

CITY OF GARDNER
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010
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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of 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 % 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, 2010 (except for the City of Gardner Retirement System which is as of December 31, 2009), 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
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2010, 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 40 and 41 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 16, 2010

George V. McKenna, CPA

CITY OF GARDNER
STATEMENT OF NET ASSETS
June 30, 2010

	<i>Primary Government</i>			<i>Component Unit</i>	
	Governmental Activities	Business-type Activities	Total	Levi Heywood Library	Retirement System 12/31/09
ASSETS					
CURRENT:					
Cash and short-term investments	\$ 6,651,873	\$ 7,093,351	\$ 13,745,224	\$ 133,134	\$ 2,495,509
Investments	3,508,987		3,508,987	1,524,847	32,651,073
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	980,941		980,941		
Tax liens	437,277		437,277		
Motor vehicle excise	342,143		342,143		
Taxes in Litigation					
User Fees		1,427,185	1,427,185		
Departmental and other	594,343		594,343	222,663	277,756
Tax foreclosures	649,698		649,698		
Due from Commonwealth	1,158,057		1,158,057		
Intergovernmental	807,991		807,991		
Other			-	18,276	
Other assets	1,692		1,692		
NONCURRENT:					
Restricted:					
Cash	1,144,138	431,704	1,575,842		
Investments			-		
Due from Commonwealth	5,655,937		5,655,937		
Capital assets, net of accumulated depreciation	24,638,984	19,153,477	43,792,461	6,636,444	
TOTAL ASSETS	<u>46,572,061</u>	<u>28,105,717</u>	<u>74,677,778</u>	<u>8,535,364</u>	<u>35,424,338</u>
LIABILITIES					
CURRENT:					
Warrants payable and accrued expenses	1,674,963	529,869	2,204,832	222,663	178,747
Accrued payroll and withholding	421,482		421,482		
Other liabilities	1,022,362		1,022,362		
Deferred revenues	329,044	318,206	647,250		
Accrued interest	84,347	186,140	270,487		
Bonds and notes payable	1,951,594	1,294,998	3,246,592		
Compensated absences	210,000		210,000		
NONCURRENT:					
Bonds and notes payable	6,393,088	12,492,589	18,885,677	900,000	
Compensated absences	2,824,391	46,820	2,871,211		
Post employment benefits	10,089,787	689,868	10,779,655		
TOTAL LIABILITIES	<u>25,001,058</u>	<u>15,558,490</u>	<u>40,559,548</u>	<u>1,122,663</u>	<u>178,747</u>
NET ASSETS					
Invested in capital assets, net of related debt	23,279,186	5,365,890	28,645,076	5,570,262	
Restricted for:					
Capital projects	(631,421)		(631,421)		
Post employment benefits	(10,089,787)		(10,089,787)		
Streets	216,529		216,529		
Community development	457,941		457,941		
Perpetual funds:					
Expendable	46,220		46,220		
Nonexpendable	436,900		436,900		
Other purposes	4,169,119		4,169,119	1,662,439	
Unrestricted	3,686,316	7,181,337	10,867,653		35,245,591
TOTAL NET ASSETS	<u>\$ 21,571,003</u>	<u>\$ 12,547,227</u>	<u>\$ 34,118,230</u>	<u>\$ 7,412,701</u>	<u>\$ 35,245,591</u>

See notes to financial statements.

**CITY OF GARDNER
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010**

Activities/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	\$ 2,021,424	\$ 323,974	\$ 189,509		\$ (1,507,941)		\$ (1,507,941)		
Public safety	6,001,872	869,258	762,059		(4,370,555)		(4,370,555)		
Education	27,778,064	668,666	23,966,570		(3,142,828)		(3,142,828)		
Public works	3,069,963	63,593	519,111	\$ 71,808	(2,415,451)		(2,415,451)		
Health and human services	708,367	106,444	559,040		(42,883)		(42,883)		
Culture and recreation	1,313,209	74,840	130,253		(1,108,116)		(1,108,116)		
Community and economic development	1,604,771		1,732,481		127,710		127,710		
Retirement	2,564,308	63,132			(2,501,176)		(2,501,176)		
Property and liability insurance	372,041				(372,041)		(372,041)		
Fringe benefits	15,516,268		2,272,564		(13,243,704)		(13,243,704)		
State and county charges	1,115,013				(1,115,013)		(1,115,013)		
Interest	377,745				(377,745)		(377,745)		
Total Governmental Activities	62,443,045	2,169,907	30,131,587	71,808	(30,069,743)		(30,069,743)		
<i>Business-Type Activities:</i>									
Proprietary services	7,762,602	8,277,363				\$ 514,761	514,761		
Total Business-Type Activities	7,762,602	8,277,363	-			514,761	(7,277,355)		
Total primary government	\$ 70,205,647	\$ 10,447,270	\$ 30,131,587	\$ 71,808	(30,069,743)	514,761	(29,554,982)		
Component Unit:									
Retirement System	\$ 4,880,287		\$ 3,800,362						\$ (1,079,925)
Raywood Library	\$ 1,044,478		\$ 702,225					\$ (342,253)	
<i>General Revenues:</i>									
Real estate and personal property, net of reserve for abatements					17,560,888		17,560,888		
Motor vehicle and other excise taxes					1,564,071		1,564,071		
Penalties and interest on taxes					373,274		373,274		
Payments in lieu of taxes					31,824		31,824		
Tax liens					118,162		118,162		
Grants and contributions not restricted to specific programs					4,107,452	357,069	4,464,521		
Miscellaneous					159,626	26,943	186,569	40,080	
Investment income					41,395	19,903	61,298	183,490	5,061,191
<i>Special Items:</i>									
Gain on sales of fixed assets					536		536		
Retirement contributions from employee's transfers, net					445,011	(445,011)			
Total general revenues, special items and transfers					24,402,239	(41,096)	24,361,143	223,570	5,061,191
Change in Net Assets					(5,667,504)	473,665	(5,193,839)	(118,683)	3,981,266
Beginning of the Year					27,238,507	12,073,562	39,312,069	7,531,384	31,264,325
End of the Year					\$ 21,571,003	\$ 12,547,227	\$ 34,118,230	\$ 7,412,701	\$ 35,245,591

