

CITY OF GARDNER

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011
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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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, 2011 (except for the City of Gardner Retirement System which is as of December 31, 2010), 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 January 20, 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.

January 20, 2012

George V. McKenna, CPA

CITY OF GARDNER
STATEMENT OF NET ASSETS
June 30, 2011

	<i>Primary Government</i>			<i>Component Unit</i>	
	Governmental Activities	Business-type Activities	Total	Levi Heywood Library	Retirement System 12/31/10
ASSETS					
CURRENT:					
Cash and short-term investments	\$ 5,805,240		\$ 5,805,240	\$ 137,281	\$ 2,558,901
Investments	7,377,386	\$ 6,882,804	14,260,190	1,578,313	35,611,189
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	915,425		915,425		
Tax liens	462,741		462,741		
Motor vehicle excise	627,589		627,589		
Taxes in Litigation					
User Fees		1,496,675	1,496,675		
Departmental and other	634,536		634,536		
Tax foreclosures	674,968		674,968		
Due from Commonwealth	2,384,579		2,384,579		
Intergovernmental	807,991		807,991		
Other			-	213,488	241,382
Other assets	52,071		52,071	16,605	
NONCURRENT:					
Restricted:					
Cash	1,091,952	274,915	1,366,867	43,841	
Investments			-		
Due from Commonwealth	4,847,946		4,847,946		
Capital assets, net of accumulated depreciation	25,085,802	18,967,600	44,053,402	6,441,757	
TOTAL ASSETS	<u>50,768,226</u>	<u>27,621,994</u>	<u>78,390,220</u>	<u>8,431,285</u>	<u>38,411,472</u>
LIABILITIES					
CURRENT:					
Warrants payable and accrued expenses	1,408,217		1,408,217	213,488	189,595
Accrued payroll and withholding	402,468	399,253	801,721		
Other liabilities	1,158,884		1,158,884		
Deferred revenues	318,432	300,533	618,965		
Accrued interest	77,195	192,054	269,249		
Bonds and notes payable	3,521,594	1,785,926	5,307,520		
Compensated absences	200,000	12,506	212,506		
NONCURRENT:					
Bonds and notes payable	5,354,494	11,294,663	16,649,157	790,000	
Compensated absences	2,690,253	35,729	2,725,982		
Post employment benefits	16,508,698	1,128,748	17,637,446		
TOTAL LIABILITIES	<u>31,640,235</u>	<u>15,149,412</u>	<u>46,789,647</u>	<u>1,003,488</u>	<u>189,595</u>
NET ASSETS					
Invested in capital assets, net of related debt	23,972,219	5,887,011	29,859,230	1,626,305	
Restricted for:					
Capital projects	(820,881)		(820,881)		
Post employment benefits	(16,508,698)		(16,508,698)		
Streets	820,784		820,784		
Community development	461,115		461,115		
Perpetual funds:					
Expendable	53,937		53,937	90,542	
Nonexpendable	437,900		437,900	43,841	
Other purposes	7,676,227		7,676,227	3,838	
Unrestricted	3,035,388	6,585,571	9,620,959	1,626,305	
TOTAL NET ASSETS	<u>\$ 19,127,991</u>	<u>\$ 12,472,582</u>	<u>\$ 31,600,573</u>	<u>\$ 7,427,797</u>	<u>\$ 38,221,877</u>

See notes to financial statements.

**CITY OF GARDNER
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	<i>Primary Government</i>		<i>Component Units</i>		
					Governmental Activities	Business-Type Activities	Total	Library	Retirement System
Primary Government:									
<i>Governmental Activities:</i>									
General government	\$ 3,317,928	\$ 413,549	\$ 1,338,470		\$ (1,565,909)		\$ (1,565,909)		
Public safety	6,171,249	496,062	818,164		(4,857,023)		(4,857,023)		
Education	25,816,233	599,557	23,508,723		(1,707,953)		(1,707,953)		
Public works	2,025,883	71,037	200,365	\$ 1,169,940	(584,541)		(584,541)		
Health and human services	1,194,529	75,192	583,156		(536,181)		(536,181)		
Culture and recreation	1,086,628	76,456	42,695		(967,477)		(967,477)		
Community and economic development	937,664		942,238		4,574		4,574		
Retirement	2,619,070	66,970			(2,552,100)		(2,552,100)		
Property and liability insurance	359,141				(359,141)		(359,141)		
Fringe benefits	15,977,581		2,358,747		(13,618,834)		(13,618,834)		
State and county charges	1,114,439				(1,114,439)		(1,114,439)		
Interest	318,854				(318,854)		(318,854)		
Total Governmental Activities	60,939,199	1,798,823	29,792,558	1,169,940	(28,177,878)		(28,177,878)		
<i>Business-Type Activities:</i>									
Proprietary services	8,018,907	8,106,784				\$ 87,877	87,877		
Total Business-Type Activities	8,018,907	8,106,784	-			87,877			
Total primary government	\$ 68,958,106	\$ 9,905,607	\$ 29,792,558	\$ 1,169,940	(28,177,878)	87,877	(28,090,001)		
Component Unit:									
Retirement System	\$ 5,237,985		\$ 2,756,916						\$ (2,481,069)
Heywood Library	\$ 1,072,715	\$	\$ 761,964	\$ 43,841				\$ (266,910)	
<i>General Revenues:</i>									
Real estate and personal property, net of reserve for abatements					18,530,249		18,530,249		
Motor vehicle and other excise taxes					1,673,976		1,673,976		
Penalties and interest on taxes					361,111		361,111		
Payments in lieu of taxes					26,273		26,273		
Tax liens					157,059		157,059		
Grants and contributions not restricted specific programs					4,050,772	328,720	4,379,492		
Miscellaneous					62,604	17,672	80,276	41,437	
Investment income					43,109	15,276	58,385	240,569	4,411,970
<i>Special Items:</i>									
Gain on sales of fixed assets					3,622		3,622		
Retirement contributions from employee's <i>Transfers, net</i>					524,190	(524,190)			1,045,385
Total general revenues, special items and transfers					25,432,965	(162,522)	25,270,443	282,006	5,457,355
Change in Net Assets					(2,744,913)	(74,645)	(2,819,558)	15,096	2,976,286
Beginning of the Year					21,872,904	12,547,227	34,420,131	7,412,701	35,245,591
End of the Year					\$ 19,127,991	\$ 12,472,582	\$ 31,600,573	\$ 7,427,797	\$ 38,221,877

