

CITY OF GARDNER

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008
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, 2008, 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 13% 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, 2008, 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.

The budgetary comparison information and Management's Discussion and Analysis on pages 38 and 39 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 21, 2008

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CITY OF GARDNER
STATEMENT OF NET ASSETS
June 30, 2008

	<u>Primary Government</u>			<u>Component Unit</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Levi Heywood Library</u>	<u>Retirement System 12/31/06</u>
ASSETS					
CURRENT:					
Cash and short-term investments	\$ 8,659,388	\$ 6,191,809	\$ 14,851,197	\$ 105,313	\$ 168,500
Investments			-	1,589,983	41,695,714
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	1,041,195		1,041,195		
Tax liens	347,701		347,701		
Motor vehicle excise	451,338		451,338		
Taxes in Litigation					
User Fees		1,514,062	1,514,062		
Departmental and other	479,474		479,474		
Tax foreclosures	572,921		572,921		
Due from Commonwealth	2,809,775		2,809,775		
Intergovernmental	807,991		807,991		2,616,701
Other			-	371,843	
Other assets				19,276	
NONCURRENT:					
Restricted:					
Cash	1,189,829	520,622	1,710,451		
Investments			-		
Due from Commonwealth	7,271,919		7,271,919		
Capital assets, net of accumulated depreciation	<u>25,068,628</u>	<u>20,746,686</u>	<u>45,815,314</u>	<u>7,066,577</u>	
TOTAL ASSETS	<u>48,700,159</u>	<u>28,973,179</u>	<u>77,673,338</u>	<u>9,152,992</u>	<u>44,480,915</u>
LIABILITIES					
CURRENT:					
Warrants payable and accrued expenses	1,610,764	436,173	2,046,937	231,326	148,337
Accrued payroll and withholding	353,706		353,706		
Other liabilities	595,487		595,487		
Deferred revenues	377,260	361,992	739,252		
Accrued interest	109,513	259,575	369,088		
Bonds and notes payable	3,099,857	1,245,209	4,345,066		
Compensated absences	178,000	80,609	258,609		
NONCURRENT:					
Bonds and notes payable	8,545,976	14,939,358	23,485,334	1,095,000	
Compensated absences	3,600,128	36,509	3,636,637		
TOTAL LIABILITIES	<u>18,470,691</u>	<u>17,359,425</u>	<u>35,830,116</u>	<u>1,326,326</u>	<u>148,337</u>
NET ASSETS					
Invested in capital assets, net of related debt	22,825,445	4,562,119	27,387,564	5,990,003	
Restricted for:					
Capital projects	(1,398,337)		(1,398,337)		
Debt service			-		
Streets	606,626		606,626		
Community development	599,715		599,715		
Perpetual funds:					
Expendable	55,672		55,672		
Nonexpendable	427,993		427,993		
Other purposes	1,829,631		1,829,631		
Unrestricted	<u>5,282,723</u>	<u>7,051,635</u>	<u>12,334,358</u>	<u>1,836,663</u>	<u>44,332,578</u>
TOTAL NET ASSETS	<u>\$ 30,229,468</u>	<u>\$ 11,613,754</u>	<u>\$ 41,843,222</u>	<u>\$ 7,826,666</u>	<u>\$ 44,332,578</u>

See notes to financial statements.

**CITY OF GARDNER
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Library	Retirement System
Primary Government:								
<i>Governmental Activities:</i>								
General government	\$ 2,115,011	\$ 3,259		(1,835,395)		\$ (1,835,395)		
Public safety	5,792,251	246,874		(4,772,681)		(4,772,681)		
Education	26,564,040	23,390,195	31,194	(2,168,013)		(2,168,013)		
Public works	3,629,416	365,246		(3,151,031)		(3,151,031)		
Health and human services	291,655	281,983		74,105		74,105		
Culture and recreation	1,367,819	133,662		(1,176,449)		(1,176,449)		
Community and economic development	1,689,647	1,170,550		(519,097)		(519,097)		
Retirement	2,453,618			(2,395,030)		(2,395,030)		
Property and liability insurance	412,595			(412,595)		(412,595)		
Fringe benefits	7,842,475	1,960,780		(5,881,695)		(5,881,695)		
State and county charges	1,011,574			(1,011,574)		(1,011,574)		
Interest	783,674			(783,674)		(783,674)		
Total Governmental Activities	53,953,775	27,552,549	31,194	(24,033,129)		(24,033,129)		
<i>Business-Type Activities:</i>								
Proprietary services	7,832,308				(113,680)	(113,680)		
Total Business-Type Activities	7,832,308				(113,680)	(113,680)		
Total primary government	\$ 61,786,083	\$ 27,552,549	\$ 31,194	(24,033,129)		(24,146,809)		
Component Unit:								
Retirement System	\$ 4,474,242							\$ (4,474,242)
Heywood Library	\$ 1,314,860						\$ (1,314,860)	
<i>General Revenues:</i>								
Real estate and personal property, net of reserve for abatements				16,237,027		16,237,027		
Motor vehicle and other excise taxes				1,753,533		1,753,533		
Penalties and interest on taxes				214,079		214,079		
Payments in lieu of taxes				25,656		25,656		
Tax liens				109,894		109,894		
Grants and contributions not restricted				-		-		
specific programs				5,986,732		5,986,732		
Miscellaneous				414,339		414,339		3,565,194
Investment income				235,085		235,085		1,318,882
<i>Special Items:</i>								
Gain on sales of fixed assets				27,780		27,780		
Cumulative effect of change in accounting principle				(258,937)		(258,937)		(708,629)
<i>Transfers, net</i>								
Total general revenues, special items and transfers				24,358,748		24,358,748		8,284,788
Change in Net Assets					1,168,125	25,526,873	526,789	8,284,788
Beginning of the Year					1,054,445	1,380,064	(788,071)	3,810,546
End of the Year					10,559,309	40,463,158	8,614,737	40,522,032
					\$ 11,613,754	\$ 41,843,222	\$ 7,826,666	\$ 44,332,578

See notes to financial statements.

