

CITY OF GARDNER

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012
AND
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Gardner, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Gardner, Massachusetts, as of and for the year ended June 30, 2012, 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 Gardner's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statement of the Levi Heywood Memorial Library Association, which represents 8.83% of the net assets. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Levi Heywood Memorial Library Association, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 and the report of the other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, 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, the discretely presented component unit, and the aggregate remaining fund information for the City of Gardner, Massachusetts, as of June 30, 2012 (except for the City of Gardner Retirement System which is as of December 31, 2011), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

GEORGE V. MCKENNA, CPA
CERTIFIED PUBLIC ACCOUNTANT
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, on our consideration of the City of Gardner, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The budgetary comparison information and Management's Discussion and Analysis on pages 41 and 42 are not a required part of the basic financial statements but is 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.

December 6, 2012

George V. McKenna, CPA

CITY OF GARDNER
STATEMENT OF NET ASSETS
June 30, 2012

	<u>Primary Government</u>			<u>Component Unit</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Levi Heywood Library</u>	<u>Retirement System 12/31/11</u>
ASSETS					
CURRENT:					
Cash and short-term investments	\$ 13,092,007		\$ 13,092,007	\$ 167,443	\$ 58,323
Investments	1,385,956	\$ 6,878,834	8,264,790	1,468,606	34,205,459
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	911,636		911,636		
Tax liens	620,717		620,717		
Motor vehicle excise	667,096		667,096		
Taxes in Litigation					
User Fees		1,608,417	1,608,417		
Departmental and other	670,096		670,096		
Tax foreclosures	666,217		666,217		
Due from Commonwealth	2,311,057		2,311,057		
Intergovernmental	807,991		807,991		
Other			-	235,098	2,889,179
Other assets			-	13,200	
NONCURRENT:					
Restricted:					
Cash	1,116,142	284,917	1,401,059		
Investments			-		
Due from Commonwealth	4,039,955		4,039,955		
Capital assets, net of accumulated depreciation	<u>28,152,943</u>	<u>18,070,259</u>	<u>46,223,202</u>	<u>6,230,699</u>	
TOTAL ASSETS	<u>54,441,813</u>	<u>26,842,427</u>	<u>81,284,240</u>	<u>8,115,046</u>	<u>37,152,961</u>
LIABILITIES					
CURRENT:					
Warrants payable and accrued expenses	1,273,794	429,932	1,703,726	235,098	201,667
Accrued payroll and withholding	323,017		323,017		
Other liabilities	1,173,119		1,173,119		
Deferred revenues	260,942	268,202	529,144		
Accrued interest	66,144	182,823	248,967		
Bonds and notes payable	4,796,500	1,717,634	6,514,134		
Compensated absences	200,000		200,000		
NONCURRENT:					
Bonds and notes payable	4,293,960	10,065,728	14,359,688	675,000	
Compensated absences	2,444,630	40,780	2,485,410		
Post employment benefits	<u>23,168,554</u>	<u>1,584,175</u>	<u>24,752,729</u>		
TOTAL LIABILITIES	<u>38,000,660</u>	<u>14,289,274</u>	<u>52,289,934</u>	<u>910,098</u>	<u>201,667</u>
NET ASSETS					
Invested in capital assets, net of related debt	27,549,487	6,286,897	33,836,384	5,564,909	
Restricted for Post Employment Benefits	(23,168,554)				
Restricted for Various Purposes	9,727,858		9,727,858	134,383	
Unrestricted	<u>2,332,362</u>	<u>6,266,256</u>	<u>8,598,618</u>	<u>1,505,656</u>	
TOTAL NET ASSETS	<u>\$ 16,441,153</u>	<u>\$ 12,553,153</u>	<u>\$ 28,994,306</u>	<u>\$ 7,204,948</u>	<u>\$ 36,951,294</u>

See notes to financial statements.

CITY OF GARDNER
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets					
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		
					Governmental Activities	Business-Type Activities	Total	Library	Retirement System	
Primary Government:										
<i>Governmental Activities:</i>										
General government	\$ 2,505,039	\$ 438,276	\$ 799,772		\$ (1,266,991)		\$ (1,266,991)			
Public safety	5,498,883	448,133	246,444		(4,804,306)		(4,804,306)			
Education	26,582,331	491,555	23,172,961	\$ 1,519,927	(1,397,888)		(1,397,888)			
Public works	3,103,855	77,076	51,216	630,523	(2,345,040)		(2,345,040)			
Health and human services	1,167,098	70,358	599,141		(497,599)		(497,599)			
Culture and recreation	1,133,678	70,612	63,257		(999,809)		(999,809)			
Community and economic development	746,184		1,012,933		266,749		266,749			
Retirement	2,683,616	70,200			(2,613,416)		(2,613,416)			
Property and liability insurance	358,709				(358,709)		(358,709)			
Fringe benefits	15,509,177		2,065,850		(13,443,327)		(13,443,327)			
State and county charges	1,156,384				(1,156,384)		(1,156,384)			
Unallocated depreciation	-	-	-	-	-		-			
Capital outlay	-	-	-	-	-		-			
Interest	290,364				(290,364)		(290,364)			
Total Governmental Activities	60,735,318	1,666,210	28,011,574	2,150,450	(28,907,084)		(28,907,084)			
<i>Business-Type Activities:</i>										
Proprietary services	8,067,069	8,287,305				\$ 220,236	220,236			
Sewer services						-	-			
Total Business-Type Activities	8,067,069	8,287,305	-			220,236	220,236			
	\$ 68,802,387	\$ 9,953,515	\$ 28,011,574	\$ 2,150,450	(28,907,084)		(28,686,848)			
Component Unit:										
Retirement System	\$ 5,308,450		\$ 2,830,391							\$ (2,478,059)
Heywood Library	\$ 1,101,831		\$ 747,963						\$ (353,868)	
<i>General Revenues:</i>										
Real estate and personal property, net of reserve for abatements					19,304,517		19,304,517			
Motor vehicle and other excise taxes					1,611,264		1,611,264			
Penalties and interest on taxes					356,757		356,757			
Payments in lieu of taxes					30,261		30,261			
Tax liens					311,457		311,457			
Grants and contributions not restricted specific programs					3,922,369	328,479	4,250,848			
Miscellaneous					98,346	36,534	134,880	57,515		
Investment income					54,141	12,024	66,165	73,504	165,049	
<i>Special Items:</i>										
Gain on sales of fixed assets					14,432		14,432			
Retirement contributions from employee's										1,042,427
<i>Transfers, net</i>					516,702	(516,702)				
Total general revenues, special items and transfers					26,220,246	(139,665)	26,080,581	131,019	1,207,476	
Change in Net Assets					(2,686,838)	80,571	(2,606,267)	(222,849)	(1,270,583)	
Beginning of the Year					19,127,991	12,472,582	31,600,573	7,427,797	38,221,877	
End of the Year					\$ 16,441,153	\$ 12,553,153	\$ 28,994,306	\$ 7,204,948	\$ 36,951,294	

See notes to financial statements.

