

CITY OF BEVERLY, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2011

CITY OF BEVERLY, MASSACHUSETTS

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JUNE 30, 2011

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Independent Auditors' Report

To the Honorable City Council
City of Beverly, Massachusetts

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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 Beverly, Massachusetts, as of and for the fiscal year ended June 30, 2011 (except for the Beverly Contributory Retirement System which is as of and for the year ended December 31, 2010), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Beverly, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Beverly, Massachusetts, as of June 30, 2011 (except for the Beverly Contributory Retirement System which is as of December 31, 2010), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2011, on our consideration of the City of Beverly, Massachusetts' internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance – general fund – budget and actual, retirement system schedule of funding progress, retirement system schedule of employer contributions, other postemployment benefit plan schedule of funding progress and employer contributions, and other postemployment benefit plan actuarial methods and assumptions, located after the notes to the basic financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 2, 2011

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Beverly, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. The City complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB).

The GASB is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- The assets of the City of Beverly exceeded its liabilities at the close of the most recent fiscal year by \$146 million (net assets).
- At the close of the current fiscal year, the City's general fund reported an ending fund balance of \$4 million, a decrease of \$561,000 in comparison with the prior year. Total fund balance represents 4% of total general fund expenditures.
- The City's noncurrent liabilities, excluding debt, increased by \$10.7 million which was primarily due to the recognition of other postemployment benefit (OPEB) liabilities.
- The City recognized an additional \$8.9 million in capital grant revenue from the Massachusetts School Building Authority (the MSBA), which represents a 58% reimbursement of expenditures incurred during the current fiscal year on the high school construction project.
- The City adopted GASB Statement No. 54 which provides a more structured classification of fund balance and improves the usefulness of fund balance reporting to the users of the City's financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Beverly's basic financial statements. These basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements focus on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to 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, community development, human services, culture and recreation, interest and state and county charges. The business-type activities include the activities of the water, sewer, airport, golf and tennis, sanitation, harbor management, recreation and senior citizens funds.

The government-wide financial statements include not only the City of Beverly itself (known as the *primary government*), but also a legally separate public employee retirement system for which the City of Beverly is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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. The focus of the City of Beverly's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Beverly's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

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*.

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

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

Proprietary funds. The City maintains two types of propriety funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, harbor management, recreation, golf and tennis, senior citizens, airport and sanitation activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources

of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic 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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Beverly's assets exceeded liabilities by \$146 million at the close of fiscal 2011.

Net assets of \$155.3 million (106%) reflects its investment in capital assets (e.g., land, land improvements, buildings and building improvements, machinery and equipment, vehicles and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 the governmental net assets, \$5.5 million (4%), represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net assets* has a year end deficit of (\$14.8) million (-10%). The primary reason for this deficit balance is the recognition of other postemployment benefit liabilities totaling \$24.8 million.

At the end of the current fiscal year, the City of Beverly is able to report positive balances in all categories of net assets, for the City as a whole, as well as for its separate governmental and business-type activities, with the exception of governmental activities unrestricted net assets and total unrestricted net assets, which report negative balances totaling (\$19) million and (\$14.8) million, respectively.

The governmental and business-type activities of the City are presented below.

Governmental Activities

The City of Beverly's assets exceeded liabilities for governmental activities by \$105.7 million at the close of fiscal 2011.

	Fiscal 2011	Fiscal 2010
Assets:		
Current assets.....	\$ 40,978,797	\$ 47,882,393
Noncurrent assets (excluding capital).....	10,563,189	11,294,727
Capital assets not being depreciated.....	15,801,337	75,463,360
Capital assets, net of accumulated depreciation.....	158,878,814	87,605,280
Total assets.....	226,222,137	222,245,760
Liabilities:		
Current liabilities (excluding debt).....	8,284,274	10,616,217
Noncurrent liabilities (excluding debt).....	25,415,114	14,763,887
Current debt.....	25,472,556	35,063,094
Noncurrent debt.....	61,368,095	55,940,651
Total liabilities.....	120,540,039	116,383,849
Net Assets:		
Capital assets net of related debt.....	119,110,675	114,687,970
Restricted.....	5,543,895	5,833,074
Unrestricted.....	(18,972,472)	(14,659,133)
Total net assets.....	\$ 105,682,098	\$ 105,861,911
Program revenues:		
Charges for services.....	\$ 6,814,422	\$ 7,357,922
Operating grants and contributions.....	26,392,514	25,584,956
Capital grants and contributions.....	10,927,217	24,281,960
General Revenues:		
Real estate and personal property taxes, net of tax refunds payable.....	74,732,977	71,840,848
Tax liens.....	762,948	821,491
Motor vehicle and other excise taxes.....	4,561,116	3,824,642
Penalties & interest on taxes.....	306,705	378,062
Payments in lieu of taxes.....	187,314	181,258
Nonrestricted grants.....	4,972,639	5,179,786
Unrestricted investment income.....	240,739	226,866
Other revenues.....	283,868	41,970
Total revenues.....	130,182,459	139,719,761
Expenses:		
General government.....	6,630,762	6,940,126
Community development.....	394,398	228,281
Public safety.....	24,134,519	23,829,683
Education.....	83,683,151	79,843,730
Public works.....	7,774,095	7,648,368
Human services.....	1,961,910	1,993,610
Culture and recreation.....	3,166,500	3,043,473
Interest.....	2,884,934	2,653,352
Total expenses.....	130,630,269	126,180,623
Change in net assets before transfers.....	(447,810)	13,539,138
Transfers.....	267,997	829,346
Change in net assets.....	\$ (179,813)	\$ 14,368,484

The governmental expenses totaled \$130.6 million of which \$44.1 million (34%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$86 million, primarily coming from property taxes, motor vehicle excise taxes and non-restricted state aid.

The governmental net assets decreased by \$180,000 during the current fiscal year. This was primarily due to an \$8.9 million capital grant from the MSBA, an additional \$2 million from other capital grants and a \$2.2 million increase in the internal service fund. These revenues were offset by the recognition of \$10.9 million in OPEB liabilities, a \$1.3 million increase in depreciation expense, the use of \$700,000 of free cash, a \$421,000 reduction that is attributable to expenditures of prior year encumbrances in excess of current year encumbrances and a \$300,000 snow and ice deficit.

The governmental capital grants and contributions decreased by \$13.4 million during the current fiscal year. This was primarily due to a \$12.8 million lump-sum payment received from the MSBA in fiscal 2010 that was used to refund long-term school construction debt. As a result of the lump-sum payment, the City experienced a \$1.4 million decrease in its fiscal 2011 annual MSBA contract assistance payments.

The internal service fund experienced an increase of \$2.2 million, which is due to a favorable claims experience when compared to anticipated claims.

Business-type Activities

For the City’s business-type activities, assets exceeded liabilities by \$40.4 million at the close of fiscal 2011.

	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Assets:		
Current assets.....	\$ 6,170,953	\$ 6,841,691
Capital assets not being depreciated.....	5,577,964	5,577,964
Capital assets, net of accumulated depreciation.....	42,167,644	41,852,762
Total assets.....	<u>53,916,561</u>	<u>54,272,417</u>
Liabilities:		
Current liabilities (excluding debt).....	469,072	797,655
Noncurrent liabilities (excluding debt).....	665,000	430,000
Current debt.....	1,112,025	6,069,517
Noncurrent debt.....	11,309,241	7,213,266
Total liabilities.....	<u>13,555,338</u>	<u>14,510,438</u>
Net Assets:		
Capital assets net of related debt.....	36,175,139	36,256,760
Unrestricted.....	4,186,084	3,505,219
Total net assets.....	<u>\$ 40,361,223</u>	<u>\$ 39,761,979</u>

	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Program revenues:		
Charges for services.....	\$ 14,198,785	\$ 12,923,075
Operating grants and contributions.....	30,000	-
Capital grants and contributions.....	1,439,201	2,565,050
General Revenues:		
Unrestricted investment income.....	-	133
Total revenues.....	<u>15,667,986</u>	<u>15,488,258</u>
Expenses:		
Water.....	3,330,649	3,586,039
Sewer.....	8,043,721	7,481,713
Airport.....	638,310	682,443
Golf and Tennis.....	187,236	136,316
Sanitation.....	2,071,248	2,260,550
Harbor Management.....	363,991	373,164
Recreation.....	317,957	351,525
Senior Citizens.....	85,318	95,787
Total expenses.....	<u>15,038,430</u>	<u>14,967,537</u>
Change in net assets before transfers.....	629,556	520,721
Transfers.....	<u>(267,997)</u>	<u>(829,346)</u>
Change in net assets.....	\$ <u>361,559</u>	\$ <u>(308,625)</u>

Business-type net assets of \$36.2million (89%) represent the investment in capital assets while \$4.2 million (11%) is unrestricted. The City's business-type activities net assets increased by \$362,000 in the current fiscal year.

The water operations experienced an increase of \$95,000, which is in-line with anticipated results.

The sewer operations experienced a decrease of \$727,000, which is primarily due to current year depreciation expense in excess of debt principal payments raised in the sewer rates.

The airport operations experienced a decrease of \$304,000, which is primarily due to current year depreciation expense.

The golf and tennis operations experienced an increase of \$432,000 which is primarily due to a \$426,000 transfer from the general fund to fund the prior year operating deficit. The golf and tennis fund includes a \$562,000 receivable which is comprised of \$17,000 due from the new management company and \$545,000 from the prior management company. The City has a mortgage agreement with the prior management company that provides a security interest in real property, up to \$600,000, to secure payment and performance under the management contract.

The sanitation operations experienced a decrease of \$369,000, which is primarily due to the use of \$651,000 of retained earnings to balance the operating budget, which was offset by an increase of \$288,000 that was due to actual incineration contract expenses being lower than budgeted.

The harbor management operations experienced an increase of \$1.2 million, which is primarily due to the recognition of a \$1.4 million capital grant that is funding the marina improvements project.

The recreation operations experienced an increase of \$23,000, which is in-line with anticipated results.

The senior citizens operations experienced an increase of \$48,000, which is in-line with anticipated results.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *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, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$6.4 million of which \$4 million is for the general fund; a deficit of (\$2.3) million is for the high school renovation and reconstruction project and \$4.7 million is for nonmajor governmental funds. Cumulatively there was an increase of \$2.8 million in fund balances from the prior year.

All governmental and business-type activities report positive balances with the exception of the high school renovation and reconstruction fund and the nonmajor governmental funds which report negative unassigned fund balance totaling (\$2.3) million and (\$2.5) million, respectively. These deficits will be funded through the issuance of long-term debt, the receipt of grant proceeds and payment of outstanding police detail receivables.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3 million, while total fund balance was \$4 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 3% of the total general fund expenditures, while total fund balance represents 4% of that same amount. \$550,000 of fund balance is committed for debt service stabilization and \$522,000 of fund balance is assigned for encumbrances to be carried forward to the next fiscal year.

The City's general fund decreased by \$561,000 in fiscal 2011, which was primarily due to a \$700,000 use of free cash, a \$421,000 reduction that is attributable to expenditures of prior year encumbrances in excess of current year encumbrances and a \$300,000 current year snow and ice deficit. These decreases were offset by a \$664,000 transfer from the Golf and Tennis fund for prior year budgeted transfers that were not previously recorded and \$381,000 raised on the Tax Recap to fund prior year snow and ice and overlay deficits.

