repairs	261,516

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's policy to limit custodial credit risk consists of complying with applicable Massachusetts

General Laws and obtaining collateralization agreements for any amounts in excess of FDIC or DIFM.

As of June 30, 2011, \$ 167,226 of the City's bank balance of \$ 33,801,881 was exposed to custodial credit risk as uninsured, uncollateralized money market funds held by pledging bank's trust department not in the City's name.

As of December 31, 2010, none of the Retirement System's bank balance of \$ 1,833,325 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 and the City's investment policy 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, 2011 for each investment of the City (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
			<u>AAA/A1</u>	<u>AA2/A2</u>	<u>AA3/A3</u>
Federal agency securities	\$ 2,851	\$ -	\$ 2,851	\$ -	\$ -
Mutual funds	87	87	-	-	-
Equity securities	381	381	-	-	-
Corporate bonds	<u>803</u>	<u>-</u>	<u>204</u>	<u>423</u>	<u>176</u>
Total investments	\$ <u>4,122</u>	\$ <u>468</u>	\$ <u>3,055</u>	\$ <u>423</u>	\$ <u>176</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, 2010 (in millions), none of which are subject to credit risk disclosure:

<u>Investment Type</u>	<u>Fair Value</u>
PRIT *	\$ 76
Realty Associates Fund VII Corp (equity investments)	<u>2</u>
Total investments	<u>\$ 78</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's policy to limit custodial credit risk is to only invest in funds included on the Commonwealth's "legal list" of investments, as compiled by Commissioner of Banking. The Library and Retirement System do not have policies for custodial credit risk.

Of the total City investments of \$ 4,121,550, (which include Library funds) the government has a custodial credit risk exposure of \$ 2,749,465 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 (other than PRIT) 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’s investment policy limits investments to those contained in the “legal list” of investments compiled by the Commissioner of Banking. The Library 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 (including Library funds) to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>N/A</u>	<u>Investment Maturities (in Years)</u>			
			<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Federal agency securities	\$ 2,851	\$ -	\$ 271	\$ 1,777	\$ 803	\$ -
Mutual funds	87	87	-	-	-	-
Equity securities	381	381	-	-	-	-
Corporate bonds	803	-	153	512	65	73
Total investments	<u>\$ 4,122</u>	<u>\$ 468</u>	<u>\$ 424</u>	<u>\$ 2,289</u>	<u>\$ 868</u>	<u>\$ 73</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, 2011 consist of the following (in thousands):

Real Estate		
2011	\$ 877	
2010 & prior	<u>13</u>	
		890
Personal Property		
2011	32	
2010	12	
Prior	<u>35</u>	
		79
Deferred Taxes		<u>34</u>
Total	\$ <u>1,003</u>	

6. Allowance for Doubtful Accounts

The departmental (parking ticket and airport) and loan receivable balances reported in the accompanying governmental funds balance sheet are presented net of allowances for uncollectibles of \$ 548,750, \$ 150,300 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	\$ 36	\$ -
Tax title and demolition liens	3,075	-
Excises	377	-
Departmental (Parking garage)	2	-
Loans	5,874	-
Water charges	-	197
Sewer charges	-	286

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 2011 and are expected to be reimbursed in fiscal year 2012.

The balance reported in the governmental activities statement of net assets includes an additional amount (\$ 2,634,910 current and \$ 15,782,204 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. This reimbursement is expected to be reduced by approximately \$ 200,000 per year, beginning in fiscal year 2013, as a result of the City's debt refunding in fiscal year 2012.