See notes to financial statements.

**CITY OF GARDNER
BALANCE SHEET
June 30, 2010**

ASSETS	General	Stabilization	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 4,494,329	\$ 446,076		\$ 1,101,187	\$ 6,041,592
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	980,941				980,941
Tax liens	437,277				437,277
Motor vehicle excise	342,143				342,143
Intergovernmental					-
Departmental and other	587,413			6,930	594,343
Tax foreclosures	649,698				649,698
Due from Commonwealth	6,617,317			1,004,668	7,621,985
Other assets	1,692				1,692
Cash - restricted				1,144,138	1,144,138
Investments - restricted				3,508,987	3,508,987
TOTAL ASSETS	\$ 14,110,810	\$ 446,076	\$ -	\$ 6,765,910	\$ 21,322,796
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable	\$ 1,018,416			\$ 656,547	\$ 1,674,963
Accrued payroll & withholding	421,482				421,482
Other liabilities	14,751			564,075	578,826
Deferred revenues	9,330,848			1,008,074	10,338,922
Bonds and notes payable				850,000	850,000
TOTAL LIABILITIES	10,785,497			3,078,696	13,864,193
 FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations	880,728				880,728
Stabilization		\$ 446,076			446,076
Debt service					-
Perpetual permanent funds				436,900	436,900
Other specific purposes				3,732,854	3,732,854
Unreserved:					
Designated for subsequent years' expenditures	186,178				186,178
Undesignated, reported in:					
General fund	2,258,407				2,258,407
Special revenue funds					-
Capital projects funds				(528,760)	(528,760)
Permanent funds				46,220	46,220
TOTAL FUND BALANCES	3,325,313	446,076	-	3,687,214	7,458,603
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,110,810	\$ 446,076	\$ -	\$ 6,765,910	\$ 21,322,796

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, 2010

Total governmental fund balances	\$	7,458,603
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		24,638,984
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		10,338,922
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.		166,745
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(84,347)
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		(8,344,682)
BAN payable		850,000
Compensated absences		(329,044)
Post employment benefits		(3,034,391)
Bond premium		<u>(10,089,787)</u>
Net assets of governmental activities	\$	<u>21,571,003</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, 2010**

	General	Stabilization	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds	\$ 17,669,900				\$ 17,669,900
Motor vehicle and other excise taxes	1,576,088				1,576,088
Penalties and interest on taxes	373,274				373,274
Licenses and permits	226,430				226,430
Intergovernmental	24,572,812			\$ 8,910,469	33,483,281
Charges for services	415,737			1,315,099	1,730,836
Fines and forfeitures	213,891				213,891
Investment income	27,192	\$ (1,077)	\$	4,914	31,029
Tax liens	116,077				116,077
Contributions and donations				734,885	734,885
Payments in lieu of taxes	31,824				31,824
Miscellaneous	42,592			115,152	157,744
TOTAL REVENUES	45,265,817	(1,077)	-	11,080,519	56,345,259
EXPENDITURES:					
Current:					
General government	2,029,124			275,074	2,304,198
Public safety	4,800,602			1,127,820	5,928,422
Education	21,974,160			5,299,450	27,273,610
Public works	2,076,138			897,246	2,973,384
Community and economic development				1,604,771	1,604,771
Health and human services	957,128			51,653	1,008,781
Culture and recreation	906,535			387,586	1,294,121
Retirement	2,564,308				2,564,308
Property and liability insurance	372,041				372,041
Fringe benefits	6,992,538				6,992,538
State and county charges	1,115,013				1,115,013
Debt service:					
Principal	1,476,294				1,476,294
Interest	392,459				392,459
TOTAL EXPENDITURES	45,656,340		-	9,643,600	55,299,940
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(390,523)	(1,077)	-	1,436,919	1,045,319
OTHER FINANCING SOURCES (USES):					
Transfers in	910,320	160,031		16,885	1,087,236
Transfers out	(170,224)			(472,001)	(642,225)
Sale of assets	8,036				8,036
Proceeds from issuance of debt				425,000	425,000
TOTAL OTHER FINANCING SOURCES (USES)	748,132	160,031	-	(30,116)	878,047
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	357,609	158,954	-	1,406,803	1,923,366
FUND BALANCES AT BEGINNING OF YEAR	2,967,704	287,122		2,280,411	5,535,237
FUND BALANCES AT END OF YEAR	\$ 3,325,313	\$ 446,076	\$ -	\$ 3,687,214	\$ 7,458,603