**CITY OF GARDNER
BALANCE SHEET
June 30, 2008**

ASSETS	General	Stabilization	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Cash and short-term investments	\$ 3,625,490	\$ 281,968		\$ 2,796,262	\$ 6,703,720
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	1,041,195				1,041,195
Tax liens	347,701				347,701
Motor vehicle excise	451,338				451,338
Intergovernmental					-
Departmental and other	472,444			7,030	479,474
Tax foreclosures	572,921				572,921
Due from Commonwealth	8,134,642			2,755,043	10,889,685
Other assets					-
Cash - restricted				1,189,829	1,189,829
Investments - restricted					-
TOTAL ASSETS	\$ 14,645,731	\$ 281,968	\$ -	\$ 6,748,164	\$ 21,675,863
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable	\$ 816,666			\$ 794,098	\$ 1,610,764
Accrued payroll & withholding	353,706				353,706
Other liabilities	14,930			580,557	595,487
Deferred revenues	10,814,486			2,758,550	13,573,036
Bonds and notes payable				1,700,000	1,700,000
TOTAL LIABILITIES	11,999,788			5,833,205	17,832,993
FUND BALANCES:					
Reserved for:					
Encumbrances and continuing appropriations	1,793,241				1,793,241
Stabilization		\$ 281,968			281,968
Debt service					-
Perpetual permanent funds				427,993	427,993
Other specific purposes	(100,000)			1,829,631	1,729,631
Unreserved:					
Designated for subsequent years' expenditures	173,369				173,369
Undesignated, reported in:					
General fund	779,333				779,333
Special revenue funds					-
Capital projects funds				(1,398,337)	(1,398,337)
Permanent funds				55,672	55,672
TOTAL FUND BALANCES	2,645,943	281,968	-	914,959	3,842,870
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,645,731	\$ 281,968	\$ -	\$ 6,748,164	\$ 21,675,863

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, 2008

Total governmental fund balances	\$	3,842,870
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		25,068,628
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		13,573,036
Internal service funds are used by management to account for health insurance and workers compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.		1,955,668
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.		(109,513)
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		(11,645,833)
BAN payable		1,700,000
Compensated absences		(3,778,128)
Bond premium		(377,260)
		(14,091,229)
Net assets of governmental activities	\$	30,229,468

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, 2008

	General	Stabilization	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds	\$ 16,010,378				\$ 16,010,378
Motor vehicle and other excise taxes	1,756,702				1,756,702
Penalties and interest on taxes	214,079				214,079
Licenses and permits	198,584				198,584
Intergovernmental	25,525,410			\$ 5,058,864	30,584,274
Charges for services	635,561			1,257,962	1,893,523
Fines and forfeitures	243,921				243,921
Investment income	153,551	\$ 12,512	\$ 150,541	31,362	347,966
Tax liens	29,033				29,033
Contributions and donations				584,449	584,449
Payments in lieu of taxes	25,656				25,656
Miscellaneous	415,783			12,253	428,036
	45,208,658	12,512	150,541	6,944,890	52,316,601
EXPENDITURES:					
Current:					
General government	2,131,919			17,650	2,149,569
Public safety	5,177,686			553,234	5,730,920
Education	21,441,667			4,766,211	26,207,878
Public works	2,489,676			1,442,885	3,932,561
Community and economic development				1,689,647	1,689,647
Health and human services	817,399			31,403	848,802
Culture and recreation	1,238,745			69,841	1,308,586
Retirement	2,453,618				2,453,618
Property and liability insurance	412,595				412,595
Fringe benefits	6,295,779				6,295,779
State and county charges	1,011,574				1,011,574
Debt service:					
Principal	1,823,899		7,700,000		9,523,899
Interest	516,884		273,735		790,619
	45,811,441	12,512	7,973,735	8,570,871	62,356,047
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(602,783)	12,512	(7,823,194)	(1,625,981)	(10,039,446)
OTHER FINANCING SOURCES (USES):					
Transfers in	577,300	111,093		40,110	728,503
Transfers out	(202,762)	(111,000)		(673,678)	(987,440)
Sale of assets	35,280				35,280
Proceeds from issuance of debt				283,000	283,000
	409,818	93	-	(350,568)	59,343
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	(192,965)	12,605	(7,823,194)	(1,976,549)	(9,980,103)
FUND BALANCES AT BEGINNING OF YEAR	2,838,908	269,363	7,823,194	2,891,508	13,822,973
FUND BALANCES AT END OF YEAR	\$ 2,645,943	\$ 281,968	\$ -	\$ 914,959	\$ 3,842,870

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, 2008

Net change in fund balances - total governmental funds	\$	(9,980,103)
<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>		
		447,652
<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>		
		155,645
<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>		
		9,241,902
<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>		
		6,945
<p>Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
		(29,528)
<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		483,106
		325,619
Change in net assets of governmental activities	\$	325,619

See notes to financial statements.