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, 2011 consist of the following:

	Total Loan Balance	Less Allowance for Uncollect. (fund basis)	Equals Net Loan Receivable (fund basis)	Less Current Portion	Less Allowance for Uncollect. (gov't-wide basis)	Equals Long-term Portion, Net of Allowance
CDBG - consumer loans	\$ 43,062	\$ (8,127)	\$ 34,935	\$ -	\$ -	\$ 34,935
CDBG - mortgage/financing loans	1,525,979	(113,714)	1,412,265	(37,406)	(282,453)	1,092,406
CDBG - deferred payment loans	563,161	-	563,161	-	(563,161)	-
CDBG - HUD 108 loan to FRA	3,391,000	-	3,391,000	(609,000)	-	2,782,000
HOME - mortgage/financing loans	872,669	-	872,669	-	(174,534)	698,135
Other City grants - deferred payment loans	4,853,655	-	4,853,655	-	(4,853,655)	-
Total	\$ <u>11,249,526</u>	\$ <u>(121,841)</u>	\$ <u>11,127,685</u>	\$ <u>(646,406)</u>	\$ <u>(5,873,803)</u>	\$ <u>4,607,476</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, 2011 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 238,107	\$ -
City Grants fund	<u>-</u>	<u>238,107</u>
Total	<u>\$ 238,107</u>	<u>\$ 238,107</u>

11. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, being depreciated:					
Land improvements	\$ 11,375	\$ 7	\$ (24)	\$ -	\$ 11,358
Buildings and improvements	73,279	162	(353)	201	73,289
Machinery, equipment, and furnishings	13,588	187	(278)	-	13,497
Infrastructure	<u>69,450</u>	<u>2,510</u>	<u>(629)</u>	<u>-</u>	<u>71,331</u>
Total capital assets, being depreciated	167,692	2,866	(1,284)	201	169,475
Less accumulated depreciation for:					
Land improvements	(3,180)	(297)	8	-	(3,469)
Buildings and improvements	(30,274)	(1,789)	353	-	(31,710)
Machinery, equipment, and furnishings	(10,745)	(670)	278	-	(11,137)
Infrastructure	<u>(42,180)</u>	<u>(1,775)</u>	<u>629</u>	<u>-</u>	<u>(43,326)</u>
Total accumulated depreciation	<u>(86,379)</u>	<u>(4,531)</u>	<u>1,268</u>	<u>-</u>	<u>(89,642)</u>
Total capital assets, being depreciated, net	81,313	(1,665)	(16)	201	79,833
Capital assets, not being depreciated:					
Land	3,936	-	(6)	-	3,930
Construction in progress (CIP)	<u>1,131</u>	<u>3,927</u>	<u>-</u>	<u>(201)</u>	<u>4,857</u>
Total capital assets, not being depreciated	<u>5,067</u>	<u>3,927</u>	<u>(6)</u>	<u>(201)</u>	<u>8,787</u>
Governmental activities capital assets, net	<u>\$ 86,380</u>	<u>\$ 2,262</u>	<u>\$ (22)</u>	<u>\$ -</u>	<u>\$ 88,620</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Business-Type Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 89,232	\$ 828	\$ -	\$ 49	\$ 90,109
Machinery, equipment, and furnishings	6,894	183	(28)	-	7,049
Infrastructure	<u>43,336</u>	<u>337</u>	<u>(6)</u>	<u>-</u>	<u>43,667</u>
Total capital assets, being depreciated	139,462	1,348	(34)	49	140,825
Less accumulated depreciation for:					
Buildings and improvements	(36,129)	(2,368)	-	-	(38,497)
Machinery, equipment, and furnishings	(1,343)	(410)	28	-	(1,725)
Infrastructure	<u>(14,293)</u>	<u>(599)</u>	<u>5</u>	<u>-</u>	<u>(14,887)</u>
Total accumulated depreciation	<u>(51,765)</u>	<u>(3,377)</u>	<u>33</u>	<u>-</u>	<u>(55,109)</u>
Total capital assets, being depreciated, net	87,697	(2,029)	(1)	49	85,716
Capital assets, not being depreciated:					
Land	1,235	-	-	-	1,235
Construction in progress (CIP)	<u>8,975</u>	<u>543</u>	<u>-</u>	<u>(49)</u>	<u>9,469</u>
Total capital assets, not being depreciated	<u>10,210</u>	<u>543</u>	<u>-</u>	<u>(49)</u>	<u>10,704</u>
Business-type activities capital assets, net	<u>\$ 97,907</u>	<u>\$ (1,486)</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 96,420</u>

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

Governmental Activities:	
General government	\$ 49
Public safety	650
Education	1,308
Public works	2,030
Culture and recreation	392
Human services	<u>102</u>
Total depreciation expense - governmental activities	<u>\$ 4,531</u>
Business-Type Activities:	
Water	\$ 1,854
Sewer	<u>1,523</u>
Total depreciation expense - business-type activities	<u>\$ 3,377</u>

12. Warrants and Accounts Payable

Warrants payable represent 2011 expenditures paid by July 15, 2011 as permitted by law. Accounts payable represent additional 2011 expenditures paid after July 15, 2011.