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, 2010

Net change in fund balances - total governmental funds	\$	1,923,366
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.		(285,947)
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.		(2,350,866)
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.		1,091,551
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest, is not reported until due.		14,714
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.		
Compensated absences		175,563
Post-employment fringe benefits		(5,186,179)
Internal service funds are used by management to account for health insurance and workers' compensation activities.		
The net activity of internal service funds is reported with Governmental Activities		(1,049,706)
Change in net assets of governmental activities	\$	<u><u>(5,667,504)</u></u>

See notes to financial statements.

**CITY OF GARDNER
 PROPRIETAREY FUNDS
 STATEMENT OF NET ASSETS
 June 30, 2010**

	<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	\$ 7,093,351	\$ 610,281
User fees, net of allowance for uncollectibles	<u>1,427,185</u>	<u>-</u>
Total current assets	<u>8,520,536</u>	<u>610,281</u>
NONCURRENT:		
Restricted cash and short-term investments:		
Capital Projects	431,704	-
Capital assets, net of accumulated depreciation	19,153,477	-
Other assets	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>19,585,181</u>	<u>-</u>
TOTAL ASSETS	<u>28,105,717</u>	<u>610,281</u>
LIABILITIES		
CURRENT:		
Warrants payable	529,869	-
Deferred revenue- Bond Premium	318,206	-
Accrued liabilities		443,536
Accrued interest	186,140	
Bonds and notes payable	<u>1,294,998</u>	<u>-</u>
Total current liabilities	<u>2,329,213</u>	<u>443,536</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Customer deposits payable		
NONCURRENT:		
Bonds and notes payable	12,492,589	-
Post-employment fringe benefits	689,868	
Compensated absences	<u>46,820</u>	<u>-</u>
Total noncurrent liabilities	<u>13,229,277</u>	<u>-</u>
TOTAL LIABILITIES	<u>15,558,490</u>	<u>443,536</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,365,890	-
Unrestricted	<u>7,181,337</u>	<u>166,745</u>
TOTAL NET ASSETS	<u>\$ 12,547,227</u>	<u>\$ 166,745</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, 2010**

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
	Water, Sewer, Golf Landfill & Solid Waste	
<u>OPERATING REVENUES:</u>		
Charges for services	\$ 8,143,636	
Employer contributions		\$ 6,322,854
Employee contributions		2,272,564
Miscellaneous	133,727	
TOTAL OPERATING REVENUES	8,277,363	8,595,418
<u>OPERATING EXPENSES:</u>		
Cost of services and administration	5,768,097	
Depreciation	965,762	
Employee benefits	355,946	9,660,405
TOTAL OPERATING EXPENSES	7,089,805	9,660,405
OPERATING INCOME (LOSS)	1,187,558	(1,064,987)
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Intergovernmental	357,069	
Investment income	19,903	15,281
Amortized bond premium	26,943	
Interest expense	(672,797)	
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(268,882)	15,281
INCOME (LOSS) BEFORE TRANSFERS	918,676	(1,049,706)
<u>TRANSFERS:</u>		
Transfers out	(450,011)	
Transfers in	5,000	
	(445,011)	
CHANGE IN NET ASSETS	473,665	(1,049,706)
NET ASSETS AT BEGINNING OF YEAR	12,073,562	1,216,451
NET ASSETS AT END OF YEAR	\$ 12,547,227	\$ 166,745

See notes to financial statements.

**CITY OF GARDNER
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 For th Year Ended June 30, 2010**

	<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	\$ 8,503,707	\$ 2,272,564
Receipts from interfund services provided		6,322,854
Payments to vendors	(5,619,153)	
Payments for interfund services used		(9,216,869)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>2,884,554</u>	<u>(621,451)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Operating transfers	(445,011)	
Intergovernmental subsidy	357,069	
NET CASH PROVIDED (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>(87,942)</u>	<u>-</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Proceeds from the issuance of bonds and notes	110,000	
Acquisition and construction of capital assets	(145,650)	
Principal payments on bonds and notes	(1,261,770)	
Interest expense	(719,151)	
NET CASH (USED FOR) CAPITAL RELATED FINANCING ACTIVITIES	<u>(2,016,571)</u>	
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investment income	19,903	15,281
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	799,944	(606,170)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	6,725,111	1,216,451
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	<u>\$ 7,525,055</u>	<u>\$ 610,281</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ 1,187,558	\$ (1,064,987)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	965,762	
Changes in assets and liabilities:		
User fees	226,344	
Warrants payable	138,952	
Employee benefits	355,946	
Accrued liabilities		443,536
Accrued compensated absences	9,992	
Total adjustments	<u>1,696,996</u>	<u>443,536</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 2,884,554</u>	<u>\$ (621,451)</u>

See notes to financial statements.