See notes to financial statements.

**CITY OF GARDNER
BALANCE SHEET
June 30, 2011**

ASSETS	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 5,125,660	\$ 1,036,429	\$ 5,688,969	\$ 11,851,058
Receivables, net of allowance for uncollectibles:				
Real estate and personal property taxes	915,425			915,425
Tax liens	462,741			462,741
Motor vehicle excise	627,589			627,589
Intergovernmental	5,655,937			5,655,937
Departmental and other	627,686		6,850	634,536
Tax foreclosures	674,968			674,968
Due from Commonwealth	158,849		2,225,730	2,384,579
Other assets	1,066		51,005	52,071
Cash - restricted			1,091,952	1,091,952
Investments - restricted				-
TOTAL ASSETS	\$ 14,249,921	\$ 1,036,429	\$ 9,064,506	\$ 24,350,856
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable	\$ 588,384		\$ 819,833	\$ 1,408,217
Accrued payroll & withholding	402,468			402,468
Other liabilities			559,963	559,963
Deferred revenues	8,830,219		2,229,056	11,059,275
Bonds and notes payable			2,425,000	2,425,000
TOTAL LIABILITIES	9,821,071	1,036,429	6,033,852	15,854,923
FUND BALANCES:				
Reserved for:				
Encumbrances and continuing appropriations	1,643,883			1,643,883
Stabilization		\$ 1,036,429		1,036,429
Debt service				-
Perpetual permanent funds			437,900	437,900
Other specific purposes			3,731,672	3,731,672
Unreserved:				
Designated for subsequent years' expenditures	689,060			689,060
Undesignated, reported in:				
General fund	2,095,907			2,095,907
Special revenue funds				-
Capital projects funds			(1,192,855)	(1,192,855)
Permanent funds			53,937	53,937
TOTAL FUND BALANCES	4,428,850	1,036,429	3,030,654	8,495,933
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,249,921	\$ 1,036,429	\$ 9,064,506	\$ 24,350,856

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, 2011

Total governmental fund balances	\$	8,495,933
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		25,085,802
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		11,059,275
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.		732,647
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(77,195)
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		(8,876,088)
BAN payable		2,425,000
Bond premium		(318,432)
Compensated absences		(2,890,253)
Post employment benefits		<u>(16,508,698)</u>
Net assets of governmental activities	\$	<u>19,127,991</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, 2011**

	General	Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds	\$ 18,599,340			\$ 18,599,340
Motor vehicle and other excise taxes	1,616,166			1,616,166
Penalties and interest on taxes	361,111			361,111
Licenses and permits	306,525			306,525
Intergovernmental	23,399,961		\$ 7,945,926	31,345,887
Charges for services	494,421		822,991	1,317,412
Fines and forfeitures	174,691			174,691
Investment income	21,432	\$ 1,532	6,220	29,184
Tax liens	131,595			131,595
Contributions and donations			752,201	752,201
Payments in lieu of taxes	33,773			33,773
Miscellaneous	26,722		89,645	116,367
TOTAL REVENUES	45,165,737	1,532	9,616,983	54,784,252
EXPENDITURES:				
Current:				
General government	2,080,967		1,234,032	3,314,999
Public safety	5,190,795		862,182	6,052,977
Education	19,504,298		6,108,992	25,613,290
Public works	2,042,062		742,228	2,784,290
Community and economic development			937,664	937,664
Health and human services	1,071,358		42,356	1,113,714
Culture and recreation	992,219		335,295	1,327,514
Retirement	2,619,070			2,619,070
Property and liability insurance	359,141			359,141
Fringe benefits	7,613,389			7,613,389
State and county charges	1,114,439			1,114,439
Debt service:				
Principal	1,468,594			1,468,594
Interest	326,006			326,006
TOTAL EXPENDITURES	44,382,338		10,262,749	54,645,087
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	783,399	1,532	(645,766)	139,165
OTHER FINANCING SOURCES (USES):				
Transfers in	925,463	588,821	21,464	1,535,748
Transfers out	(605,325)		(538,523)	(1,143,848)
Sale of assets			7,000	7,000
Proceeds from issuance of debt			425,000	425,000
TOTAL OTHER FINANCING SOURCES (USES)	320,138	588,821	(85,059)	823,900
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	1,103,537	590,353	(730,825)	963,065
FUND BALANCES AT BEGINNING OF YEAR	3,325,313	446,076	3,761,479	7,532,868
FUND BALANCES AT END OF YEAR	\$ 4,428,850	\$ 1,036,429	\$ 3,030,654	\$ 8,495,933

