

City of Chelsea, Massachusetts

Comprehensive Annual Financial Report



For the Fiscal Year Ended June 30, 2013

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Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Jay Ash
City Manager



Prepared by the Finance Division

CITY OF CHELSEA, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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Introductory Section



Jay Ash
City Manager

CITY OF CHELSEA

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December 17, 2013

Dear Honorable City Council:

I am pleased to submit the City of Chelsea's *Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2013. The City is responsible for the accuracy, completeness and fairness of the data presented in the CAFR. The City is also responsible for establishing and maintaining a comprehensive framework of internal control designed to provide reasonable (rather than absolute) assurance that the financial statements are free from material misstatement. This letter of transmittal and management's discussion and analysis, as located in the financial section of the CAFR, provides a comprehensive financial overview of the City.

As per the City Charter, as particularly found in Section 5-6, and the instituted management practices of City government that you and I have implemented and overseen, a primary focus of the City continues to be an adherence to all Charter mandates and applicable ordinances, laws and practices. This CAFR meets and exceeds its legal requirements and presents itself as an informative resource for all those interested in the financial workings of the municipality.

The instituted management practices referenced above define the overall administration of City government. The leadership, cooperation and commitment that the City Council and City Administration continue to exhibit make possible this CAFR and the reflection it provides on a successfully managed municipal government. Especially important is the opportunity we provide each other and the public at large to review and critique the City's annual performance. This CAFR, as well as the City's other financial documents, provide in-depth reporting and ensure that the financial and general operations of City government remain transparent, and therefore open for easy viewing. Time and again, local residents and municipal experts comment on the thoroughness of our reporting and far-reaching extent of our efforts. Professionalism and accountability are two important attributes that define today's City government and our joint work to make such possible.

Together, we have prioritized prudent financial management to ensure that a strong financial base allows for the maintenance and enhancement of municipal services to follow. This cornerstone of philosophy as to the workings of a municipality has allowed the City to maintain its fiscal stability, even in the face of tremendous pressure on both revenues and expenditures during this particularly troubling period for cities and towns everywhere. The City's efforts to plan and then act based upon that plan recognizes and encourages honest financial planning. Balanced budgets, stable or increased bond ratings, solid audits and financial reporting awards reflect positively on the achievement of that latter goal and the stability in financing government that has been produced even during the most turbulent of fiscal times.

The basis for the City's financial efforts can be found in the "Fundamentals," the defining philosophy of City government and the guiding themes for financial, economic development, neighborhood enhancement, community development, public safety and governmental philosophy. The broad achievement we have been able to produce in City government owes much to our efforts to develop these Fundamentals and to remain loyal to the philosophies they annunciate. Rhetoric aside, the aforementioned financial management achievements, combined with burgeoning development, neighborhood advancements, community programming expansions, public safety gains and, perhaps most importantly, open and inclusive governing, are all indisputable results of our work together.

As is the case with much that has been accomplished in the eighteen years since the City emerged from Receivership, the positive, "pro-Chelsea" vision that we have created and the stability of government that has turned the abstract into the concrete have been significant factors in the City's recognized rejuvenation. In fact, our ability to ask ourselves tough questions and then get to the business of responding effectively and efficiently to the answers has resulted in so many gains, including our ability to address fiscal pressures from threatening areas like still depressed local aid revenues and health insurance and pension costs that continue to rise beyond the growth of the budget in general.

This CAFR, the annual Budget, the Five-Year Financial Forecast and the Five-Year Capital Improvement Plan are significant documents that require great thought and foresight. We have established an expectation that these documents will not only be factual, but also the basis for informed decision making and critical reflection. By carefully considering the financial possibilities through such instruments, we remain loyal to the critical charge of managing a financially solid institution that can then accomplish so much more. You are to be congratulated for your role in supporting such.

It should be noted that you, the City Council, continue to demonstrate a seriousness of purpose and an investigative approach to overseeing all aspects of government that should continue to be impactful as we seek to lead a transparent and functioning municipal government and be reassuring to those who observe our actions and/or count on government to be open, honest, efficient and serving of the needs of our residents and businesses.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditor's report. The remainder of this transmittal letter will highlight concepts important to the overall context in which the attached CAFR places the administration of the City's financial processes.

REPORTING ENTITY AND SERVICES PROVIDED

The basic financial statements present all of the financial information of the City (the primary government) and its component units as required by accounting principles generally accepted in the United States of America. Component units are included in the City's basic financial statements because of the nature and/or significance of their relationship with the City. The inclusion of such component units within the reporting entity does not affect their legal standing.

The City has included the Chelsea Contributory Retirement System (System) as a component unit (blended) in the basic financial statements. The financial statements of the System are presented for the year ended December 31, 2012, which represents the fiscal reporting period for the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission.