**CITY OF GARDNER
BALANCE SHEET
June 30, 2012**

ASSETS	General	Stabilization	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 4,935,003	\$ 1,536,652		\$ 5,953,893	\$ 12,425,548
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	911,636				911,636
Tax liens	620,717				620,717
Motor vehicle excise	667,096				667,096
Intergovernmental	4,847,946				4,847,946
Departmental and other	640,490			29,606	670,096
Tax foreclosures	666,217				666,217
Due from Commonwealth	158,104			2,152,953	2,311,057
Other assets					-
Cash - restricted				1,116,142	1,116,142
Investments - restricted					-
TOTAL ASSETS	\$ 13,447,209	\$ 1,536,652	\$ -	\$ 9,252,594	\$ 24,236,455
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable	\$ 710,424			\$ 563,370	\$ 1,273,794
Accrued payroll & withholding	323,017				323,017
Other liabilities	1,654			545,330	546,984
Deferred revenues	8,211,632			2,159,753	10,371,385
Bonds and notes payable				3,770,000	3,770,000
TOTAL LIABILITIES	9,246,727			7,038,453	16,285,180
 FUND BALANCES:					
Non-spendable				433,227	433,227
Restricted	2,068,630			2,858,812	4,927,442
Committed		20,036		720,604	740,640
Assigned	195,329				195,329
Unassigned	1,936,523	1,516,616		(1,798,502)	1,654,637
TOTAL FUND BALANCES	4,200,482	1,536,652	-	2,214,141	7,951,275
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,447,209	\$ 1,536,652	\$ -	\$ 9,252,594	\$ 24,236,455

See notes to financial statements.

CITY OF GARDNER
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2012

Total governmental fund balances	\$	7,951,275
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		28,152,943
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		10,371,385
Internal service funds are used by management to account for health insurance and workers compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.		1,426,280
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(66,144)
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		(9,090,460)
BAN payable		3,770,000
Bond premium		(260,942)
Compensated absences		(2,644,630)
Post employment benefits		<u>(23,168,554)</u>
Net assets of governmental activities	\$	<u>16,441,153</u>

See notes to financial statements.

**CITY OF GARDNER
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2012**

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds	\$ 19,316,649			\$ 19,316,649
Motor vehicle and other excise taxes	1,571,757			1,571,757
Penalties and interest on taxes	356,757			356,757
Licenses and permits	238,815			238,815
Intergovernmental	23,569,495		\$ 8,779,206	32,348,701
Charges for services	465,547		794,103	1,259,650
Fines and forfeitures	167,970			167,970
Investment income	18,364	\$ 18,071	7,411	43,846
Tax liens	153,481			153,481
Contributions and donations			480,263	480,263
Payments in lieu of taxes	30,261			30,261
Miscellaneous	49,607		38,933	88,540
TOTAL REVENUES	45,938,703	18,071	10,099,916	56,056,690
EXPENDITURES:				
Current:				
General government	2,346,722		587,122	2,933,844
Public safety	5,325,165		2,092,111	7,417,276
Education	20,635,831		7,332,581	27,968,412
Public works	1,915,865		861,902	2,777,767
Community and economic development			746,184	746,184
Health and human services	1,100,458		33,214	1,133,672
Culture and recreation	1,025,290		56,113	1,081,403
Retirement	2,683,616			2,683,616
Property and liability insurance	358,709			358,709
Fringe benefits	7,459,398			7,459,398
State and county charges	1,156,384			1,156,384
Debt service:				
Principal	2,564,000		221,628	2,785,628
Interest	301,415			301,415
TOTAL EXPENDITURES	46,872,853		11,930,855	58,803,708
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(934,150)	18,071	(1,830,939)	(2,747,018)
OTHER FINANCING SOURCES (USES):				
Transfers in	1,107,711	482,152	25,436	1,615,299
Transfers out	(432,587)		(666,010)	(1,098,597)
Sale of assets	30,658			30,658
Proceeds from issuance of debt			1,655,000	1,655,000
TOTAL OTHER FINANCING SOURCES (USES)	705,782	482,152	1,014,426	2,202,360
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	(228,368)	500,223	(816,513)	(544,658)
FUND BALANCES AT BEGINNING OF YEAR	4,428,850	1,036,429	3,030,654	8,495,933
FUND BALANCES AT END OF YEAR	\$ 4,200,482	\$ 1,536,652	\$ 2,214,141	\$ 7,951,275

See notes to financial statements.

CITY OF GARDNER
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$	(544,658)
<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. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
		3,075,867
<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>		
		(687,890)
<p>The issuance of long-term debt 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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		1,188,118
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest, is not reported until due.</p>		
		11,051
<p>In the statement of activities, only the gain on the sale of assets is reported, whereas in governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.</p>		
		(8,726)
<p>Some expenses reported in the Statement of Activities, such as compensated absences and post-employment fringe benefits, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Compensated absences		245,623
Net Other Post-employment Benefits Obligation		(6,659,856)
<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		693,633
Change in net assets of governmental activities	\$	<u><u>(2,686,838)</u></u>

See notes to financial statements.

**CITY OF GARDNER
 PROPRIETAREY FUNDS
 STATEMENT OF NET ASSETS
 June 30, 2012**

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Water, Sewer, Golf Landfill & Solid Waste</u>	
ASSETS		
CURRENT:		
Cash and short-term investments	\$ 6,878,834	\$ 2,052,415
User fees, net of allowance for uncollectibles	<u>1,608,417</u>	<u>-</u>
Total current assets	<u>8,487,251</u>	<u>2,052,415</u>
NONCURRENT:		
Restricted cash and short-term investments:		
Capital Projects	284,917	-
Capital assets, net of accumulated depreciation	18,070,259	-
Other assets	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>18,355,176</u>	<u>-</u>
TOTAL ASSETS	<u>26,842,427</u>	<u>2,052,415</u>
LIABILITIES		
CURRENT:		
Warrants payable	429,932	-
Accrued liabilities		626,135
Deferred revenue- Bond Premium	268,202	-
Compensated absences		
Accrued interest	182,823	
Bonds and notes payable	<u>1,717,634</u>	<u>-</u>
Total current liabilities	<u>2,598,591</u>	<u>626,135</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Customer deposits payable		
NONCURRENT:		
Bonds and notes payable	10,065,728	-
Post-employment fringe benefits	1,584,175	
Compensated absences	<u>40,780</u>	<u>-</u>
Total noncurrent liabilities	<u>11,690,683</u>	<u>-</u>
TOTAL LIABILITIES	<u>14,289,274</u>	<u>626,135</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,286,897	-
Restricted for employee benefits		1,426,280
Unrestricted	<u>6,266,256</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$ 12,553,153</u>	<u>\$ 1,426,280</u>

See notes to financial statements.

**CITY OF GARDNER
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 For the Year Ended June 30, 2012**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water, Sewer, Golf Landfill & Solid Waste	
<u>OPERATING REVENUES:</u>		
Charges for services	\$ 8,192,729	
Employer contributions		\$ 6,734,310
Employee contributions		2,060,850
Miscellaneous	94,576	5,000
	<u>8,287,305</u>	<u>8,800,160</u>
TOTAL OPERATING REVENUES		
<u>OPERATING EXPENSES:</u>		
Cost of services and administration	5,995,945	
Depreciation	1,022,231	
Employee benefits	455,427	8,124,233
	<u>7,473,603</u>	<u>8,124,233</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME (LOSS)	<u>813,702</u>	<u>675,927</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Intergovernmental	328,479	
Investment income	12,024	17,706
Amortized bond premium	36,534	
Interest expense	(593,466)	
	<u>(216,429)</u>	<u>17,706</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET		
INCOME (LOSS) BEFORE TRANSFERS	<u>597,273</u>	<u>693,633</u>
<u>TRANSFERS:</u>		
Transfers out	(516,702)	
Transfers in		
	<u>(516,702)</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>80,571</u>	<u>693,633</u>
NET ASSETS AT BEGINNING OF YEAR	<u>12,472,582</u>	<u>732,647</u>
NET ASSETS AT END OF YEAR	<u>\$ 12,553,153</u>	<u>\$ 1,426,280</u>

See notes to financial statements.