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, 2011

Net change in fund balances - total governmental funds	\$	963,065
<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>		
		450,196
<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>		
		492,717
<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>		
		1,054,206
<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>		
		7,152
<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>		
		(3,378)
<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		144,138
Post employment benefits		(6,418,911)
<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		565,902
Change in net assets of governmental activities	\$	(2,744,913)

See notes to financial statements.

**CITY OF GARDNER
 PROPRIETAREY FUNDS
 STATEMENT OF NET ASSETS
 June 30, 2011**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water, Sewer, Golf Landfill & Solid Waste	
ASSETS		
CURRENT:		
Cash and short-term investments	\$ 6,882,804	\$ 1,331,568
User fees, net of allowance for uncollectibles	1,496,675	-
Total current assets	8,379,479	1,331,568
NONCURRENT:		
Restricted cash and short-term investments:		
Capital Projects	274,915	-
Capital assets, net of accumulated depreciation	18,967,600	-
Other assets	-	-
Total noncurrent assets	19,242,515	-
TOTAL ASSETS	27,621,994	1,331,568
LIABILITIES		
CURRENT:		
Warrants payable	399,253	-
Accrued liabilities		598,921
Deferred revenue- Bond Premium	300,533	-
Compensated absences	12,506	
Accrued interest	192,054	
Bonds and notes payable	1,785,926	-
Total current liabilities	2,690,272	598,921
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Customer deposits payable		
NONCURRENT:		
Bonds and notes payable	11,294,663	-
Post-employment fringe benefits	1,128,748	
Compensated absences	35,729	-
Total noncurrent liabilities	12,459,140	-
TOTAL LIABILITIES	15,149,412	598,921
NET ASSETS		
Invested in capital assets, net of related debt	5,887,011	-
Unrestricted	6,585,571	732,647
TOTAL NET ASSETS	\$ 12,472,582	\$ 732,647

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, 2011**

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water, Sewer, Golf Landfill & Solid Waste</u>	<u>Fund</u>
<u>OPERATING REVENUES:</u>		
Charges for services	\$ 8,033,963	
Employer contributions		\$ 6,940,758
Employee contributions		2,358,747
Miscellaneous	72,821	
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	8,106,784	9,299,505
	<hr/>	<hr/>
<u>OPERATING EXPENSES:</u>		
Cost of services and administration	5,928,833	
Depreciation	1,016,749	
Employee benefits	438,880	8,886,039
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	7,384,462	8,886,039
	<hr/>	<hr/>
OPERATING INCOME (LOSS)	722,322	413,466
	<hr/>	<hr/>
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Intergovernmental	328,720	
Investment income	15,276	20,146
Amortized bond premium	17,672	
Interest expense	(634,445)	
	<hr/>	<hr/>
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(272,777)	20,146
	<hr/>	<hr/>
INCOME (LOSS) BEFORE TRANSFERS	449,545	433,612
	<hr/>	<hr/>
<u>TRANSFERS:</u>		
Transfers out		132,290
Transfers in	(524,190)	
	<hr/>	<hr/>
	(524,190)	132,290
	<hr/>	<hr/>
CHANGE IN NET ASSETS	(74,645)	565,902
	<hr/>	<hr/>
NET ASSETS AT BEGINNING OF YEAR	12,547,227	166,745
	<hr/>	<hr/>
NET ASSETS AT END OF YEAR	\$ 12,472,582	\$ 732,647
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

