

CITY OF FITCHBURG, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	18
Proprietary Funds:	
Statement of Net Assets	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
Statement of Cash Flows	21
Fiduciary Funds:	
Statement of Fiduciary Net Assets	22
Statement of Changes in Fiduciary Net Assets	23
Notes to Financial Statements	24
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	58



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street
Greenfield, MA 01301-2422
Tel (413) 773-5405 • Fax (413) 773-7304
www.melansonheath.com

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, 2012 (except for the Fitchburg Contributory Retirement System which is as of and for the year ended December 31, 2011), 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.

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, 2012 (except the Fitchburg Contributory Retirement System which is as of December 31, 2011), 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2013 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and schedule of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath + Company P.C.

March 5, 2013

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, 2012.

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 \$ 136,734,586 (i.e., net assets), a change of \$ 4,133,059 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 24,627,314, a change of \$ 2,986,725 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 6,448,188, an increase of \$ 1,883,498 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 73,073,609, a decrease of \$ (8,696,180) 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 \$ 3,566,382, which represents an increase of \$ 515,346 in comparison with the prior year. This balance was further increased in October 2012 by a transfer from the General Fund (free cash) of \$ 1 million.

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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 59,064	\$ 64,131	\$ 10,239	\$ 7,634	\$ 69,303	\$ 71,765
Capital assets	<u>93,337</u>	<u>88,620</u>	<u>95,407</u>	<u>96,419</u>	<u>188,744</u>	<u>185,039</u>
Total assets	152,401	152,751	105,646	104,053	258,047	256,804
Long-term liabilities outstanding	60,701	57,880	48,748	52,602	109,449	110,482
Other liabilities	<u>9,097</u>	<u>12,660</u>	<u>2,767</u>	<u>1,060</u>	<u>11,864</u>	<u>13,720</u>
Total liabilities	69,798	70,540	51,515	53,662	121,313	124,202
Net assets:						
Invested in capital assets, net	68,543	60,048	49,286	48,297	117,829	108,345
Restricted	11,966	11,103	-	-	11,966	11,103
Unrestricted	<u>2,094</u>	<u>11,060</u>	<u>4,845</u>	<u>2,094</u>	<u>6,939</u>	<u>13,154</u>
Total net assets	<u>\$ 82,603</u>	<u>\$ 82,211</u>	<u>\$ 54,131</u>	<u>\$ 50,391</u>	<u>\$ 136,734</u>	<u>\$ 132,602</u>

CHANGES IN NET ASSETS

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 8,341	\$ 7,552	\$ 17,800	\$ 14,272	\$ 26,141	\$ 21,824
Operating grants and contributions	73,745	74,645	898	568	74,643	75,213
Capital grants and contributions	11,387	3,711	-	99	11,387	3,810
General revenues:						
Property taxes	40,496	38,827	-	-	40,496	38,827
Excises	2,947	3,079	-	-	2,947	3,079
Penalties, interest on taxes	916	813	279	262	1,195	1,075
Grants and contributions not restricted to specific programs	7,077	8,396	-	-	7,077	8,396
Investment income	249	346	16	134	265	480
Other	331	399	26	7	357	406
	<u>145,489</u>	<u>137,768</u>	<u>19,019</u>	<u>15,342</u>	<u>164,508</u>	<u>153,110</u>
Total revenues						
Expenses:						
General government	7,175	8,002	-	-	7,175	8,002
Public safety	13,657	13,956	-	-	13,657	13,956
Education	75,585	74,296	-	-	75,585	74,296
Public works	8,365	7,341	-	-	8,365	7,341
Health and human services	1,366	1,248	-	-	1,366	1,248
Culture and recreation	1,336	203	-	-	1,336	203
Employee benefits	30,917	28,205	-	-	30,917	28,205
Interest	1,092	1,613	-	-	1,092	1,613
Intergovernmental	5,031	5,059	-	-	5,031	5,059
Miscellaneous	573	546	-	-	573	546
Water operations	-	-	5,554	5,458	5,554	5,458
Sewer operations	-	-	9,725	9,159	9,725	9,159
	<u>145,097</u>	<u>140,469</u>	<u>15,279</u>	<u>14,617</u>	<u>160,376</u>	<u>155,086</u>
Total expenses						
Change in net assets	392	(2,701)	3,740	725	4,132	(1,976)
Net assets - beginning 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>
Net assets - end of year	<u>\$ 82,603</u>	<u>\$ 82,211</u>	<u>\$ 54,131</u>	<u>\$ 50,391</u>	<u>\$ 136,734</u>	<u>\$ 132,602</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 \$ 136,734,586, a change of \$ 4,133,059 from the prior year.

By far the largest portion of net assets, \$ 117,828,228, 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 resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 11,966,422, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 6,939,936, 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 \$ 392,540. Key elements of this change are as follows:

Consolidated General fund operations	\$ 2,200,736
Major fund - CDBG fund expenditures in excess of revenues	(74,338)
Major fund - City Grants revenues in excess of expenditures	229,304
Special revenue fund and trust revenues over expenditures	631,023
Depreciation expense in excess of principal debt service	(1,035,253)
Internal service fund operations	(29,412)
Capital assets purchased with tax levy and grant funds and donated assets	10,032,090
Capital asset dispositions	(482,531)
Current year amortization of state (MSBA) reimbursements of school building projects, accrued in a prior year	(3,997,407)
Current year accrual of other post-employment benefit liability	(7,333,725)
Other	<u>252,053</u>
Total	<u><u>\$ 392,540</u></u>

Business-Type Activities. Business-type activities for the year resulted in an increase in net assets of \$ 3,740,519. Key elements of this change are as follows:

Water enterprise	\$ 672,331
Sewer enterprise	<u>3,068,188</u>
Total	<u><u>\$ 3,740,519</u></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 \$ 24,627,314, an increase of \$ 2,986,725 in comparison with the prior year. Key elements of this increase are as follows:

Consolidated General fund operations	\$ 2,200,736
Major fund - CDBG fund expenditures in excess of revenues	(74,338)
Major fund - City Grants revenues in excess of expenditures	229,304
Special revenue and trust fund revenues over expenditures	<u>631,023</u>
Total	<u>\$ 2,986,725</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 6,448,188, while total fund balance was \$ 13,982,446. 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>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>	<u>% of Total 2012 General Fund Expenditures</u>
Unassigned fund balance	\$ 6,448,188	\$ 4,564,690	\$ 1,883,498	5.8%
Total fund balance ¹	13,982,446	11,781,710	2,200,736	12.6%

¹ Includes Stabilization Fund.

The total fund balance of the general fund increased by \$ 2,200,736 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

Excess of tax collections compared to budget	\$ 360,741
Excess of state and local revenues over budget	2,482,410
Budgetary appropriations unspent by departments	2,478,262
Use of free cash (fund balance) as a funding source/use	(3,527,660)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in subsequent period	(76,108)
GAAP accrual of tax refund interest	(32,255)

Other:

Stabilization Fund interest and transfers in	<u>515,346</u>
Total	<u>\$ 2,200,736</u>

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

	<u>6/30/12</u>	<u>6/30/11</u>	<u>Change</u>
General stabilization	\$ <u>3,566,382</u>	\$ <u>3,051,036</u>	\$ <u>515,346</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 \$ 4,845,505, an increase of \$ 2,751,762 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 \$ 2,695,336. Major reasons for these amendments include:

- \$ 750,000 addition to one of the City's reserve funds.
- \$ 172,105 increase for police personal services, expense and capital appropriations.
- \$ 270,000 increase for library appropriations.
- \$ 313,405 increase for public works appropriations.
- \$ 500,000 transfer to stabilization fund
- \$ 145,700 increase in veterans appropriations.
- \$ 165,860 increase in fire appropriations.
- \$ 100,000 for City Hall capital appropriations.
- \$ 278,266 increase in various other departmental appropriations.