The high school renovation and reconstruction fund is used to account for the high school renovation and reconstruction project activities. At the end of the current fiscal year, the fund had a deficit balance of (\$2.3) million. The City has temporarily funded the project with a bond anticipation note totaling \$20 million. The estimated cost of the project is \$80.8 million. The project will encompass the renovation of approximately 100,000 square feet of existing space and the construction of an approximate 160,000 square foot academic wing. The City has executed a Project Funding Agreement with the Massachusetts School Building Authority (MSBA) in which the MSBA will provide a grant to the City in the amount of the lesser of \$46.8 million or 58.42% of eligible project costs. The City has entered into contracts totaling approximately \$79 million and expended approximately \$74.3 million as of June 30, 2011.

General Fund Budgetary Highlights

During fiscal year 2011, the Council approved supplemental appropriations totaling \$192,000, which primarily consisted of increases in general government and public safety totaling \$74,000 and \$292,000, respectively as well as a decrease in transfers out totaling \$95,000.

Capital Asset and Debt Administration

Capital Assets. In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$222.4 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and building improvements, machinery and equipment, vehicles and infrastructure.

The total additions to the governmental activities investment in capital assets for the current year were \$17 million and total retirements were \$224,000. Major capital asset events during the current fiscal year consisted of high school construction, construction of streets, sidewalks and the purchase of machinery and equipment.

The \$2.1 million in additions to the business-type activities are attributable to infrastructure improvements, land improvements and machinery and equipment.

Debt Administration. Outstanding long-term debt of the general government, as of June 30, 2011, totaled \$65.6 million, of which \$52 million is related to school projects, \$7.3 million is related to drainage projects, \$2.6 million is related to landfill closure, \$2 million is related to library construction and the remaining balance of \$1.7 million was for other capital projects.

The Commonwealth has approved school construction assistance to the City. The assistance program which is administered by the MSBA, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2011, \$955,000 of such assistance was received and \$10.5 million will be received in future fiscal years. Of this amount, \$2.6 million represents reimbursement of long-term interest costs, and \$7.9 million represents reimbursement of approved construction costs. Accordingly, a \$7.9 million intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In fiscal 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of fiscal year 2011, the City has recorded capital grant revenue totaling \$41.6 million from the MSBA which is equal to 58.42% of approved construction costs incurred to date. The City received \$12.2 million of reimbursements in fiscal 2011 and anticipates receiving an additional \$19.2 million of reimbursements in fiscal 2012.

At fiscal year end, the water, sewer and golf and tennis enterprise funds have \$2.9 million, \$7.6 million and \$1.9 million, respectively, of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

Short-term debt outstanding at year-end of the general government, totaled \$20.9 million and consists of \$20 million for the high school renovation and construction project and \$900,000 for the purchase of a new fire truck. Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Beverly's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Accountant, City Hall, 191 Cabot Street, Beverly, Massachusetts, 01915.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2011

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 12,085,002	\$ 2,387,379	\$ 14,472,381
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,648,127	-	1,648,127
Tax liens.....	2,740,630	-	2,740,630
Motor vehicle and other excise taxes.....	693,982	-	693,982
User fees.....	-	3,886,075	3,886,075
Departmental and other.....	205,550	602,470	808,020
Intergovernmental.....	21,912,611	107,311	22,019,922
Loans.....	17,540	-	17,540
Internal balances.....	1,660,329	(1,660,329)	-
Investment in joint venture.....	-	848,047	848,047
Unamortized issue costs on bonds payable.....	15,026	-	15,026
NONCURRENT:			
Investments.....	2,873,137	-	2,873,137
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	219,553	-	219,553
Intergovernmental.....	7,335,666	-	7,335,666
Loans.....	56,360	-	56,360
Unamortized issue costs on bonds payable.....	78,473	-	78,473
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	15,801,337	5,577,964	21,379,301
Depreciable.....	158,878,814	42,167,644	201,046,458
TOTAL ASSETS.....	226,222,137	53,916,561	280,138,698
LIABILITIES			
CURRENT:			
Warrants payable.....	3,063,467	243,666	3,307,133
Accrued liabilities.....	710,000	-	710,000
Health claims payable.....	1,103,000	-	1,103,000
Tax refunds payable.....	341,301	-	341,301
Accrued interest.....	998,637	157,006	1,155,643
Other liabilities.....	187,235	-	187,235
Customer deposits payable.....	211,861	4,400	216,261
Capital lease obligations.....	136,773	-	136,773
Compensated absences.....	1,324,000	64,000	1,388,000
Workers' compensation.....	208,000	-	208,000
Unamortized premiums on bonds payable.....	55,356	-	55,356
Notes payable.....	20,900,000	-	20,900,000
Bonds payable.....	4,517,200	1,112,025	5,629,225
NONCURRENT:			
Capital lease obligations.....	201,114	-	201,114
Compensated absences.....	853,000	14,000	867,000
Workers' compensation.....	253,000	-	253,000
Other postemployment benefits.....	24,108,000	651,000	24,759,000
Unamortized premiums on bonds payable.....	289,095	-	289,095
Bonds payable.....	61,079,000	11,309,241	72,388,241
TOTAL LIABILITIES.....	120,540,039	13,555,338	134,095,377
NET ASSETS			
Invested in capital assets, net of related debt.....	119,110,675	36,175,139	155,285,814
Restricted for:			
Loans.....	73,900	-	73,900
Permanent funds:			
Expendable.....	789,067	-	789,067
Nonexpendable.....	1,971,955	-	1,971,955
Gifts and grants.....	2,708,973	-	2,708,973
Unrestricted.....	(18,972,472)	4,186,084	(14,786,388)
TOTAL NET ASSETS.....	\$ 105,682,098	\$ 40,361,223	\$ 146,043,321

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 6,630,762	\$ 1,727,151	\$ 317,932	\$ -	\$ (4,585,679)
Community development.....	394,398	-	214,547	-	(179,851)
Public safety.....	24,134,519	2,114,950	1,453,062	559,513	(20,006,994)
Education.....	83,683,151	2,659,911	23,309,595	9,056,163	(48,657,482)
Public works.....	7,774,095	211,976	181,441	1,311,541	(6,069,137)
Human services.....	1,961,910	70,773	311,680	-	(1,579,457)
Culture and recreation.....	3,166,500	29,661	149,943	-	(2,986,896)
Interest.....	2,884,934	-	454,314	-	(2,430,620)
Total Governmental Activities.....	130,630,269	6,814,422	26,392,514	10,927,217	(86,496,116)
<i>Business-Type Activities:</i>					
Water.....	3,330,649	3,883,605	-	-	552,956
Sewer.....	8,043,721	7,676,935	-	-	(366,786)
Airport.....	638,310	327,504	-	27,258	(283,548)
Golf and tennis.....	187,236	324,662	-	-	137,426
Sanitation.....	2,071,248	1,376,737	-	-	(694,511)
Harbor management.....	363,991	154,897	-	1,411,943	1,202,849
Recreation.....	317,957	345,856	-	-	27,899
Senior citizens.....	85,318	108,589	30,000	-	53,271
Total Business-Type Activities.....	15,038,430	14,198,785	30,000	1,439,201	629,556
Total Primary Government.....	\$ 145,668,699	\$ 21,013,207	\$ 26,422,514	\$ 12,366,418	\$ (85,866,560)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (86,496,116)	\$ 629,556	\$ (85,866,560)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	74,732,977	-	74,732,977
Tax liens.....	762,948	-	762,948
Motor vehicle and other excise taxes.....	4,561,116	-	4,561,116
Penalties and interest on taxes.....	306,705	-	306,705
Payments in lieu of taxes.....	187,314	-	187,314
Grants and contributions not restricted to specific programs.....	4,972,639	-	4,972,639
Unrestricted investment income.....	240,739	-	240,739
Miscellaneous.....	283,868	-	283,868
<i>Transfers, net</i>	267,997	(267,997)	-
Total general revenues and transfers.....	86,316,303	(267,997)	86,048,306
Change in net assets.....	(179,813)	361,559	181,746
<i>Net Assets:</i>			
Beginning of year, as restated.....	105,861,911	39,999,664	145,861,575
End of year.....	\$ <u>105,682,098</u>	\$ <u>40,361,223</u>	\$ <u>146,043,321</u>

(Concluded)

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2011

ASSETS	General	High School Renovation & Reconstruction	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 3,963,012	\$ 683,408	\$ 2,965,842	\$ 7,612,262
Investments.....	-	-	2,873,137	2,873,137
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	1,648,127	-	-	1,648,127
Real estate tax deferrals.....	219,553	-	-	219,553
Tax liens.....	2,740,630	-	-	2,740,630
Motor vehicle and other excise taxes.....	693,982	-	-	693,982
Departmental and other.....	15,453	-	115,097	130,550
Intergovernmental.....	7,861,437	19,200,000	2,186,840	29,248,277
Loans.....	-	-	73,900	73,900
Due from other funds.....	1,660,329	-	-	1,660,329
TOTAL ASSETS.....	\$ 18,802,523	\$ 19,883,408	\$ 8,214,816	\$ 46,900,747
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 246,057	\$ 2,227,497	\$ 584,913	\$ 3,058,467
Accrued liabilities.....	710,000	-	-	710,000
Tax refunds payable.....	341,301	-	-	341,301
Accrued interest on short-term debt.....	209,000	-	-	209,000
Liabilities due depositors.....	-	-	211,861	211,861
Other liabilities.....	182,899	-	4,336	187,235
Deferred revenues.....	13,079,077	-	1,813,649	14,892,726
Notes payable.....	-	20,000,000	900,000	20,900,000
TOTAL LIABILITIES.....	14,768,334	22,227,497	3,514,759	40,510,590
FUND BALANCES:				
Nonspendable.....	-	-	1,961,455	1,961,455
Restricted.....	-	-	5,278,868	5,278,868
Committed.....	550,000	-	-	550,000
Assigned.....	521,593	-	-	521,593
Unassigned.....	2,962,596	(2,344,089)	(2,540,266)	(1,921,759)
TOTAL FUND BALANCES.....	4,034,189	(2,344,089)	4,700,057	6,390,157
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 18,802,523	\$ 19,883,408	\$ 8,214,816	\$ 46,900,747

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2011

Total governmental fund balances.....	\$	6,390,157
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		174,680,151
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		14,892,726
Internal service funds are used by management to account for retirees' 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.....		3,439,740
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(789,637)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....	(65,596,200)	
Unamortized premiums on bonds payable.....	(344,451)	
Unamortized issue costs on bonds payable.....	93,499	
Workers' compensation claims.....	(461,000)	
Compensated absences.....	(2,177,000)	
Other postemployment benefits.....	(24,108,000)	
Capital lease obligations.....	<u>(337,887)</u>	
Net effect of reporting long-term liabilities.....		<u>(92,931,039)</u>
Net assets of governmental activities.....	\$	<u><u>105,682,098</u></u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