**CITY OF GARDNER
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For th Year Ended June 30, 2011**

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water, Sewer, Golf Landfill & Solid Waste</u>	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers and users	\$ 8,037,295	\$ 2,358,747
Receipts from interfund services provided		6,940,758
Payments to vendors	(6,058,034)	
Payments for interfund services used		(8,730,654)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>1,979,261</u>	<u>568,851</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Operating transfers	(524,190)	132,290
Intergovernmental subsidy	328,720	
NET CASH PROVIDED (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>(195,470)</u>	<u>132,290</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Proceeds from the issuance of bonds and notes	500,000	
Acquisition and construction of capital assets	(830,872)	
Principal payments on bonds and notes	(1,206,999)	
Interest expense	(628,531)	
NET CASH (USED FOR) CAPITAL RELATED FINANCING ACTIVITIES	<u>(2,166,402)</u>	
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investment income	15,276	20,146
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	(367,335)	721,287
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	7,525,055	610,281
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	<u>\$ 7,157,720</u>	<u>\$ 1,331,568</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ 1,161,202	\$ 413,466
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,016,749	
Changes in assets and liabilities:		
User fees	(69,490)	
Warrants payable	(130,616)	
Employee benefits		
Accrued liabilities		155,385
Accrued compensated absences	1,415	
Total adjustments	<u>818,058</u>	<u>155,385</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 1,979,260</u>	<u>\$ 568,851</u>

See notes to financial statements.

**CITY OF GARDNER
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2011**

	<u>Pension Trust Fund (As of December 31, 2010)</u>	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>		
Contributions:		
Employer	\$ 2,607,019	
Employee	1,045,385	
Intergovernmental	149,897	
Private donations		\$ 163,666
Total contributions	<u>3,802,301</u>	<u>163,666</u>
Net investment income:		
Interest and dividends	992,114	13,698
Realized gains net of losses	884,114	
Net appreciation in fair value of investments	<u>2,535,742</u>	
Total investment income	4,411,970	13,698
Less investment expense	<u>(160,364)</u>	
Net investment income	<u>4,251,606</u>	<u>13,698</u>
Intergovernmental Transfers from other systems		
TOTAL ADDITIONS	<u>8,053,907</u>	<u>177,364</u>
<u>DEDUCTIONS:</u>		
Retirement benefits	4,524,811	
Administration	110,796	
Refunds and transfers to other systems	442,014	
Educational scholarships		<u>21,094</u>
TOTAL DEDUCTIONS	<u>5,077,621</u>	<u>21,094</u>
CHANGE IN NET ASSETS	2,976,286	156,270
NET ASSETS AT BEGINNING OF YEAR	<u>35,245,591</u>	<u>985,509</u>
NET ASSETS AT END OF YEAR	<u>\$ 38,221,877</u>	<u>\$ 1,141,779</u>

See notes to financial statements.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

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, 2011

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, 2011

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 Prepaids

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.

Prepaids 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, 2011

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, 2011

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, 2011

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, 2011

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, 2011

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, 2011

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, 2011

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:

	<u>January 1, 2011</u>
(1) Actuarial Accrued Liability	\$69,104,720.
(2) Actuarial Value of Assets	<u>38,221,877.</u>
(3) Unfunded Actuarial Accrued Liability (UAAL)	<u>\$30,882,843.</u>
(4) Funded Ratio (2)/(1)	55%

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

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
_____	(a)	(b)	(b-a)	(a/b)	(c)	(b-a) / c
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, 2011

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, 2011

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 four installments on August 1, November 1, February 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, 2011

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, 2011

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, 2011 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	\$ 960,000.	
Issued	3,013,000.	1.28%
Matured	<u>960,000.</u>	
Outstanding, end of year	<u>\$3,013,000.</u>	

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

Note 5: Changes in Long-Term Debt

The following is a summary of bond transactions of the City for the year ended June 30, 2011:

Long-term debt payable July 1, 2010	\$21,172,270.
Debt issued	0.
Debt retired	<u>2,228,593.</u>
Long-term debt payable at June 30, 2011	<u>\$18,943,676.</u>

Long-term debt payable at June 30, 2011 is comprised of the following individual issues:

<u>Primary Government</u>	<u>Original Issue</u>	<u>Payable June 30, 2011</u>	<u>Fiscal Year Maturity</u>
Governmental Activities:			
Fredette Street	\$ 120,750.	\$ 37,128.	2023
Municipal Purpose '03	3,530,000.	1,090,000.	2016
Refunding Bonds-2005	7,686,510.	5,265,960.	2018
Poent Mill – MDFA-2007	58,000.	<u>58,000.</u>	
		<u>6,451,088.</u>	
Business Type Activities:			
Sewer Enterprise Fund			
Snake Pond	1,286,875.	695,487.	2025
Refunding Bonds-2005	1,032,637.	<u>585,405.</u>	2016
		<u>1,280,892.</u>	
Water Enterprise Fund			
Fedette Street	52,250.	16,692.	2023
Crystal Lake WPAT '99	9,977,649.	4,660,788.	2020
Water Projects '02	7,165,000.	3,475,000.	2022
Crystal Lake WPAT '02	985,570.	306.	2020
Snake Pond	3,205,861.	2,390,276.	2025
Refunding Bond-2005	1,171,025.	<u>668,634.</u>	2018
		<u>11,211,696.</u>	
	Total	<u>\$18,943,676.</u>	

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

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

The annual requirements to amortize all debt principal outstanding as of June 30, 2011.