All this increase was funded from surplus (free cash).

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 188,743,254 (net of accumulated depreciation), an increase of \$ 3,703,973 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 - governmental funds	\$ (4,832,798)
Depreciation expense - water fund	(1,858,723)
Depreciation expense - sewer fund	(1,758,151)
Loss on disposition of assets - governmental funds	(482,531)
Loss on disposition of assets - water fund	(589)
Various school building improvements, including boiler replacements roof repairs and window replacements, most of which were reimbursed by MSBA	4,750,347
Machinery and equipment purchases for the Public Works Department, including 5 trucks, 5 mowers and various attachments	436,252
Public safety equipment purchases, including a radio system and ladder truck for the Fire Department	1,276,104
Land and building acquisitions	263,314
Miscellaneous equipment, library books and building improvements	222,217
Various park and field improvements, of which approximately \$ 361,000 was donated by a local college and State funding	773,174
Streetscape improvements and street construction, \$ 970,000 of which was paid for directly by developers and State funding	2,310,682
Water main improvements / replacements and hydrant replacements, of which \$ 155,000 was paid for by developers	264,779
Land and vehicle purchases in the Water fund	75,990
Sewer infrastructure, including sewer lines and storm drains, which are part of the Combined Sewer Separation project (in process)	1,606,167
Various other infrastructure and equipment, including basin heads, flow meters, and new sewer lines, \$ 292,500 of which was paid for by private developers and State funding	657,739
	<u>\$ 3,703,973</u>

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 73,073,609, 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
Fitchburg Municipal Offices
166 Boulder Drive, Suite 108
Fitchburg, MA 01420

CITY OF FITCHBURG, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 29,089,160	\$ 6,281,250	\$ 35,370,410
Investments	4,269,467	-	4,269,467
Receivables, net of allowance for uncollectibles:			
Property taxes	828,782	-	828,782
Excises	559,763	-	559,763
User fees	-	3,957,957	3,957,957
Departmental and other	186,880	-	186,880
Intergovernmental	6,510,293	-	6,510,293
Loans	680,544	-	680,544
Other assets	60,000	-	60,000
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	1,106,669	-	1,106,669
Intergovernmental	11,979,468	-	11,979,468
Loans	3,793,547	-	3,793,547
Land and construction in progress	9,953,745	3,341,026	13,294,771
Capital assets, net of accumulated depreciation	<u>83,382,888</u>	<u>92,065,595</u>	<u>175,448,483</u>
TOTAL ASSETS	152,401,206	105,645,828	258,047,034
LIABILITIES			
Current:			
Warrants payable	1,205,581	66,977	1,272,558
Accounts payable	1,162,821	479,987	1,642,808
Accrued payroll and withholdings	2,460,785	67,593	2,528,378
Deferred revenue	343,530	-	343,530
Accrued interest payable	-	252,741	252,741
Tax refund payable	153,376	-	153,376
Accrued claims payable	1,100,778	-	1,100,778
Notes payable	2,400,187	1,900,000	4,300,187
Other current liabilities	269,245	-	269,245
Current portion of long-term liabilities:			
Bonds payable	4,059,500	3,828,586	7,888,086
Deferred gain on early retirement of debt	71,494	-	71,494
Other liabilities	23,545	-	23,545
Noncurrent:			
Bonds payable, net of current portion	22,195,000	42,990,523	65,185,523
Deferred gain on early retirement of debt, net of current portion	428,968	-	428,968
Other liabilities, net of current portion	<u>33,922,964</u>	<u>1,928,267</u>	<u>35,851,231</u>
TOTAL LIABILITIES	69,797,774	51,514,674	121,312,448
NET ASSETS			
Invested in capital assets, net of related debt	68,542,579	49,285,649	117,828,228
Restricted for:			
Grants and other statutory restrictions	7,472,455	-	7,472,455
Permanent funds:			
Nonexpendable	2,052,244	-	2,052,244
Expendable	2,441,723	-	2,441,723
Unrestricted	<u>2,094,431</u>	<u>4,845,505</u>	<u>6,939,936</u>
TOTAL NET ASSETS	\$ <u>82,603,432</u>	\$ <u>54,131,154</u>	\$ <u>136,734,586</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	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	\$ 7,175,505	\$ 2,616,828	\$ 1,296,097	\$ 2,293,788	\$ (968,792)	\$ -	\$ (968,792)
Public safety	13,656,804	1,324,717	1,567,247	658,804	(10,106,036)	-	(10,106,036)
Education	75,585,266	891,151	64,494,006	5,492,980	(4,707,129)	-	(4,707,129)
Public works	8,365,158	3,237,209	459,597	2,642,585	(2,025,767)	-	(2,025,767)
Health and human services	1,365,518	189,024	313,343	6,000	(857,151)	-	(857,151)
Culture and recreation	1,336,026	81,893	91,905	292,896	(869,332)	-	(869,332)
Employee benefits	30,917,201	-	5,364,438	-	(25,552,763)	-	(25,552,763)
Interest	1,091,802	-	158,028	-	(933,774)	-	(933,774)
Intergovernmental	5,030,851	-	-	-	(5,030,851)	-	(5,030,851)
Miscellaneous	572,936	-	-	-	(572,936)	-	(572,936)
Total Governmental Activities	145,097,067	8,340,822	73,744,661	11,387,053	(51,624,531)	-	(51,624,531)
Business-Type Activities:							
Water services	5,553,734	5,510,129	563,286	-	-	519,681	519,681
Sewer services	9,724,578	12,289,686	334,714	-	-	2,899,822	2,899,822
Total Business-type Activities	15,278,312	17,799,815	898,000	-	-	3,419,503	3,419,503
Total	\$ <u>160,375,379</u>	\$ <u>26,140,637</u>	\$ <u>74,642,661</u>	\$ <u>11,387,053</u>	(51,624,531)	3,419,503	(48,205,028)
General Revenues:							
Property taxes					40,495,779	-	40,495,779
Excises					2,947,127	-	2,947,127
Penalties, interest and other taxes					916,426	278,933	1,195,359
Grants and contributions not restricted to specific programs					7,077,539	-	7,077,539
Investment income					248,608	16,354	264,962
Miscellaneous					331,592	25,729	357,321
Total general revenues					52,017,071	321,016	52,338,087
Change in Net Assets					392,540	3,740,519	4,133,059
Net Assets:							
Beginning of year					82,210,892	50,390,635	132,601,527
End of year					\$ <u>82,603,432</u>	\$ <u>54,131,154</u>	\$ <u>136,734,586</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Community Development Block Grant</u>	<u>City Grants Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 17,137,538	\$ 353,938	\$ -	\$ 7,651,220	\$ 25,142,696
Investments	-	-	-	4,269,467	4,269,467
Receivables:					
Property taxes	877,895	-	-	-	877,895
Tax title and demolition liens	4,781,863	-	-	-	4,781,863
Excises	965,428	-	-	-	965,428
Departmental and other, net of allowance	148,058	-	-	39,448	187,506
Intergovernmental	361,323	1,060,952	830,319	1,817,660	4,070,254
Loans, net of allowance for uncollectibles	-	4,635,488	5,627,900	-	10,263,388
Due from other funds	62,663	-	-	-	62,663
Other assets	60,000	-	-	-	60,000
TOTAL ASSETS	\$ <u>24,394,768</u>	\$ <u>6,050,378</u>	\$ <u>6,458,219</u>	\$ <u>13,777,795</u>	\$ <u>50,681,160</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 789,667	\$ 65,078	\$ 152,353	\$ 198,483	\$ 1,205,581
Accounts payable	-	93,608	75,108	994,105	1,162,821
Accrued payroll and withholdings	2,186,282	18,585	27,441	228,477	2,460,785
Deferred revenues	7,013,752	5,658,088	5,627,900	39,448	18,339,188
Tax refund payable	153,376	-	-	-	153,376
Notes payable	-	-	300,000	2,100,187	2,400,187
Due to other funds	-	-	62,663	-	62,663
Other liabilities	269,245	-	-	-	269,245
TOTAL LIABILITIES	10,412,322	5,835,359	6,245,465	3,560,700	26,053,846
Fund Balances:					
Nonspendable	-	-	-	2,052,244	2,052,244
Restricted	-	215,019	212,754	10,052,548	10,480,321
Committed	3,566,382	-	-	-	3,566,382
Assigned	3,967,876	-	-	-	3,967,876
Unassigned	6,448,188	-	-	(1,887,697)	4,560,491
TOTAL FUND BALANCES	<u>13,982,446</u>	<u>215,019</u>	<u>212,754</u>	<u>10,217,095</u>	<u>24,627,314</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>24,394,768</u>	\$ <u>6,050,378</u>	\$ <u>6,458,219</u>	\$ <u>13,777,795</u>	\$ <u>50,681,160</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, 2012