The City provides a full range of traditional municipal services, including general government, public safety, education, public works, community development, health and human and culture and recreation services to its citizenry.

ECONOMIC CONDITIONS

Economists indicate that the Great Recession ended in 2009. Unfortunately, the combination of a still sluggish economy and the typical lag time that naturally occurs before cities and towns feel any relief may mean that municipal finance in Chelsea and elsewhere will remain precarious for the foreseeable future. That compounds the problems that cities and towns have been experiencing for more than a decade. Of many measures that may confirm that contention, non-school state aid in the form of General Government Assistance (which is a combination of the former Lottery and Additional Assistance) to the City is down 33% (48% when adjusted for inflation) from its fiscal year 2001 high. With that and other revenues seemingly unable to keep up with rising expenses, most notably, employee health insurance and retirement costs, the strain on the City's budget and others across the state is acute.

A salvation may be that the severity of the situation is somewhat less dire here, although it must still be a major concern. Remembering that Chelsea once suffered the ultimate indignation by being placed into Receivership in 1991, City officials are constantly acting to ensure that history does not repeat itself. Budget management is priority one in order to maintain a balanced budget in fiscal year 2014, albeit one that required a further drawdown on reserves to avoid even deeper cuts than those that have already been made or would otherwise be required to bring the budget into structural balance. The City is benefiting from the foresight of building reserves and restraining spending. However, the insufficiency of local aid, the high costs of employee and retiree overhead and the general increase in costs for just about everything else, from supplies to capital projects, are combining to place increasingly more burden on the local budget. To date and into the short-term future, that being the next five years, the challenges, while substantial, seem to be within the City's control. Long-term, revenue stabilization and growth related to local aid and economic development are critical to the City's health.

Fortunately, the State law advocated by the City has provided a path to achieve some health insurance savings, meaning that City budget planners have secured a \$1m savings in premiums and are forecasting 6-8%, instead of 10-12%, increases going forward. In general, the prudent fiscal management that is embedded in the process of managing today's municipal government gives many hope that the City will survive this current period of continuing municipal financial stress and be in a position to thrive as the recovery, hopefully, continues to mature. Certainly central to the City's long-term thinking is the need to recharge reserves as quickly as possible in the event that the recovery fails and the economy reverts back into recession.

As non-school local aid continues to be below fiscal year 2001 highs, the City continues to be focused upon issues that are more in local control. The City's economic development agenda continues to pay dividends, however long-term continued growth has to be questioned given the City's limited land availability. Because the City must pin hopes for greater fiscal stability on new growth revenues from economic development, City development officials continue to work diligently with the development community to identify potential projects and sources of financing. Those efforts seek to promote higher density and, therefore, higher value projects. In addition to land and economy limitations, the City must continue to review the impacts that density may cause for the negative, like increased traffic concerns.

Despite the various concerns, optimism is still well placed in the local potential for future growth, as the city's greatest asset, proximity to Boston, has not changed. With a new hotel open and the work on the second phase of the Mystic Mall redevelopment now complete, the City turns its attention to the ongoing construction of a residential development on Sixth Street and its potential second phase, two more hotel projects and the biggest potential prize of them all, the construction of the FBI regional headquarters. Even in tough times, therefore, Chelsea is a place where investment wants to be. Unfortunately, though, that investment and the new tax revenues it is producing is mostly, if not fully, covering up for depressed non-school local aid levels.

Nonetheless, with survival as the theme, getting over the various hurdles that are confronting already approved projects and continuing to plan for the next wave of investment will help ensure that additional revenues can be generated locally to support future budget needs. So, too, will the City's "entrepreneurial activities" which are meant to again generate more revenues locally. While government is not in the "business" of being real estate developers, entrepreneurial activities like the sale of urban renewal land can help to fill the gapping holes left in the City's budget by reduced local aid transfers. Thus, as City officials work to address structural deficits, a central focus continues to be the generation of local revenues, as well as the controlling of general spending.

For the budget to remain in balance, the City has had to continue to limit spending increases, generate new local tax revenues and, at the end of the day, judiciously use reserves. The City saved for bad times, and is continuing to utilize those savings to help relieve the pressures while solutions to the depressed non-school local aid levels can be advanced. Prior to the last recession, the City was out of a structural deficit. That recession, though, thrust the City back into a structural deficit. The good news is the City is close to, if not fully recovered. However, still uncertain economic conditions, potential revenue shocks, the continued impact of increased costs, and new challenges to the City's services, like additional policing or more infrastructure needs, all continue to cause the City to be slightly pessimistic about financial surety going forward.