<u>Fiscal Year</u>	<u>Total</u>
2012	2,236,520.
2013	2,244,619.
2014	2,169,912.
2015	2,193,345
2016	2,211,835.
2017-2025	<u>7,887,446.</u>
Total	<u>\$18,943,676.</u>

The following is the computation of the City's legal debt margin of June 30, 2011

Equalized valuation – personal property and real estate, January 1, 2011		\$1,338,913,500.
Debt limit – 5% of equalized valuation		66,945,675.
Amount of debt applicable to debt limit:		
Total bonded debt	\$18,943,676.	
Less – bonded debt not included in computation of legal debt margin as defined in Massachusetts statutes	<u>17,741,856.</u>	<u>1,201,820.</u>
Legal debt margin		<u>\$ 65,743,855.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

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, 2011.

	Category			Total *	Carrying Amount
	1	2	3		
Cash and cash equivalents	<u>\$2,655,636.</u>	<u>\$6,680,299.</u>	<u>\$ 0</u>	<u>\$9,335,935.</u>	<u>\$5,805,240.</u>

* 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, 2011 none of the bank deposits were uninsured or uncollateralized.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

Note 6: Deposits and Investments (Continued)

Investments - Primary Government

	<u>Market Value *</u>
U.S. Government Securities	<u>\$4,393,328.</u>
Investments held in State Treasurer's investment pool (MMDT)	<u>\$9,866,862.</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, 2011

Note 6: Deposits and Investments (Continued)

<u>Deposits</u>	Levi Heywood Memorial Library Association, Inc. <u>June 30, 2011</u>	City of Gardner Retirement System <u>December 31, 2010</u>
Cash and equivalents	<u>\$ 180,122.</u>	<u>\$2,558,901.</u>

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	\$ 829,749.
Money market	70,862.
Corporate bonds	10,131.
Government bonds – Mutual funds	657,551.
Certificate of deposits	<u>10,020.</u>
	<u>\$1,578,313.</u>

Pension Reserves Investment Trust (pooled funds)	<u>\$35,611,189.</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, 2011

Note 7: Capital Assets

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
<u>Governmental:</u>				
Land	\$ 1,467,063.	\$ 6,073.	\$ (3,378.)	\$ 1,469,758.
Buildings	28,574,178.	196,774.		28,770,952.
Infrastructure	17,295,978.	419,125.	586,170.	18,301,273.
Vehicles	6,431,108.	355,856.		6,786,964.
Equipment	649,691.	65,866.	581,637.	1,297,194.
Other	721,260.	15,493.		736,753.
Construction in progress	<u>464,496.</u>	<u>1,509,499.</u>	<u>(1,192,389.)</u>	<u>781,606.</u>
	<u>55,603,774.</u>	<u>2,568,686.</u>	<u>(27,960.)</u>	<u>58,144,500.</u>
Accumulated Depreciation	(30,964,790.)	(2,118,490.)	<u>24,582.</u>	(33,058,698.)
Capital Assets – Governmental	<u>\$24,638,984.</u>	<u>\$ 450,196.</u>	<u>\$ (3,378.)</u>	<u>\$25,085,802.</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.	\$ 159,445.		13,687,723.
Vehicles	274,908.			274,908.
Equipment	<u>773,222.</u>			<u>773,222.</u>
	<u>29,064,963.</u>	<u>159,445.</u>	<u>0.</u>	<u>29,224,408.</u>
Accumulated Depreciation	(12,393,359.)	(705,018.)		(13,098,377.)
Capital Assets – Water	<u>\$16,671,604.</u>	<u>\$ (545,573.)</u>	<u>0.</u>	<u>\$16,126,031.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

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.			3,774,536.
Vehicles	<u>682,982.</u>		\$(23,313.)	<u>682,982.</u>
	<u>21,999,772.</u>	<u>0.</u>	<u>(23,313.)</u>	<u>21,999,772.</u>
Accumulated Depreciation	<u>(20,172,662.)</u>	<u>\$(216,716.)</u>	<u>23,313.</u>	<u>(20,389,378.)</u>
Capital Assets – Sewer	<u>\$ 1,827,110.</u>	<u>\$(216,716.)</u>	<u>0.</u>	<u>\$ 1,610,394.</u>
<u>Golf:</u>				
Land	\$ 419,653.			\$ 419,653.
Buildings/equipment	326,721.	\$ 35,864.	\$ (3,594.)	358,991.
Vehicles	<u>43,212.</u>			<u>43,212.</u>
	<u>789,586.</u>	<u>35,864.</u>		<u>821,856.</u>
Accumulated Depreciation	<u>(134,823.)</u>	<u>(31,459.)</u>	<u>3,594.</u>	<u>(162,688.)</u>
Capital Assets – Golf	<u>\$ 654,763.</u>	<u>\$ 4,405.</u>	<u>0.</u>	<u>\$ 659,168.</u>
<u>Solid Waste:</u>				
Equipment	<u>0.</u>	<u>\$ 635,563.</u>		<u>\$ 635,563.</u>
		<u>635,563.</u>	<u>0.</u>	<u>635,563.</u>
Accumulated Depreciation	<u>0.</u>	<u>(63,556.)</u>	<u>0.</u>	<u>(63,556.)</u>
Capital Assets – Solid Waste	<u>0.</u>	<u>\$ 572,007.</u>	<u>0.</u>	<u>\$ 572,007.</u>
Capital Assets - Business Type	<u>\$19,153,477.</u>	<u>(\$185,877.)</u>	<u>0.</u>	<u>\$18,967,600.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

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 2012 operating, capital and proprietary fund budget totaling \$54,805,247. The City has certified its fiscal year 2012 tax rate at \$16.67 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 \$100,000 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 \$719,900. The incurred but not reported claims amount was \$598,921 at June 30, 2011.