Total Governmental Fund Balances	\$ 24,627,314
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	93,336,633
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection. This accrual also includes future years' State reimbursement of school projects costs.	22,813,618
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	2,527,338
<ul style="list-style-type: none">• Long-term liabilities, including bonds and loans payable, compensated absences, and other post-employment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(60,201,009)
<ul style="list-style-type: none">• As noted above, bonds payable are not reported in the governmental funds. Accordingly, net deferred gain on early retirement of debt, resulting from advance and current refundings, is also not recorded in governmental funds.	<u>(500,462)</u>
Net Assets of Governmental Activities	<u>\$ 82,603,432</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, 2012

	General	Community Development Block Grant	City Grants Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 40,094,045	\$ -	\$ -	\$ -	\$ 40,094,045
Excises	3,004,650	-	-	-	3,004,650
Penalties, interest and other taxes	916,426	-	-	-	916,426
Charges for services	5,026,824	-	1,500	2,277,397	7,305,721
Intergovernmental	62,542,501	1,210,433	6,184,408	20,427,655	90,364,997
Licenses and permits	682,387	-	-	-	682,387
Fines and forfeitures	231,518	-	-	-	231,518
Investment income	99,949	-	-	148,659	248,608
Miscellaneous	-	210,362	-	121,230	331,592
	<u>112,598,300</u>	<u>1,420,795</u>	<u>6,185,908</u>	<u>22,974,941</u>	<u>143,179,944</u>
Total Revenues					
Expenditures:					
Current:					
General government	3,416,821	1,495,133	1,643,813	1,106,772	7,662,539
Public safety	11,935,115	-	1,981,669	125,983	14,042,767
Education	56,168,639	-	-	19,234,279	75,402,918
Public works	4,648,176	-	1,455,589	1,395,530	7,499,295
Health and human services	1,114,877	-	112,479	26,147	1,253,503
Culture and recreation	844,523	-	31,270	124,796	1,000,589
Employee benefits	22,549,668	-	-	-	22,549,668
Miscellaneous	572,936	-	-	-	572,936
Debt service	4,411,125	-	767,028	-	5,178,153
Intergovernmental	5,030,851	-	-	-	5,030,851
	<u>110,692,731</u>	<u>1,495,133</u>	<u>5,991,848</u>	<u>22,013,507</u>	<u>140,193,219</u>
Total Expenditures					
Excess (deficiency) of revenues over expenditures	1,905,569	(74,338)	194,060	961,434	2,986,725
Other Financing Sources (Uses):					
Proceeds of current refunding	20,746,577	-	-	-	20,746,577
Payment to refunding agent	(20,746,577)	-	-	-	(20,746,577)
Transfers in	295,167	-	60,203	-	355,370
Transfers out	-	-	(24,959)	(330,411)	(355,370)
	<u>295,167</u>	<u>-</u>	<u>35,244</u>	<u>(330,411)</u>	<u>-</u>
Total Other Financing Sources (Uses)					
Change in fund balance	2,200,736	(74,338)	229,304	631,023	2,986,725
Fund Equity, at Beginning of Year, as reclassified	<u>11,781,710</u>	<u>289,357</u>	<u>(16,550)</u>	<u>9,586,072</u>	<u>21,640,589</u>
Fund Equity, at End of Year	<u>\$ 13,982,446</u>	<u>\$ 215,019</u>	<u>\$ 212,754</u>	<u>\$ 10,217,095</u>	<u>\$ 24,627,314</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2012

Net Changes in Fund Balances - Total Governmental Funds	\$ 2,986,725																				
<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 style="margin-left: 20px; width: 100%;"> <tr> <td style="width: 80%;">Capital outlay purchases, net of dispositions</td> <td style="text-align: right;">9,549,559</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(4,832,798)</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 style="margin-left: 20px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(4,582,716)</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 style="margin-left: 20px; width: 100%;"> <tr> <td style="width: 80%;">Repayments of debt (bonds and loans)</td> <td style="text-align: right;">3,797,545</td> </tr> <tr> <td>Amortization of deferred gain / (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 style="margin-left: 20px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">339,428</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 style="margin-left: 20px; width: 100%;"> <tr> <td style="width: 80%;">Change in compensated absence liability</td> <td style="text-align: right;">525,011</td> </tr> <tr> <td>Change in OPEB liability</td> <td style="text-align: right;">(7,333,725)</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 style="margin-left: 20px; width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;"><u>(29,412)</u></td> </tr> </table> 	Capital outlay purchases, net of dispositions	9,549,559	Depreciation	(4,832,798)		(4,582,716)	Repayments of debt (bonds and loans)	3,797,545	Amortization of deferred gain / (loss) on early retirement of debt	(27,077)		339,428	Change in compensated absence liability	525,011	Change in OPEB liability	(7,333,725)		<u>(29,412)</u>	<table style="width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;"><u><u>\$ 392,540</u></u></td> </tr> </table>		<u><u>\$ 392,540</u></u>
Capital outlay purchases, net of dispositions	9,549,559																				
Depreciation	(4,832,798)																				
	(4,582,716)																				
Repayments of debt (bonds and loans)	3,797,545																				
Amortization of deferred gain / (loss) on early retirement of debt	(27,077)																				
	339,428																				
Change in compensated absence liability	525,011																				
Change in OPEB liability	(7,333,725)																				
	<u>(29,412)</u>																				
	<u><u>\$ 392,540</u></u>																				
Changes in Net Assets of Governmental Activities	\$ 392,540																				