	General	High School Renovation & Reconstruction	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds..... \$	74,364,726	-	-	74,364,726
Tax liens.....	520,031	-	-	520,031
Motor vehicle and other excise taxes.....	4,512,431	-	-	4,512,431
Intergovernmental.....	23,694,546	8,991,274	8,686,293	41,372,113
Departmental and other.....	2,699,552	-	4,839,215	7,538,767
Contributions.....	-	-	310,955	310,955
Investment income.....	45,518	-	354,314	399,832
TOTAL REVENUES.....	105,836,804	8,991,274	14,190,777	129,018,855
EXPENDITURES:				
Current:				
General government.....	3,828,028	-	149,833	3,977,861
Public safety.....	13,259,038	-	3,074,455	16,333,493
Education.....	47,718,388	16,241,435	8,602,388	72,562,211
Public works.....	4,362,787	-	873,576	5,236,363
Community development.....	-	-	394,398	394,398
Human services.....	1,214,901	-	97,665	1,312,566
Culture and recreation.....	1,926,542	-	150,910	2,077,452
Pension benefits.....	17,239,662	-	-	17,239,662
Employee benefits.....	10,854,558	-	-	10,854,558
State and county charges.....	948,050	-	-	948,050
Debt service:				
Principal.....	4,104,150	-	-	4,104,150
Interest.....	2,494,032	-	350,000	2,844,032
TOTAL EXPENDITURES.....	107,950,136	16,241,435	13,693,225	137,884,796
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(2,113,332)	(7,250,161)	497,552	(8,865,941)
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds and notes.....	-	10,000,000	-	10,000,000
Premium from issuance of bonds.....	-	-	775,021	775,021
Transfers in.....	2,696,135	-	497,182	3,193,317
Transfers out.....	(1,143,606)	-	(1,117,567)	(2,261,173)
TOTAL OTHER FINANCING SOURCES (USES).....	1,552,529	10,000,000	154,636	11,707,165
NET CHANGE IN FUND BALANCES.....	(560,803)	2,749,839	652,188	2,841,224
FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED.....	4,594,992	(5,093,928)	4,047,869	3,548,933
FUND BALANCES AT END OF YEAR..... \$	4,034,189	(2,344,089)	4,700,057	6,390,157

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds.....	\$	2,841,224
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....		17,047,170
Depreciation expense.....		<u>(5,435,659)</u>
Net effect of reporting capital assets.....		11,611,511
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(275,564)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Capital lease payments.....		136,726
Issuance of debt.....		(10,000,000)
Debt service principal payments.....		<u>4,104,150</u>
Net effect of reporting long-term debt.....		(5,759,124)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....		(171,000)
Net change in workers' compensation accrual.....		280,000
Net change in other postemployment benefits accrual.....		(10,860,000)
Net change in accrued interest on long-term debt.....		(83,846)
Amortization of bond issuance costs.....		(16,000)
Amortization of premium from issuance of bonds and notes payable.....		<u>58,944</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....		(10,791,902)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>2,194,042</u>
Change in net assets of governmental activities.....	\$	<u><u>(179,813)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2011

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Airport
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 401,097	\$ -	\$ 109,141
Receivables, net of allowance for uncollectibles:			
User fees.....	1,241,641	2,457,405	-
Departmental and other.....	-	-	24,110
Intergovernmental.....	-	-	-
Investment in joint venture.....	-	848,047	-
Total current assets.....	<u>1,642,738</u>	<u>3,305,452</u>	<u>133,251</u>
NONCURRENT:			
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	3,272,613	227,792	1,776,573
Depreciable.....	7,843,986	19,321,382	9,001,869
Total noncurrent assets.....	<u>11,116,599</u>	<u>19,549,174</u>	<u>10,778,442</u>
TOTAL ASSETS.....	<u>12,759,337</u>	<u>22,854,626</u>	<u>10,911,693</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	26,023	28,534	4,296
Health claims payable.....	-	-	-
Accrued interest.....	40,351	100,693	-
Customer deposits payable.....	-	-	4,400
Due to other funds.....	-	1,660,329	-
Compensated absences.....	13,000	2,000	16,000
Bonds and notes payable.....	503,682	458,343	-
Total current liabilities.....	<u>583,056</u>	<u>2,249,899</u>	<u>24,696</u>
NONCURRENT:			
Compensated absences.....	2,000	1,000	5,000
Other postemployment benefits.....	295,000	247,000	102,000
Bonds and notes payable.....	2,349,236	7,175,005	-
Total noncurrent liabilities.....	<u>2,646,236</u>	<u>7,423,005</u>	<u>107,000</u>
TOTAL LIABILITIES.....	<u>3,229,292</u>	<u>9,672,904</u>	<u>131,696</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	8,263,681	12,083,654	10,778,442
Unrestricted.....	1,266,364	1,098,068	1,555
TOTAL NET ASSETS.....	<u>\$ 9,530,045</u>	<u>\$ 13,181,722</u>	<u>\$ 10,779,997</u>

See notes to basic financial statements.

	Golf and Tennis	Sanitation	Harbor Management	Recreation	Senior Citizens	Total	Governmental Activities - Internal Service Funds
\$	596,597	\$ 729,288	\$ 231,842	\$ 218,024	\$ 101,390	\$ 2,387,379	\$ 4,472,740
	-	187,029	-	-	-	3,886,075	-
	562,000	-	16,360	-	-	602,470	75,000
	-	-	107,311	-	-	107,311	-
	-	-	-	-	-	848,047	-
	<u>1,158,597</u>	<u>916,317</u>	<u>355,513</u>	<u>218,024</u>	<u>101,390</u>	<u>7,831,282</u>	<u>4,547,740</u>
	89,897	-	211,089	-	-	5,577,964	-
	<u>1,520,442</u>	<u>-</u>	<u>4,479,965</u>	<u>-</u>	<u>-</u>	<u>42,167,644</u>	<u>-</u>
	<u>1,610,339</u>	<u>-</u>	<u>4,691,054</u>	<u>-</u>	<u>-</u>	<u>47,745,608</u>	<u>-</u>
	<u>2,768,936</u>	<u>916,317</u>	<u>5,046,567</u>	<u>218,024</u>	<u>101,390</u>	<u>55,576,890</u>	<u>4,547,740</u>
	9,082	112,054	57,311	2,115	4,251	243,666	5,000
	-	-	-	-	-	-	1,103,000
	15,962	-	-	-	-	157,006	-
	-	-	-	-	-	4,400	-
	-	-	-	-	-	1,660,329	-
	-	-	14,000	19,000	-	64,000	-
	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,112,025</u>	<u>-</u>
	<u>175,044</u>	<u>112,054</u>	<u>71,311</u>	<u>21,115</u>	<u>4,251</u>	<u>3,241,426</u>	<u>1,108,000</u>
	-	-	-	6,000	-	14,000	-
	-	-	7,000	-	-	651,000	-
	<u>1,785,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,309,241</u>	<u>-</u>
	<u>1,785,000</u>	<u>-</u>	<u>7,000</u>	<u>6,000</u>	<u>-</u>	<u>11,974,241</u>	<u>-</u>
	<u>1,960,044</u>	<u>112,054</u>	<u>78,311</u>	<u>27,115</u>	<u>4,251</u>	<u>15,215,667</u>	<u>1,108,000</u>
	250,997	-	4,798,365	-	-	36,175,139	-
	<u>557,895</u>	<u>804,263</u>	<u>169,891</u>	<u>190,909</u>	<u>97,139</u>	<u>4,186,084</u>	<u>3,439,740</u>
\$	<u>808,892</u>	<u>804,263</u>	<u>4,968,256</u>	<u>190,909</u>	<u>97,139</u>	<u>40,361,223</u>	<u>3,439,740</u>

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

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Airport
OPERATING REVENUES:			
Employee contributions.....	\$ -	\$ -	\$ -
Employer contributions.....	-	-	-
Charges for services.....	3,883,605	7,676,935	327,394
TOTAL OPERATING REVENUES	3,883,605	7,676,935	327,394
OPERATING EXPENSES:			
Cost of services and administration.....	2,860,664	6,686,393	333,666
Depreciation.....	349,848	1,098,400	304,644
Employee benefits.....	-	-	-
TOTAL OPERATING EXPENSES	3,210,512	7,784,793	638,310
OPERATING INCOME (LOSS).....	673,093	(107,858)	(310,916)
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	-	-	-
Interest expense.....	(120,137)	(258,928)	-
Intergovernmental.....	-	-	27,368
Other revenues.....	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(120,137)	(258,928)	27,368
INCOME (LOSS) BEFORE TRANSFERS.....	552,956	(366,786)	(283,548)
TRANSFERS:			
Transfers in.....	50,000	248,757	-
Transfers out.....	(508,351)	(608,540)	(20,000)
TOTAL TRANSFERS.....	(458,351)	(359,783)	(20,000)
CHANGE IN NET ASSETS.....	94,605	(726,569)	(303,548)
NET ASSETS AT BEGINNING OF YEAR, as restated.....	9,435,440	13,908,291	11,083,545
NET ASSETS AT END OF YEAR.....	\$ 9,530,045	\$ 13,181,722	\$ 10,779,997

See notes to basic financial statements.

Golf and Tennis	Sanitation	Harbor Management	Recreation	Senior Citizens	Total	Governmental Activities - Internal Service Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,407,546
-	-	-	-	-	-	16,942,387
<u>324,662</u>	<u>1,376,737</u>	<u>154,897</u>	<u>345,403</u>	<u>108,557</u>	<u>14,198,190</u>	-
<u>324,662</u>	<u>1,376,737</u>	<u>154,897</u>	<u>345,403</u>	<u>108,557</u>	<u>14,198,190</u>	<u>21,349,933</u>
50,899	2,071,248	147,423	317,957	85,318	12,553,568	-
72,680	-	216,568	-	-	2,042,140	-
-	-	-	-	-	-	19,186,189
<u>123,579</u>	<u>2,071,248</u>	<u>363,991</u>	<u>317,957</u>	<u>85,318</u>	<u>14,595,708</u>	<u>19,186,189</u>
<u>201,083</u>	<u>(694,511)</u>	<u>(209,094)</u>	<u>27,446</u>	<u>23,239</u>	<u>(397,518)</u>	<u>2,163,744</u>
-	-	-	453	32	485	30,298
(63,657)	-	-	-	-	(442,722)	-
-	-	1,411,943	-	-	1,439,311	-
-	-	-	-	30,000	30,000	-
<u>(63,657)</u>	<u>-</u>	<u>1,411,943</u>	<u>453</u>	<u>30,032</u>	<u>1,027,074</u>	<u>30,298</u>
<u>137,426</u>	<u>(694,511)</u>	<u>1,202,849</u>	<u>27,899</u>	<u>53,271</u>	<u>629,556</u>	<u>2,194,042</u>
469,387	325,750	-	-	-	1,093,894	-
(175,000)	-	(40,000)	(5,000)	(5,000)	(1,361,891)	-
<u>294,387</u>	<u>325,750</u>	<u>(40,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>(267,997)</u>	<u>-</u>
431,813	(368,761)	1,162,849	22,899	48,271	361,559	2,194,042
<u>377,079</u>	<u>1,173,024</u>	<u>3,805,407</u>	<u>168,010</u>	<u>48,868</u>	<u>39,999,664</u>	<u>1,245,698</u>
\$ <u>808,892</u>	\$ <u>804,263</u>	\$ <u>4,968,256</u>	\$ <u>190,909</u>	\$ <u>97,139</u>	\$ <u>40,361,223</u>	\$ <u>3,439,740</u>

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Airport
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users.....	\$ 3,920,876	\$ 7,332,444	\$ 331,703
Receipts from interfund services provided.....	-	-	-
Payments to vendors.....	(2,087,258)	(6,015,966)	(134,112)
Payments to employees.....	(692,677)	(636,757)	(172,439)
Payments for interfund services used.....	-	-	-
NET CASH FROM OPERATING ACTIVITIES.....	1,140,941	679,721	25,152
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in.....	50,000	248,757	-
Transfers out.....	(508,351)	(608,540)	(20,000)
Other revenues.....	-	-	-
Change in advances to/from other funds.....	-	600,597	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(458,351)	240,814	(20,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the issuance of bonds and notes.....	-	3,708,000	-
Capital grants.....	-	-	27,368
Acquisition and construction of capital assets.....	-	(387,711)	-
Principal payments on bonds and notes.....	(514,232)	(4,015,285)	-
Interest expense.....	(123,815)	(225,539)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(638,047)	(920,535)	27,368
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income.....	-	-	-
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	44,543	-	32,520
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	356,554	-	76,621
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 401,097	\$ -	\$ 109,141
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH			
Operating income (loss).....	\$ 673,093	\$ (107,858)	\$ (310,916)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	349,848	1,098,400	304,644
Changes in assets and liabilities:			
User fees.....	37,271	(344,491)	-
Departmental and other.....	-	-	4,309
Investment in Joint Venture.....	-	(64,117)	-
Warrants payable.....	(30,271)	(12,213)	(9,885)
Health claims payable.....	-	-	-
Other postemployment benefits.....	106,000	117,000	35,000
Accrued compensated absences.....	5,000	(7,000)	2,000
Total adjustments.....	467,848	787,579	336,068
NET CASH FROM OPERATING ACTIVITIES.....	\$ 1,140,941	\$ 679,721	\$ 25,152

See notes to basic financial statements.