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.

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>448</u>
	<u>921</u>

Funding Policy

The contribution levels are as follows:

City	75%
Members	25%

The contribution rates may be amended by the City generally through the collective bargaining process. The City currently funds the Plan under a pay-as-you-go basis.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2011

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, 2011

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, 2011.

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 \$4,353,438 for the fiscal year ended June 30, 2011.

Note 14: Loans Authorized and Un-issued

At June 30, 2011 the City had \$2,702,000 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, 2011

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 \$463,501 in a post-closure monitoring fund to pay for monitoring costs over the next 30 years. Additionally the City has reserved \$345,522 from the sale of carbon credits received in 2010.

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, 2011**

	<u>Budgeted Amounts</u>		-	Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Amounts</u>	
REVENUES:				
Real estate and personal property taxes, net of reserve for abatements	\$ 18,271,579	\$ 18,551,241	\$ 18,599,340	\$ 48,099
Motor vehicle and other excise taxes	1,630,000	1,550,000	1,616,166	66,166
Tax Liens	-	-	131,595	131,595
Penalties and interest on taxes	170,000	170,000	361,111	191,111
Licenses and permits	207,000	207,000	306,525	99,525
Intergovernmental	23,413,827	23,352,808	23,397,242	44,434
Charges for services	294,300	294,300	377,087	82,787
Fines and forfeitures	242,000	212,000	174,691	(37,309)
Investment income	30,000	30,000	21,432	(8,568)
Payments in lieu of taxes	31,000	31,000	33,773	2,773
Miscellaneous	95,200	95,200	146,776	51,576
TOTAL REVENUES	44,384,906	44,493,549	45,165,738	672,189
EXPENDITURES:				
Current:				
General government	2,223,649	2,393,836	2,080,968	312,868
Public safety	5,147,927	5,355,053	5,190,795	164,258
Education	20,128,015	20,121,852	19,504,298	617,554
Public works	1,867,546	2,126,498	2,042,062	84,436
Health and human services	950,884	1,088,740	1,071,358	17,382
Culture and recreation	932,739	992,946	992,219	727
Retirement	2,619,071	2,619,071	2,619,070	1
Property and liability insurance	440,000	440,000	359,141	80,859
Fringe benefits	7,702,384	7,702,384	7,613,389	88,995
State and county charges	1,166,031	1,166,031	1,114,439	51,592
Debt service:				
Principal	1,468,594	1,468,594	1,468,594	-
Interest	326,006	326,006	326,006	-
TOTAL EXPENDITURES	44,972,846	45,801,011	44,382,339	1,418,672
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(587,940)	(1,307,462)	783,399	2,090,861
OTHER FINANCING SOURCES (USES):				
Transfers in	403,000	606,246	925,463	319,217
Transfers out	-	(588,821)	(605,325)	(16,504)
TOTAL OTHER FINANCING SOURCES (USES)	403,000	17,425	320,138	302,713
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FIN USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(184,940)	(1,290,037)	1,103,537	2,393,574
BUDGETARY FUND BALANCE AT BEGINNING OF YEAR	2,258,406	2,258,406	2,258,406	-
BUDGETARY FUND BALANCE AT END OF YEAR	\$ 2,073,466	\$ 968,369	\$ 3,361,943	\$ 2,393,574

See notes to financial statements.

Management's Discussion and Analysis

The City of Gardner presents its financial reports for the fiscal year ending June 30, 2011.

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 FY10	Total FY11	Total % Change FY10 to FY11
	FY10	FY11	FY10	FY11			
Current & Other Assets	\$21.9	\$25.6	\$8.9	\$8.6	\$30.8	\$34.2	11.04%
Capital Assets	24.7	25.1	19.2	19.0	43.9	44.1	0.46%
Total Assets	\$46.6	\$50.7	\$28.1	\$27.6	\$74.7	\$78.3	4.82%
Longterm Debt Outstanding	\$7.4	\$6.5	\$13.8	\$12.5	\$21.2	\$19.0	-10.38%
Other Liabilities	17.6	25.1	1.8	2.6	19.4	27.7	42.78%
Total Liabilities	\$25.0	\$31.6	\$15.6	\$15.1	\$40.6	\$46.7	15.02%
Invested in Capital Assets							
Net of Related Debt	\$23.3	\$24.0	\$5.3	\$5.9	\$28.6	\$29.9	4.55%
Restricted	(5.4)	(7.9)	0.0	0.0	(5.4)	(7.9)	46.30%
Unrestricted	3.7	3.0	7.2	6.6	10.9	9.6	-11.93%
Total Net Assets	\$21.6	\$19.1	\$12.5	\$12.5	\$34.1	\$31.6	-7.33%

Total net assets decreased from FY10 to FY11 by \$2.5 million. Net assets for governmental activities decreased \$2.5 million. This decrease is the result of a \$3.7 million increase in current and other assets, an increase of \$0.4 million in capital assets, and an increase of \$6.6 million in total liabilities.