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, 2011 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 2012 tax revenue received in advance and (in the Internal Service Fund) teachers' withholdings to be applied over July and August 2011.

14. Notes Payable

The City had the following notes outstanding at June 30, 2011:

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2011</u>
Bond anticipation	1.25	06/30/11	06/30/12	\$ 4,000,000
State anticipation	1.00	06/30/11	06/30/12	<u>300,000</u>
				<u>\$ 4,300,000</u>

The following summarizes activity in notes payable during fiscal year 2011:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Revenue anticipation	\$ -	\$ 6,000,000	\$ (6,000,000)	\$ -
Bond anticipation	2,250,000	4,000,000	(2,250,000)	4,000,000
State grant anticipation	<u>300,000</u>	<u>300,000</u>	<u>(300,000)</u>	<u>300,000</u>
Total	<u>\$ 2,550,000</u>	<u>\$ 10,300,000</u>	<u>\$ (8,550,000)</u>	<u>\$ 4,300,000</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, 2011
<u>Governmental Activities:</u>			
Multi-purpose (2002)	05/15/12	3.6	\$ 15,000
Multi-purpose (2003 refunding)	08/01/13	3.0 - 4.25	545,000
Section 108 Loan (through U.S. HUD)	08/01/15	4.5	3,391,000
Multi-purpose (2008)	06/01/16	3.5 - 5.5	625,000
Multi-purpose (2006 refunding)	11/15/18	3.0 - 4.0	3,787,500
Multi-purpose (1998)	02/15/19	4	20,480,000
Multi-purpose (2011)	06/15/31	3.0 - 4.0	1,875,000
Total Governmental Activities			<u>\$ 30,718,500</u>
<u>Business-Type Activities:</u>			
<u>Water Fund:</u>			
General obligation 2004 - water portion	03/15/14	2.5 - 5.0	\$ 300,000
Water treatment (MWPAT 99-06)	08/01/20	1.0 - 2.0	6,930,000
Water treatment (MWPAT 00-10)	08/01/20	1.0 - 2.0	3,755,000
Water treatment (MWPAT 00-10A)	08/01/24	1.0 - 2.0	4,425,528
Water treatment (MWPAT 01-16)	07/15/25	-	7,012,925
General obligation 2011 - water portion	06/15/31	3.0 - 4.0	1,000,000
Total Water Fund			<u>23,423,453</u>
<u>Sewer Fund:</u>			
Multi-purpose 2002 - sewer portion	05/15/12	3.6	195,000
Equipment and CSO project 2006	06/01/15	4	470,000
2006 refunding - sewer portion	11/15/15	3.0 - 4.0	1,472,500
Sewer inflow (MWPAT 97-30)	08/01/18	1.0 - 2.0	1,074,900
General obligation 2004 - sewer portion	03/15/19	2.5 - 5.0	1,490,000
Sewer inflow (MWPAT 03-12)	08/01/24	2	493,830
Sewer (MWPAT 03-12A)	07/15/25	2	4,911,424
Sewer (MWPAT 03-12B)	07/15/26	2	1,353,456
Multi-purpose 2008 - sewer portion	06/01/28	3.5 - 5.5	5,950,000
Sewer (MWPAT 08-03)	07/15/28	2	6,721,730
Sewer (MWPAT 08-03A)	07/15/30	2	1,169,996
Sewer (MWPAT 03-12C)	07/15/30	2	325,000
General obligation 2011 - water portion	06/15/31	3.0 - 4.0	2,000,000
Total Sewer Fund			<u>27,627,836</u>
Total Business-Type Activities			<u>\$ 51,051,289</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 Repayments</u>	<u>Balance June 30, 2011</u>
Loan #97-30	\$ 2,437,500	\$ (513,780)	\$ 1,923,720	\$ 1,074,900
Loan #99-06	11,959,500	(3,177,704)	8,781,796	6,930,000
Loan #00-10	6,471,885	(1,718,182)	4,753,703	3,755,000
Loan #00-10A	<u>5,804,788</u>	<u>(1,350,381)</u>	<u>4,454,407</u>	<u>4,425,528</u>
Total	<u>\$ 26,673,673</u>	<u>\$ (6,760,047)</u>	<u>\$ 19,913,626</u>	<u>\$ 16,185,428</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2011 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,904,000	\$ 1,392,752	\$ 5,296,752
2013	4,004,500	1,213,303	5,217,803
2014	4,151,000	1,023,617	5,174,617
2015	4,103,000	829,561	4,932,561
2016	4,266,000	632,008	4,898,008
2017 - 2021	<u>10,290,000</u>	<u>928,088</u>	<u>11,218,088</u>
Total	<u>\$ 30,718,500</u>	<u>\$ 6,019,329</u>	<u>\$ 36,737,829</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 4,047,724	\$ 1,073,328	\$ 5,121,052
2013	3,836,502	991,515	4,828,017
2014	3,950,863	859,484	4,810,347
2015	3,794,383	772,750	4,567,133
2016	3,742,855	676,709	4,419,564
2017 - 2021	<u>17,754,750</u>	<u>2,224,253</u>	<u>19,979,003</u>
2022 - 2026	<u>10,900,028</u>	<u>960,229</u>	<u>11,860,257</u>
2027 and thereafter	<u>3,024,184</u>	<u>166,721</u>	<u>3,190,905</u>
Total	<u>\$ 51,051,289</u>	<u>\$ 7,724,989</u>	<u>\$ 58,776,278</u>