**CITY OF GARDNER
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For th Year Ended June 30, 2012**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water, Sewer, Golf Landfill & Solid Waste	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers and users	\$ 8,175,563	\$ 2,065,850
Receipts from interfund services provided		6,734,310
Payments to vendors	(5,972,721)	
Payments for interfund services used		(8,097,019)
	<u>2,202,842</u>	<u>703,141</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Operating transfers	(516,702)	
Intergovernmental subsidy	328,479	
	<u>(188,223)</u>	<u>-</u>
NET CASH PROVIDED (USED FOR) NONCAPITAL FINANCING ACTIVITIES		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Proceeds from the issuance of bonds and notes	38,000	
Acquisition and construction of capital assets	(124,890)	
Principal payments on bonds and notes	(1,335,227)	
Bond premium	4,203	
Interest expense	(602,697)	
	<u>(2,020,611)</u>	<u>-</u>
NET CASH (USED FOR) CAPITAL RELATED FINANCING ACTIVITIES		
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investment income	12,024	17,706
	<u>12,024</u>	<u>17,706</u>
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	6,032	720,847
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	7,157,719	1,331,568
	<u>7,157,719</u>	<u>1,331,568</u>
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	\$ <u>7,163,751</u>	\$ <u>2,052,415</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ 813,702	\$ 675,927
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,022,231	
Changes in assets and liabilities:		
User fees	(111,742)	
Warrants payable	30,679	
Employee benefits	455,427	
Accrued liabilities		27,214
Accrued compensated absences	(7,455)	
Total adjustments	<u>1,389,140</u>	<u>27,214</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ <u>2,202,842</u>	\$ <u>703,141</u>

See notes to financial statements.

**CITY OF GARDNER MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 June 30, 2012**

	Pension Trust Fund (As of December 31, 2011)	Private Purpose Trust Funds
ASSETS	<u> </u>	<u> </u>
Cash and short-term investments	\$ 58,323	1,145,799
Investments	34,205,459	\$
Receivables, net of allowance for uncollectibles:		
Member payroll deductions	99,701	
Intergovernmental	126,795	
Employer contributions	2,662,683	
TOTAL ASSETS	<u>37,152,961</u>	<u>1,145,799</u>
 LIABILITIES		
Accounts payable	<u>201,667</u>	<u> </u>
 NET ASSETS	<u>\$ 36,951,294</u>	<u>\$ 1,145,799</u>

Held in trust for pension benefits and other purposes

See notes to financial statements.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies

The accounting policies of the City of Gardner conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity -

The accompanying financial statements include all funds of the City of Gardner. The Levi Heywood Memorial Library Association, Inc. was audited by other auditors. Based upon the substantial funding support by the City to the Library, we have determined that the Levi Heywood Memorial Library Association, Inc. is a component unit of the City of Gardner. Also included are the funds and account groups of agencies, authorities, boards and other organizational entities which are includable in the City's financial reporting entity. The City is the entity that exercises oversight responsibility over the component units. The criteria, in the oversight entity's combined financial statements are: selection of governing authority, designation of management, ability to significantly influence operations, accountability over fiscal matters and scope of public service. The inclusion of component units in the City's combined financial statements does not affect their separate legal standing.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pensions plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with report fees, fines and forfeitures, and other charges to uses of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statement

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns all other funds are reported as non-major funds.

Measurement Focus, Basis of Accounting, and Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Pension trust funds recognize employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Presentation (Continued)

measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Investments

Cash deposits are reported at carrying amounts which reasonably estimate fair value. Investments are reported at fair value using selected fair market value pricing provided by the money management firms.

Inventories and Prepays

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Prepays record payment to vendor that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary and components unit capital assets are also reported in their respective fund.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Capital Assets, Depreciation, and Amortization (Continued)

Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using time straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, for depreciable assets are as follows:

Buildings	40
Improvements, other than buildings	10-40
Motor vehicles	5
Furniture, machinery, and equipment	10
Infrastructure	30-50

Long-Term Debt and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance cost, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method similar to the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

PROPRIETARY FUNDS

The Enterprise Funds reflect the revenues and expenses of activities that are similar to private sector business operations. The accrual basis of accounting is used to measure the net income and financial position. The operations reported in these funds are the City's water supply system (Water Fund), the sewer treatment facility (Sewer Fund), the landfill facility (Landfill Fund) and the municipal golf course (Golf Course Fund).

FIDUCIARY FUNDS

The Fiduciary Funds accounts for assets and various deposits held by the City in a custodial capacity as an agent or custodian on behalf of others.

INTERNAL SERVICE FUND

The Internal Service Fund is used to account for the risk management function of the health insurance benefits provided to the employees of the City.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Encumbrances -

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Continued appropriations which are carried over to the ensuing fiscal year are reported as reserve for various purposes. Continued appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continued appropriations are reported as expenditures under budgetary accounting principles.

Long-Term Debt -

Government-wide and Proprietary Fund Financial Statements - Long term debt is reported as liabilities in government wide and proprietary fund statements of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount

Government Fund Financial Statements – The face amount of governmental funds long term debt is reported as other financing sources. 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, are reported as General Government expenditures.

Compensated Absences -

Under terms of contracts and City ordinances, employees of the City earn varying amounts of vacation time. An employee may carry vacation time forward into the next fiscal year based upon the rates specified in the contracts and City ordinances. In the event of termination, an employee is paid for all accumulated vacation.

Employees earn one and one-quarter (1 1/4) days of sick leave per month in their first year of employment with the City. After their first full year of employment with the City, fifteen (15) days of sick leave are provided for per year, beginning each January 1. Under terms of contracts and City ordinances, employees are entitled to sick leave buy-back upon retirement or death. Payments are accounted for as expenditures in the year payment is made.

As of 7/1/99, newly hired employees are no longer eligible to buy back unused sick leave upon retirement or death.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Deferred Compensation Plan -

The City offers to employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan allows employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unexpected emergency circumstances.

Deferred and Unearned 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.

Retirement Plan -

The plan is a contributory defined benefit plan covering all City of Gardner Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Teachers' Retirement Board.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80 - 85% pension and 15 - 20% annuity.

CITY OF GARDNER

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Retirement Plan - (Continued)

Active members contribute either 5, 7, 8, or 9 % of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2 percent on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Cost-of-living adjustments and any other increase in benefits imposed by state law granted between 1981 and 1996 are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year. Systems had not statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually reduced such liability.

Administrative expenses are funded through excess investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Retirement Plan (Continued) -

Accounting Policies

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission. All investments are stated at market value at the end of the year with the exception of fixed income securities which are at an amortized cost basis.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8 or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, a members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income or appropriated by the governmental units for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is credited to this Reserve account.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Retirement Plan (Continued) -

Accounting Policies (Continued)

The Investment Income Account is credited all income derived from invested funds. At the end of the year the income credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

The "Governmental Accounting Standards Board" (GASB) statement numbers 25 and 27 actuarial information as determined by the Stone Consulting, Inc. is as follows:

- (1) Actuarial Accrued Liability
- (2) Actuarial Value of Assets
- (3) Unfunded Actuarial Accrued Liability (UAAL)
- (4) Funded Ratio (2)/(1)

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Retirement Plan (Continued) –

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percent of Covered Payroll
_____	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>(b-a) / c</u>
1/1/2011	\$38,222.	\$69,105.	\$30,883.	55%	\$10,202.	303%
1/1/2008	\$44,333.	\$62,777.	\$18,444.	71%	\$10,442.	177%
1/1/2007	\$40,547.	\$60,176.	\$19,630.	67%	\$10,072.	195%
1/1/2006	\$35,799.	\$57,564.	\$21,765.	62%	\$9,523.	229%
1/1/2005	\$32,866.	\$55,001.	\$22,135.	60%	\$8,906.	249%

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Retirement Plan (Continued) -

The actuarial cost method, factors and some of the assumptions used in determining cost estimates are presented below:

1. Member Data: The member data used in the determination of cost estimates consists of pertinent information with respect to the active, inactive, retired, and disabled members of the employer as supplied by the employer to the actuary.
2. Valuation Date: January 1, 2011
3. Actuarial Cost Method: The costs of the Plan have been determined in accordance with the individual entry age normal actuarial cost method.
4. Rate of Investment Return: It is assumed that the assets of the fund will accumulate at a compound annual rate of 8.0% per annum.
5. Salary Scale: It is assumed that salaries, including longevity, will increase at a rate of as follows:
 - 17.1% Year 1
 - 15.2% Year 2
 - 3.5% All other
6. Cost-of-Living Increases: A 3% COLA on the first \$12,000 of a members retirement allowance is assumed.
7. Value of Investments: Assets held by the fund are valued at market value adjusted for receivables and payables.
8. Annual Rate of Withdrawal Prior to Retirement: Annual rates of withdrawal prior to retirement are based on an analysis of actual experience.
9. Annual Rate of Mortality: The RP-2000 mortality table for annuitants (sex distinct).