**CITY OF GARDNER
 PROPRIETAREY FUNDS
 STATEMENT OF NET ASSETS
 June 30, 2008**

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Water and Sewer, Golf Landfill and Solid Waste</u>	
ASSETS		
CURRENT:		
Cash and short-term investments	\$ 6,191,809	\$ 1,955,668
User fees, net of allowance for uncollectibles	<u>1,514,062</u>	<u>-</u>
Total current assets	<u>7,705,871</u>	<u>1,955,668</u>
NONCURRENT:		
Restricted cash and short-term investments:		
Capital Projects	520,622	-
Capital assets, net of accumulated depreciation	20,746,686	-
Other assets	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>21,267,308</u>	<u>-</u>
TOTAL ASSETS	<u>28,973,179</u>	<u>1,955,668</u>
LIABILITIES		
CURRENT:		
Warrants payable	436,173	-
Deferred revenue- Bond Premium	361,992	-
Compensated absences	80,609	-
Accrued interest	259,575	-
Bonds and notes payable	<u>1,245,209</u>	<u>-</u>
Total current liabilities	<u>2,383,558</u>	<u>-</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Customer deposits payable		
NONCURRENT:		
Bonds and notes payable	14,939,358	-
Compensated absences	<u>36,509</u>	<u>-</u>
Total noncurrent liabilities	<u>14,975,867</u>	<u>-</u>
TOTAL LIABILITIES	<u>17,359,425</u>	<u>-</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,562,119	-
Unrestricted	<u>7,051,635</u>	<u>1,955,668</u>
TOTAL NET ASSETS	<u>\$ 11,613,754</u>	<u>\$ 1,955,668</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, 2008**

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water and Sewer, Golf Landfill and Solid Waste</u>	
<u>OPERATING REVENUES:</u>		
Charges for services	\$ 7,718,628	
Employer contributions		\$ 5,604,603
Employee contributions		1,960,780
Miscellaneous	<u>347,526</u>	
TOTAL OPERATING REVENUES	<u>8,066,154</u>	<u>7,565,383</u>
<u>OPERATING EXPENSES:</u>		
Cost of services and administration	5,738,548	
Depreciation	977,678	
Employee benefits		<u>7,151,299</u>
TOTAL OPERATING EXPENSES	<u>6,716,226</u>	<u>7,151,299</u>
OPERATING INCOME (LOSS)	<u>1,349,928</u>	<u>414,084</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Intergovernmental	386,440	
Investment income	160,554	69,022
Amortized bond premium	14,668	
Interest expense	<u>(1,116,082)</u>	
TOTAL NONOPERATING REVENUES (EXPENSES), NET	<u>(554,420)</u>	<u>69,022</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>795,508</u>	<u>483,106</u>
<u>TRANSFERS:</u>		
Transfers in	<u>258,937</u>	
CHANGE IN NET ASSETS	1,054,445	483,106
NET ASSETS AT BEGINNING OF YEAR	<u>10,559,309</u>	<u>1,472,562</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,613,754</u>	<u>\$ 1,955,668</u>

See notes to financial statements.

**CITY OF GARDNER
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For th Year Ended June 30, 2008**

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water and Sewer, Golf Landfill and Solid Waste</u>	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers and users	\$ 7,546,935	\$ 1,960,780
Receipts from interfund services provided		5,604,603
Payments to vendors	(5,653,321)	
Payments for interfund services used		(7,151,299)
	<u>1,893,614</u>	<u>414,084</u>
<u>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u>		
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Operating transfers	258,937	
Intergovernmental subsidy	386,440	
	<u>645,377</u>	<u>-</u>
<u>NET CASH PROVIDED (USED FOR) NONCAPITAL FINANCING ACTIVITIES</u>		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Proceeds from the issuance of bonds and notes		
Acquisition and construction of capital assets	(178,329)	
Principal payments on bonds and notes	(1,941,214)	
Interest expense	(856,507)	
	<u>(2,976,050)</u>	<u>-</u>
<u>NET CASH (USED FOR) CAPITAL RELATED FINANCING ACTIVITIES</u>		
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investment income	160,554	69,022
	<u>(276,505)</u>	<u>483,106</u>
<u>NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS</u>		
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	6,988,936	1,472,562
	<u>6,712,431</u>	<u>1,955,668</u>
<u>CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR</u>		
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:</u>		
Operating income (loss)	\$ 1,349,928	\$ 414,084
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	977,678	
Changes in assets and liabilities:		
User fees	(519,219)	
Warrants payable	36,897	
Accrued liabilities		
Accrued compensated absences	48,330	
Total adjustments	<u>543,686</u>	<u>-</u>
<u>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</u>	<u>\$ 1,893,614</u>	<u>\$ 414,084</u>

See notes to financial statements.