D. Changes in General Long-Term Liabilities

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

	Total Balance July 1, 2010	Additions	Reductions	Total Balance June 30,	Less Current Portion	Long-Term Portion June 30, 2011
<u>Governmental Activities</u>						
Bonds payable	\$ 32,328	\$ 1,875	\$ (3,485)	\$ 30,718	(3,904)	26,814
Other:						
Loan payable	106	-	(24)	82	(24)	58
Accrued employee benefits	4,942	345	-	5,287	-	5,287
Other post-employment benefits	15,130	6,662	-	21,792	-	21,792
Totals	\$ <u>52,506</u>	\$ <u>8,882</u>	\$ <u>(3,509)</u>	\$ <u>57,879</u>	\$ <u>(3,928)</u>	\$ <u>53,951</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 51,818	\$ 3,000	\$ (3,767)	\$ 51,051	\$ (4,048)	\$ 47,003
Other:						
Accrued employee benefits	442	-	(42)	400	-	400
Other post-employment benefits	862	288	-	1,150	-	1,150
Totals	\$ <u>53,122</u>	\$ <u>3,288</u>	\$ <u>(3,809)</u>	\$ <u>52,601</u>	\$ <u>(4,048)</u>	\$ <u>48,553</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, 2011 was \$ 82,407, (\$ 23,545 current and \$ 58,862 non-current).

17. Subsequent Events

Debt

Subsequent to June 30, 2011, 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	\$ 1,000,000	0.75%	09/28/11	06/29/12
Revenue anticipation note	3,000,000	1.25%	09/28/11	06/29/12

In addition, in October 2011, the City issued \$ 19,790,000 of refunding bonds to defease High School related bonds of \$ 20,480,000, on a current basis. The refunding bonds were issued at 105% of par, carry an interest ranging from 2% - 4% and will mature in December 2018.

18. 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 2012 and that it will include a compliance schedule that could last up to 20 years with a total cost of approximately \$ 150 million (in 2011 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 \$ 21.4 million as of June 30, 2011, \$ 17.4 million of which was issued through the Massachusetts Water Pollution Abatement Trust (MWPAT). As of June 30, 2011, the City has incurred approximately \$ 21.4 million of engineering and construction costs related to these projects.