**CITY OF GARDNER MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2010**

	Pension Trust Fund (As of December 31, 2009)	Private Purpose Trust Funds
ASSETS		
Cash and short-term investments	\$ 2,495,509	
Investments	32,651,073	\$ 985,509
Receivables, net of allowance for uncollectibles:		
Member payroll deductions	99,276	
Intergovernmental	178,480	
TOTAL ASSETS	35,424,338	985,509
LIABILITIES		
Accounts payable	178,747	
NET ASSETS		
Held in trust for pension benefits and other purposes	\$ 35,245,591	\$ 985,509

See notes to financial statements.

**CITY OF GARDNER
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2010**

	<u>Pension Trust Fund (As of December 31, 2009)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS:		
Contributions:		
Employer	\$ 2,572,070	
Employee	1,070,819	
Intergovernmental	157,473	
Private donations		\$ 4,875
Total contributions	<u>3,800,362</u>	<u>4,875</u>
Net investment income:		
Interest and dividends	920,234	9,599
Realized gains net of losses	(1,592,924)	
Net appreciation in fair value of investments	<u>5,733,881</u>	
Total investment income	5,061,191	9,599
Less investment expense	<u>(178,367)</u>	
Net investment income	<u>4,882,824</u>	<u>9,599</u>
Intergovernmental Transfers from other systems		
TOTAL ADDITIONS	<u>8,683,186</u>	<u>14,474</u>
DEDUCTIONS:		
Retirement benefits	4,307,805	
Administration	109,699	
Refunds and transfers to other systems	284,416	
Educational scholarships		<u>27,124</u>
TOTAL DEDUCTIONS	<u>4,701,920</u>	<u>27,124</u>
CHANGE IN NET ASSETS	3,981,266	(12,650)
NET ASSETS AT BEGINNING OF YEAR	<u>31,264,325</u>	<u>998,159</u>
NET ASSETS AT END OF YEAR	<u>\$ 35,245,591</u>	<u>\$ 985,509</u>

See notes to financial statements.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2010

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, 2009</u>
(1) Actuarial Accrued Liability	\$62,776,661.
(2) Actuarial Value of Assets	<u>44,332,578.</u>
(3) Unfunded Actuarial Accrued Liability (UAAL)	<u>\$18,444,083.</u>
(4) Funded Ratio (2)/(1)	71%

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

Note 1: Significant Accounting Policies (Continued)

Retirement Plan (Continued) –

Schedule of Funding Progress

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
1/1/2008	\$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%
1/1/2004	\$29,993.	\$53,608.	\$23,615.	56%	\$9,747.	242%

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

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, 2008
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 compound rate of 4.25% per annum.
6. Cost-of-Living Increases: Cost of living increases are assumed to be 3% of the lesser of the pension amount and \$12,000 per year.
7. \$30,000 Pay Cap: The \$30,000 salary cap no longer applies for purposes of benefit determination.
8. Value of Investments: Assets held by the fund are valued at market value adjusted for receivables and payables.
9. Annual Rate of Withdrawal Prior to Retirement: Annual rates of withdrawal prior to retirement are based on an analysis of actual experience.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

Note 1: Significant Accounting Policies (Continued)

Retirement Plan (Continued) -

10. Annual Rate of Mortality: The RP-2000 mortality table for annuitants (sex distinct).

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 quarterly 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, 2010

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, 2010

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, 2010 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	\$1,275,000.	
Issued	960,000.	2.75%
Matured	<u>1,275,000.</u>	
Outstanding, end of year	<u>\$ 960,000.</u>	

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

Note 5: Changes in Long-Term Debt

The following is a summary of bond transactions of the City for the year ended June 30, 2010:

Long-term debt payable July 1, 2009	\$23,485,334.
Debt issued	0.
Debt retired	<u>2,313,065.</u>
Long-term debt payable at June 30, 2010	<u>\$21,172,270.</u>

Long-term debt payable at June 30, 2010 is comprised of the following individual issues:

<u>Primary Government</u>	<u>Original Issue</u>	<u>Payable June 30, 2010</u>	<u>Fiscal Year Maturity</u>
Governmental Activities:			
Fredette Street	\$ 120,750.	\$ 40,222.	2023
Municipal Purpose '03	3,530,000.	1,360,000.	2016
Refunding Bonds-2005	7,686,510.	6,036,460.	2018
Bent Mill – MDFA-2007	58,000.	<u>58,000.</u>	
		<u>7,494,682.</u>	
 Business Type Activities:			
Sewer Enterprise Fund			
Snake Pond	1,286,875.	793,719.	2025
Refunding Bonds-2005	1,032,637.	<u>643,105.</u>	2016
		<u>1,436,824.</u>	
 Water Enterprise Fund			
Fedette Street	52,250.	18,083.	2023
Crystal Lake WPAT '99	9,977,649.	5,100,234.	2020
Water Projects '02	7,165,000.	3,800,000.	2022
Crystal Lake WPAT '02	985,570.	335.	2020
Snake Pond	3,205,861.	2,561,677.	2025
Refunding Bond-2005	1,171,025.	<u>760,435.</u>	2018
		<u>12,240,764.</u>	
Total		<u>\$21,172,270.</u>	

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

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

The annual requirements to amortize all debt principal outstanding as of June 30, 2010.