**CITY OF GARDNER
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2008**

	<u>Pension Trust Fund (As of December 31, 2007)</u>	<u>Private Purpose Trust Funds</u>
<u>ADDITIONS:</u>		
Contributions:		
Employer	\$ 2,451,969	
Employee	944,087	
Intergovernmental	169,138	
Private donations		\$ 21,181
Total contributions	<u>3,565,194</u>	<u>21,181</u>
Net investment income:		
Interest and dividends	1,386,372	44,380
Realized gains net of losses	3,321,927	
Net appreciation in fair value of investments	<u>11,295</u>	
Total investment income	4,719,594	44,380
Less investment expense	<u>(219,974)</u>	
Net investment income	<u>4,499,620</u>	<u>44,380</u>
Intergovernmental		
Transfers from other systems		
TOTAL ADDITIONS	<u>8,064,814</u>	<u>65,561</u>
<u>DEDUCTIONS:</u>		
Retirement benefits	3,949,879	
Administration	128,784	
Refunds and transfers to other systems	175,605	
Educational scholarships		<u>73,707</u>
TOTAL DEDUCTIONS	<u>4,254,268</u>	<u>73,707</u>
CHANGE IN NET ASSETS	3,810,546	(8,146)
NET ASSETS AT BEGINNING OF YEAR	<u>40,522,032</u>	<u>970,723</u>
NET ASSETS AT END OF YEAR	<u>\$ 44,332,578</u>	<u>\$ 962,577</u>

See notes to financial statements.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

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, 2008

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, 2008

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, 2008

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, 2008

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), solid waste collection and disposal (Solid Waste Fund), 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, 2008

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, 2008

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 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, 2008

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, 2008

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, 2008

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, 2008</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, 2008

Note 1: Significant Accounting Policies (Continued)

Retirement Plan (Continued) –

Schedule of Funding Progress

(amounts 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
1/1/2008	\$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, 2008

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, 2008

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 two installments on November 1 and May 1. The City bills and collects property taxes. City property tax revenues are recognized when collected under the modified accrual revenue recognition method.

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

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

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, 2008

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, 2008 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	\$ 983,000.	
Issued	1,000,000.	3.9%
Matured	<u>283,000.</u>	
Outstanding, end of year	<u>\$1,700,000.</u>	

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

Note 5: Changes in Long-Term Debt

The following is a summary of bond transactions of the City for the year ended June 30, 2008:

Long-term debt payable July 1, 2007	\$37,690,776.
Debt issued	0.
Debt retired	<u>11,560,376.</u>
Long-term debt payable at June 30, 2008	<u>\$26,130,400.</u>

Long-term debt payable at June 30, 2008 is comprised of the following individual issues:

<u>Primary Government</u>	<u>Original Issue</u>	<u>Payable June 30, 2008</u>	<u>Fiscal Year Maturity</u>
Governmental Activities:			
Fredette Street	\$ 120,750.	\$ 46,410.	2023
Municipal Purpose '99	3,250,000.	340,000.	2009
Municipal Purpose '03	3,530,000.	1,900,000.	2016
Refunding Bonds-2005	7,686,510.	7,601,423.	2018
Bent Mill – MDFA-2007	58,000.	<u>58,000.</u>	
		<u>9,945,833.</u>	
Business Type Activities:			
Sewer Enterprise Fund			
Snake Pond	1,286,875.	891,157.	2025
Refunding Bonds-2005	1,032,637.	<u>858,057.</u>	2016
		<u>1,749,214.</u>	
Water Enterprise Fund			
Fedette Street	52,250.	20,865.	2023
Crystal Lake WPAT '99	9,977,649.	5,933,503.	2020
Water Projects '02	7,165,000.	4,640,000.	2022
Crystal Lake WPAT '02	985,570.	390.	2020
Snake Pond	3,205,861.	2,830,075.	2025
Refunding Bond-2005	1,171,025.	<u>1,010,520.</u>	2018
		<u>14,435,353.</u>	
Total		<u>\$26,130,400.</u>	

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

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

The annual requirements to amortize all debt principal outstanding as of June 30, 2008.

<u>Fiscal Year</u>	<u>Total</u>
2009	\$2,645,066.
2010	2,313,065.
2011	2,228,593.
2012	2,236,520.
2013	2,244,619.
2014-2025	<u>14,462,537.</u>
Total	<u>\$26,130,400.</u>

The following is the computation of the City's legal debt margin of June 30, 2008.

Equalized valuation – personal property and real estate, January 1, 2008		\$1,482,079,800.
Debt limit – 5% of equalized valuation		74,103,990.
Amount of debt applicable to debt limit:		
Total bonded debt	\$26,130,400.	
Less – bonded debt not included in computation of legal debt margin as defined in Massachusetts statutes	<u>23,765,125.</u>	<u>2,365,275.</u>
Legal debt margin		<u>\$ 71,738,715.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

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, 2008

	<u>Category</u>				<u>Carrying</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total *</u>	<u>Amount</u>
Cash and cash equivalents	<u>\$447,418.</u>	<u>\$10,301,980.</u>	<u>\$4,779,580.</u>	<u>\$15,528,978.</u>	<u>\$14,638,626.</u>

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

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

Note 6: Deposits and Investments (Continued)

Investments - Primary Government

	<u>Market Value *</u>
U.S. Government Securities	<u>\$2,847,110.</u>
Investments held in State Treasurer's investment pool (MMDT)	<u>\$9,884,450.</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.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

Note 6: Deposits and Investments (Continued)

<u>Deposits</u>	Levi Heywood Memorial Library Association, Inc. June 30, 2008	City of Gardner Retirement System December 31, 2007
Cash and equivalents	<u>\$ 105,313.</u>	<u>\$ 168,500.</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	\$999,480.
Money market	24,373.
Corporate bonds	230,964.
Government bonds	313,651.
Certificate of deposits	<u>21,515.</u>
	<u>\$1,589,983.</u>