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.

The City is continuing to perform mandatory inspections on all dams and evaluating maintenance and repair options. Repairs will be prioritized and phased in over the next ten years in order to minimize the impact on Water Fund budgets.

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 was granted a stay while a consent decree was 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.

A final resolution was reached and a consent order issued in August 2011. The order includes a 9 year implementation schedule, which requires the City to meet certain decreasing phosphorous limits in February 2013 and December 2019.

The cost to comply with the final permit requirements as outlined in the consent decree is estimated to be at least \$ 20 million, the funding for which is expected to be MWPAT loans, City bonds and future sewer rate increases. Sewer rates were increased in July 2011, in large part to pay for the increased debt service to finance the projects, currently planned or underway.

19. 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. The agreement can be terminated by either party, with two year's notice. The cost of this agreement for fiscal year 2011 was approximately \$ 820,000.

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.

20. 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, 2011, the actuarial valuation date, approximately 959 retirees and 959 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% - 30% (depending on the plan) 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 2011 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 an initial period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2011, 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, 2011.

Annual Required Contribution (ARC)	\$ 13,467,300
Interest on net OPEB obligation	679,664
Adjustment to ARC	<u>(648,549)</u>
Annual OPEB cost	13,498,415
Contributions made	<u>(6,548,824)</u>
Increase in net OPEB obligation	6,949,591
Net OPEB obligation - beginning of year	<u>15,992,095</u>
Net OPEB obligation - end of year	<u>\$ 22,941,686</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 Costs</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
2011	\$ 13,498,415	49%	\$ 6,949,591

The City's net OPEB obligation as of June 30, 2011 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, 2011, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 183,129
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>183,129</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>55,766</u>
UAAL as a percentage of covered payroll	<u>328.4%</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, 2011 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% interest/discount rate and an initial annual healthcare cost trend rate of 9% - 10% which decreases 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 28 years (remainder of initial thirty year amortization), on a closed basis and using a level percent of payroll (using a 3.25% annual rate of increase).

21. 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 June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
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%
2011	7,292,559	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 \$ 28,447,602.

In fiscal year 2011, the Commonwealth of Massachusetts contributed \$ 9,797,063 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

22. 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, 2011 are as follows:

Claims liability, July 1, 2010	\$ 409,335
Claims incurred/recognized in fiscal year 2011	15,983,734
Claims paid in fiscal year 2011	<u>(16,219,050)</u>
Claims liability, June 30, 2011	<u>\$ 174,019</u>

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

Settlement for claims incurred in 4th quarter of fiscal year 2011 (over/(under) the level monthly premium contributions) and adjusted for in fiscal year 2012	\$ (597,377)
Estimated incurred but not reported claims	<u>771,396</u>
Total claims liability	<u>\$ 174,019</u>

23. 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.

24. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2011, as defined by GASB Statement 34, have changed from the previous fiscal year. In addition, the City implemented GASB Statement 54 in fiscal year 2011. Accordingly, the following reconciliation is provided:

	Fund Equity 06/30/10 (as previously reported)	Reclassify Stabilization Fund per GASB 54	Reclassify Major Funds per GASB 34	Fund Equity 06/30/10 (reclassified)
General fund	\$ 9,149,200	\$ 2,033,594	\$ -	\$ 11,182,794
City Grants fund	518,804	-	(107,272)	411,532
Capital Project fund	-	-	(725,097)	(725,097)
Nonmajor funds	<u>10,824,459</u>	<u>(2,033,594)</u>	<u>832,369</u>	<u>9,623,234</u>
Total	<u>\$ 20,492,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,492,463</u>

**CITY OF FITCHBURG, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF FUNDING PROGRESS

June 30, 2011

(Unaudited)

(Amounts Expressed in Thousands)

Employees' Retirement System

Actuarial Valuation Date <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
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 <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
01/01/09	\$ -	\$ 177,764	\$ 177,764	0.0%	N/A	N/A
01/01/11	\$ -	\$ 183,129	\$ 183,129	0.0%	\$ 55,766	328.4%

See Independent Auditors' Report