<u>Fiscal Year</u>	<u>Total</u>
2011	2,286,592.
2012	2,236,520.
2013	2,244,619.
2014	2,169,911.
2015-2025	<u>12,234,628.</u>
Total	<u>\$21,172,270.</u>

The following is the computation of the City’s legal debt margin of June 30, 2010

Equalized valuation – personal property and real estate, January 1, 2009		\$1,482,079,800.
Debt limit – 5% of equalized valuation		74,103,990.
Amount of debt applicable to debt limit:		
Total bonded debt	\$21,172,270.	
Less – bonded debt not included in computation of legal debt margin as defined in Massachusetts statutes	<u>19,695,965.</u>	<u>1,476,305.</u>
Legal debt margin		<u>\$ 72,627,685.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

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, 2010.

	Category			Total *	Carrying Amount
	1	2	3		
Cash and cash equivalents	<u>\$3,203,723.</u>	<u>\$ 0.</u>	<u>\$3,935,615.</u>	<u>\$7,139,338.</u>	<u>\$6,812,021.</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, 2010 approximately \$3,935,615 of bank deposits uninsured and uncollateralized.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

Note 6: Deposits and Investments (Continued)

Investments - Primary Government

	<u>Market Value *</u>
U.S. Government Securities	<u>\$3,508,987.</u>
Investments held in State Treasurer's investment pool (MMDT)	<u>\$9,495,227.</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, 2010

Note 6: Deposits and Investments (Continued)

<u>Deposits</u>	Levi Heywood Memorial Library Association, Inc. <u>June 30, 2010</u>	City of Gardner Retirement System <u>December 31, 2009</u>
Cash and equivalents	<u>\$ 133,134.</u>	<u>\$ 2,495,509.</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	\$ 745,369.
Money market	51,624.
Corporate bonds	466,116.
Government bonds	238,789.
Certificate of deposits	<u>22,949.</u>
	<u>\$1,524,847.</u>

Pension Reserves Investment Trust (pooled funds)	<u>\$ 32,651,073.</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, 2010

Note 7: Capital Assets

	<u>Beginning</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u>
<u>Governmental:</u>				
Land	\$ 1,237,063.	\$ 230,000.		\$ 1,467,063.
Buildings	27,929,880.	393,540.	\$250,758.	28,574,178.
Infrastructure	16,672,101.	304,595.	319,282.	17,295,978.
Vehicles	6,383,446.	114,662.	(67,000.)	6,431,108.
Equipment	611,506.	77,449.	(39,264.)	649,691.
Other	721,260.			721,260.
Construction in progress	<u>432,576.</u>	<u>601,961.</u>	<u>(570,041.)</u>	<u>464,496.</u>
	<u>53,987,832.</u>	<u>1,722,207.</u>	<u>(106,265.)</u>	<u>55,603,774.</u>
Accumulated Depreciation	<u>(29,062,901.)</u>	<u>(2,008,154.)</u>	<u>106,265.</u>	<u>(30,964,790.)</u>
Capital Assets – Governmental	<u>\$24,924,931.</u>	<u>\$ (285,947.)</u>	<u>\$ 0.</u>	<u>\$24,638,984.</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.			13,528,278.
Vehicles	274,908.			274,908.
Equipment	<u>773,222.</u>			<u>773,222.</u>
	<u>29,064,963.</u>	<u>0.</u>	<u>0.</u>	<u>29,064,963.</u>
Accumulated Depreciation	<u>(11,679,392.)</u>	<u>\$ (713,967.)</u>	<u>0.</u>	<u>(12,393,359.)</u>
Capital Assets – Water	<u>17,385,571.</u>	<u>(713,967.)</u>	<u>\$ 0.</u>	<u>16,671,604.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

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>669,017.</u>	<u>\$ 37,278.</u>	<u>\$(23,313.)</u>	<u>682,982.</u>
	<u>21,985,807.</u>	<u>37,278.</u>	<u>(23,313.)</u>	<u>21,999,772.</u>
Accumulated Depreciation	<u>(19,966,520.)</u>	<u>(229,455.)</u>	<u>23,313.</u>	<u>(20,172,662.)</u>
Capital Assets – Sewer	<u>2,019,287.</u>	<u>(192,177.)</u>	<u>0.</u>	<u>1,827,110.</u>
<u>Golf:</u>				
Land	419,653.			419,653.
Buildings/equipment	218,349.	108,372.		326,721.
Vehicles	<u>43,212.</u>			<u>43,212.</u>
	<u>681,214.</u>	<u>108,372.</u>	<u>0.</u>	<u>789,586.</u>
Accumulated Depreciation	<u>(112,483.)</u>	<u>(22,340.)</u>		<u>(134,823.)</u>
Capital Assets – Golf	<u>568,731.</u>	<u>86,032.</u>	<u>0.</u>	<u>654,763.</u>
Capital Assets - Business Type	<u>\$19,973,589.</u>	<u>\$(820,112.)</u>	<u>\$ 0.</u>	<u>\$19,153,477.</u>

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 2011 operating, capital and proprietary fund budget totaling \$51,311,833. The City has certified its fiscal year 2011 tax rate at \$15.67 per \$1,000 assessed valuation.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

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 \$443,536 at June 30, 2010.