	Golf and Tennis	Sanitation	Harbor Management	Recreation	Senior Citizens	Total	Governmental Activities - Internal Service Funds
\$	489,662	\$ 1,377,142	\$ 168,477	\$ 345,403	\$ 108,557	\$ 14,074,264	\$ -
	-	-	-	-	-	-	21,349,933
	(68,442)	(2,066,175)	(307,172)	(72,293)	(95,991)	(10,847,409)	-
	-	-	(55,200)	(263,068)	(23,666)	(1,843,807)	-
	-	-	-	-	-	-	(19,202,813)
	<u>421,220</u>	<u>(689,033)</u>	<u>(193,895)</u>	<u>10,042</u>	<u>(11,100)</u>	<u>1,383,048</u>	<u>2,147,120</u>
	469,387	325,750	-	-	-	1,093,894	-
	(175,000)	-	(40,000)	(5,000)	(5,000)	(1,361,891)	-
	-	-	-	-	30,000	30,000	-
	<u>(664,147)</u>	<u>-</u>	<u>(773,323)</u>	<u>-</u>	<u>-</u>	<u>(836,873)</u>	<u>-</u>
	<u>(369,760)</u>	<u>325,750</u>	<u>(813,323)</u>	<u>(5,000)</u>	<u>25,000</u>	<u>(1,074,870)</u>	<u>-</u>
	1,500,000	-	-	-	-	5,208,000	-
	-	-	2,363,901	-	-	2,391,269	-
	(669,078)	-	(1,124,841)	-	-	(2,181,630)	-
	(1,540,000)	-	-	-	-	(6,069,517)	-
	<u>(51,127)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(400,481)</u>	<u>-</u>
	<u>(760,205)</u>	<u>-</u>	<u>1,239,060</u>	<u>-</u>	<u>-</u>	<u>(1,052,359)</u>	<u>-</u>
	-	-	-	453	32	485	30,298
	(708,745)	(363,283)	231,842	5,495	13,932	(743,696)	2,177,418
	<u>1,305,342</u>	<u>1,092,571</u>	<u>-</u>	<u>212,529</u>	<u>87,458</u>	<u>3,131,075</u>	<u>2,295,322</u>
\$	<u>596,597</u>	<u>729,288</u>	<u>231,842</u>	<u>218,024</u>	<u>101,390</u>	<u>2,387,379</u>	<u>4,472,740</u>
\$	<u>201,083</u>	<u>(694,511)</u>	<u>(209,094)</u>	<u>27,446</u>	<u>23,239</u>	<u>(397,518)</u>	<u>2,163,744</u>
	72,680	-	216,568	-	-	2,042,140	-
	-	405	-	-	-	(306,815)	-
	165,000	-	13,580	-	-	182,889	5,126
	-	-	-	-	-	(64,117)	-
	<u>(17,543)</u>	<u>5,073</u>	<u>(208,949)</u>	<u>(5,404)</u>	<u>(34,339)</u>	<u>(313,531)</u>	<u>4,250</u>
	-	-	-	-	-	-	(26,000)
	-	-	(10,000)	(15,000)	-	233,000	-
	-	-	4,000	3,000	-	7,000	-
	<u>220,137</u>	<u>5,478</u>	<u>15,199</u>	<u>(17,404)</u>	<u>(34,339)</u>	<u>1,780,566</u>	<u>(16,624)</u>
\$	<u>421,220</u>	<u>(689,033)</u>	<u>(193,895)</u>	<u>10,042</u>	<u>(11,100)</u>	<u>1,383,048</u>	<u>2,147,120</u>

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds	Agency Funds
ASSETS			
Cash and cash equivalents.....	\$ 454,688	\$ 31,754	\$ 297,425
Investments.....	72,743,033	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	3,561,897	-	5,810
TOTAL ASSETS.....	76,759,618	31,754	303,235
LIABILITIES			
Warrants payable.....	-	-	2,224
Liabilities due depositors.....	-	-	301,011
TOTAL LIABILITIES.....	-	-	303,235
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ <u>76,759,618</u>	\$ <u>31,754</u>	\$ <u>-</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Fund (as of December 31, 2010)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 7,699,086	\$ -
Employee.....	2,335,413	-
Total contributions.....	10,034,499	-
Net investment income (loss):		
Net change in fair value of investments.....	6,855,646	-
Interest and dividends.....	1,955,423	1,238
Total investment income (loss).....	8,811,069	1,238
Less: investment expense.....	(315,907)	-
Net investment income (loss).....	8,495,162	1,238
Intergovernmental.....	126,581	-
Transfers from other systems.....	198,469	-
TOTAL ADDITIONS.....	18,854,711	1,238
DEDUCTIONS:		
Administration.....	149,923	-
Transfers to other systems.....	508,550	-
Retirement benefits and refunds.....	10,886,257	-
Educational scholarships.....	-	153
TOTAL DEDUCTIONS.....	11,544,730	153
CHANGE IN NET ASSETS.....	7,309,981	1,085
NET ASSETS AT BEGINNING OF YEAR.....	69,449,637	30,669
NET ASSETS AT END OF YEAR.....	\$ 76,759,618	\$ 31,754

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Beverly, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and an elected City Council.

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Blended Component Units – Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City. The following joint ventures are blended within the primary government.

The Beverly Contributory Retirement System (the System) was established to provide retirement benefits to City employees, the City Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Accountant (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. The Beverly Contributory Retirement System is blended within the fiduciary funds of the primary government.

Building a Better Beverly, Inc. was established for all charitable, educational, scientific, community services and other allowable purposes contemplated within the provisions of Section 501 (c) (3) of the Internal Revenue Code of 1986, and any successor provision thereof, including but not limited to the enhancement of the quality of public education in Beverly, Massachusetts. Building a Better Beverly, Inc. is governed by a twelve member board including the Mayor who appoints the other eleven board members. It is presented using the modified accrual basis of accounting and is reported as a special revenue fund and blended within the non-major governmental funds of the primary government.

Joint Ventures

The City is a member of the South Essex Sewerage District (the District), a joint venture with the Cities of Salem and Peabody and the Towns of Danvers and Marblehead, for the operation of a septage disposal facility. The members share in overseeing the operations of the District. Each member is responsible for its proportionate share of the operational costs of the District, which are paid in the form of assessments. At June 30, 2011, the City has an equity unassigned and undesignated interest in the operation of the District of \$848,047. The equity unassigned and undesignated interest related to operations is recorded in the sewer enterprise fund.

The City is a member of the Salem-Beverly Water Supply Board (Water Board), a joint venture with the City of Salem for the operation of a water distribution system. The City does not have an equity interest in the Salem-Beverly Water Board. The annual assessment from the Water Board for the fiscal year ended June 30, 2010, totaled approximately \$1,607,000. Complete financial information for the Water Board can be obtained by contacting them at 50 Arlington Avenue, Beverly, MA 01915.

The City is a member of the Essex County Regional Emergency Communications Center (the RECC), a joint venture with the Towns of Amesbury, Essex, Middleton, Topsfield and Wenham for the purpose of providing for a regional public safety communication operations center to meet their joint and respective communications needs, which shall include, but not be limited to providing emergency medical dispatch services and expediting timely and efficient responses by police, fire resources of the participating governmental units and expediting timely responses by other first responders providing emergency services on behalf of the parties. Each member is responsible for its proportionate share of the operational and capital costs of the RECC, which are paid in the form of assessments. The City does not have an equity interest in the Center. No financial obligations shall commence until the "Start-Up and Operations Transfer Plan and Budget" has been accepted by its executive authority, after a public hearing, and sufficient funds have been appropriated to meet the financial obligation then due. The financial liability shall not exceed its share of initial start-up costs and annual operating costs. Complete financial information for the RECC can be obtained by contacting them at 20 Manning Avenue, Middleton, MA 01949.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 191 Cabot Street, Beverly, MA 01915.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*

- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *high school renovation and reconstruction fund* is used to account for the high school renovation and reconstruction project activities.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

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

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principle ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for water activities.

The *sewer enterprise fund* is used to account for sewer activities.

The *airport enterprise fund* is used to account for airport activities.

The *golf and tennis enterprise fund* is used to account for golf and tennis club activities.

The *sanitation enterprise fund* is used to account for sanitation activities.

The *harbor management enterprise fund* is used to account for harbor management activities.

The *recreation enterprise fund* is used to account for recreational activities.

The *senior citizens enterprise fund* is used to account for senior citizen activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to employees' health insurance.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed during the fourth quarter of every fiscal year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle and Other Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Sanitation User Fees

User fees are levied quarterly at a rate of \$25 per residential unit. Commercial properties are levied quarterly at rates ranging from \$75 to \$225 per quarter, based on usage. Trash liens are processed in December of every year and included as a lien on the property owner's tax bill. Trash charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of police details, airport fees and golf and tennis lease payments, which are recorded as receivables in the fiscal year accrued. The golf and tennis receivable is due from the management company that currently operates the course because no lease payments were received for

the current fiscal year. The golf and tennis receivable is considered to be 100% collectible because the City has a mortgage agreement to secure its interest in the lease. The police details and airport fees allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Loans

The Department of Community Development administers loan programs that provide housing assistance to residents and capital needs assistance for small businesses. Upon issuance, a receivable is recorded for the principal amount of the loan.

Since the loans are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, vehicles, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings and building improvements.....	5-50
Machinery and equipment.....	3-20
Vehicles.....	5-10
Infrastructure.....	5-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as “internal balances.”

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

I. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as “Transfers, net.”

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

J. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

K. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Loans” represents community development outstanding loan receivable balances.

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings on donor restricted trusts. The restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Gifts and grants” represents assets that have restrictions placed on them from outside parties.