Pension Reserves Investment Trust (pooled funds)	<u>\$41,695,714.</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, 2008

Note 7: Capital Assets

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<u>Governmental:</u>				
Land	\$ 1,103,063.	\$99,000.		\$ 1,202,063.
Buildings	26,269,335.	1,195,947.	\$228,361.	27,693,643.
Infrastructure	15,302,911.	240,753.		15,543,664.
Vehicles	6,335,052.	660,244.	(222,003.)	6,773,293.
Equipment	1,482,182.	10,750.	(604,597.)	888,335.
Other	688,421.	21,767.		710,188.
Construction in progress	<u>224,909.</u>	<u>191,921.</u>	<u>(228,361.)</u>	<u>188,469.</u>
	<u>51,405,873.</u>	<u>2,420,382.</u>	<u>(826,600.)</u>	<u>52,999,655.</u>
Accumulated Depreciation	<u>(26,784,897.)</u>	<u>(1,972,730.)</u>	<u>826,600.</u>	<u>(27,931,027.)</u>
Capital Assets – Governmental	<u>\$24,620,976.</u>	<u>\$ 447,652.</u>	<u>\$ 0.)</u>	<u>\$25,068,628.</u>
<u>Business Type Activities:</u>				
<u>Water:</u>				
Land	\$ 591,769.			\$ 591,769.
Buildings	13,896,786.			13,896,786.
Infrastructure	13,427,263.			13,427,263.
Vehicles	267,000.	\$75,948.		342,938.
Equipment	<u>773,222.</u>			<u>773,222.</u>
	<u>28,956,040.</u>	<u>75,948.</u>	<u>0.</u>	<u>29,031,988.</u>
Accumulated Depreciation	<u>(10,282,570.)</u>	<u>(742,371.)</u>	<u>0.</u>	<u>(11,024,941.)</u>
Capital Assets – Water	<u>\$18,673,470.</u>	<u>(666,423.)</u>	<u>0.</u>	<u>\$18,007,047.</u>

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

Note 7: Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<u>Sewer:</u>				
Buildings	\$17,542,254.			\$17,542,254.
Infrastructure	3,774,536.			3,774,536.
Vehicles	822,640.	\$75,169.	\$(11,000.)	886,809.
	<u>22,139,430.</u>	<u>75,169.</u>	<u>(11,000.)</u>	<u>22,203,599.</u>
Accumulated Depreciation	<u>(19,826,503.)</u>	<u>(227,608.)</u>	<u>11,000.</u>	<u>(20,043,111.)</u>
Capital Assets – Sewer	<u>2,312,927.</u>	<u>(152,439.)</u>	<u>0</u>	<u>2,160,488.</u>
<u>Golf:</u>				
Land	419,653.			419,653.
Buildings	218,349.			218,349.
Vehicles	16,000.	27,212.		43,212.
	<u>654,002.</u>	<u>27,212.</u>	<u>0.</u>	<u>681,214.</u>
Accumulated Depreciation	<u>(94,364.)</u>	<u>(7,698.)</u>	<u>0.</u>	<u>(102,062.)</u>
Capital Assets – Golf	<u>559,638.</u>	<u>19,514.</u>	<u>0.</u>	<u>579,152.</u>
Capital Assets - Business Type	<u>\$21,546,035.</u>	<u>\$(799,348.)</u>	<u>\$ 0.</u>	<u>\$20,746,686.</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 2009 Budget

The City has authorized a fiscal year 2009 operating, capital and proprietary fund budget totaling \$53,073,401. The City has certified its fiscal year 2009 tax rate at \$13.07 per \$1,000 assessed valuation.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

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 \$606,400. The incurred but not reported claims amount was \$530,142 at June 30, 2008.

Note 11: Post-Employment Benefits

The City provides post-employment benefits to eligible retiree's and terminated employees. The benefits provide for continuity of health and life insurance coverage in accordance with City policy and the COBRA Act of 1985. The City funds the benefits on a pay-as-you-go basis. The City has determined that the cost of post-employment benefits paid during the fiscal year ended June 30, 2008 is \$1,887,187

Note 12: Lease Commitments

The City did not have any lease commitments for the fiscal year ended June 30, 2008.

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 \$3,493,097 for the fiscal year ended June 30, 2008.

Note 14: Loans Authorized and Un-issued

At June 30, 2008 the City had \$42,000 in loans authorized and un-issued.

CITY OF GARDNER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended June 30, 2008

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.

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 will be paid by Waste Management in accordance with the air rights agreement. The City has reserved \$618,956 in a post-closure monitoring fund to pay for monitoring costs over the next 29 years. Additionally the City has reserved \$325,412 from the sale of carbon credits received in 2008.