Net assets for business type activities have no change. It is the result of a \$0.3 million decrease in current and other assets, a \$0.2 million decrease in capital assets, and a \$0.5 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 FY10	% Change	
	FY10	FY11	FY10	FY11		FY11	FY10toFY11
<u>Revenue</u>							
Program Revenue							
Charges for Services	\$2.2	\$1.8	\$8.3	\$8.1	\$10.5	\$9.9	-5.71%
Operating Grants and Contributions	30.1	29.8			30.1	29.8	-1.00%
Capital Grants and and Contributions	0.1	1.2			0.1	1.2	1100.00%
General Revenue							
Property Taxes	17.6	18.5			17.6	18.5	5.11%
Other Taxes	2.1	2.2			2.1	2.2	4.76%
Unrestricted Grants and Contributions	4.3	4.0	0.4	0.4	4.7	4.4	-6.38%
Other	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	0.0	0.1	NA
Total Revenue	\$56.4	\$57.6	\$8.7	\$8.5	\$65.1	\$66.1	1.54%
<u>Expense</u>							
General Government	\$2.0	\$3.3			2.0	3.3	65.00%
Public Safety	6.0	6.2			6.0	6.2	3.33%
Education	27.8	25.8			27.8	25.8	-7.19%
Public Works	3.1	2.0			3.1	2.0	-35.48%
Health & Human Services	0.7	1.2			0.7	1.2	71.43%
Culture & Recreation	1.3	1.1			1.3	1.1	-15.38%
Community and Economic Development	1.6	0.9			1.6	0.9	-43.75%
Retirement	2.5	2.6			2.5	2.6	4.00%
Property & Liability Insurance	0.4	0.4			0.4	0.4	0.00%
Fringe Benefits	15.5	16.0			15.5	16.0	3.23%
State & County Charges	1.1	1.1			1.1	1.1	0.00%
Interest	0.4	0.3			0.4	0.3	-25.00%
Water Enterprise			3.0	3.2	3.0	3.2	6.67%
Sewer Enterprise			2.7	2.8	2.7	2.8	3.70%
Golf Course Enterprise			0.7	0.7	0.7	0.7	0.00%
Landfill Closure Enterprise			0.1	0.1	0.1	0.1	0.00%
Solid Waste Enterprise			<u>1.4</u>	<u>1.2</u>	1.4	1.2	-14.29%
Total Expense	\$62.4	\$60.9	\$7.9	\$8.0	\$70.3	\$68.9	-1.99%
Excess (Deficiency) before Adjustments	(\$6.0)	(\$3.3)	\$0.8	\$0.5	(\$5.2)	(\$2.8)	
Prior period adjustment for rescinded motor vehicle adjustments		\$0.2				0.2	
Prior period adjustment for reclassification of police detail receivables		\$0.1				0.1	
Transfers	<u>\$0.4</u>	<u>\$0.5</u>	<u>(\$0.4)</u>	<u>(\$0.5)</u>	<u>\$0.0</u>	<u>\$0.0</u>	
Increase (Decrease) in Net Assets	(\$5.6)	(\$2.5)	\$0.4	\$0.0	(\$5.2)	(\$2.5)	
<u>Net Assets</u>							
Beginning of Year	\$27.2	\$21.6	\$12.1	\$12.5	\$39.3	\$34.1	-13.23%
End of Year	\$21.6	\$19.1	\$12.5	\$12.5	\$34.1	\$31.6	-7.33%

Revenue for governmental activities increased \$1.2 million. Property and other taxes increased \$1.0 million, charges for services decreased by \$0.4 million, operating grants decreased \$0.3 million, capital grants increased \$1.1 million, unrestricted grants decreased by \$0.3 million, and other revenue increased by \$0.1 million.

Expenses for governmental activities decreased \$1.5 million. Fringe benefit expenses increased \$0.5 million, the result of a \$0.7 million decrease in health insurance expenses and a \$1.2 million addition to the net OPEB obligation. General government expenses increased \$1.3 million, health & human services expenses increased \$0.5 million, public safety expenses increased \$0.2 million, and retirement expenses increased \$0.1 million. Education expenses decreased \$2.0 million, public works expenses decreased \$1.1 million, economic development expenses decreased \$0.7 million, culture & recreation expenses decreased \$0.2 million, and interest expense decreased \$0.1 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 decreased by \$0.2 million. Expenses and transfers out increased \$0.2 million.

Financial Analysis of the City's Funds

Combined governmental funds reported by the city increased by \$1.0 million.