Fund Financial Statements (Fund Balances)

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

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

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

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

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

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

L. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums, discounts and issue costs are deferred and amortized over the life of the bonds using the effective interest method.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

M. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL). Investment income from recreation and senior citizens proprietary funds is retained by those funds.

N. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

O. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

P. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

Q. Fund Deficits

Several individual fund deficits exist, under the budgetary basis of accounting, at June 30, 2011 in the special revenue funds, the capital project funds, the water and sewer capital project funds and the sewer enterprise fund. These deficits will be funded by grants, bond proceeds, departmental revenues, increased rates and available fund balance.

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents." The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial risk. At fiscal year-end, the carrying amount of deposits totaled \$13,810,883 and the bank balance totaled \$17,654,229. Of the bank balance, \$1,909,300 was covered by Federal Depository Insurance, \$6,303,679 was covered by Depository Insurance Fund and \$2,873,228 was covered by the Share Insurance Fund and \$6,568,022 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2010, the carrying amount of deposits for the System totaled \$454,688 and the bank balance of \$665,598 was covered by Federal Depository Insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the government will not be able to recover the value of its investments or collateral security that are in the possession of an outside party.

Of the City's total investments of \$3,863,814, there was custodial credit risk exposure of \$1,810,573 which is equal to the investments in government sponsored enterprises of \$481,999, corporate bonds in the amount of \$186,046, and equity securities of \$1,142,528 because the related securities are uninsured, unregistered and held by the counterparty. The City does not have an investment policy for custodial credit risk.

At December 31, 2010, the System was not exposed to custodial credit risk of investments because the System did not have investments in securities subject to custodial credit risk. The System does not have an investment policy for custodial credit risk.

Interest Rate Risk

The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Systems investments are managed by PRIT and are not subject to interest rate risk.

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

<u>Investment Type</u>	<u>Fair Value</u>
<u>Other Investments</u>	
PRIT.....	\$ <u>72,743,033</u>

As of June 30, 2011, the government had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>	
		<u>1-5 Years</u>	<u>6-10 Years</u>
<u>Debt Securities</u>			
Government Sponsored Enterprises....	\$ 481,999	\$ 481,999	\$ -
Corporate Bonds.....	186,046	186,046	-
Bond Mutual Funds.....	<u>653,014</u>	<u>313,489</u>	<u>339,525</u>
Total Debt Securities.....	1,321,059	<u>\$ 981,534</u>	<u>\$ 339,525</u>
<u>Other Investments</u>			
Equity Securities.....	1,142,528		
Equity Mutual Funds.....	409,550		
Money Market Mutual Funds.....	863,091		
MMDT.....	<u>127,586</u>		
Total Investments.....	<u>\$ 3,863,814</u>		

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

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 11.6 years.

Credit Risk

The government has not adopted a formal policy related to Credit Risk. Standard & Poors rated \$481,999 of government sponsored enterprises AAA; \$133,046 of corporate bonds AA, and \$53,000 A; \$137,829 of bond mutual funds AA, \$158,340 A, \$50,241 BBB and \$306,604 are unrated.

The Systems investments are managed by PRIT and are not subject to credit risk.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City did not have any investments in any one issuer exceeding 5 percent of their total investments.

The Systems investments are managed by PRIT and are not subject to concentration of credit risk.

NOTE 3 - RECEIVABLES

At June 30, 2011, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,648,127	\$ -	\$ 1,648,127
Real estate tax deferrals.....	219,553	-	219,553
Tax liens.....	2,740,630	-	2,740,630
Motor vehicle and other excise taxes.....	739,982	(46,000)	693,982
Departmental and other.....	238,550	(33,000)	205,550
Intergovernmental.....	29,248,277	-	29,248,277
Loans.....	73,900	-	73,900
Total.....	<u>\$ 34,909,019</u>	<u>\$ (79,000)</u>	<u>\$ 34,830,019</u>

At June 30, 2011, receivables for the water, sewer, sanitation, golf and tennis, airport, and harbor enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User fees - water.....	\$ 1,241,641	\$ -	\$ 1,241,641
User fees - sewer.....	2,457,405	-	2,457,405
User fees - sanitation.....	187,029	-	187,029
Departmental and other - airport.....	24,110	-	24,110
Departmental and other - golf and tennis.....	562,000	-	562,000
Departmental and other - harbor.....	16,360	-	16,360
Intergovernmental - harbor.....	107,311	-	107,311
Total.....	<u>\$ 4,595,856</u>	<u>\$ -</u>	<u>\$ 4,595,856</u>

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

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 1,767,575	\$ -	\$ 1,767,575
Tax liens.....	2,740,630	-	2,740,630
Motor vehicle and other excise taxes.....	693,982	-	693,982
Departmental and other.....	15,453	115,097	130,550
Intergovernmental.....	7,861,437	1,624,652	9,486,089
Loans.....	-	73,900	73,900
Total.....	<u>\$ 13,079,077</u>	<u>\$ 1,813,649</u>	<u>\$ 14,892,726</u>

NOTE 4 - CAPITAL ASSETS

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

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 14,523,507	\$ -	\$ -	\$ 14,523,507
Construction in progress.....	60,939,853	-	(59,662,023)	1,277,830
Total capital assets not being depreciated.....	<u>75,463,360</u>	<u>-</u>	<u>(59,662,023)</u>	<u>15,801,337</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	2,266,075	561,037	-	2,827,112
Buildings and building improvements.....	85,817,830	75,478,936	-	161,296,766
Machinery and equipment.....	6,993,629	320,497	-	7,314,126
Vehicles.....	5,812,433	48,764	(224,440)	5,636,757
Infrastructure.....	90,359,553	299,959	-	90,659,512
Total capital assets being depreciated.....	<u>191,249,520</u>	<u>76,709,193</u>	<u>(224,440)</u>	<u>267,734,273</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(770,271)	(86,601)	-	(856,872)
Buildings and building improvements.....	(39,864,936)	(2,975,680)	-	(42,840,616)
Machinery and equipment.....	(4,478,935)	(368,619)	-	(4,847,554)
Vehicles.....	(4,792,362)	(262,258)	224,440	(4,830,180)
Infrastructure.....	(53,737,736)	(1,742,501)	-	(55,480,237)
Total accumulated depreciation.....	<u>(103,644,240)</u>	<u>(5,435,659)</u>	<u>224,440</u>	<u>(108,855,459)</u>
Total capital assets being depreciated, net.....	<u>87,605,280</u>	<u>71,273,534</u>	<u>-</u>	<u>158,878,814</u>
Total governmental activities capital assets, net.....	<u>\$ 163,068,640</u>	<u>\$ 71,273,534</u>	<u>\$ (59,662,023)</u>	<u>\$ 174,680,151</u>

Water Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,272,613	\$ -	\$ -	\$ 3,272,613
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	252,038	-	-	252,038
Vehicles.....	399,978	-	-	399,978
Infrastructure.....	15,342,960	-	-	15,342,960
Total capital assets being depreciated.....	15,994,976	-	-	15,994,976
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(198,479)	(6,301)	-	(204,780)
Vehicles.....	(237,170)	(39,822)	-	(276,992)
Infrastructure.....	(7,365,493)	(303,725)	-	(7,669,218)
Total accumulated depreciation.....	(7,801,142)	(349,848)	-	(8,150,990)
Total capital assets being depreciated, net.....	8,193,834	(349,848)	-	7,843,986
Total water activities capital assets, net.....	\$ 11,466,447	\$ (349,848)	\$ -	\$ 11,116,599

Sewer Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 227,792	\$ -	\$ -	\$ 227,792
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	60,050	15,413	-	75,463
Vehicles.....	50,642	-	-	50,642
Infrastructure.....	48,956,355	372,298	-	49,328,653
Total capital assets being depreciated.....	49,067,047	387,711	-	49,454,758
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	(20,256)	(5,789)	-	(26,045)
Vehicles.....	(46,420)	(4,220)	-	(50,640)
Infrastructure.....	(28,968,300)	(1,088,391)	-	(30,056,691)
Total accumulated depreciation.....	(29,034,976)	(1,098,400)	-	(30,133,376)
Total capital assets being depreciated, net.....	20,032,071	(710,689)	-	19,321,382
Total sewer activities capital assets, net.....	\$ 20,259,863	\$ (710,689)	\$ -	\$ 19,549,174

Airport Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,776,573	\$ -	\$ -	\$ 1,776,573
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,712,439	-	-	1,712,439
Buildings and building improvements.....	680,511	-	-	680,511
Machinery and equipment.....	235,475	-	-	235,475
Vehicles.....	221,477	-	-	221,477
Infrastructure.....	9,394,406	-	-	9,394,406
Total capital assets being depreciated.....	<u>12,244,308</u>	<u>-</u>	<u>-</u>	<u>12,244,308</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(980,220)	(84,771)	-	(1,064,991)
Buildings and building improvements.....	(545,313)	(9,653)	-	(554,966)
Machinery and equipment.....	(167,002)	(12,547)	-	(179,549)
Vehicles.....	(175,752)	(18,290)	-	(194,042)
Infrastructure.....	(1,069,508)	(179,383)	-	(1,248,891)
Total accumulated depreciation.....	<u>(2,937,795)</u>	<u>(304,644)</u>	<u>-</u>	<u>(3,242,439)</u>
Total capital assets being depreciated, net.....	<u>9,306,513</u>	<u>(304,644)</u>	<u>-</u>	<u>9,001,869</u>
Total airport activities capital assets, net.....	<u>\$ 11,083,086</u>	<u>\$ (304,644)</u>	<u>\$ -</u>	<u>\$ 10,778,442</u>

Golf and Tennis Activities

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 89,897	\$ -	\$ -	\$ 89,897
<u>Capital assets being depreciated:</u>				
Land improvements.....	617,839	373,644	-	991,483
Buildings and building improvements.....	1,067,243	295,434	-	1,362,677
Vehicles.....	22,150	-	-	22,150
Total capital assets being depreciated.....	<u>1,707,232</u>	<u>669,078</u>	<u>-</u>	<u>2,376,310</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(485,655)	(15,101)	-	(500,756)
Buildings and building improvements.....	(275,383)	(57,579)	-	(332,962)
Vehicles.....	(22,150)	-	-	(22,150)
Total accumulated depreciation.....	<u>(783,188)</u>	<u>(72,680)</u>	<u>-</u>	<u>(855,868)</u>
Total capital assets being depreciated, net.....	<u>924,044</u>	<u>596,398</u>	<u>-</u>	<u>1,520,442</u>
Total golf and tennis activities capital assets, net.....	<u>\$ 1,013,941</u>	<u>\$ 596,398</u>	<u>\$ -</u>	<u>\$ 1,610,339</u>

Harbor Management Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 211,089	\$ -	\$ -	\$ 211,089
<u>Capital assets being depreciated:</u>				
Land improvements.....	1,372,340	1,062,548	-	2,434,888
Buildings and building improvements.....	329,770	-	-	329,770
Machinery and equipment.....	170,899	-	-	170,899
Vehicles.....	96,863	-	(19,563)	77,300
Infrastructure.....	6,064,623	-	-	6,064,623
Total capital assets being depreciated.....	<u>8,034,495</u>	<u>1,062,548</u>	<u>(19,563)</u>	<u>9,077,480</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(34,812)	(37,736)	-	(72,548)
Buildings and building improvements.....	(233,457)	(7,704)	-	(241,161)
Machinery and equipment.....	(8,503)	(17,090)	-	(25,593)
Vehicles.....	(96,863)	-	19,563	(77,300)
Infrastructure.....	(4,026,875)	(154,038)	-	(4,180,913)
Total accumulated depreciation.....	<u>(4,400,510)</u>	<u>(216,568)</u>	<u>19,563</u>	<u>(4,597,515)</u>
Total capital assets being depreciated, net.....	<u>3,633,985</u>	<u>845,980</u>	<u>-</u>	<u>4,479,965</u>
Total harbor activities capital assets, net.....	<u>\$ 3,845,074</u>	<u>\$ 845,980</u>	<u>\$ -</u>	<u>\$ 4,691,054</u>

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

Governmental Activities:

General government.....	\$ 48,986
Public safety.....	376,669
Education.....	2,933,787
Public works.....	1,792,639
Human services.....	51,089
Culture and recreation.....	<u>232,489</u>

Total depreciation expense - governmental activities..... \$ 5,435,659

Business-Type Activities:

Water.....	\$ 349,848
Sewer.....	1,098,400
Airport.....	304,644
Golf and tennis.....	72,680
Harbor management.....	<u>216,568</u>

Total depreciation expense - business-type activities..... \$ 2,042,140

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables for the fiscal year ended June 30, 2011, are summarized as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental funds:		
General fund.....	\$ 1,660,329	\$ -
Proprietary funds:		
Sewer enterprise fund.....	-	1,660,329
Total.....	<u>\$ 1,660,329</u>	<u>\$ 1,660,329</u>

1 The general fund has funded sewer cash deficits totaling \$1,660,329. This funding has been recorded as interfund receivables and payables as of June 30, 2011.