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues and Other Sources:				
Taxes	\$ 39,733,304	\$ 39,733,304	\$ 39,733,304	\$ -
Excise	2,592,795	2,592,795	3,004,650	411,855
Penalties, interest and other taxes	621,541	621,541	916,426	294,885
Charges for services	4,290,600	4,290,600	5,026,824	736,224
Intergovernmental	51,416,269	51,416,269	52,364,248	947,979
Licenses and permits	610,500	610,500	682,387	71,887
Fines and forfeits	258,500	258,500	231,518	(26,982)
Investment income	63,000	63,000	84,603	21,603
Transfers in	270,208	270,208	295,167	24,959
Other sources	<u>1,582,324</u>	<u>4,277,660</u>	<u>4,277,660</u>	<u>-</u>
Total Revenues and Other Sources	101,439,041	104,134,377	106,616,787	2,482,410
Expenditures and Other Uses:				
General government	3,553,767	3,842,833	3,655,134	187,699
Public safety	11,852,417	12,190,382	11,899,424	290,958
Education	45,393,589	45,393,589	45,393,589	-
Public works	4,628,703	4,967,108	4,946,240	20,868
Health and human services	994,023	1,152,423	1,113,393	39,030
Culture and recreation	714,764	1,036,264	847,110	189,154
Debt service	4,950,000	4,950,000	4,378,293	571,707
Intergovernmental	5,254,578	5,254,578	5,030,851	223,727
Employee benefits	23,532,200	23,532,200	22,577,162	955,038
Miscellaneous	565,000	565,000	564,919	81
Transfers out	-	500,000	500,000	-
Other Uses	<u>-</u>	<u>750,000</u>	<u>750,000</u>	<u>-</u>
Total Expenditures and Other Uses	<u>101,439,041</u>	<u>104,134,377</u>	<u>101,656,115</u>	<u>2,478,262</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,960,672</u>	\$ <u>4,960,672</u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Funds
<u>ASSETS</u>				
Current:				
Cash and short-term investments	\$ 2,137,429	\$ 4,143,821	\$ 6,281,250	\$ 3,946,464
User fees, net of allowance for uncollectibles	1,294,755	2,663,202	3,957,957	-
Total current assets	3,432,184	6,807,023	10,239,207	3,946,464
Noncurrent:				
Land and construction in progress	1,001,000	2,340,026	3,341,026	-
Capital assets, net of accumulated depreciation	48,930,923	43,134,672	92,065,595	-
Total noncurrent assets	49,931,923	45,474,698	95,406,621	-
TOTAL ASSETS	53,364,107	52,281,721	105,645,828	3,946,464
<u>LIABILITIES</u>				
Current:				
Warrants payable	36,921	30,056	66,977	-
Accounts payable	-	479,987	479,987	-
Accrued payroll	26,910	40,683	67,593	-
Deferred revenue	-	-	-	318,348
Accrued interest payable	93,649	159,092	252,741	-
Accrued claims payable	-	-	-	1,100,778
Notes payable	-	1,900,000	1,900,000	-
Current portion of long-term liabilities:				
Bonds payable	1,866,207	1,962,379	3,828,586	-
Total current liabilities	2,023,687	4,572,197	6,595,884	1,419,126
Noncurrent:				
Bonds payable, net of current portion	19,727,666	23,262,857	42,990,523	-
Other liabilities	877,749	1,050,518	1,928,267	-
Total noncurrent liabilities	20,605,415	24,313,375	44,918,790	-
TOTAL LIABILITIES	22,629,102	28,885,572	51,514,674	1,419,126
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	28,602,364	20,683,285	49,285,649	-
Unrestricted	2,132,641	2,712,864	4,845,505	2,527,338
TOTAL NET ASSETS	\$ 30,735,005	\$ 23,396,149	\$ 54,131,154	\$ 2,527,338

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, 2012

	Business-Type Activities Enterprise Funds			Governmental Activities
	Water Fund	Sewer Fund	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 5,660,371	\$ 12,444,106	\$ 18,104,477	\$ -
Employee contributions	-	-	-	5,311,709
Employer contributions	-	-	-	12,629,105
Total Operating Revenues	5,660,371	12,444,106	18,104,477	17,940,814
Operating Expenses:				
Salary and wages	1,272,947	2,058,690	3,331,637	-
Operating expenses	1,176,489	3,802,122	4,978,611	-
Depreciation	1,858,723	1,758,151	3,616,874	-
Administrative assessments	828,636	1,029,860	1,858,496	-
Employee benefits	-	-	-	17,970,226
Other	120,941	326,363	447,304	-
Total Operating Expenses	5,257,736	8,975,186	14,232,922	17,970,226
Operating Income (Loss)	402,635	3,468,920	3,871,555	(29,412)
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	563,286	334,714	898,000	-
Investment income	2,408	13,946	16,354	-
Interest expense	(295,998)	(749,392)	(1,045,390)	-
Total Nonoperating Revenues (Expenses), Net	269,696	(400,732)	(131,036)	-
Change in Net Assets	672,331	3,068,188	3,740,519	(29,412)
Net Assets at Beginning of Year	30,062,674	20,327,961	50,390,635	2,556,750
Net Assets at End of Year	\$ 30,735,005	\$ 23,396,149	\$ 54,131,154	\$ 2,527,338

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	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	\$ 5,895,805	\$ 12,205,492	\$ 18,101,297	\$ -
Payments to vendors and employees	(3,429,200)	(7,227,774)	(10,656,974)	-
Receipts from employees and employer	-	-	-	17,856,441
Payments of employee benefits and expenses	-	-	-	(17,043,467)
Net Cash Provided By Operating Activities	2,466,605	4,977,718	7,444,323	812,974
<u>Cash Flows From Non-Capital Financing Activities:</u>				
Receipts from governments	50,000	2,521	52,521	-
Net Cash Provided By Non-Capital Financing Activities	50,000	2,521	52,521	-
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Receipts from governments	-	15,196	15,196	-
Proceeds of notes and governmental loans	-	1,900,000	1,900,000	-
Acquisition and construction of capital assets	(185,180)	(1,717,803)	(1,902,983)	-
Principal payments on bonds and notes	(1,471,294)	(2,178,421)	(3,649,715)	-
Interest expense paid	(306,431)	(766,899)	(1,073,330)	-
Net Cash (Used For) Capital and Related Financing Activities	(1,962,905)	(2,747,927)	(4,710,832)	-
<u>Cash Flows From Investing Activities:</u>				
Investment income	2,408	13,946	16,354	-
Net Cash Provided by Investing Activities	2,408	13,946	16,354	-
Net Change in Cash and Short-Term Investments	556,108	2,246,258	2,802,366	812,974
Cash and Short Term Investments, Beginning of Year	1,581,321	1,897,563	3,478,884	3,133,490
Cash and Short Term Investments, End of Year	\$ 2,137,429	\$ 4,143,821	\$ 6,281,250	\$ 3,946,464
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u>				
Operating income (loss)	\$ 402,635	\$ 3,468,920	\$ 3,871,555	\$ (29,412)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,858,723	1,758,151	3,616,874	-
Changes in assets and liabilities:				
User fee receivables	235,434	(238,614)	(3,180)	-
Warrants and other payables	(191,953)	(245,238)	(437,191)	-
Accrued / other liabilities	161,766	234,499	396,265	842,386
Net Cash Provided By Operating Activities	\$ 2,466,605	\$ 4,977,718	\$ 7,444,323	\$ 812,974

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2011

	Pension <u>Trust Fund</u>
<u>ASSETS</u>	
Cash and short-term investments	\$ 1,740,517
Investments	76,006,661
Accounts receivable	<u>39,192</u>
Total Assets	77,786,370
<u>LIABILITIES AND NET ASSETS</u>	
Accounts payable	9,882
Deferred revenue	<u>3,953,312</u>
Total Liabilities	<u>3,963,194</u>
<u>NET ASSETS</u>	
Total net assets held in trust for pension benefits	\$ <u><u>73,823,176</u></u>

See notes to financial statements.