The great challenge on the expenditure side over the last twenty years has been addressed, not fully, but sufficiently to bring future increases into a more manageable realm. Health insurance spending had seen routine, double-digit increases, with those annual increases often outpacing the growth of existing property tax charges in various years. While health insurance is one of the most difficult expenditures for the City to impact, years of lobbying and advocacy by the City and others resulted in new state law giving the City more control. That control proved valuable in fiscal year 2012, as the City negotiated with its unions and agreed to a new health care program. That program saves the City more than \$1m on annual premiums, and has lowered the rate of growth in costs going forward. That said, health insurance is still increasing rates greater than revenue growth and general budget spending, so more action may be required soon to bring further control to that cost center.

Additionally, other "budget busters" are also being directly restrained. Debt service, for example, is under control, as the City makes a conscious effort to reduce the account's impact on the bottom line. Merited pay raises were negotiated fairly, although the impact of increased labor costs carry with them some risk of upsetting the fragile balance in the City's budgets and projections going forward. Retirement and assessments are almost beyond the City's ability to control, with the former causing the greatest strife, as the historic underfunding of the City's pension system has the City now paying millions of dollars annually in catch-up payments in order to meet the full-funding requirement of all retirement systems by the year 2028. Stock market losses during the recession and some suggestion that future earnings estimates are overstated will place an even greater pressure on the pension system, and, perhaps, the operating budget. Again, though, the City is active in statewide policy discussions about how the State might relieve some of that pressure from municipalities. Expiring grants, especially for firefighter positions, require the City to supplement those federal accounts or lose the valuable positions they support. Other grants are also being reduced or eliminated, therefore leaving the City with less outside resources to undertake valued local work.

Ample reserves and strong policies on their use provide the likelihood that the City can maintain municipal services in the near future. Fund balance and reserve policies were initially established to protect the City from unforeseen increases in expenditures, reductions in revenues, and a combination of both or any other extraordinary events. Fund balance and reserve policies also serve to provide an additional source of funding for capital construction and replacement projects. Reserves should normally average between 5% and 10% of the City's operating budget. Even after difficult times, the City's available reserves remain within that window.

As a result of a strict adherence to financial reserve policies, the City, as authorized by the City Council, steadily built up reserves in the good years in anticipation of a time when revenue growth would slow or stop. The realities of the most recent and current economic conditions, however, continue to negatively impact the City's revenue prospects in fiscal year 2014 and likely for several additional fiscal years thereafter. Reserves, therefore, have been used in fiscal year 2014 and may need to be drawn from again in fiscal year 2015, in thoughtful combination with future or previously instituted budget cuts, workforce reductions and other budgeting techniques, to maintain order in the municipal budget and allow for a smooth transition through the turbulent times that still exist.

There are two classes of reserves: 1) restricted reserves which are to be utilized only for purposes designated, and 2) unrestricted reserves which can be utilized for unspecified purposes. Reserve policies cover operating reserves, which provide for unanticipated expenditures or unexpected revenue losses during the year; capital reserves, which provide for the normal replacement of existing capital plan and the financing of capital improvements; cash flow reserves, which provide sufficient cash flow for daily financial needs, and contingency reserves, which provide for unanticipated expenditures or for expenditures while anticipated are non recurring.

Realistically, the deep recession and the lag now that we are into a recovery can only be offset for so long. In general, the City believes that strong local management, supported by a responsible City Council, as well as economic development opportunities that still exist to both provide local optimism at a time that pessimism still has the attention of many other communities. That optimism is constantly being rechecked, though, as the realities of the day give City officials many reasons to be concerned.

FUTURE OUTLOOK

Notwithstanding the uncontrollable, the future outlook of the City is as favorable as one might be able to expect. Stability and success is a driving force behind additional stability and greater success, even in these most unstable times. Planning and vision have resulted in action and achievement. For sure, a focus on the bottom line needs to and will be maintained. But, as long as attention is paid to the important budgetary issues that consume the City on a daily basis, the direction provided by the Fundamentals is likely to brighten what would otherwise be a very gloomy outlook.

Financially, the City is continuing to balance budgets and examine its financial strengths and weaknesses for years out. Central to the most critical challenges that lie ahead is managing revenue stagnation in non-school local aid. Fortunately, City development plans are still producing projects, and City financial efforts are eating away at structural deficits which could be eliminated in fiscal year 2015. The current financial plan takes into account likely "hits" to revenues, and projects a forecast which has the City able to negotiate through several more years of historically low local aid contributions and uncertain new growth in property taxes. Of course, it is impossible to predict when those and other revenues will be more robust. However, the same fiscal constraint that has served the City well for nearly twenty years provides evidence that the City has a track record of successfully addressing financial issues.