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

<u>Transfers Out:</u>	<u>Transfers In:</u>						<u>Total</u>
	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Water Enterprise Fund	Golf & Tennis Enterprise Fund	Sanitation Enterprise Funds	
General Fund.....	\$ -	\$ 200,000	\$ 141,755	\$ 50,000	\$ 426,101	\$ 325,750	\$ 1,143,606
Nonmajor Governmental Funds.....	670,097	297,182	107,002	-	43,286	-	1,117,567
Water Enterprise Fund.....	508,351	-	-	-	-	-	508,351
Sewer Enterprise Fund.....	608,540	-	-	-	-	-	608,540
Airport Enterprise Fund.....	20,000	-	-	-	-	-	20,000
Harbor Management Enterprise Fund..	40,000	-	-	-	-	-	40,000
Recreation Enterprise Fund.....	5,000	-	-	-	-	-	5,000
Golf and Tennis Enterprise Fund.....	175,000	-	-	-	-	-	175,000
Senior Citizens Enterprise Fund.....	5,000	-	-	-	-	-	5,000
Total.....	<u>2,031,988</u>	<u>\$ 497,182</u>	<u>\$ 248,757</u>	<u>\$ 50,000</u>	<u>\$ 469,387</u>	<u>\$ 325,750</u>	<u>\$ 3,623,064</u>
Adjustment for basis of accounting difference.....	<u>664,147</u>						4
	<u>\$ 2,696,135</u>						

- 1 Includes the transfer of amounts raised to fund prior year deficits in the sewer and golf & tennis funds and the current year sanitation subsidy.
- 2 Includes budgeted transfers to support general fund operations as well as budgeted transfers of other available funds.
- 3 Transfers from enterprise funds to reimburse general fund for indirect costs.
- 4 Includes transfer of \$175,000 of current year golf course revenue. Also, the fiscal 2009 and 2010 budgets approved \$750,000 combined from the golf and tennis fund to the general fund, however in the prior year the golf and tennis fund only had \$85,853 of cash available to transfer. Therefore, the remaining \$664,147 transfer due to the general fund has been recorded. The amounts recorded are different due to the difference in the basis of accounting between the general fund and the golf and tennis fund.

NOTE 6 – CAPITAL AND OPERATING LEASES

The City has entered into lease agreements as lessee for financing the acquisition of ten school buses. These lease agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 703,701
Less: accumulated depreciation.....	<u>(160,366)</u>
Total.....	<u>\$ 543,335</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2012.....	\$ 149,847
2013.....	149,846
2014.....	31,117
2015.....	<u>31,117</u>
Total minimum lease payments.....	361,927
Less: amounts representing interest.....	<u>(24,040)</u>
Present value of minimum lease payments.....	<u>\$ 337,887</u>

NOTE 7 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund, water enterprise fund, sewer enterprise fund and the Beverly golf and tennis enterprise fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2011, are as follows:

Governmental Activities

Type	Purpose	Rate (%)	Due Date	Beginning Balance	Renewed/ Issued	Retired/ Redeemed	Ending Balance
BAN	High school.....	1.5	10/21/2010	\$ 30,000,000	\$ -	\$ 30,000,000	\$ -
BAN	Fire department equipment.....	1.5	10/21/2010	900,000	-	900,000	-
BAN	High school.....	1.5	10/21/2011	-	20,000,000	-	20,000,000
BAN	Fire department equipment.....	1.5	10/21/2011	-	900,000	-	900,000
Total governmental-type notes...				<u>\$ 30,900,000</u>	<u>\$ 20,900,000</u>	<u>\$ 30,900,000</u>	<u>\$ 20,900,000</u>

Business-type Activities

Type	Purpose	Rate (%)	Due Date	Beginning Balance	Renewed/ Issued	Retired/ Redeemed	Ending Balance
BAN	Sewer infrastructure.....	1.5	10/21/2010	\$ 3,708,300	\$ -	\$ 3,708,300	\$ -
BAN	Golf and tennis improvements....	1.5	10/21/2010	1,500,000	-	1,500,000	-
Total business-type notes.....				<u>\$ 5,208,300</u>	<u>\$ -</u>	<u>\$ 5,208,300</u>	<u>\$ -</u>

NOTE 8 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

In prior years, the City defeased certain of its outstanding general obligation bonds by placing the proceeds of new refunding bonds in an irrevocable escrow account to provide amounts sufficient for the future payment of principal and interest on those bonds. Accordingly, neither the assets in escrow nor the liability for the defeased bonds are included in the City's financial statements. At September 1, 2010, the defeased bonds became callable and were redeemed by the escrow account.

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

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
Drainage.....	4.60	\$ 3,540,000	\$ -	\$ 295,000	\$ 3,245,000
Roads.....	4.60	200,000	-	100,000	100,000
Computer.....	3.75	20,000	-	10,000	10,000
Centerville school.....	4.08	8,400,000	-	560,000	7,840,000
North Beverly school.....	4.08	8,375,000	-	560,000	7,815,000
Drainage.....	4.09	2,240,000	-	160,000	2,080,000
Drainage.....	4.09	2,100,000	-	150,000	1,950,000
Library.....	4.02	2,145,000	-	165,000	1,980,000
Marina refunding.....	3.00	276,925	-	67,925	209,000
RESCO refunding.....	3.00	257,500	-	67,500	190,000
McKeown School refunding.....	3.00-5.00	1,449,500	-	144,500	1,305,000
Ayers School refunding.....	3.00-5.00	1,636,850	-	161,850	1,475,000
Hannah and Cove School refunding.....	3.00-5.00	4,464,000	-	442,800	4,021,200
Landfill closure refunding.....	3.00-5.00	2,848,000	-	283,000	2,565,000
School planning refunding.....	3.00-5.00	427,575	-	41,575	386,000
High School Construction.....	3.00-5.00	20,000,000	-	800,000	19,200,000
Land acquisition.....	3.55	720,000	-	40,000	680,000
Fire department equipment.....	3.55	400,000	-	35,000	365,000
Carriage House.....	3.13	200,000	-	20,000	180,000
High School Construction.....	2.00-4.00	-	10,000,000	-	10,000,000
Total.....		\$ 59,700,350	\$ 10,000,000	\$ 4,104,150	\$ 65,596,200

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012..... \$	4,517,200	\$ 2,547,490	\$ 7,064,690
2013.....	4,476,000	2,389,225	6,865,225
2014.....	4,526,000	2,225,218	6,751,218
2015.....	4,472,000	2,065,438	6,537,438
2016.....	4,557,000	1,909,081	6,466,081
2017.....	4,662,000	1,731,183	6,393,183
2018.....	4,763,000	1,539,144	6,302,144
2019.....	4,878,000	1,341,985	6,219,985
2020.....	3,900,000	1,173,036	5,073,036
2021.....	3,970,000	1,009,461	4,979,461
2022.....	3,805,000	822,286	4,627,286
2023.....	1,760,000	688,348	2,448,348
2024.....	1,550,000	619,130	2,169,130
2025.....	1,240,000	562,400	1,802,400
2026.....	1,240,000	512,800	1,752,800
2027.....	1,240,000	463,200	1,703,200
2028.....	1,240,000	413,600	1,653,600
2029.....	1,200,000	364,000	1,564,000
2030.....	1,200,000	315,000	1,515,000
2031.....	1,200,000	265,000	1,465,000
2032.....	1,200,000	215,000	1,415,000
2033.....	1,200,000	164,000	1,364,000
2034.....	1,200,000	112,000	1,312,000
2035.....	1,200,000	60,000	1,260,000
2036.....	400,000	8,000	408,000
Total..... \$	<u>65,596,200</u>	<u>\$ 23,516,025</u>	<u>\$ 89,112,225</u>

Bonds and Notes Payable Schedule – Water Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Water.....	4.60	\$ 900,000	\$ -	\$ 75,000	\$ 825,000
Water.....	4.60	360,000	-	30,000	330,000
Water.....	3.00	367,500	-	107,500	260,000
Land acquisition refunding.....	3.00	401,925	-	204,125	197,800
Water refunding.....	3.00-5.00	437,725	-	51,725	386,000
Water - Hale and West Street.....	3.88	900,000	-	45,882	854,118
Total.....		<u>\$ 3,367,150</u>	<u>\$ -</u>	<u>\$ 514,232</u>	<u>\$ 2,852,918</u>

Debt service requirements for principal and interest for the water enterprise fund bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012.....	\$ 503,682	\$ 106,334	\$ 610,016
2013.....	304,882	91,667	396,549
2014.....	249,882	82,192	332,074
2015.....	198,882	75,040	273,922
2016.....	198,882	67,477	266,359
2017.....	198,882	58,898	257,780
2018.....	197,882	49,897	247,779
2019.....	197,882	40,846	238,728
2020.....	150,882	33,311	184,193
2021.....	149,118	26,569	175,687
2022.....	149,118	19,113	168,231
2023.....	44,118	14,284	58,402
2024.....	44,118	12,518	56,636
2025.....	44,118	10,754	54,872
2026.....	44,118	8,988	53,106
2027.....	44,118	7,224	51,342
2028.....	44,118	5,460	49,578
2029.....	44,118	3,694	47,812
2030.....	44,118	1,878	45,996
Total.....	\$ 2,852,918	\$ 716,144	\$ 3,569,062

Bonds and Notes Payable Schedule – Sewer Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Sewer.....	2.00	\$ 367,500	\$ -	\$ 107,500	\$ 260,000
Sewer - MWPAT (CW-02-15A).....	1.99	54,974	-	3,437	51,537
Sewer - MWPAT (CW-02-15).....	5.04	489,859	-	26,930	462,929
Sewer - Hale and West Street.....	3.88	1,650,000	-	84,118	1,565,882
Sewer - Drainage.....	3.73	1,670,000	-	85,000	1,585,000
Sewer Infrastructure.....	2.00-4.00	-	3,708,000	-	3,708,000
Total.....		\$ 4,232,333	\$ 3,708,000	\$ 306,985	\$ 7,633,348