CITY OF FITCHBURG, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Pension <u>Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 8,183,943
Other systems and Commonwealth of Massachusetts	165,807
Plan members	<u>2,474,124</u>
Total contributions	10,823,874
Investment Income:	
Interest and dividends	2,350,077
Gain on sale of investments	2,251,799
(Decrease) in fair value of investments	(4,454,305)
Less: management fees	<u>(372,201)</u>
Net investment income	<u>(224,630)</u>
Total additions	10,599,244
Deductions:	
Benefit payments to plan members and beneficiaries	12,691,044
Refunds to plan members and other systems	335,564
Administrative expenses	<u>138,511</u>
Total deductions	<u>13,165,119</u>
Net increase	(2,565,875)
Net assets:	
Beginning of year	<u>76,389,051</u>
End of year	<u>\$ 73,823,176</u>

See notes to financial statements.

City of Fitchburg, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2012, 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 Fitchburg Municipal Offices, 166 Boulder Drive, Suite 108, Fitchburg, MA 01420.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Fund Financial Statements

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

The government reports the following major governmental funds:

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The government reports the following major proprietary funds:

- Water fund
- Sewer fund

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

The *pension trust fund* accounts for the activities of the Fitchburg 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 2012 tax levy reflected an excess capacity of \$ 3,507.

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)	\$ 112,598,300	\$ 110,692,731
Other financing sources/uses (GAAP basis)	21,041,744	20,746,577
Adjust tax revenue to accrual basis	(360,741)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(2,593,984)
Add end of year appropriation carryforwards to expenditures	-	2,517,876
To reverse the effect of non-budgeted State contributions for teachers retirement	(10,178,253)	(10,178,253)
To reverse the effect of including Stabilization Fund and General Fund activity	(15,346)	500,000
To reverse the effect of debt refunding	(20,746,577)	(20,746,577)
To reverse GAAP accruals	-	(32,255)
Recognize fund balance as funding source / use	<u>4,277,660</u>	<u>750,000</u>
Budgetary basis	<u>\$ 106,616,787</u>	<u>\$ 101,656,115</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

Special Revenue Funds:		
DPW MEMA Drainage	\$	11,544
Kindergarten IDEA Stimulus		10,966
Capital Project Funds:		
School renovation / upgrade Phase II	\$	1,036,496
School boiler / other repairs		828,691

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, 2012, \$ 168,368 of the City's bank balance of \$ 38,216,484 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, 2011, none of the Retirement System's bank balance of \$ 1,867,195 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, 2012 for each investment of the City (All federal agency securities have an implied credit rating of AAA.):

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year End			
			AAA/A1	AA2/A2	AA3/A3	Baa1
Federal agency securities	\$ 2,181	\$ -	\$ 2,181	\$ -	\$ -	\$ -
Mutual funds	15	15	-	-	-	-
Equity securities	391	391	-	-	-	-
Corporate bonds	<u>1,683</u>	<u>-</u>	<u>1,117</u>	<u>214</u>	<u>271</u>	<u>81</u>
Total investments	<u>\$ 4,270</u>	<u>\$ 406</u>	<u>\$ 3,298</u>	<u>\$ 214</u>	<u>\$ 271</u>	<u>\$ 81</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, 2011 (in millions), none of which are subject to credit risk disclosure:

Investment Type	Fair Value
PRIT *	\$ 74
TA Associates Realty (equity investments)	<u>2</u>
Total investments	<u>\$ 76</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's investment policy to limit custodial credit risk is to keep a diversified portfolio, with specified ranges of asset allocation between cash equivalents (0% - 25%), fixed income (25% - 75%) and stocks (25% - 50%). Further, fixed income investments must have an investment grade of BBB- or better. The Retirement System does not have a policy for custodial credit risk.

Of the total City investments of \$ 4,269,467, (which include Library funds) the government has a custodial credit risk exposure of \$ 1,660,803 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 Library limits investment in any one company to no more than 15% of the total stock portfolio and no one industry can represent more than 30% of total equity holdings.

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's policy limits interest rate risk by requiring fixed income investments (bonds) to have an average maturity of 7 years or less. The Retirement System does 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	\$ 2,181	\$ -	\$ 179	\$ 1,314	\$ 688	\$ -
Mutual funds	15	15	-	-	-	-
Equity securities	391	391	-	-	-	-
Corporate bonds	<u>1,683</u>	-	<u>194</u>	<u>1,087</u>	<u>328</u>	<u>74</u>
Total investments	<u>\$ 4,270</u>	<u>\$ 406</u>	<u>\$ 373</u>	<u>\$ 2,401</u>	<u>\$ 1,016</u>	<u>\$ 74</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, 2012 consist of the following (in thousands):

Real Estate		
2012	\$ 740	
2011 & prior	<u>20</u>	760
Personal Property		
2012	24	
2011	18	
Prior	<u>39</u>	81
Deferred Taxes		<u>37</u>
Total		<u>\$ 878</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 \$ 559,697, \$ 149,454 and \$ 330,473 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	\$ 49	\$ -
Tax title and demolition liens	3,675	-
Excises	406	-
Departmental (Parking garage)	1	-
Loans	5,789	-
Water charges	-	241
Sewer charges	-	426

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 2012 and are expected to be reimbursed in fiscal year 2013.

The balance reported in the governmental activities statement of net assets includes an additional amount (\$ 2,440,039 current and \$ 11,979,468 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 million through fiscal year 2019. This receivable was reduced by approximately \$ 1.4 million in fiscal year 2012, as a result of the City's debt refunding.