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 1: Significant Accounting Policies (Continued)

Use of Estimates

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

Total Column

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

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

Note 2: Property Taxes

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied for the fiscal year and payable in two installments on November 1 and May 1. The City bills and collects property taxes. City property tax revenues are recognized when collected under the modified accrual revenue recognition method.

The City is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the property. In addition, the law limits the amount by which property tax assessments can be increased to 2.5% of the preceding year's limit plus additional growth. The City may impose fees to provide for certain specific services rendered. The fees, however, may not exceed the actual cost of providing the related service.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 3: Budgetary Basis of Accounting

The City's budget is comprised primarily of the following components: the aggregate annual appropriations for expenditures and operating transfers; amounts raised to fund prior fiscal years deficits, if any; the aggregate of all non-property tax revenues expected to be collected and transfers from surplus funds (free cash).

The Mayor submits to the City Council an operating budget for the proposed expenditures for the upcoming fiscal year commencing on July 1st. The budget, as enacted by the City Council, also establishes appropriations that are to be funded by certain revenues. The original budget is amended during the fiscal year as required by changing conditions.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws, and must be raised in the next year's tax rate.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which may be carried over to the ensuing fiscal year.

The General Fund budget is prepared under the City's budgetary basis which generally differs from GAAP as follows:

- Budgeted revenues are recorded when cash is received, except for property taxes which is recorded as revenue when levied (budgetary basis) compared to modified accrual (GAAP basis).
- Encumbrances and continuing appropriations are recorded as expenditures (budgetary basis) compared to a reservation of fund balance (GAAP basis).
- Certain accounts and/or transactions are presented in the General Fund (budgetary basis) as compared to a separate fund (GAAP basis).

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

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 4: Temporary Loans

Under State law and by approval of the City Council, the City is authorized to borrow funds on a temporary basis for the following purposes:

To fund operating costs prior to the collection of tax revenues by issuance of revenue anticipation notes ("RANS").

To fund capital project costs incurred prior to the selling of permanent debt by issuance of bond anticipation notes ("BANS").

To fund grant-aided project costs incurred prior to the receipt of grants by issuance of federal and state grants anticipation notes ("FANS", "SANS").

The temporary loan notes are general obligations of the City and carry maturity dates which are limited by statute to not more than twelve months.

As of June 30, 2012 and for the year then ended, temporary borrowings were as follows:

<u>BORROWINGS</u>	<u>BANS</u>	<u>Interest Rates</u>
Outstanding, beginning of the year	\$3,013,000.	
Issued	4,274,000.	1.25%
Matured	<u>3,013,000.</u>	
Outstanding, end of year	<u>\$4,274,000.</u>	

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 5: Changes in Long-Term Debt

The following is a summary of bond transactions of the City for the year ended June 30, 2012:

Long-term debt payable July 1, 2011	\$18,943,676.
Debt issued	1,777,000.
Debt retired	<u>{4,120,854.}</u>
Long-term debt payable at June 30, 2012	<u>\$16,599,822.</u>

Long-term debt payable at June 30, 2012 is comprised of the following individual issues:

<u>Primary Government</u>	<u>Original Issue</u>	<u>Payable June 30, 2012</u>	<u>Fiscal Year Maturity</u>
Governmental Activities:			
Municipal Purpose '03	\$3,530,000.	\$ 820,000.	2016
Refunding Bonds-2005	7,686,510.	<u>4,500,460.</u>	2018
		<u>5,320,460.</u>	
Business Type Activities:			
Sewer Enterprise Fund			
Snake Pond	1,286,875.	692,215.	2025
Refunding Bonds-2005	1,032,637.	<u>432,205.</u>	2016
		<u>1,124,420.</u>	
Water Enterprise Fund			
Crystal Lake WPAT '99	9,977,649.	4,208,026.	2020
Water Projects '02	7,165,000.	3,150,000.	2022
Crystal Lake WPAT '02	985,570.	276.	2020
Snake Pond	3,205,861.	2,279,305.	2025
Refunding Bond-2005	1,171,025.	<u>517,335.</u>	2018
		<u>10,154,942.</u>	
Total		<u>\$16,599,822.</u>	

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 5: Changes in Long-term Debt (Continued)

The annual requirements to amortize all debt principal outstanding as of June 30, 2012.

<u>Fiscal Year</u>	<u>Total</u>
2013	2,240,134.
2014	2,165,426.
2015	2,188,860.
2016	2,207,350.
2017-2025	<u>7,798,052.</u>
Total	<u>\$16,599,822.</u>

The following is the computation of the City's legal debt margin of June 30, 2012

Equalized valuation – personal property and real estate, January 1, 2012		\$1,264,252,300.
Debt limit – 5% of equalized valuation		63,212,615.
Amount of debt applicable to debt limit:		
Total bonded debt	\$16,599,822.	
Less – bonded debt not included in computation of legal debt margin as defined in Massachusetts statutes	<u>15,779,822.</u>	<u>820,000.</u>
Legal debt margin		<u>\$ 62,392,615.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 6: Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U. S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the State treasurers investment pool Massachusetts Municipal Depository Trust ("MMDT").

Deposits – Primary Government

The following summary presents the amount of the City's deposits which are insured or collateralized with securities held by the City or its agent in the City's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust departments or agent in the City's name (Category 2) and those deposits which are not collateralized (Category 3) at June 30, 2012.

	Category			Total *	Carrying Amount
	1	2	3		
Cash and cash equivalents	\$ 849,854.	\$16,003,567.	\$ 0	\$16,853,421.	\$14,493,066.

* Does not include cash and investments of the Gardner Retirement System and the Levi Heywood Memorial Library.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City does not have a policy for custodial credit risk of deposits. As of June 30, 2012 none of the bank deposits were uninsured or uncollateralized.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 6: Deposits and Investments (Continued)

Investments - Primary Government

	<u>Market Value *</u>
U.S. Government Securities	<u>\$4,877,619.</u>
Investments held in State Treasurer's investment pool (MMDT)	<u>\$3,387,171.</u>

* Does not include cash and investments of the Gardner Retirement System and the Levi Heywood Memorial Library.

The composition of the City's bank deposits and investments fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collection of State and Federal aid, and capital outlays throughout the year.

Investment Risk

Interest Rate Risk – Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will impact the fair value of the securities. The City does not maintain a policy for interest rate risk of debt securities.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure by an outside independent company, the City may not recover the full value of investments in the possession of the outside company. The City does not have a policy for custodial credit risk.

Credit Risk – Debt Securities

Credit risk for debt securities is the risk that an issuer of the security will not fulfill payment of its financial obligations. The City does not have a policy for credit risk of debt securities.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 6: Deposits and Investments (Continued)

<u>Deposits</u>	Levi Heywood Memorial Library Association, Inc. <u>June 30, 2012</u>	City of Gardner Retirement System <u>December 31, 2011</u>
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Cash and equivalents	\$ <u>167,443.</u>	\$ <u>58,323.</u>
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Deposits are recorded at fair value.