Debt service requirements for principal and interest for the sewer enterprise fund bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012.....	\$ 458,343	\$ 272,750	\$ 731,093
2013.....	456,582	258,207	714,789
2014.....	402,872	244,618	647,490
2015.....	354,570	233,836	588,406
2016.....	354,645	225,634	580,279
2017.....	359,255	214,909	574,164
2018.....	359,333	203,028	562,361
2019.....	359,413	189,643	549,056
2020.....	359,495	177,969	537,464
2021.....	360,875	165,962	526,837
2022.....	360,960	150,417	511,377
2023.....	361,046	133,986	495,032
2024.....	365,667	119,039	484,706
2025.....	315,882	106,360	422,242
2026.....	315,882	93,724	409,606
2027.....	315,882	81,088	396,970
2028.....	310,882	68,554	379,436
2029.....	310,882	56,118	367,000
2030.....	280,882	43,471	324,353
2031.....	145,000	31,900	176,900
2032.....	145,000	26,100	171,100
2033.....	145,000	20,300	165,300
2034.....	145,000	14,500	159,500
2035.....	145,000	8,700	153,700
2036.....	145,000	2,900	147,900
Total.....	\$ <u>7,633,348</u>	\$ <u>3,143,713</u>	\$ <u>10,777,061</u>

Bonds and Notes Payable Schedule – Beverly Golf and Tennis Enterprise Fund

<u>Project</u>	<u>Interest Rate (%)</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Golf and Tennis.....	3.99	\$ 475,000	\$ -	\$ 40,000	\$ 435,000
Golf and Tennis improvements.....	2.00-4.00	-	1,500,000	-	1,500,000
Total.....		\$ <u>475,000</u>	\$ <u>1,500,000</u>	\$ <u>40,000</u>	\$ <u>1,935,000</u>

Debt service requirements for principal and interest for the Beverly golf and tennis enterprise fund bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012.....	\$ 150,000	\$ 61,194	\$ 211,194
2013.....	150,000	57,244	207,244
2014.....	150,000	52,944	202,944
2015.....	145,000	48,994	193,994
2016.....	145,000	45,394	190,394
2017.....	145,000	41,244	186,244
2018.....	140,000	36,597	176,597
2019.....	140,000	31,990	171,990
2020.....	140,000	27,353	167,353
2021.....	140,000	22,576	162,576
2022.....	140,000	17,151	157,151
2023.....	140,000	11,288	151,288
2024.....	105,000	6,300	111,300
2025.....	105,000	2,100	107,100
Total.....	\$ <u>1,935,000</u>	\$ <u>462,369</u>	\$ <u>2,397,369</u>

The City is scheduled to be subsidized by the Massachusetts Water Pollution Abatement Trust (MWPAT) on a periodic basis for principal in the amount of \$7,058 and interest costs for \$83,545. Thus, net MWPAT loan repayments, including interest, are schedule to be \$524,475. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The first principal subsidy is scheduled to be received in fiscal 2021. The fiscal year 2011 interest subsidy totaled \$10,205.

The Commonwealth has approved school construction assistance to the City. The assistance program which is administered by the MSBA, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2011, \$954,791 of such assistance was received and \$10,502,697 will be received in future fiscal years. Of this amount, \$2,641,261 represents reimbursement of long-term interest costs, and \$7,861,436 represents reimbursement of approved construction costs. Accordingly, a \$7,861,436 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In fiscal 2005, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of fiscal year 2011, the City has recorded capital grant revenue totaling \$41,600,000 from the MSBA which is equal to 58.42% of approved construction costs incurred to date. The City received \$12,170,448 of reimbursements in fiscal 2011 and anticipates receiving the remaining \$19,150,472 of these reimbursements in fiscal 2012.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2011, the City had the following authorized and unissued debt:

Purpose	Amount
Public safety facility.....	\$ 520,000
Land acquisition bond.....	626,250
Boyles street/cross lane sewer.....	1,300,000
Measure and list project.....	370,000
Vitale site cleanup.....	120,000
Innocenti remediation.....	750,000
Fire engine.....	900,000
Chubbs brook drainage.....	130,000
High school renovations.....	50,795,343
North Beverly and chubbs brook drainage.....	300
Depot parking garage.....	500,000
Parking lot improvements.....	1,300,000
Total.....	\$ 57,311,893

Changes in Long-term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Compensated absences.....	\$ 2,006,000	\$ 1,413,000	\$ (1,242,000)	\$ 2,177,000	\$ 1,324,000
Workers' compensation.....	741,000	47,000	(327,000)	461,000	208,000
Capital lease obligations.....	474,613	-	(136,726)	337,887	136,773
Other postemployment benefits.....	13,248,000	16,976,000	(6,116,000)	24,108,000	-
Long-term bonds and notes.....	59,700,350	10,000,000	(4,104,150)	65,596,200	4,517,200
Unamortized premiums.....	403,395	-	(58,944)	344,451	55,356
Total governmental activity long-term liabilities.....	\$ 76,573,358	\$ 28,436,000	\$ (11,984,820)	\$ 93,024,538	\$ 6,241,329
Business-Type Activities:					
Long-term bonds and notes.....	\$ 8,074,483	\$ 5,208,000	\$ (861,217)	\$ 12,421,266	\$ 1,112,025
Other postemployment benefits.....	418,000	303,000	(70,000)	651,000	-
Compensated absences.....	71,000	66,000	(59,000)	78,000	64,000
Total business type activity long-term liabilities.....	\$ 8,563,483	\$ 5,577,000	\$ (990,217)	\$ 13,150,266	\$ 1,176,025

NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

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

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

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

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

At year end, the balance of the Debt Service Stabilization Fund is \$550,000 and is reported as committed fund balance within the General Fund.

The City has classified its fund balances with the following hierarchy:

	<u>General</u>	<u>High School Renovation & Reconstruction</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable:				
Permanent fund principal.....	\$ -	\$ -	\$ 1,961,455	\$ 1,961,455
Restricted for:				
City federal and state grant funds.....	-	-	552,508	552,508
School revolving funds.....	-	-	24,738	24,738
School federal and state grant funds.....	-	-	105,957	105,957
School other funds.....	-	-	367,896	367,896
Receipts reserved for appropriations.....	-	-	1,069,623	1,069,623
Special revenue trust funds.....	-	-	504,531	504,531
Other special revenue.....	-	-	1,015,200	1,015,200
City capital projects.....	-	-	780,473	780,473
School capital projects.....	-	-	58,375	58,375
Permanent trust funds.....	-	-	799,567	799,567
Committed to:				
Stabilization - debt service.....	550,000	-	-	550,000
Assigned to:				
General government.....	98,007	-	-	98,007
Public safety.....	21,983	-	-	21,983
Education.....	370,728	-	-	370,728
Public works.....	27,255	-	-	27,255
Human services.....	40	-	-	40
Culture and recreation.....	1,580	-	-	1,580
Employee benefits.....	2,000	-	-	2,000
Unassigned.....	<u>2,962,596</u>	<u>(2,344,089)</u>	<u>(2,540,266)</u>	<u>(1,921,759)</u>
TOTAL FUND BALANCES (DEFICIT).....	\$ <u>4,034,189</u>	\$ <u>(2,344,089)</u>	\$ <u>4,700,057</u>	\$ <u>6,390,157</u>

Restatements

In accordance with GASB Statement No. 54, the stabilization fund, totaling \$550,000, has been reported in the general fund, and accordingly, the general fund and nonmajor governmental funds beginning balances have been restated and total \$4,594,992 and \$4,047,869, respectively. In addition, the golf and tennis enterprise fund beginning net assets have been restated to record \$237,685 of prior year capital assets and total \$377,079.

NOTE 10 - RISK FINANCING

The City is self-insured for its workers' compensation and its health insurance activities. The health insurance activities are accounted for in the internal service fund and the workers' compensation activities are accounted for in the general fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors. The City estimates the liability to be in the range of \$1,103,000 to \$1,891,000.

Health Insurance

The estimate of IBNR claims is based on a historical trend analysis and recent trends. The City purchases individual stop loss insurance for claims in excess of the \$150,000 coverage. Settled claims have not exceeded this third party insurance coverage in any of the previous past three fiscal years. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2010.....	\$ 1,132,000	\$ 17,692,000	\$ (17,695,000)	\$ 1,129,000
Fiscal Year 2011.....	1,129,000	16,695,000	(16,721,000)	1,103,000

Workers' Compensation

Worker's compensation claims are administered by the City's Personnel Department and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. Changes in the reported liability since July 1, 2009, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2010.....	\$ 633,000	\$ 470,600	\$ (362,000)	\$ 741,600
Fiscal Year 2011.....	741,600	47,000	(327,000)	461,600

NOTE 11 - PENSION PLAN

Plan Description - The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Beverly Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$9,804,445 for the fiscal year ended June 30, 2011, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Beverly Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 191 Cabot Street, Beverly, Massachusetts, 01915.

At December 31, 2010, the System's membership consists of the following:

Active members.....	543
Inactive members.....	186
Disabled members.....	66
Retirees and beneficiaries currently receiving benefits.....	<u>626</u>
 Total.....	 <u><u>1,421</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The apportionment of the annual pension cost between the two employers required the City to contribute 97%, 96% and 97% for the current and previous two years, respectively. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2011, 2010, and 2009 were \$7,448,249, \$7,112,460, and \$6,751,755, respectively, which equaled its required contribution for each fiscal year. At June 30, 2011, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2010, actuarial valuation using the individual entry age normal actuarial cost method. The actuarial assumptions included an 8% investment rate of return and projected salary increases of 4.75% to 5.25% per year. The actuarial value of the System's assets was determined using the actuarial value (5-year smoothing) of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls. The remaining amortization period at January 1, 2011, was 19 years.

**Schedule of Funding Progress
(Dollar amounts in thousands)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
1/1/10	\$ 79,867	\$ 156,112	\$ 76,245	51.2%	\$ 24,877	306.5%
1/1/08	86,938	143,368	56,430	60.6%	22,692	248.7%
1/1/06	74,635	132,914	58,279	56.2%	21,116	276.0%
1/1/04	66,993	122,032	55,039	54.9%	19,748	278.7%
1/1/02	65,892	110,369	44,477	59.7%	19,908	223.4%
1/1/00	59,368	95,126	35,758	62.4%	19,330	185.0%

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The City is responsible for approximately 97% of the unfunded liability.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The City of Beverly administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City's group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are

negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. Depending on the healthcare plan, the City contributes between 75 to 90 percent of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining 10 to 25 percent of their premium costs. For life insurance, the City contributes 50 percent of the cost of current year premiums and plan members contribute the remaining 50%. For fiscal year 2011, the City contributed \$6.2 million to the plan.