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, 2008**

	<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	\$ 16,368,712	\$ 16,368,712	\$ 16,010,378	\$ (358,334)
Motor vehicle and other excise taxes	1,800,000	1,800,000	1,756,702	(43,298)
Tax Liens			29,033	29,033
Penalties and interest on taxes	130,000	130,000	214,079	84,079
Licenses and permits	236,000	236,000	198,584	(37,416)
Intergovernmental	25,379,478	25,379,478	25,525,410	145,932
Charges for services	529,339	529,339	635,561	106,222
Fines and forfeitures	246,000	246,000	243,921	(2,079)
Investment income	150,000	150,000	153,551	3,551
Payments in lieu of taxes	31,000	31,000	25,656	(5,344)
Miscellaneous	320,000	320,000	451,063	131,063
TOTAL REVENUES	45,190,529	45,190,529	45,243,938	53,409
EXPENDITURES:				
Current:				
General government	2,136,692	2,123,038	2,131,919	(8,881)
Public safety	5,209,861	5,351,271	5,177,686	173,585
Education	21,609,296	21,731,058	21,441,667	289,391
Public works	1,882,490	2,387,316	2,489,676	(102,360)
Health and human services	657,069	808,883	817,399	(8,516)
Culture and recreation	1,224,485	1,236,485	1,238,745	(2,260)
Retirement	2,452,871	2,453,621	2,453,618	3
Property and liability insurance	475,000	413,300	412,595	705
Fringe benefits	6,291,000	6,304,867	6,295,779	9,088
State and county charges	977,889	1,011,574	1,011,574	-
Debt service:				
Principal	1,823,899	1,823,899	1,823,899	-
Interest	567,645	517,645	516,884	761
TOTAL EXPENDITURES	45,308,197	46,162,957	45,811,441	351,516
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(117,668)	(972,428)	(567,503)	404,925
OTHER FINANCING SOURCES (USES):				
Transfers in		488,983	577,300	88,317
Transfers out	(72,647)	(183,740)	(202,762)	(19,022)
TOTAL OTHER FINANCING SOURCES (USES)	(72,647)	305,243	374,538	69,295
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES/ USE OF PRIOR YEAR BUDGETARY FUND BALANCE	(190,315)	(667,185)	(192,965)	474,220
BUDGETARY FUND BALANCE AT BEGINNING OF YEAR	2,838,908	2,838,908	2,838,908	
BUDGETARY FUND BALANCE AT END OF YEAR	\$ 2,648,593	\$ 2,171,723	\$ 2,645,943	\$ 474,220

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, 2008.

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, the Debt Service Fund, which includes the proceeds of refunding bonds issued in June, 2005, 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 four such enterprises—water, sewer, golf course, and landfill closure. A fifth enterprise fund, for solid waste collection and disposal, was created on June 25, 2007.

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

Total net assets increased from FY07 to FY08 by \$1.4 million. Net assets for governmental activities increased \$0.3 million. This increase is the result of an \$8.5 million decrease in current and other assets, an increase of \$0.5 million in capital assets, and a decrease of \$8.3 million in total liabilities.

Net assets for business type activities increased by \$1.1 million. This increase is the result of a \$0.2 million increase in current and other assets, a \$0.8 million decrease in capital assets, and a \$1.7 million decrease in total liabilities.

For FY2007, refunding bonds issued in June, 2005 are included in both current assets and total liabilities for \$7.8 million for governmental activities and \$0.8 million for business type activities. The original bonds were called in November, 2007.

City of Gardner Net Assets
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total FY07	Total FY08	Total % Change FY07 to FY08
	FY07	FY08	FY07	FY08			
Current & Other Assets	\$32.1	\$23.6	\$8.0	\$8.2	\$40.1	\$31.8	-20.70%
Capital Assets	<u>24.6</u>	<u>25.1</u>	<u>21.5</u>	<u>20.7</u>	<u>46.1</u>	<u>45.8</u>	-0.65%
Total Assets	\$56.7	\$48.7	\$29.5	\$28.9	\$86.2	\$77.6	-9.98%
Longterm Debt Outstanding	\$10.3	\$8.6	\$16.2	\$14.9	\$26.5	\$23.5	-11.32%
Other Liabilities	<u>16.5</u>	<u>9.9</u>	<u>2.8</u>	<u>2.4</u>	<u>19.3</u>	<u>12.3</u>	-36.27%
Total Liabilities	\$26.8	\$18.5	\$19.0	\$17.3	\$45.8	\$35.8	-21.83%
Invested in Capital Assets							
Net of Related Debt	\$13.9	\$22.8	\$3.4	\$4.6	\$17.3	\$27.4	58.38%
Restricted	12.6	2.1	0.0	0.0	12.6	2.1	-83.33%
Unrestricted	3.4	5.3	7.1	7.0	10.5	12.3	17.14%
Total Net Assets	\$29.9	\$30.2	\$10.5	\$11.6	\$40.4	\$41.8	3.47%

Change in Net Assets

Revenue for governmental activities increased \$0.9 million. Property and other taxes increased \$0.6 million, charges for services decreased by \$0.1 million, operating grants increased \$1.2 million, capital grants decreased \$0.9 million, unrestricted grants increased by \$0.1 million, and other revenue did not change.

Expenses for governmental activities increased \$1.1 million. Education increased by \$0.7 million, culture & recreation by \$0.5 million, and community & economic development and fringe benefits by \$0.4 million each. Expenses for health & human services decreased by \$0.5 million. Public works expenses had a decrease of \$0.5 million which was the result of a \$0.7 million increase in expenses and a \$1.2 million shift of expenses for solid waste collection and disposal from public works and into the solid waste enterprise fund.

Business-type activities

The five enterprise funds—water, sewer, golf course, landfill closure, and solid waste—continue to operate with positive fund balances. Revenue increased by \$1.7 million, of which \$1.1 million was from the newly created solid waste enterprise fund. Expenses stayed fairly even with the net increase of \$1.3 million made up mostly of the addition of the solid waste enterprise fund with \$1.2 million in expenses.