* Deposits of the City of Gardner Retirement System are invested in the Pension Reserves Investment Trust Fund, a State sponsored investment pool fund.

Investments

Common stock – Mutual funds	\$ 319,286.
Money market	41,631.
Domestic equities	473,594.
Fixed income – Mutual funds	624,079.
Certificate of deposits	<u>10,016.</u>
	<u>\$1,468,606.</u>

Pension Reserves Investment Trust (pooled funds)	\$ <u>34,205,459.</u>
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Investments are recorded at fair value using selected fair market value price quotations.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 7: Capital Assets

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
<u>Governmental:</u>				
Land	\$ 1,467,063.	\$1,252,099.		\$ 2,721,857.
Buildings	28,574,178.	2,194,773.	\$ (44,625.)	30,921,100.
Infrastructure	17,295,978.	1,253,809.		19,555,082.
Vehicles	6,431,108.	927,152.	(349,276.)	7,364,840.
Equipment	649,691.	185,285.	(53,884.)	1,428,595.
Other	721,260.	10,947.	(272,786.)	474,914.
Construction in progress	<u>464,496.</u>	<u>2,159,056.</u>	<u>(2,670,597.)</u>	<u>270,065.</u>
	<u>55,603,774.</u>	<u>7,983,121.</u>	<u>(3,391,168.)</u>	<u>62,736,453.</u>
Accumulated Depreciation	(30,964,790.)	<u>(236,657.)</u>	<u>711,845.</u>	<u>(34,583,510.)</u>
Capital Assets -- Governmental	<u>\$24,638,984.</u>	<u>\$5,746,464.</u>	<u>\$(2,679,323.)</u>	<u>\$28,152,943.</u>
<u>Business Type Activities:</u>				
<u>Water:</u>				
Land	\$ 591,769.			\$ 591,769.
Buildings	13,896,786.			13,896,786.
Infrastructure	13,528,278.			13,687,723.
Vehicles	274,908.		\$(28,000.)	246,908.
Equipment	<u>773,222.</u>	<u>0.</u>	<u>(28,000.)</u>	<u>773,222.</u>
	<u>29,064,963.</u>	<u>0.</u>	<u>(28,000.)</u>	<u>29,196,408.</u>
Accumulated Depreciation	<u>(12,393,359.)</u>	<u>(639,125.)</u>	<u>28,000.</u>	<u>(13,709,502.)</u>
Capital Assets -- Water	<u>\$16,671,604.</u>	<u>\$ (639,125.)</u>	<u>\$ 0.</u>	<u>\$15,486,906.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 7: Capital Assets (Continued)

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
<u>Sewer:</u>				
Buildings	\$17,542,254.			\$17,542,254.
Infrastructure	3,774,536.	\$ 57,578.		3,832,114.
Vehicles	682,982.	41,412.		724,394.
	<u>21,999,772.</u>	<u>98,990.</u>	<u>0.</u>	<u>22,098,762.</u>
Accumulated Depreciation	(20,172,662.)	(220,413.)	0.	(20,609,791.)
Capital Assets – Sewer	<u>\$ 1,827,110.</u>	<u>\$(121,423.)</u>	<u>\$ 0.</u>	<u>\$ 1,488,971.</u>
<u>Golf:</u>				
Land	\$ 419,653.			\$ 419,653.
Buildings/equipment	326,721.		\$ 5,900.	384,891.
Vehicles	43,212.			43,212.
	<u>789,586.</u>	<u>0.</u>	<u>25,900.</u>	<u>847,756.</u>
Accumulated Depreciation	(134,823.)	(35,580.)	0.	(198,268.)
Capital Assets – Golf	<u>\$ 654,763.</u>	<u>(35,580.)</u>	<u>25,900.</u>	<u>\$ 649,488.</u>
<u>Solid Waste:</u>				
Equipment	\$ 635,563.			\$ 635,563.
	<u>635,563.</u>	<u>0.</u>	<u>0.</u>	<u>635,563.</u>
Accumulated Depreciation	0.	(127,113.)	0.	(190,669.)
Capital Assets – Solid Waste	<u>0.</u>	<u>(63,556.)</u>	<u>0.</u>	<u>\$ 444,894.</u>
Capital Assets - Business Type	<u>\$19,153,477.</u>	<u>\$(859,684.)</u>	<u>\$ 25,900.</u>	<u>\$18,070,259.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 8: Litigation

According to the City Solicitor, there is no litigation, individually or collectively, that will materially affect these financial statements.

Note 9: Fiscal 2011 Budget

The City has authorized a fiscal year 2013 operating, capital and proprietary fund budget totaling \$54,469,514. The City has certified its fiscal year 2013 tax rate at \$17.46 per \$1,000 assessed valuation.

Note 10: Health Care

The City provides health care insurance to all employee's who work over twenty (20) hours per week. The City has two plan providers; Harvard Pilgrim Health and Blue Cross/Blue Shield both indemnity self insured plans. Under the indemnity plan the City pays the actual claims incurred up to \$115,000 per insured member after which specific stop loss insurance covers the remaining claims. The City pays 75% and the employee pays 25% of the health care cost. The City level funds the plan at a monthly payment of \$778,900. The incurred but not reported claims amount was \$626,135 at June 30, 2012.

Post 11: Other Post-Employment Benefits (OPEB)

Plan Description

The City provides health and life insurance coverage for its retiree's under a single-employer defined benefit plan. A brief observation of the retiree medical and life insurance plans is as follows.

The number of participants in the plan as of July 1, 2010 date of the actuarial valuation is as follows:

Active employees	473
Retired employees	<u>389</u>
	<u>862</u>

a. Plan Type:

Medical

Pre-65 retirees have the choice of the Harvard Pilgrim Health Plan, Blue Cross Blue Shield HMO New England Plan, and the Blue Shield Blue Cross Choice Plan.

Post-65 retirees have the choice of the above plans, as well as the Blue Cross Blue Shield Medex Plan.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

Post 11: Other Post-Employment Benefits (OPEB) (continued)

a. Plan Type: **Medical** (continued)

Life Insurance

Retirees may elect life insurance coverage through Boston Mutual Life Insurance.

b. Eligibility: Age 55 with 10 years of service or 20 years of service.

c. Benefit/Cost Sharing: **Medical**
The City covers 75% for all plans except the Blue Choice Plan, which is 50%.

Life Insurance

The City pays 75% of the life insurance premium.

d. Spouse Benefit: The Town covers the same percentage of the medical premium as for the retirees.

e. Surviving Spouse Benefit: Yes.

f. Annual Medical Premiums as of January 1, 2011:

Plan*		
BCBS New England	\$7,155.36	\$18,741.12
Harvard Pilgrim	\$8,633.28	\$22,625.28
Medex	\$5,184.00	

* Blue Choice Plan not provided as no current participants are enrolled in this plan.

g. Annual Life Insurance Premium for 2011 Retirees pay \$28.90 per \$5,000 of life insurance per annum

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Post 11: Other Post-Employment Benefits (OPEB) (continued)

GASB 45 DISCLOSURE REQUIREMENTS

	<u>7/1/2010 - 6/30/2011</u>	<u>7/1/2011 - 6/30/2012</u>
A. Annual OPEB Cost and Net OPEB Obligation		
1. Annual Required Contribution (ARC)	\$ 9,000,234.	\$ 9,552,506.
2. Interest on net OPEB Obligation	431,186.	705,498.
3. Adjustment to ARC	<u>(437,985.)</u>	<u>(736,578.)</u>
4. Annual OPEB Cost (Expense)	8,993,435.	9,521,426.
5. Contribution made (assumed middle of year) *	<u>(2,135,644.)</u>	<u>(2,406,143.)</u>
6. Increase in net OPEB Obligation	6,857,791.	7,115,283.
7. New OPEB Obligation – beginning of year	<u>10,779,655.</u>	<u>17,637,446.</u>
8. Net OPEB Obligation – end of year	<u>\$17,637,446.</u>	<u>\$24,752,729.</u>