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 January 1, 2009 date of the actuarial valuation is as follows:

Active employees	501
Retired employees	<u>464</u>
	<u>965</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.

The following chart shows the City's annual OPEB funding cost for the year, the actual amount contributed to the Plan and the change in the City's net OPEB obligation (as determined by the actuarial valuation)

Annual Required Contribution	\$7,886,789.
Total Contributions	<u>- 2,649,259.</u>
Net OPEB obligation	<u>\$5,237,530.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2010

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

Funding Policy (continued)

The schedule of funding progress as determined by the actuarial valuation-January 1, 2009 is as follows:

Actuarial value of plan assets	\$	0.
Actuarial Accrued Liability	\$94,863,000.	
Unfunded Accrued Liability	\$94,863,000.	
Funded ratio		0%
Covered payroll	\$18,217,000.	
% of covered payroll		520.7%

Note 12: Lease Commitments

The City did not have any lease commitments for the fiscal year ended June 30, 2010.

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 \$4,238,281 for the fiscal year ended June 30, 2010.

Note 14: Loans Authorized and Un-issued

At June 30, 2010 the City had \$852,000 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, 2010

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.

Note 19: Implementation of GASB Pronouncements

Statement #45 – Accounting and Financial Reporting for Other Post-Employment Benefits (OPEB) other than pensions.

The City enacted the above pronouncement during the fiscal year ended June 30, 2009. See Note 11.

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, 2010**

	<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	\$ 17,516,682	\$ 17,671,883	\$ 17,669,900	\$ (1,983)
Motor vehicle and other excise taxes	1,750,000	1,650,000	1,576,088	(73,912)
Tax Liens			116,077	116,077
Penalties and interest on taxes	160,000	160,000	373,274	213,274
Licenses and permits	216,000	205,000	226,430	21,430
Intergovernmental	24,199,765	24,199,765	24,572,812	373,047
Charges for services	257,500	275,500	415,737	140,237
Fines and forfeitures	225,000	245,000	213,891	(31,109)
Investment income	100,000	30,000	27,192	(2,808)
Payments in lieu of taxes	31,000	31,000	39,324	8,324
Miscellaneous	253,862	253,862	43,128	(210,734)
TOTAL REVENUES	44,709,809	44,722,010	45,273,853	551,843
EXPENDITURES:				
Current:				
General government	2,197,583	2,152,694	2,029,124	123,570
Public safety	4,769,967	4,971,883	4,800,602	171,281
Education	21,553,014	21,560,764	21,974,160	(413,396)
Public works	1,765,785	2,130,243	2,076,138	54,105
Health and human services	887,854	972,192	957,128	15,064
Culture and recreation	803,953	925,896	906,535	19,361
Retirement	2,563,422	2,564,310	2,564,308	2
Property and liability insurance	440,000	400,000	372,041	27,959
Fringe benefits	6,536,139	7,216,444	6,992,538	223,906
State and county charges	1,253,018	1,253,018	1,115,013	138,005
Debt service:				
Principal	1,476,294	1,476,294	1,476,294	-
Interest	416,670	416,670	392,459	24,211
TOTAL EXPENDITURES	44,663,699	46,040,408	45,656,340	384,068
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	46,110	(1,318,398)	(382,487)	935,911
OTHER FINANCING SOURCES (USES):				
Transfers in	392,000	661,363	910,320	248,957
Transfers out		(160,031)	(170,224)	(10,193)
TOTAL OTHER FINANCING SOURCES (USES)	392,000	501,332	740,096	238,764
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FIN USE OF PRIOR YEAR BUDGETARY FUND BALANCE	438,110	(817,066)	357,609	1,174,675
BUDGETARY FUND BALANCE AT BEGINNING OF YEAR	2,967,704	2,967,704	2,967,704	
BUDGETARY FUND BALANCE AT END OF YEAR	\$ 3,405,814	\$ 2,150,638	\$ 3,325,313	\$ 1,174,675

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, 2009.

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 Non-major 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 non-major 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

Total net assets decreased from FY08 to FY09 by \$2.5 million. Net assets for governmental activities decreased \$3.0 million. This decrease is the result of an \$0.5 million decrease in current and other assets, a decrease of \$0.2 million in capital assets, and an increase of \$2.3 million in total liabilities.

Net assets for business type activities increased by \$0.5 million. This increase is the result of a \$0.2 million increase in current and other assets, a \$0.7 million decrease in capital assets, and a \$1.0 million decrease in total liabilities.