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

	Governmental Activities		Business-type Activities		Total FY07	%Change	
	FY07	FY08	FY07	FY08		FY08	FY07toFY08
<u>Revenue</u>							
Program Revenue							
Charges for Services	\$2.4	\$2.3	\$6.1	\$7.7	\$8.5	\$10.0	17.65%
Operating Grants and Contributions	26.4	27.6			26.4	27.6	4.55%
Capital Grants and and Contributions	0.9	0.0			0.9	0.0	-100.00%
General Revenue							
Property Taxes	15.7	16.2			15.7	16.2	3.18%
Other Taxes	1.7	1.8			1.7	1.8	5.88%
Unrestricted Grants and Contributions	5.5	5.6	0.4	0.4	5.9	6.0	1.69%
Other	1.0	1.0	0.4	0.5	1.4	1.5	7.14%
Total Revenue	\$53.6	\$54.5	\$6.9	\$8.6	\$60.5	\$63.1	4.30%
<u>Expense</u>							
General Government	\$2.0	\$2.1			2.0	2.1	5.00%
Public Safety	5.7	5.8			5.7	5.8	1.75%
Education	25.9	26.6			25.9	26.6	2.70%
Public Works	4.1	3.6			4.1	3.6	-12.20%
Health & Human Services	0.8	0.3			0.8	0.3	-62.50%
Culture & Recreation	0.9	1.4			0.9	1.4	55.56%
Community and Economic Development	1.3	1.7			1.3	1.7	30.77%
Retirement	2.4	2.4			2.4	2.4	0.00%
Property & Liability Insurance	0.4	0.4			0.4	0.4	0.00%
Fringe Benefits	7.4	7.8			7.4	7.8	5.41%
State & County Charges	0.9	1.0			0.9	1.0	11.11%
Interest	1.0	0.8			1.0	0.8	-20.00%
Water Enterprise			3.4	3.5	3.4	3.5	2.94%
Sewer Enterprise			2.4	2.3	2.4	2.3	-4.17%
Golf Course Enterprise			0.6	0.7	0.6	0.7	16.67%
Landfill Closure Enterprise			0.2	0.2	0.2	0.2	0.00%
Solid Waste Enterprise			0.0	1.2	0.0	1.2	
Total Expense	\$52.8	\$53.9	\$6.6	\$7.9	\$59.4	\$61.8	4.04%
Excess (Deficiency) before Adjustments	\$0.8	\$0.6	\$0.3	\$0.7	\$1.1	\$1.3	
Transfers	(\$0.2)	(\$0.3)	\$0.2	\$0.3	\$0.0	\$0.0	
Increase (Decrease) in Net Assets	\$0.6	\$0.3	\$0.5	\$1.0	\$1.1	\$1.3	
<u>Net Assets</u>							
Beginning of Year	\$29.3	\$29.9	\$10.1	\$10.6	\$39.4	\$40.5	2.79%
End of Year	\$29.9	\$30.2	\$10.6	\$11.6	\$40.5	\$41.8	3.21%

Financial Analysis of the City's Funds

Combined governmental funds reported by the city decreased by \$10.0 million.

The General Fund reported a deficiency of revenue over expenditures of \$192,965 compared to a surplus of \$5,884 last year. Revenues decreased by \$0.2 million and expenses and other financing uses stayed even. The city did incur a legal deficit for snow & ice removal in FY08 of \$100,000.

The Stabilization Fund increased in value by \$12,605.

The Debt Service Fund holds the proceeds of refunding bonds issued in June, 2005. The current fund balance is zero. Proceeds and principal were used to pay off \$1,500,000 of callable bonds in November, 2005, and to pay off \$8,410,000 of callable bonds in November, 2007.

Nonmajor Governmental Funds decreased by \$1,976,549 compared to an increase of \$1,647,245 last year. Revenues decreased by \$1.8 million, expenses increased by \$1.0 million, and other financing sources decreased by \$0.8 million.

General Fund Budget Highlights

The city continued to operate under tight fiscal constraints caused by the revenue raising limits of Proposition 2½. The FY08 budget continued to rely on conservative revenue estimates and minimal growth in expenses.

In November, 2007, the state Department of Revenue certified free cash of \$524,355. Free cash is the accumulated excess of revenue over expenditures, with adjustments made for any outstanding deficits in the nonmajor funds. This amount compares to a figure of \$871,792 the previous year.

By the end of FY08, actual revenues exceeded budgeted revenues by \$53,409 and actual expenditures were less than budgeted expenditures by \$351,516.

Business-Type Activities

A major change in the FY08 budget was the creation of a solid waste enterprise fund and the adoption of fees to support curbside pickup and disposal of solid waste and recycling materials. Each household unit was charged \$150 per year and is allowed a 40 gallon barrel of trash per week and unlimited recycling. Households must pay \$3.50 per bag for trash in excess of the barrel. Because fees were not implemented until the second quarter of the fiscal year, funds were transferred from general governmental sources to assure a positive fund balance at year end.