* Contribution made was assumed to equal Expected Benefit Payments

The annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years ending 2011 / 2012 are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>	<u>Covered Payroll</u>	<u>OPEB Cost % of Pay</u>
6/30/2010	\$8,428,934.	34.2%	\$10,779,655.	\$18,672,425.	45.1%
6/30/2011	8,993,435.	23.7%	17,637,446.	21,476,327.	41.9%
6/30/2012	9,521,426.	25.3%	24,752,729.	22,174,308.	42.9%

B. Funding Status and Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (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 (AAL) ((b-a)/c)</u>
7/1/2008	\$0.	\$94,863,000.	\$94,863,000.	0.0%	\$18,217,000.	520.7%
7/1/2010	\$0.	106,300,420.	106,300,420	0.0%	21,476,327.	493.0%

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Post 11: Other Post-Employment Benefits (OPEB) (continued)

GASB 45 DISCLOSURE REQUIREMENTS (continued)

C. Methods and Assumptions

- Interest Rate	4.00%
- 2010 Medical Trend Rates	9.50%
- Ultimate Medical Trend Rate	5.00%
- Year Ultimate Trend Rates Reached	2019
- Actuarial Cost Method	Projected Unit Credit
- The remaining amortization period at 04/30/2011	27.19
- Annual Payroll Increase	3.25%

Note 12: Lease Commitments

The City did not have any lease commitments for the fiscal year ended June 30, 2012.

Note 13: On Behalf Payments

The Commonwealth of Massachusetts made “on behalf of” payments for the City of Gardner to the Massachusetts Teacher’s Retirement System in the amount of \$4,691,071 for the fiscal year ended June 30, 2012.

Note 14: Loans Authorized and Un-issued

At June 30, 2012 the City had \$12,000,000 in loans authorized and un-issued.

Note 15: Risk Management

The City insures its general liability risk through a pool coverage plan (premium based) with the Massachusetts Interlocal Insurance Association. Premiums are recorded as expenditures when received.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2012

Note 16: Commitments and Contingencies

The City participates in a number of federal and state grant agreements. The amount of expenditures, if any, which may be disallowed by the granting agencies cannot be measured at this time.

In December 2005 the landfill site was closed and capping was completed in 2006. The cost of this project was paid by Waste Management in accordance with the air rights agreement. The City has reserved \$320,678 in a post-closure monitoring fund to pay for monitoring costs over the next 30 years.

Note 17: Use of Estimates

Management has used estimates in the preparation of the aforementioned financial statements. Actual results may vary from the estimates that were used.

Note 18: Total Column

Government-wide Financial Statements –

The total column represents consolidated financial information.

Fund Financial Statements –

The total column represents data that is not comparable to consolidated financial information.

Supplementary Information

**CITY OF GARDNER
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
For the Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		Actual Budgetary Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
REVENUES:				
Real estate and personal property taxes, net of reserve for abatements	\$ 19,348,022	\$ 19,534,314	\$ 19,316,649	\$ (217,665)
Motor vehicle and other excise taxes	1,600,000	1,575,000	1,571,757	(3,243)
Tax Liens	-	-	153,481	153,481
Penalties and interest on taxes	180,000	180,000	356,757	176,757
Licenses and permits	202,000	231,000	238,815	7,815
Intergovernmental	23,324,622	23,693,500	23,569,495	(124,005)
Charges for services	402,000	447,000	465,547	18,547
Fines and forfeitures	192,000	172,000	167,970	(4,030)
Investment income	20,000	20,000	18,364	(1,636)
Payments in lieu of taxes	31,000	31,000	30,261	(739)
Miscellaneous			80,265	80,265
TOTAL REVENUES	45,299,644	45,883,814	45,969,361	85,547
EXPENDITURES:				
Current:				
General government	2,823,247	2,762,154	2,346,722	415,432
Public safety	5,306,490	5,517,550	5,325,165	192,385
Education	20,261,662	20,690,686	20,635,831	54,855
Public works	1,900,466	2,200,588	1,915,865	284,723
Health and human services	1,054,615	1,117,984	1,100,458	17,526
Culture and recreation	961,656	1,092,070	1,025,290	66,780
Retirement	2,682,461	2,690,507	2,683,616	6,891
Property and liability insurance	440,000	426,000	358,709	67,291
Fringe benefits	8,074,380	7,564,459	7,459,398	105,061
State and county charges	1,035,936	1,226,523	1,156,384	70,139
Debt service:				
Principal	1,463,594	2,605,734	2,564,000	41,734
Interest	322,197	322,197	301,415	20,782
TOTAL EXPENDITURES	46,326,704	48,216,452	46,872,853	1,343,599
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,027,060)	(2,332,638)	(903,492)	1,429,146
OTHER FINANCING SOURCES (USES):				
Transfers in	358,000	646,455	1,107,711	461,256
Transfers out	(20,000)	(482,152)	(432,587)	49,565
TOTAL OTHER FINANCING SOURCES (USES)	338,000	164,303	675,124	510,821
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FIN USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(689,060)	(2,168,335)	(228,368)	1,939,967
BUDGETARY FUND BALANCE AT BEGINNING OF YEAR	2,095,907	2,095,907	2,095,907	
BUDGETARY FUND BALANCE AT END OF YEAR	\$ 1,406,847	\$ (72,428)	\$ 1,867,539	\$ 1,939,967

Management's Discussion and Analysis

The City of Gardner presents its financial reports for the fiscal year ending June 30, 2012.

The basic financial statements included in this report are in two parts. The government-wide financial statements provide both long-term and short-term information about the city's overall financial status. The fund financial statements focus on the individual parts of city government, showing more detail than the government-wide statements.

Funds are divided into three categories as follows:

Governmental funds tell how general government services were financed and what remains for future spending. Governmental funds include the General Fund, through which general government services such as public safety, public works, and education are funded, the Stabilization Fund, which is a reserve used to stabilize the tax levy, and the Nonmajor Funds, which include the combination of smaller special revenue (grants, gifts, and revolving) funds and capital projects.

Proprietary funds offer short and long term financial information about governmental activities that operate like a business. The city operates five such enterprises—water, sewer, golf course, landfill closure, and solid waste.

Fiduciary funds are financial relationships in which the city acts solely as a trustee or agent for the benefit of others. They are primarily educational scholarships. Money held in escrow for performance requirements of land development, bid guarantees, and the like have been reported with the nonmajor governmental funds because of the benefit that may accrue to the city if the developer or bidder fails to fulfill his obligations.