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, 2012 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	\$ 8,127	\$ (8,127)	\$ -	\$ -	\$ -	\$ -
CDBG - mortgage/financing loans	1,519,976	(229,649)	1,290,327	(38,544)	(258,066)	993,717
CDBG - deferred payment loans	563,161	-	563,161	-	(563,161)	-
CDBG - HUD 108 loan to FRA	2,782,000	-	2,782,000	(642,000)	-	2,140,000
HOME - mortgage/financing loans	917,484	(92,697)	824,787	-	(164,957)	659,830
Other City grants - deferred payment loans	4,803,113	-	4,803,113	-	(4,803,113)	-
Total	\$ <u>10,593,861</u>	\$ <u>(330,473)</u>	\$ <u>10,263,388</u>	\$ <u>(680,544)</u>	\$ <u>(5,789,297)</u>	\$ <u>3,793,547</u>

9. 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, 2012 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 62,663	\$ -
City Grants fund	<u>-</u>	<u>62,663</u>
Total	<u>\$ 62,663</u>	<u>\$ 62,663</u>

10. Capital Assets

Capital asset activity for the year ended June 30, 2012 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	\$ 11,358	\$ 466	\$ -	\$ 1,086	\$ 12,910
Buildings and improvements	73,289	439	-	1,570	75,298
Machinery, equipment, and furnishings	13,497	1,502	(241)	425	15,183
Infrastructure	<u>71,331</u>	<u>1,350</u>	<u>(1,161)</u>	<u>1,545</u>	<u>73,065</u>
Total capital assets, being depreciated	169,475	3,757	(1,402)	4,626	176,456
Less accumulated depreciation for:					
Land improvements	(3,469)	(340)	-	-	(3,809)
Buildings and improvements	(31,710)	(1,867)	-	-	(33,577)
Machinery, equipment, and furnishings	(11,137)	(808)	241	-	(11,704)
Infrastructure	<u>(43,326)</u>	<u>(1,818)</u>	<u>1,161</u>	<u>-</u>	<u>(43,983)</u>
Total accumulated depreciation	<u>(89,642)</u>	<u>(4,833)</u>	<u>1,402</u>	<u>-</u>	<u>(93,073)</u>
Total capital assets, being depreciated, net	79,833	(1,076)	-	4,626	83,383
Capital assets, not being depreciated:					
Land	3,930	131	(2)	-	4,059
Construction in progress (CIP)	<u>4,857</u>	<u>6,144</u>	<u>(480)</u>	<u>(4,626)</u>	<u>5,895</u>
Total capital assets, not being depreciated	<u>8,787</u>	<u>6,275</u>	<u>(482)</u>	<u>(4,626)</u>	<u>9,954</u>
Governmental activities capital assets, net	<u>\$ 88,620</u>	<u>\$ 5,199</u>	<u>\$ (482)</u>	<u>\$ -</u>	<u>\$ 93,337</u>

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Business-Type Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 90,109	\$ -	\$ -	\$ 9,019	\$ 99,128
Machinery, equipment, and furnishings	7,049	392	(22)	-	7,419
Infrastructure	<u>43,664</u>	<u>557</u>	<u>(3)</u>	<u>-</u>	<u>44,218</u>
Total capital assets, being depreciated	140,822	949	(25)	9,019	150,765
Less accumulated depreciation for:					
Buildings and improvements	(38,497)	(2,564)	-	-	(41,061)
Machinery, equipment, and furnishings	(1,725)	(444)	22	-	(2,147)
Infrastructure	<u>(14,884)</u>	<u>(609)</u>	<u>2</u>	<u>-</u>	<u>(15,491)</u>
Total accumulated depreciation	<u>(55,106)</u>	<u>(3,617)</u>	<u>24</u>	<u>-</u>	<u>(58,699)</u>
Total capital assets, being depreciated, net	85,716	(2,668)	(1)	9,019	92,066
Capital assets, not being depreciated:					
Land	1,235	50	-	-	1,285
Construction in progress (CIP)	<u>9,469</u>	<u>1,606</u>	<u>-</u>	<u>(9,019)</u>	<u>2,056</u>
Total capital assets, not being depreciated	<u>10,704</u>	<u>1,656</u>	<u>-</u>	<u>(9,019)</u>	<u>3,341</u>
Business-type activities capital assets, net	<u>\$ 96,420</u>	<u>\$ (1,012)</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 95,407</u>

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

Governmental Activities:	
General government	\$ 59
Public safety	716
Education	1,394
Public works	2,152
Culture and recreation	406
Human services	<u>106</u>
Total depreciation expense - governmental activities	<u>\$ 4,833</u>
Business-Type Activities:	
Water	\$ 1,859
Sewer	<u>1,758</u>
Total depreciation expense - business-type activities	<u>\$ 3,617</u>

11. Warrants and Accounts Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012 as permitted by law. Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

12. 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, 2012 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 2013 tax revenue received in advance and (in the Internal Service Fund) teachers' withholdings to be applied over July and August 2012.

13. Tax Refunds Payable

This balance consists of an estimate of a refund due to Verizon for the abatement of 2009 property tax, plus 8% interest, as of June 30, 2012. This case was recently decided in favor of Verizon by the State Appellate Tax Board.

14. Notes Payable

The City had the following notes outstanding at June 30, 2012:

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2012</u>
Bond anticipation	1.50	06/29/12	06/28/13	\$ 600,187
Bond anticipation	0.55	06/29/12	06/28/13	1,000,000
Bond anticipation	1.50	06/29/12	06/28/13	2,400,000
State anticipation	0.50	06/29/12	06/28/13	<u>300,000</u>
				<u>\$ 4,300,187</u>

The following summarizes activity in notes payable during fiscal year 2012:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Revenue anticipation	\$ -	\$ 4,000,000	\$ (4,000,000)	\$ -
Bond anticipation	4,000,000	4,000,187	(4,000,000)	4,000,187
State grant anticipation	<u>300,000</u>	<u>300,000</u>	<u>(300,000)</u>	<u>300,000</u>
Total	<u>\$ 4,300,000</u>	<u>\$ 8,300,187</u>	<u>\$ (8,300,000)</u>	<u>\$ 4,300,187</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, 2012
<u>Governmental Activities:</u>			
Multi-purpose (2003 refunding)	08/01/13	3.0 - 4.25	\$ 360,000
Section 108 Loan (through U.S. HUD)	08/01/15	4.5	2,782,000
Multi-purpose (2008)	06/01/16	3.5 - 5.5	500,000
Multi-purpose (2006 refunding)	11/15/18	3.0 - 4.0	3,232,500
Multi-purpose - refunding (2012)	12/01/18	2.0 - 4.0	17,795,000
Multi-purpose (2011)	06/15/21	3.0 - 4.0	<u>1,585,000</u>
Total Governmental Activities			<u>\$ 26,254,500</u>
<u>Business-Type Activities:</u>			
<u>Water Fund:</u>			
General obligation 2004 - water portion	03/15/14	2.5 - 5.0	\$ 200,000
Water treatment (MWPAT 99-06)	08/01/20	1.0 - 2.0	6,340,000
Water treatment (MWPAT 00-10)	08/01/20	1.0 - 2.0	3,435,000
Water treatment (MWPAT 00-10A)	08/01/24	1.0 - 2.0	4,173,475
Water treatment (MWPAT 01-16)	07/15/25	-	6,545,398
General obligation 2011 - water portion	06/15/21	3.0 - 4.0	<u>900,000</u>
Total Water Fund			21,593,873
<u>Sewer Fund:</u>			
Equipment and CSO project 2006	06/01/15	4	345,000
2006 refunding - sewer portion	11/15/15	3.0 - 4.0	1,167,500
Sewer inflow (MWPAT 97-30)	08/01/18	1.0 - 2.0	944,700
General obligation 2004 - sewer portion	03/15/19	2.5 - 5.0	1,235,000
Sewer inflow (MWPAT 03-12)	08/01/24	2	466,770
Sewer (MWPAT 03-12A)	07/15/25	2	4,627,833
Sewer (MWPAT 03-12B)	07/15/26	2	1,280,956
Multi-purpose 2008 - sewer portion	06/01/28	3.5 - 5.5	5,600,000
Sewer (MWPAT 08-03)	07/15/28	2	6,408,372
Sewer (MWPAT 08-03A)	07/15/30	2	937,454
Sewer (MWPAT 03-12C)	07/15/30	2	311,651
General obligation 2011 - water portion	06/15/31	3.0 - 4.0	<u>1,900,000</u>
Total Sewer Fund			<u>25,225,236</u>
Total Business-Type Activities			<u>\$ 46,819,109</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, 2012</u>
Loan #97-30	\$ 2,437,500	\$ (513,780)	\$ 1,923,720	\$ 944,700
Loan #99-06	11,959,500	(3,177,704)	8,781,796	6,340,000
Loan #00-10	6,471,885	(1,718,182)	4,753,703	3,435,000
Loan #00-10A	<u>5,804,788</u>	<u>(1,350,381)</u>	<u>4,454,407</u>	<u>4,173,475</u>
Total	\$ <u>26,673,673</u>	\$ <u>(6,760,047)</u>	\$ <u>19,913,626</u>	\$ <u>14,893,175</u>

C. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,059,500	\$ 903,003	\$ 4,962,503
2014	4,151,000	769,636	4,920,636
2015	4,053,000	624,499	4,677,499
2016	4,166,000	476,846	4,642,846
2017	3,090,000	333,300	3,423,300
2018 - 2021	<u>6,735,000</u>	<u>296,700</u>	<u>7,031,700</u>
Total	<u>\$ 26,254,500</u>	<u>\$ 3,403,984</u>	<u>\$ 29,658,484</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,828,586	\$ 989,351	\$ 4,817,937
2014	3,942,744	856,035	4,798,779
2015	3,786,088	769,464	4,555,552
2016	3,734,379	673,591	4,407,970
2017	3,519,589	588,317	4,107,906
2018 - 2022	16,385,496	1,894,737	18,280,233
2023 - 2027	9,697,122	759,505	10,456,627
2028 and thereafter	<u>1,925,105</u>	<u>86,483</u>	<u>2,011,588</u>
Total	<u>\$ 46,819,109</u>	<u>\$ 6,617,483</u>	<u>\$ 53,436,592</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance July 1, 2011	Additions	Reductions	Refunding	Total Balance June 30, 2012	Less Current Portion	Long-Term Portion June 30, 2012
<u>Governmental Activities</u>							
Bonds payable	\$ 30,718	\$ -	\$ (3,774)	\$ (690)	\$ 26,254	(4,059)	22,195
Deferred gain (loss) on early retirement of debt	(217)		27	690	500	(71)	429
Other:							
Loan payable	82	-	(23)	-	59	(23)	36
Accrued employee benefits	5,287	-	(525)	-	4,762	-	4,762
Other post-employment benefits	21,792	7,333	-	-	29,125	-	29,125
Totals	<u>\$ 57,662</u>	<u>\$ 7,333</u>	<u>\$ (4,295)</u>	<u>\$ -</u>	<u>\$ 60,700</u>	<u>\$ (4,153)</u>	<u>\$ 56,547</u>
	Total Balance July 1, 2011	Additions	Reductions	Deobligated	Total Balance June 30, 2012	Less Current Portion	Long-Term Portion June 30, 2012
<u>Business-Type Activities</u>							
Bonds payable	\$ 51,051	\$ -	\$ (4,048)	\$ (184)	\$ 46,819	\$ (3,829)	\$ 42,990
Other:							
Accrued employee benefits	400	60	-	-	460	-	460
Other post-employment benefits	1,150	318	-	-	1,468	-	1,468
Totals	<u>\$ 52,601</u>	<u>\$ 378</u>	<u>\$ (4,048)</u>	<u>\$ (184)</u>	<u>\$ 48,747</u>	<u>\$ (3,829)</u>	<u>\$ 44,918</u>

E. Deferred Gain (Loss) on Early Retirement of Debt

This balance represents the unamortized net decrease in long-term debt outstanding resulting from the City's issuance of refunding bonds in fiscal years 2006 and 2012. The balance will be amortized (as a credit to annual interest expense of \$ 71,494) until fiscal year 2019.

F. Current Debt Refunding

In October 2011, the City issued general obligation refunding bonds in the amount of \$ 19,790,000 with a variable interest rate ranging from 2 - 4% to refund \$ 20,480,000 of multi-purpose bonds with an interest rate of 4%. The multi-purpose bonds were scheduled to mature on February 12, 2019 and were called by the City for redemption on November 22, 2011.

The refunding bonds were issued at 106.4% and, after paying issuance costs of \$ 313,252, the net proceeds were \$ 20,746,577. The net proceeds from the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent until the term bonds were redeemed on November 22, 2011. The refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of this current refunding, the City reduced its total debt service cash flow requirements by \$ 2,043,028, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 1,810,019.

No defeased debt related to this refunding was outstanding at June 30, 2012.

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, 2012 was \$ 58,862, (\$ 23,545 current and \$ 35,317 non-current).

17. Governmental Funds – Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes capital projects funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes capital reserve (Stabilization) funds set aside by City Council vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54).

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period and surplus set aside for use in the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods and deficit balances in non-general fund accounts.

Following is a breakdown of the City's fund balances at June 30, 2012:

	<u>General Fund</u>	<u>Community Development Block Grant</u>	<u>City Grants Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable					
Nonexpendable permanent funds	\$ -	\$ -	\$ -	\$ 2,052,244	\$ 2,052,244
Total Nonexpendable	\$ -	\$ -	\$ -	\$ 2,052,244	\$ 2,052,244
Restricted					
Bonded projects	\$ -	\$ -	\$ -	\$ 543,633	\$ 543,633
Special revenue funds	-	215,019	212,754	7,067,192	7,494,965
Expendable permanent funds	-	-	-	2,441,723	2,441,723
Total Restricted	\$ -	\$ 215,019	\$ 212,754	\$ 10,052,548	\$ 10,480,321
Committed					
Capital reserve (stabilization) fund	\$ 3,566,382	\$ -	\$ -	\$ -	\$ 3,566,382
Total Committed	\$ 3,566,382	\$ -	\$ -	\$ -	\$ 3,566,382
Assigned					
Encumbrances	\$ 2,517,876	\$ -	\$ -	\$ -	\$ 2,517,876
Reserved for expenditures	1,450,000	-	-	-	1,450,000
Total Assigned	\$ 3,967,876	\$ -	\$ -	\$ -	\$ 3,967,876
Unassigned					
	\$ 6,448,188	\$ -	\$ -	\$ (1,887,697)	\$ 4,560,491
Total Unassigned	\$ 6,448,188	\$ -	\$ -	\$ (1,887,697)	\$ 4,560,491
Total Fund Balance	\$ 13,982,446	\$ 215,019	\$ 212,754	\$ 10,217,095	\$ 24,627,314

18. Subsequent Events

Debt

Subsequent to June 30, 2012, the City has incurred the following temporary debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>
MWPAT Interim Loan CWP-12-01	\$ 5,813,257	0.12%	08/01/12
MWPAT Interim Loan CWP-12-02	7,447,624	0.12%	08/01/12

These interim loans are expected to be converted to permanent Massachusetts Water Pollution Abatement Trust loans in 2013.