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	%Change	
	<u>FY07</u>	<u>FY08</u>	<u>FY07</u>	<u>FY08</u>	<u>FY07</u>	<u>FY08</u>	<u>FY07toFY08</u>
Land	\$1.1	\$1.2	\$1.0	\$1.0	\$2.1	\$2.2	48%
Buildings & Improvements	13.9	14.5	12.0	11.6	25.9	26.1	0.8%
Vehicles	0.9	1.2	0.2	0.3	1.1	1.5	36.4%
Equipment	0.2	0.2	0.3	0.2	0.5	0.4	-20.0%
Textbooks	0.1	0.0	0.0	0.0	0.1	0.0	-100.0%
Infrastructure	8.2	7.8	8.1	7.6	16.3	15.4	-5.5%
Construction in Progress	<u>0.2</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>	<u>0.2</u>	
Total	\$24.6	\$25.1	\$21.6	\$20.7	\$46.2	\$45.8	-0.9%

During FY08, the city made capital improvements to the Gardner Middle School and completed an elevator project to make the Senior Center handicap accessible. The city purchased two police cruisers, several small trucks, and several pieces of heavy equipment for Public Works. The city acquired a parcel of land abutting city watershed and it repaved several city streets.

Long term debt

City of Gardner Outstanding Debt (in millions of dollars)

	Governmental Activities		Business-type Activities		Total	%Change	
	<u>FY07</u>	<u>FY08</u>	<u>FY07</u>	<u>FY08</u>	<u>FY07</u>	<u>FY08</u>	<u>FY07toFY08</u>
Outstanding Bonds	\$20.6	\$9.9	\$18.1	\$16.2	\$38.7	\$26.1	-32.56%
Authorized and Unissued	\$2.0	\$1.7	\$0.0	\$0.0	\$2.0	\$1.7	-15.00%

In June, 2005 the city issued refunding bonds for the purpose of calling the final two years of bonds issued in 1995 and the final ten years of bonds issued in 1997. In November, 2005 the city called the last two years of the 1995 bonds totaling \$1.5 million and in November, 2007 the city called the last ten years of the 2007 bonds totaling \$8,410,000.

The city did not authorize any additional borrowing in FY2008.

Future Expectations

The city was able to put together a budget for FY09 that included only small cuts in services, specifically a reduction in the building inspector's department reflecting a decline in new construction. The 2½% allowed increase in the tax levy, new growth in the tax levy, and flat non-school state aid were not sufficient to return city services to the level that existed in FY02.

The Commonwealth of Massachusetts has indicated that tightening revenue projections for FY09 and FY10 will necessitate tough choices at the state level with a potential impact on the city. Currently, they expect to maintain local aid payments through FY09, but have not made a similar commitment for FY10. The city has begun the process of closely examining its services and budgets with an eye toward having to make cuts for FY10.

The FY09 budget for the solid waste enterprise fund required an increase in household unit fees to \$180 per year, and no further transfers of funds are planned.

In mid-November, 2008, the Department of Revenue certified free cash of \$500,572. Some of these funds have been used to increase the budget for veteran's cash benefits and for the purchase of police cruisers.

The city is nearing completion of the second of three phases of a water main replacement and street rehabilitation project on Pine Street. During the summer, several streets were repaved, including the main roads through downtown.

In the past year, the city has taken steps to assist with economic development by adopting state laws covering expedited permitting (Chapter 43D) and district improvement financing (Chapter 40Q).

The city expects to break even or have a modest gain in its general fund balance during FY09. Enterprise funds are expected to continue to operate with positive balances.

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

**CITY OF GARDNER
GARDNER, MASSACHUSETTS**

REPORT OF FEDERAL AWARDS EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2008

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

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

Compliance

We have audited the compliance of the City of Gardner, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Gardner's major federal programs are identified in the schedule of federal awards expenditures. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Gardner's management. Our responsibility is to express an opinion on the City of Gardner's compliance based on our audit.

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

In our opinion, the City of Gardner complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Gardner, Massachusetts as of and for the year ended June 30, 2008, and have issued our report thereon, which was qualified in one respect, dated December 21, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

December 21, 2008

George V. McKenna, CPA

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

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

We have audited the financial statements of the City of Gardner, Massachusetts as of and for the year ended June 30, 2008, and have issued our report thereon, dated December 21, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

The Honorable Mayor and City Council
City of Gardner, Massachusetts
Page Two

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

December 21, 2008

George V. McKenna, CPA

**CITY OF GARDNER
Gardner, Massachusetts**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES

For the Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>		
Passed Through State Department of Education:		
Early Childhood Allocation	84.173*	\$ 19,854.
Title I	84.010*	559,987.
Title V	84.151	7,578.
PL 94-142	84.027*	758,644.
Teacher Quality	84.367	158,469.
Enhanced Technology	84.048	10,621.
Drug Free Schools	84.186	<u>22,042.</u>
Total U.S. Department of Education		<u>1,537,195.</u>
 <u>U.S. Department of Agriculture</u>		
School Lunch Program	10.555*	392,353.
 <u>U.S. Department of Transportation</u>		
Federal Aviation Administration		
Airport Improvement Program	20.106	233,312.
 <u>U.S. Department of Housing and Urban Development</u>		
Small Cities Program	14.218*	<u>1,291,859.</u>
Total Federal Awards Expenditures		<u>\$3,454,719.</u>

*Denotes major program

See accompanying notes

**CITY OF GARDNER
Gardner, Massachusetts**

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

For the Year Ended June 30, 2008

I. Summary of Significant Accounting Policies

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

Basis of Presentation

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

II. Scope of Audit

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

**CITY OF GARDNER
Gardner, Massachusetts**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2008

A. Summary of Audit Results

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

<u>PROGRAM</u>	<u>CFDA NO.</u>
PL 94-142	84.027
Title 1	84.010
Small Cities Program (HUD)	14.218

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

**CITY OF GARDNER
Gardner, Massachusetts**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2008

B. Findings - Financial Statement Audit

None

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

None