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

Annual required contribution.....	\$ 17,173,000
Interest on net OPEB obligation.....	547,000
Adjustments to annual required contribution.....	<u>(456,000)</u>
Annual OPEB cost (expense).....	17,264,000
Contributions made.....	<u>(6,171,000)</u>
Increase in net OPEB obligation.....	11,093,000
Net OPEB obligation--beginning of year.....	<u>13,666,000</u>
Net OPEB obligation--end of year.....	<u>\$ 24,759,000</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	\$ 12,936,000	47%	\$ 6,908,000
6/30/2010	13,392,000	50%	13,666,000
6/30/2011	17,264,000	36%	24,759,000

Funded Status and Funding Progress – As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$253.7 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$69.7 million, and the ratio of the UAAL to the covered payroll was 364 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the

plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2011, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4% investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, and an annual medical care inflation rate of 9% initially, graded to 5% over 9 years. The UAAL is being amortized over a 30 year period, with amortization payments increasing at 4% per year. The remaining amortization period at June 30, 2011 is 29 years.

NOTE 13 - COMMITMENTS

High School Project

The City is in the midst of an estimated \$80.8 million project to renovate and reconstruct Beverly High School. The project will encompass the renovation of approximately 100,000 square feet of existing space and the construction of an approximate 160,000 square foot academic wing. The City has executed a Project Funding Agreement with the Massachusetts School Building Authority (MSBA) in which the MSBA will provide a grant to the City in the amount of the lesser of \$46.8 million or 58.42% of eligible project costs. The City has entered into contracts totaling approximately \$79 million and has expended approximately \$74.3 million as of June 30, 2011.

Harbor Improvements

The City is making improvements to the seawall, decking and floats in its harbor area. Such improvements will be funded through a \$2.5 million reimbursable grant from the State Executive Office of Administration and Finance. The City has executed contracts in the approximate amount of \$2.4 million and has expended approximately \$2.4 million as of June 30, 2011.

Beverly Golf & Tennis

The City approved a \$1.5 million capital improvement plan to the clubhouse and golf course. As of June 30, 2011, approximately \$950,000 has been expended on such improvements and approximately \$55,000 remains in contractual obligations. The City expects to complete the project during fiscal 2012.

Municipal Parking Lot Improvements

The City approved expenditures of \$1.3 million for improvements to the four municipally owned and operated parking lots in the downtown area. The City has executed contracts in the approximate amount of \$1.2 million and had expended approximately \$570,000 as of June 30, 2011.

NOTE 14 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2011, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2011, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2011.

NOTE 15 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2011, the following GASB pronouncements were implemented:

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

Future implementation of GASB pronouncements:

- The GASB issued Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. Management expects that the implementation of this pronouncement will have an impact on the basic financial statements.
- The GASB issued Statement #61, *The Financial Reporting Entity: Omnibus*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will not have a significant impact on the basic financial statements.
- The GASB issued Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013. Management's current assessment is that this pronouncement will have a significant impact on the basic financial statements.
- The GASB issued Statement #64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53, which is required to be implemented in fiscal year 2012. Management does not believe that this pronouncement will require additional disclosure or impact the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Amounts Carried Forward From Prior Year	Current Year Initial Budget	Original Budget	Final Budget
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ -	\$ 75,372,270	\$ 75,372,270	\$ 75,386,046
Tax liens.....	-	-	-	-
Motor vehicle and other excise taxes.....	-	4,195,000	4,195,000	4,195,000
Intergovernmental.....	-	13,006,425	13,006,425	13,768,937
Departmental and other.....	-	3,668,467	3,668,467	2,673,625
Investment income.....	-	100,000	100,000	200,000
TOTAL REVENUES.....	-	96,342,162	96,342,162	96,223,608
EXPENDITURES:				
Current:				
General government.....	95,122	3,824,120	3,919,242	3,993,503
Public safety.....	75,975	12,933,705	13,009,680	13,301,478
Education.....	567,989	47,551,645	48,119,634	48,110,988
Public works.....	164,876	3,959,179	4,124,055	4,124,054
Human services.....	70	1,228,012	1,228,082	1,243,082
Culture and recreation.....	11,977	1,933,503	1,945,480	1,947,553
Pension benefits.....	-	7,452,299	7,452,299	7,435,217
Employee benefits.....	26,536	10,861,144	10,887,680	10,877,311
State and county charges.....	-	948,746	948,746	948,050
Debt service:				
Principal.....	-	4,535,150	4,535,150	4,110,951
Interest.....	-	2,410,833	2,410,833	2,585,032
TOTAL EXPENDITURES.....	942,545	97,638,336	98,580,881	98,677,219
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(942,545)	(1,296,174)	(2,238,719)	(2,453,611)
OTHER FINANCING SOURCES (USES):				
Transfers in.....	-	2,031,808	2,031,808	2,031,808
Transfers out.....	-	(1,048,153)	(1,048,153)	(1,143,606)
TOTAL OTHER FINANCING SOURCES (USES).....	-	983,655	983,655	888,202
NET CHANGE IN FUND BALANCE.....	(942,545)	(312,519)	(1,255,064)	(1,565,409)
BUDGETARY FUND BALANCE, Beginning of year.....	6,280,015	5,239,292	5,239,292	5,239,292
BUDGETARY FUND BALANCE, End of year.....	\$ 5,337,470	\$ 4,926,773	\$ 3,984,228	\$ 3,673,883

See notes to required supplementary information.

Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
\$ 74,399,627	\$ -	\$ (986,419)
520,031	-	520,031
4,512,431	-	317,431
13,890,101	-	121,164
2,699,552	-	25,927
45,518	-	(154,482)
<u>96,067,260</u>	<u>-</u>	<u>(156,348)</u>
3,828,028	98,007	67,468
13,233,038	21,983	46,457
47,718,388	370,728	21,872
4,366,787	27,255	(269,988)
1,214,901	40	28,141
1,926,542	1,580	19,431
7,435,217	-	-
10,854,558	2,000	20,753
948,050	-	-
4,104,150	-	6,801
2,585,032	-	-
<u>98,214,691</u>	<u>521,593</u>	<u>(59,065)</u>
<u>(2,147,431)</u>	<u>(521,593)</u>	<u>(215,413)</u>
2,696,135	-	664,327
<u>(1,143,606)</u>	<u>-</u>	<u>-</u>
<u>1,552,529</u>	<u>-</u>	<u>664,327</u>
(594,902)	(521,593)	448,914
<u>5,239,292</u>	<u>-</u>	<u>-</u>
<u>\$ 4,644,390</u>	<u>\$ (521,593)</u>	<u>\$ 448,914</u>

Retirement System Schedules of Funding Progress and Employer Contributions

The Retirement System Schedule of Funding Progress presents multiyear trend information relating to the cost-sharing plan as a whole, of which the City is one participating employer, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Retirement System Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions.

BEVERLY CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/10	\$ 79,867	\$ 156,112	\$ 76,245	51.2%	\$ 24,877	306.5%
01/01/08	86,938	143,368	56,430	60.6%	22,692	248.7%
01/01/06	74,635	132,914	58,279	56.2%	21,116	276.0%
01/01/04	66,993	122,032	55,039	54.9%	19,748	278.7%
01/01/02	65,892	110,369	44,477	59.7%	19,908	223.4%
01/01/00	59,368	95,126	35,758	62.4%	19,330	185.0%

See notes to required supplementary information.

BEVERLY CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

Fiscal Year Ended June 30	System Wide			City of Beverly	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) City's Percentage of System Wide Actual Contributions
2011	\$ 7,716	\$ 7,716	100%	\$ 7,448	96.53%
2010	7,384	7,384	100%	7,112	96.32%
2009	6,950	6,950	100%	6,752	97.15%
2008	6,733	6,733	100%	6,533	97.03%
2007	6,455	6,455	100%	6,207	96.16%
2006	6,167	6,167	100%	5,939	96.30%

The City's Actual Contributions equaled 100% of its Required Contributions for each year presented.

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

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

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2011	\$ -	\$ 253,700	\$ 253,700	0%	\$ 69,729	364%
6/30/2009	-	209,173	209,173	0%	48,600	430%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2011	\$ 17,173	\$ 6,171	36%
2010	13,392	6,634	50%
2009	12,936	6,028	47%

The City implemented GASB Statement No. 45 for the fiscal year ended June 30, 2009. Information for prior years is not available.

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	June 30, 2011
Actuarial cost method.....	Projected unit credit
Amortization method.....	Level percentage of projected payroll
Remaining amortization period.....	29 years

Actuarial Assumptions:

Investment rate of return.....	4.0%
Medical care inflation rate.....	9% decreasing to 5% over 9 years

Plan Membership:

Current retirees, beneficiaries, and dependents.....	927
Current active members.....	<u>876</u>
 Total	 <u><u>1,803</u></u>

See notes to required supplementary information.

NOTE A - BUDGETARY BASIS OF ACCOUNTING

1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Mayor and the City Council (the Council). The Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Expenditures are budgeted by categories that are broken down by personal services, expenses, debt service and capital outlay, which are mandated by Municipal Law. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between departments subsequent to the approval of the annual budget, requires majority Council approval via a supplemental appropriation or Council order.

The majority of the City’s appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year’s original budget.

Generally, expenditures may not exceed the legal level of spending authorized (functional level). However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Council.

The City adopts an annual budget for the General Fund in conformity with the guidelines described above. The original fiscal year 2011 budget authorized \$99.6 million in appropriations and other amounts to be raised. During fiscal year 2011, the Council also approved supplemental appropriations totaling \$192,000, which primarily consisted of increases in general government and public safety totaling \$74,000 and \$292,000, respectively as well as a decrease in transfers out totaling \$155,000. The Office of the City Accountant has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation basis. Budgetary control is exercised through the City’s accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2011, is presented below:

Net change in fund balance - budgetary basis.....	\$ (594,902)
<u>Basis of accounting differences:</u>	
Net change in recording accrued payroll.....	(22,000)
Net change in recording tax refunds payable.....	77,699
Net change in recording short-term interest accrual.....	91,000
Net change in recording 60 day receipts.....	(112,600)
Recognition of revenue for on-behalf payments.....	9,804,445
Recognition of expenditures for on-behalf payments.....	<u>(9,804,445)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (560,803)</u>

3. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2011, actual expenditures exceeded appropriations for snow and ice. This appropriation deficit will be raised in the subsequent years tax levy.

NOTE B – PENSION PLAN

The City contributes to the System, a cost-sharing, multiple-employer defined benefit pension plan ("Plan") administered by the Beverly Contributory Retirement Board. The System provides retirement, disability, and death benefits to members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the Plan. The City is required to pay into the Retirement System its share of the system-wide actuarially determined contribution which is apportioned among the employers based on active covered payroll.

The schedule of funding progress, presented as required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information presents multi-year trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the City is one participating employer, as well as the City's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the City.

The following actuarial methods and assumptions were used in the Retirement System's most recent actuarial valuation:

Actuarial Methods and Assumptions:

Valuation Date.....	January 1, 2010
Actuarial Cost Method.....	Entry Age Normal Cost Method
Amortization Method.....	Increasing at 4.5% per year
Remaining Amortization Period.....	20 years remaining as of July 1, 2010, open
Asset Valuation Method.....	The difference between the expected return on an actuarial basis and actual investment return on a market value basis is recognized over a 5 year period.

Actuarial Assumptions:

Investment rate of return.....	8.00%
Projected salary increases.....	4.75 - 5.25%
Cost of living adjustments.....	3.00% for the first \$12,000 of retirement income

NOTE C – OTHER POSTEMPLOYMENT BENEFITS

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

The City currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial

determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

The Schedule of Employer Contributions presents, over time, the ratio of the actual annual employer contributions to the annual required contribution.

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

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