The General Fund reported a surplus of revenue over expenditures of \$1,103,537 compared to a surplus of \$357,609 last year. Revenues decreased \$0.1 million and expenditures decreased \$1.3 million. Other financing sources decreased \$0.4 million. The city did not incur a legal deficit for snow & ice removal in FY11.

The Stabilization Fund increased in value by \$590,353.

Nonmajor Governmental Funds decreased \$730,825 compared to an increase of \$1,406,803 last year. Revenues were even, expenses increased \$0.6 million, and other financing uses increased \$0.1 million.

General Fund Budget Highlights

The city continued to operate under tight fiscal constraints caused by the revenue raising limits of Proposition 2½. The FY11 budget continued to rely on conservative revenue estimates and minimal growth in expenses.

In December, 2010, the state Department of Revenue certified free cash of \$1,888,210. 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 \$865,150 the previous year.

Once free cash was certified, the city transferred \$588,821 to the Stabilization Fund, which brought the balance in the fund to over \$1,000,000.

There were no changes in staffing levels. Non-school personnel did not receive across the board pay increases in FY2011. The pay scale has remained unchanged since July 1, 2007. Non-school personnel did receive an additional, one-time stipend equal to 2% of their salary on June 30, 2011. Unionized school personnel received a 3% increase in FY2011.

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

By the end of FY2011, actual revenues exceeded budgeted revenues by \$991,406, and actual expenditures were less than budgeted expenditures by \$1,402,168.

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 FY10	% Change	
	FY10	FY11	FY10	FY11		FY11	FY10toFY11
Land	\$1.5	\$1.5	\$1.0	\$1.0	\$2.5	\$2.5	0.0%
Buildings & Improvements	13.7	13.0	10.9	10.6	24.6	23.6	-4.1%
Vehicles	0.6	0.6	0.2	0.1	0.8	0.7	-12.5%
Equipment	0.2	0.8	0.2	0.7	0.4	1.5	275.0%
Textbooks	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Infrastructure	8.1	8.4	6.9	6.6	15.0	15.0	0.0%
Construction in Progress	<u>0.5</u>	<u>0.8</u>	<u>0.0</u>	<u>0.0</u>	<u>0.5</u>	<u>0.8</u>	
Total	\$24.6	\$25.1	\$19.2	\$19.0	\$43.8	\$44.1	0.7%

During FY2011, the city finished the third phase of the Pine Street reconstruction project, began a road reconstruction project on Parker Street, and repaved several other streets. A retaining wall was built on lower Main Street to assist with the development of a parcel included in the Gardner Urban Renewal Area. Several vehicles were purchased, including a bucket truck and brush cutter for the municipal grounds department. The boilers at H.M.Sauter Elementary School were replaced and roof replacement work began at the high school and two other elementary schools. The solid waste enterprise fund purchased toters which will allow for mechanized curbside pickup of trash and recycling.

Long Term Debt

City of Gardner Outstanding Debt
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total FY10	% Change	
	FY10	FY11	FY10	FY11		FY11	FY10toFY11
Outstanding Bonds Authorized and Unissued	\$8.6	\$6.5	\$14.9	\$12.5	\$23.5	\$19.0	-19.15%
	\$1.3	\$2.4	\$0.3	\$0.6	\$1.6	\$3.0	87.50%

In August, 2010, the city authorized new borrowing of \$1,300,000 for the purchase of two fire vehicles, a bucket truck, a brush cutter, and fire alarm upgrades at the high school. In January, 2011, the city authorized new borrowing of \$3,000,000 for roof repairs at the high school and two other elementary schools. Of this amount, 73.28% will be reimbursed by the Massachusetts School Building Authority. Finally, in April, 2011, the city authorized \$50,000 in new borrowing for replacement of an electrical service at the golf course. This loan will be paid using enterprise funds.

Future Expectations

The city enacted a balanced budget for FY2012. As in past years, the city worked with conservative revenue estimates and thorough expense forecasts. For the fourth year there were no across the board pay increases for non-school employees. The FY2012 budget was able to absorb higher costs for health insurance and veterans benefits caused by rising medical costs and the poor economy. The 2½% allowed increase in the tax levy, new growth in the tax levy, and reduced non-school state aid have not been sufficient to return city services to the level that existed in FY02.

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%, which will reduce the city's health insurance costs.

The city has also begun the process of building a new police station and dispatch center. It will be located within the Gardner Urban Renewal Area. To fund part of the cost, City Council authorized a \$2,000,000 loan order, subject to a favorable Prop 2½ debt exclusion vote. When voters in November rejected the debt exclusion, that order was rescinded and, in December, 2011, City Council authorized a loan order for \$12,000,000 covering the entire cost of the project. This project is expected to take a couple years to complete.

Construction of a 60,000 square foot Price Chopper supermarket is underway as part of a 125,000 square foot retail development project within the Gardner Urban Renewal Area. This addition to the city's tax base will open in August, 2012.

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, 2011, the Department of Revenue certified free cash of \$1,685,797. 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 FY12. 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.