City of Gardner Net Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total FY08	Total FY09	Total % Change FY08 to FY09
	FY08	FY09	FY08	FY09			
Current & Other Assets	\$23.6	\$23.1	\$8.2	\$8.4	\$31.8	\$31.5	-0.94%
Capital Assets	<u>25.1</u>	<u>24.9</u>	<u>20.7</u>	<u>20.0</u>	<u>45.8</u>	<u>44.9</u>	-1.97%
Total Assets	\$48.7	\$48.0	\$28.9	\$28.4	\$77.6	\$76.4	-1.55%
Longterm Debt Outstanding	\$8.6	\$7.5	\$14.9	\$13.7	\$23.5	\$21.2	-9.79%
Other Liabilities	<u>9.9</u>	<u>13.3</u>	<u>2.4</u>	<u>2.6</u>	<u>12.3</u>	<u>15.9</u>	29.27%
Total Liabilities	\$18.5	\$20.8	\$17.3	\$16.3	\$35.8	\$37.1	3.63%
Invested in Capital Assets							
Net of Related Debt	\$22.8	\$23.3	\$4.6	\$5.0	\$27.4	\$28.3	3.28%
Restricted	2.1	4.8	0.0	0.0	2.1	4.8	128.57%
Unrestricted	5.3	(0.9)	7.0	7.1	12.3	6.2	-49.59%
Total Net Assets	\$30.2	\$27.2	\$11.6	\$12.1	\$41.8	\$39.3	-5.98%

Change in Net Assets

Revenue for governmental activities increased \$1.5 million. Property and other taxes increased \$0.9 million, charges for services decreased by \$0.2 million, operating grants increased \$0.7 million, capital grants increased \$0.9 million, unrestricted grants decreased by \$0.4 million, and other revenue decreased by \$0.4 million.

Expenses for governmental activities increased \$5.1 million. Fringe benefit expenses increased \$5.6 million, the result of a \$0.7 million increase in ordinary expenses and a \$4.9 million addition of the net OPEB obligation. Health & human services expenses increased \$0.7 million and state & county charges increased \$0.2 million. Community & economic development expenses decreased \$0.8 million, public works expenses decreased \$0.5 million, and interest expense decreased \$0.4 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 stayed even.

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

	Governmental Activities		Business-type Activities		Total FY08	%Change	
	FY08	FY09	FY08	FY09		FY09	FY08toFY09
<u>Revenue</u>							
Program Revenue							
Charges for Services	\$2.3	\$2.1	\$7.7	\$7.8	\$10.0	\$9.9	-1.00%
Operating Grants and Contributions	27.6	28.3			27.6	28.3	2.54%
Capital Grants and and Contributions	0.0	0.9			0.0	0.9	NA
General Revenue							
Property Taxes	16.2	16.9			16.2	16.9	4.32%
Other Taxes	1.8	2.0			1.8	2.0	11.11%
Unrestricted Grants and Contributions	5.6	5.2	0.4	0.4	6.0	5.6	-6.67%
Other	1.0	0.6	0.5	0.2	1.5	0.8	-46.67%
Total Revenue	\$54.5	\$56.0	\$8.6	\$8.4	\$63.1	\$64.4	2.06%
<u>Expense</u>							
General Government	\$2.1	\$2.2			2.1	2.2	4.76%
Public Safety	5.8	5.9			5.8	5.9	1.72%
Education	26.6	26.7			26.6	26.7	0.38%
Public Works	3.6	3.1			3.6	3.1	-13.89%
Health & Human Services	0.3	1.0			0.3	1.0	233.33%
Culture & Recreation	1.4	1.3			1.4	1.3	-7.14%
Community and Economic Development	1.7	0.9			1.7	0.9	-47.06%
Retirement	2.4	2.5			2.4	2.5	4.17%
Property & Liability Insurance	0.4	0.4			0.4	0.4	0.00%
Fringe Benefits	7.8	13.4			7.8	13.4	71.79%
State & County Charges	1.0	1.2			1.0	1.2	20.00%
Interest	0.8	0.4			0.8	0.4	-50.00%
Water Enterprise			3.5	3.5	3.5	3.5	0.00%
Sewer Enterprise			2.3	2.4	2.3	2.4	4.35%
Golf Course Enterprise			0.7	0.8	0.7	0.8	14.29%
Landfill Closure Enterprise			0.2	0.2	0.2	0.2	0.00%
Solid Waste Enterprise			1.2	1.0	1.2	1.0	
Total Expense	\$53.9	\$59.0	\$7.9	\$7.9	\$61.8	\$66.9	8.25%
Excess (Deficiency) before Adjustments	\$0.6	(\$3.0)	\$0.7	\$0.5	\$1.3	(\$2.5)	
Transfers	(\$0.3)	\$0.0	\$0.3	\$0.0	\$0.0	\$0.0	
Increase (Decrease) in Net Assets	\$0.3	(\$3.0)	\$1.0	\$0.5	\$1.3	(\$2.5)	
<u>Net Assets</u>							
Beginning of Year	\$29.9	\$30.2	\$10.6	\$11.6	\$40.5	\$41.8	3.21%
End of Year	\$30.2	\$27.2	\$11.6	\$12.1	\$41.8	\$39.3	-5.98%

Financial Analysis of the City's Funds

Combined governmental funds reported by the city increased by \$0.2 million.