City Hall Lease

Due to imminent structural concerns with the long time City Hall building, the City was forced to relocate all offices to leased space in October 2012.

In September 2012, the City entered into a lease with the Fitchburg Redevelopment Authority (FRA) for two spaces totaling approximately 14,550 square feet. The initial term of the lease is from September 15, 2012 – December 31, 2016, with provisions for 3 one-year extensions. Fixed base rent for the first space, consisting of approximately 8,400 square feet, is \$ 75,600 per year beginning January 1, 2013. This space was occupied by the City immediately. The fixed base rent for the 2nd space (approximately 6,150 square feet) is \$ 55,350 per year beginning March 1, 2013; however, this space is not expected to be fully useable until July 1, 2016. Until then, the City will receive a 100% credit against the rent to compensate for build out expenses the City expects to incur to renovate the space for its use.

19. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues 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 wastewater 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 (CSO) 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. A final consent decree was issued by the Environmental Protection Agency on June 1, 2012 and includes a compliance schedule that lasts up to 20 years with a total cost of approximately \$ 104 million (in 2012 dollars). The City has established several projects to address different aspects of the sewer overflow/separation/treatment issues, including the NPDES Permit

issue noted below. The City has authorized and issued borrowing of approximately \$ 23.2 million as of June 30, 2012, \$ 17.4 million of which was issued through the Massachusetts Water Pollution Abatement Trust (MWPAT). As of June 30, 2012, the City has incurred approximately \$ 23.3 million of engineering and construction costs related to these projects.

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 May 2012 and was signed by the Major in June 2012. The order requires the City to meet certain decreasing phosphorous limits, as measured over a period of time from June 2013 to June 2025.

The cost to comply with the final permit requirements as outlined in the consent decree (and included in the \$ 104 million noted in the CSO issue above), is estimated to be at least \$ 20 million. Funding for this project is expected to be a combination of 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.

Central Steam Plant – The City recently took over maintenance of the oil booms in the Nashua River that are required because of oil that leaks from the abandoned Central Steam Plant. The City has an environmental firm change out the booms as needed, and was required by DEP to hire a Licensed Site Professional. The City Council recently appropriated \$ 37,000 for the work, which is in addition to \$ 22,000 that was expended from fiscal year 2012 funds for clean-up immediately after the oil leak was discovered.

The City has applied for a \$ 500,000 grant from Mass Development to demolish the building, and they expect to receive a favorable response soon. In addition, the City is receiving technical assistance from the State's

Brownfield Support Team which may lead to additional financial support to clean up the site after demolition if needed.

The site is being monitored by DEP and EPA.

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.

As a result of initiatives, re-inspections and evaluations conducted by the engineering consultant and submitted to the State, in fiscal year 2012, one of the dams was downgraded in the State’s severity categories from “high hazard” to the less severe “significant hazard”.

The City continues to diligently perform mandatory inspections on all dams and evaluate 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. Since this is an ongoing process, the total estimated cost to comply and remedy all deficiencies is undeterminable at the present time.

20. 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 2012 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.

21. 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 2012 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, 2012, 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)	\$ 14,273,218
Interest on net OPEB obligation	975,022
Adjustment to ARC	<u>(960,410)</u>
Annual OPEB cost	14,287,830
Contributions made	<u>(6,635,609)</u>
Increase in net OPEB obligation	7,652,221
Net OPEB obligation - beginning of year	<u>22,941,686</u>
Net OPEB obligation - end of year	<u>\$ 30,593,907</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:

Fiscal Year Ended	Annual OPEB Costs	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 13,158,849	41%	\$ 7,715,121
2010	\$ 14,013,681	41%	\$ 8,276,974
2011	\$ 13,498,415	49%	\$ 6,949,591
2012	\$ 14,287,830	46%	\$ 7,652,221

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).

22. 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, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	540
Terminated plan members entitled to but not yet receiving benefits	92
Active plan members	<u>613</u>
Total	<u><u>1,245</u></u>
Number of participating employers	3

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

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

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

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
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%
2012	7,737,970	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]
01/01/12	\$ 81,376	\$ 193,765	\$ 112,389	42.0%	\$ 27,049	415.5%

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 almost \$ 194 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 investment gains or losses above or below the expected rate of investment return over a three-year rolling period. 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 22 years for the fresh start retirement benefits and 7 years for the 2003 Early

Retirement Incentive retirees. The amortization method used an approximate level percent of payroll on a closed basis.

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 (calendar year 2011) covered payroll for teachers and administrators was \$ 28,428,319.

In fiscal year 2012, the Commonwealth of Massachusetts contributed \$ 10,178,253 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

23. 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. 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, 2012 are as follows:

Claims liability, July 1, 2011	\$ 174,020
Claims incurred/recognized in fiscal year 2012	17,970,226
Claims paid in fiscal year 2012	<u>(17,043,468)</u>
Claims liability, June 30, 2012	<u>\$ 1,100,778</u>

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

Settlement for claims incurred in 4th quarter of fiscal year 2012 (over/(under) the level monthly premium contributions) and adjusted for in fiscal year 2013	\$ 135,268
Estimated incurred but not reported claims	<u>965,510</u>
Total claims liability	<u>\$ 1,100,778</u>

24. 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.

25. Beginning Fund Balance Reclassification

The City's major governmental funds for fiscal year 2012, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 06/30/11 (as previously reported)	Reclassify Major Funds per GASB 34	Fund Equity 06/30/11 (reclassified)
Capital Project fund	\$ (1,244,359)	\$ 1,244,359	\$ -
Nonmajor funds	<u>10,830,431</u>	<u>(1,244,359)</u>	<u>9,586,072</u>
Total	<u>\$ 9,586,072</u>	<u>\$ -</u>	<u>\$ 9,586,072</u>

26. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the Fitchburg Contributory Retirement System's actuarially accrued liability.

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

June 30, 2012

(Unaudited)

(Amounts Expressed in Thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/94	\$ 34,060	\$ 63,195	\$ 29,135	53.9%	\$ 13,902	209.6%
01/01/97	\$ 45,057	\$ 71,872	\$ 26,815	62.7%	\$ 18,818	142.5%
01/01/98	\$ 52,449	\$ 87,683	\$ 35,234	59.8%	\$ 19,536	180.4%
01/01/00	\$ 65,756	\$ 98,667	\$ 32,911	66.6%	\$ 21,970	149.8%
01/01/02	\$ 70,662	\$ 115,986	\$ 45,324	60.9%	\$ 26,518	170.9%
01/01/04	\$ 70,510	\$ 135,276	\$ 64,766	52.1%	\$ 24,357	265.9%
01/01/06	\$ 78,944	\$ 151,248	\$ 72,304	52.2%	\$ 28,483	253.8%
01/01/08	\$ 92,018	\$ 167,874	\$ 75,856	54.8%	\$ 28,371	267.4%
01/01/10	\$ 82,821	\$ 176,105	\$ 93,284	47.0%	\$ 26,151	356.7%
01/01/12	\$ 81,376	\$ 193,765	\$ 112,389	42.0%	\$ 27,049	415.5%

Other Post-Employment Benefits

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]
01/01/09	\$ -	\$ 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