Financial Analysis of City

Net Assets

City of Gardner Net Assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total	Total % Change	
	<u>FY11</u>	<u>FY12</u>	<u>FY11</u>	<u>FY12</u>	<u>FY11</u>	<u>FY12</u>	<u>FY11 to FY12</u>
Current & Other Assets	\$25.6	\$26.3	\$8.6	\$8.8	\$34.2	\$35.1	2.63%
Capital Assets	<u>25.1</u>	<u>28.2</u>	<u>19.0</u>	<u>18.0</u>	<u>44.1</u>	<u>46.2</u>	4.76%
Total Assets	\$50.7	\$54.5	\$27.6	\$26.8	\$78.3	\$81.3	3.83%
Longterm Debt Outstanding	\$6.5	\$5.3	\$12.5	\$11.3	\$19.0	\$16.6	-12.63%
Other Liabilities	<u>25.1</u>	<u>32.7</u>	<u>2.6</u>	<u>3.0</u>	<u>27.7</u>	<u>35.7</u>	28.88%
Total Liabilities	\$31.6	\$38.0	\$15.1	\$14.3	\$46.7	\$52.3	11.99%
Invested in Capital Assets							
Net of Related Debt	\$24.0	\$27.6	\$5.9	\$6.3	\$29.9	\$33.9	13.38%
Restricted	8.6	8.1	0.0	0.0	8.6	8.1	-5.81%
Unrestricted	<u>(13.5)</u>	<u>(19.2)</u>	<u>6.6</u>	<u>6.2</u>	<u>(6.9)</u>	<u>(13.0)</u>	88.41%
Total Net Assets	\$19.1	\$16.5	\$12.5	\$12.5	\$31.6	\$29.0	-8.23%

Total net assets decreased from FY11 to FY12 by \$2.6 million. Net assets for governmental activities decreased \$2.6 million. This decrease is the result of a \$0.7

million increase in current and other assets, an increase of \$3.1 million in capital assets, and an increase of \$6.4 million in total liabilities.

Net assets for business type activities have no change. It is the result of a \$0.2 million increase in current and other assets, a \$1.0 million decrease in capital assets, and a \$0.8 million decrease in total liabilities.

Change in Net Assets

City of Gardner Change in Net Assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total FY11	% Change	
	FY11	FY12	FY11	FY12		FY12	FY11toFY12
<u>Revenue</u>							
Program Revenue							
Charges for Services	\$1.8	\$1.7	\$8.1	\$8.3	\$9.9	\$10.0	1.01%
Operating Grants and Contributions	29.8	28.0			29.8	28.0	-6.04%
Capital Grants and Contributions	1.2	2.2			1.2	2.2	83.33%
General Revenue							
Property Taxes	18.5	19.3			18.5	19.3	4.32%
Other Taxes	2.2	2.3			2.2	2.3	4.55%
Unrestricted Grants and Contributions	4.0	3.9	0.4	0.3	4.4	4.2	-4.55%
Other	0.1	0.2	0.0	0.1	0.1	0.3	NA
Total Revenue	\$57.6	\$57.6	\$8.5	\$8.7	\$66.1	\$66.3	0.30%
<u>Expense</u>							
General Government	\$3.3	\$2.5			3.3	2.5	-24.24%
Public Safety	6.2	5.5			6.2	5.5	-11.29%
Education	25.8	26.6			25.8	26.6	3.10%
Public Works	2.0	3.1			2.0	3.1	55.00%
Health & Human Services	1.2	1.2			1.2	1.2	0.00%
Culture & Recreation	1.1	1.1			1.1	1.1	0.00%
Community and Economic Development	0.9	0.7			0.9	0.7	-22.22%
Retirement	2.6	2.7			2.6	2.7	3.85%
Property & Liability Insurance	0.4	0.4			0.4	0.4	0.00%
Fringe Benefits	16.0	15.5			16.0	15.5	-3.13%
State & County Charges	1.1	1.2			1.1	1.2	9.09%
Interest	0.3	0.3			0.3	0.3	0.00%
Water Enterprise			3.2	3.1	3.2	3.1	-3.13%
Sewer Enterprise			2.8	3.0	2.8	3.0	7.14%
Golf Course Enterprise			0.7	0.6	0.7	0.6	-14.29%
Landfill Closure Enterprise			0.1	0.1	0.1	0.1	0.00%
Solid Waste Enterprise			1.2	1.3	1.2	1.3	8.33%
Total Expense	\$60.9	\$60.8	\$8.0	\$8.1	\$68.9	\$68.9	0.00%
Excess (Deficiency) before Adjustments	(\$3.3)	(\$3.2)	\$0.5	\$0.6	(\$2.8)	(\$2.6)	
Prior period adjustment for rescinded motor vehicle adjustments	\$0.2					0.0	
Prior period adjustment for reclassification of police detail receivables	\$0.1					0.0	
Transfers	0.5	0.5	(\$0.5)	(\$0.5)	0.0	0.0	
Increase (Decrease) in Net Assets	(\$2.5)	(\$2.7)	\$0.0	\$0.1	(\$2.8)	(\$2.6)	
<u>Net Assets</u>							
Beginning of Year	\$21.6	\$19.1	\$12.5	\$12.5	\$34.1	\$31.6	-7.33%
End of Year	\$19.1	\$16.4	\$12.5	\$12.6	\$31.3	\$29.0	-7.35%

Revenue for governmental activities did not change. Property and other taxes increased \$0.9 million, charges for services decreased by \$0.1 million, operating grants decreased \$1.8 million, capital grants increased \$1.0 million, unrestricted grants decreased by \$0.1 million, and other revenue increased by \$0.1 million.

Expenses for governmental activities decreased \$0.1 million. Fringe benefit expenses decreased \$0.5 million, the result of a \$0.7 million decrease in health insurance expenses and a \$0.2 million increase to the net OPEB obligation accrual. Education expenses increased \$0.8 million, public works expenses increased \$1.1 million, retirement expenses increased \$0.1 million, and state and county charges increased \$0.1 million. General government expenses decreased \$0.8 million, public safety expenses decreased \$0.7 million, and community and economic expenses decreased \$0.2 million.

Business-type Activities

The five enterprise funds—water, sewer, golf course, landfill closure, and solid waste—continue to operate with positive fund balances. Revenue increased by \$0.2 million. Expenses and transfers out increased \$0.1 million.

Financial Analysis of the City's Funds

Combined governmental funds reported by the city decreased by \$0.5 million.

The General Fund reported a deficit of revenue over expenditures of \$228,368 compared to a surplus of \$1,103,537 last year. Revenues increased \$0.8 million and expenditures increased \$2.5 million. Other financing sources increased \$0.4 million. The city did not incur a legal deficit for snow & ice removal in FY12.

The Stabilization Fund increased in value by \$500,223.

Nonmajor Governmental Funds decreased \$816,513 compared to an increase of \$730,825 last year. Revenues increased by \$0.5 million, expenses increased \$1.7 million, and other financing sources increased \$1.1 million.

General Fund Budget Highlights

The city continued to operate under tight fiscal constraints caused by the revenue raising limits of Proposition 2½. The FY12 budget continued to rely on conservative revenue estimates and minimal growth in expenses.

In November, 2011, the state Department of Revenue certified free cash of \$1,685,797. Free cash is the accumulated excess of revenue over expenditures, with adjustments made for any outstanding deficits in the non-major funds. This amount compares to a figure of \$1,888,210 the previous year.

Once free cash was certified, the city transferred \$338,000 to the Stabilization Fund. Two additional transfers totaling \$124,152 were made during the year, bringing the balance in the fund to over \$1.5 million.

There were no changes in staffing levels. Non-school personnel did not receive across the board pay increases in FY2012. The pay scale has remained unchanged since July 1, 2007. Unionized school personnel also received no increase in FY2012.

As it has for many years, the city funded the school department budget just above the net minimum required by state law.

In August, 2011, City Council accepted M.G.L. Chapter 32B, sections 21 through 29, which give the city plan design authority for health insurance plans. The mayor immediately began the process of implementing changes and subsequently reached agreement with the Public Employee Committee on mitigation issues. While co-pays have increased, premiums were reduced about 10%, thereby reducing the city's health insurance costs. The reduction from FY2011 to FY2012 was \$0.7 million.

By the end of FY2012, actual revenues exceeded budgeted revenues by \$546,803, and actual expenditures were less than budgeted expenditures by \$1,393,164.