The General Fund reported a surplus of revenue over expenditures of \$321,761 compared to a deficiency of \$192,965 last year. Revenues decreased by \$0.8 million and expenses and other financing sources increased \$0.7 million. Expenditures decreased \$0.6 million. The city did incur a legal deficit for snow & ice removal in FY09 of \$102,250.

The Stabilization Fund increased in value by \$5,154.

Nonmajor Governmental Funds increased by \$1,365,454 compared to a decrease of \$1,976,549 last year. Revenues increased by \$3.6 million, expenses stayed even, and other financing uses increased \$0.3 million.

General Fund Budget Highlights

The city continued to operate under tight fiscal constraints caused by the revenue raising limits of Proposition 2½. The FY09 budget continued to rely on conservative revenue estimates and minimal growth in expenses.

In November, 2008, the state Department of Revenue certified free cash of \$500,572. 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 \$524,355 the previous year.

In December, 2008, the city was hit by an ice storm that knocked out power for several days, destroyed trees and tree limbs, and blocked city streets. Emergency crews worked for several days to reopen roads, provide shelter, and otherwise help city residents. Costs incurred in FY09 were covered by reimbursements from FEMA, anticipated state aid, or absorbed in the budget. Clean-up from the storm continued into FY10.

By the end of FY09, actual revenues fell short of budgeted revenues by \$814,449 and actual expenditures were less than budgeted expenditures by \$1,550,332. These figures were affected by the ARRA school grant that shifted \$2,012,418 in revenue and \$1,346,508 in expenses from the General Fund to Non-major Governmental Funds.

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 FY08	%Change	
	FY08	FY09	FY08	FY09		FY09	FY08toFY09
Land	\$1.2	\$1.2	\$1.0	\$1.0	\$2.2	\$2.2	0.0%
Buildings & Improvements	14.5	13.9	11.6	11.3	26.1	25.2	-3.4%
Vehicles	1.2	0.9	0.3	0.2	1.5	1.1	-26.7%
Equipment	0.2	0.2	0.2	0.2	0.4	0.4	0.0%
Textbooks	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
Infrastructure	7.8	8.2	7.6	7.3	15.4	15.5	0.6%
Construction in Progress	<u>0.2</u>	<u>0.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>	<u>0.4</u>	
Total	\$25.1	\$24.8	\$20.7	\$20.0	\$45.8	\$44.8	-2.2%

During FY09, the city made capital improvements to the police station and to the airport taxi lanes. It replaced old windows in city hall and the fire station with energy efficient windows and began the process of replacing the oil tank at Gardner High School. The city purchased two police cruisers and two vehicles for general city use. Downtown streets were repaved and reconstruction of the second section of Pine Street was begun.

Long term debt

City of Gardner Outstanding Debt (in millions of dollars)

	Governmental Activities		Business-type Activities		Total FY08	%Change	
	FY08	FY09	FY08	FY09		FY09	FY08toFY09
Outstanding Bonds	\$9.9	\$8.6	\$16.2	\$14.9	\$26.1	\$23.5	-9.96%
Authorized and Unissued	\$1.7	\$1.3	\$0.0	\$0.3	\$1.7	\$1.6	-5.88%

The city authorized new borrowing of \$250,000 for water main replacement in FY09 and made the final payment on municipal purpose bonds issued in 1999.

Future Expectations

The city enacted a balanced budget for FY2010. However, to do so, the city required most non-union staff and department heads to take a two day unpaid furlough, reduced the hours city hall was open, thereby reducing the number of hours city hall personnel were working, and negotiated some form of pay reduction from all other non-school unions. Although there has not been a formal hiring freeze, most hiring has been to replace personnel who for various reasons left the city's employ. 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.

The Commonwealth of Massachusetts has indicated that tightening revenue projections for FY10 and FY11 will necessitate tough choices at the state level with a potential impact on the city. The city continues the process of closely examining its services and budgets so it is ready should further cuts be necessary.

The FY10 water enterprise fund budget reflects the first of a four year increase in water rates. Rates have increased from \$4.25 per 100 cubic feet to \$4.64, eventually reaching \$5.26 in FY13. Water conservation and higher costs necessitated this increase in order to keep the water enterprise fund on a solid footing.

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.

During the spring, summer, and fall of 2009, the city undertook various projects to clean up the debris left by the ice storm of December, 2008. FEMA has reimbursed 75% of allowed city costs and MEMA has provided additional financial assistance. The city's extra costs have been covered by FEMA and MEMA payments, so there has been minimal impact on the FY09 and FY10 budgets.

In January, 2009 the Department of Revenue certified free cash of \$865,160. Some of these funds will be used to purchase police cruisers, increase the budgets for veteran's cash benefits and employee health insurance, and increase the stabilization fund.

The city expects to break even or have a modest gain in its general fund balance during FY10. 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.