Capital Assets and Debt

Capital Assets

The breakdown of capital assets for the city is shown in the following table:

City of Gardner Capital Assets
(in millions of dollars—net of depreciation)

	Governmental Activities		Business-type Activities		Total FY11	% Change	
	FY11	FY12	FY11	FY12		FY12	FY11toFY12
Land	\$1.5	\$2.7	\$1.0	\$1.0	\$2.5	\$3.7	48.0%
Buildings & Improvements	13.0	14.3	10.6	10.3	23.6	24.6	4.2%
Vehicles	0.6	1.2	0.1	0.1	0.7	1.3	85.7%
Equipment	0.8	0.9	0.7	0.5	1.5	1.4	-6.7%
Textbooks	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Infrastructure	8.4	8.8	6.6	6.2	15.0	15.0	0.0%
Construction in Progress	<u>0.8</u>	<u>0.3</u>	<u>0.0</u>	<u>0.0</u>	<u>0.8</u>	<u>0.3</u>	
Total	\$25.1	\$28.2	\$19.0	\$18.1	\$44.1	\$46.3	5.0%

During FY2012, the city completed a road reconstruction project on Parker Street and repaved several other streets. Several vehicles were purchased, including an aerial platform truck and a pumper truck for the Fire Department. Roof replacement projects at the high school and two elementary schools were completed. The city also began preliminary work on a new police station and dispatch center, by purchasing several parcels of land at the end of the fiscal year. This project will take a couple of years to complete.

Long Term Debt

City of Gardner Outstanding Debt (in millions of dollars)

	Governmental Activities		Business-type Activities		Total FY11	% Change	
	FY11	FY12	FY11	FY12		FY12	FY11toFY12
Outstanding Bonds	\$6.5	\$5.3	\$12.5	\$11.3	\$19.0	\$16.6	-12.63%
Authorized and Unissued	\$2.4	\$15.8	\$0.6	\$0.5	\$3.0	\$16.3	443.33%

In December, 2011, the city authorized new borrowing of \$12,000,000 for the construction of a new police station and dispatch center. In June, 2012, the city authorized new borrowing of \$300,000 for a feasibility study for science lab upgrades, door and window replacement, and boiler replacement at the high school and for \$400,000 for boiler replacement at the middle school. Of these amounts, 78.95% will be reimbursed by the Massachusetts School Building Authority. Finally, in June, 2012, the city reduced borrowing authorizations by \$60,000 for toters, by \$12,000 for golf course repairs, and by \$250,000 for water main replacement. These reductions were possible because these enterprise fund projects cost less than expected or were never started.

Future Expectations

The city enacted a balanced budget for FY2013. As in past years, the city worked with conservative revenue estimates and thorough expense forecasts. For the first time in five years, there was an across the board pay increase for non-school employees. This increase was 2%. The FY2013 budget included the absorption of the Municipal Grounds Department into the Public Works Department, allowing for a reduction of supervisory staff and an increase in laborers, and a reduction in health insurance costs attributable to the changes in plan design allowed by recently enacted legislation. City services are now being adequately maintained, in spite of the fact that non-school state aid continues to be less than the level that existed in FY2002.

Work is progressing on a new police station and dispatch center. All parcels at the site have been acquired and site preparation work is planned for spring. Completion will take a couple years.

A newly constructed 60,000 square foot Price Chopper supermarket opened in September, 2012. This project is within the Gardner Urban Renewal Area and is an addition to the city's tax base.

The city has reached an agreement with a firm planning to build a solar energy generating facility with an expected nameplate capacity of approximately 2.5 megawatts on city property. When completed, this project will add to the city's local revenues.

The sewer enterprise fund balance continues to grow as planned. The city is building a reserve in anticipation of having to repair and expand the current treatment plant.

In November, 2012, the Department of Revenue certified free cash of \$1,408,781. Some of these funds will be used to increase the budget for snow & ice removal and to further increase the Stabilization Fund.

The city expects to break even or have a modest gain in its general fund balance during FY13. Enterprise funds are expected to continue to operate with positive balances.

Questions about this report should be directed to the City Auditor, 95 Pleasant Street, Room 126, Gardner, MA 01440.

**CITY OF GARDNER
GARDNER, MASSACHUSETTS**

REPORT OF FEDERAL AWARDS EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Honorable Mayor and City Council
City of Gardner, Massachusetts

Compliance

We have audited the compliance of the City of Gardner, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2012. The City of Gardner's major federal programs are identified in the schedule of federal awards expenditures. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Gardner's management. Our responsibility is to express an opinion on the City of Gardner's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Gardner's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Gardner's compliance with those requirements.

In our opinion, the City of Gardner complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the City of Gardner is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Gardner's internal control over compliance with requirements that could have a direct and

Internal Control Over Compliance (Continued)

material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Gardner, Massachusetts as of and for the year ended June 30, 2012 and have issued our report thereon dated December 6, 2012. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

December 6, 2012

J. Sense V. McKeena, CPA

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and City Council
City of Gardner, Massachusetts

We have audited the financial statements of the City of Gardner, Massachusetts as of and for the year ended June 30, 2012, and have issued our report thereon, dated December 6, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Gardner's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Gardner's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Honorable Mayor and City Council

City of Gardner, Massachusetts

Page Two

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

December 6, 2012

George V. Mc Kenna, CPA

**CITY OF GARDNER
Gardner, Massachusetts**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES

For the Year Ended June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>		
Passed Through State Department of Education:		
Early Childhood Allocation	84.173*	\$ 38,244.
Title I 84.010*	462,325.	
Title III 84.151	33,125.	
PL 94-142 84.027*	851,497.	
Title II	84.367*	139,484.
American Reinvestment Recovery Act	84.367*	<u>172,074.</u>
Total U.S. Department of Education		<u>1,696,749.</u>
 <u>U.S. Department of Agriculture</u>		
School Lunch Program	10.555*	584,414.
 <u>U.S. Department of Housing and Urban Development</u>		
Small Cities Program	14,218*	765,733.
 <u>U.S. Department of Justice</u>		
Law Enforcement Technology Program	16.710	<u>100,662.</u>
 Total Federal Awards Expenditures		 <u>\$3,147,558.</u>

*Denotes major program

**CITY OF GARDNER
Gardner, Massachusetts**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

For the Year Ended June 30, 2012

I. Summary of Significant Accounting Policies

The accounting policies and financial reporting practices of the City of Gardner, Massachusetts conform to the generally accepted accounting principles as applicable to governments, except for the accounting treatment of fixed assets.

Basis of Presentation

The accompanying schedule of federal financial assistance includes the federal grant transactions of the City. The receipts and proceeds from federal grants are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable. Disbursements of federal grant funds are recorded on the accrual basis.

II. Scope of Audit

The City of Gardner, Massachusetts is a governmental agency established by the laws of the Commonwealth of Massachusetts. All operations related to the City's federal grant programs, (Department of Agriculture, Department of Housing and Urban Development, Department of Justice, Department of Transportation and Department of Education), are included in the scope of the OMB Circular A-133 Audit Requirements for audits of state and local governments. The Department of Housing and Community Development - Commonwealth of Massachusetts has been designated as the City's oversight agency for the Single Audit.

**CITY OF GARDNER
Gardner, Massachusetts**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Gardner, Massachusetts.
2. No reportable conditions relating to the audit of the financial statements are reported in the independent auditors report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the City of Gardner, Massachusetts were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the independent auditors report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Gardner, Massachusetts expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the City of Gardner, Massachusetts reported.
7. The programs tested as major programs include:

<u>PROGRAM</u>	CFDA	<u>NO.</u>
PL 94-142		84.027
Title I		84.010
Small Cities Program (HUD)		14.218
Title II	84.367	
School Lunch Program	10.555	

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Gardner, Massachusetts was not determined to be a low-risk auditee.

**CITY OF GARDNER
Gardner, Massachusetts**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None