Some deferment of core service issues must be addressed, like staffing levels. Positions have already been eliminated, with a plan in place for others to also be eliminated if the need arises. There is strain within City government, but, arguably, the general public has not noticed a difference in the manner in which the City provides services. In fact, the targeted growth in at least one priority area, policing, has occurred, with the Chelsea Police Department now boasting its largest force ever. Other important public safety offices have also been held harmless, like the Fire Department, with a modest 1% increase in the headcount and the fulfilled promise of backfilling positions which would have otherwise been cut as a result of disappearing federal aid. With this as a backdrop, and notwithstanding the various crises impacting all corners of the world, the City believes that manageable, albeit somewhat uncomfortable days will continue well into the future.

Among the reasons for optimism is the city's continuing economic development potential. The City's 1,200-unit housing goal, which includes 10% affordability as a concurrent goal, looks like it could be well exceeded. Other projects add to the excitement that the investment community has generated for the city, causing local officials to have great pride and even greater expectation. For example, the success that has been enjoyed at Chelsea Commons creates tremendous expectations for the City's other shopping center: Mystic Mall. In the former, a Home Depot and numerous other national retailers and restaurants is now complemented by the successful, Parkside Commons, a 238-unit residential development. Another 56-unit, market rate project opened this past year at Parkside Commons perhaps, providing the impetus for greater mixed-use redevelopment of a center that is seemingly already built-out. Similar to Chelsea Commons, City development officials hope that the hugely successful Market Basket at Mystic Mall and the redevelopment of the former Market Basket space into smaller retailing and restaurants, including Starbucks, will only be the beginning of several significant phases of redevelopment that bring greater expansion to the Mystic Mall and strengthens the City's already burgeoning commercial district along Everett Avenue.

Development elsewhere promises to continue the City's dramatic record of success, including the new Marriott Residence Inn that has just opened in the City's highly successful Everett Avenue Urban Renewal District (EAURD). Another hotel, a Holiday Inn, is soon to follow in the area of the Residence Inn and the Wyndham Hotel. While environmental cleanup work continues on that likely project, another project, the One North of Boston project on Sixth Street, looks like its first phase will be completed this spring and its second phase could begin as early as this summer. The pending groundbreaking of the FBI regional headquarters in the City's urban renewal district and so very visible to Route 1 should have a significant impact on new growth revenues, and, more importantly, prospects for even further confidence in investing and development here in the future. Also, outside the EAURD, a TownePlace Suites will break ground within days of this communication, another indication that there is strength in the City's development agenda throughout the community.

Neighborhood enhancement is aided by economic development and promotes greater financial stability. The City has been most successful in resolving many neighborhood issues, most notably “residential/industrial” conflicts that retard the growth of neighborhoods. Just recently, another example embodying the City’s planning, vision, action and achievement on the residential/industrial conflict agenda was realized. Having envisioned a residential neighborhood in the Gerrish Avenue area following a 1997 fire at Standard Box, the then most significant industrial presence in the neighborhood, the City was able to help move another major industrial user, Atlas Bedding, to a more appropriate industrial location.

Several phases in the newly established “Box District” have taken place, with the most recently concluded phase, the redevelopment of the Atlas Bedding factory, opening with great fanfare. A new park has opened next to the site of the former Sudbury Brass building, which has been demolished and is being replaced with another Chelsea Neighborhood Developer’s affordable housing project there. Across the street, another mixed-income housing development broke ground this past spring as a result of a new economic tool the State has provided for municipalities, the Housing Development Incentive Program. The upgrading of Chelsea’s neighborhoods, including projects completed recently on Spencer Avenue and at One Webster, is fueling the overall livability of the community.

Community development impacts the livability of neighborhoods by helping individuals and families enjoy personal growth on the way to contributing more to the community. In the schools and throughout any of the City’s accomplished community-based organizations, programs and activities are achieving that broad goal. For example, Chelsea REACH, a relatively new afterschool program, augments that which happens during traditional and award winning school hours and continues to demonstrate the “leading-edge” of the City’s overall community development agenda. As a result, many pressing local issues continue to be identified and targeted for action. Many of those issues find their leadership among the City’s community-based partners, a set of active and engaged advocacy and program providing agencies that collectively rival the best and most effective that can be found anywhere.

Among issues identified and targeted are public safety issues. Efforts coordinated under the Senator Charles Shannon Community Safety Initiative are promoting enforcement and prevention initiatives locally. Augmenting that is the recently secured Safe and Successful Youth Initiative funding from the State and in partnership with several local non-profits. An accomplished police chief, aided by a department whose expanded ranks are producing desired results, including a substantial drop in crime in 2013, continues to have an even greater impact on the accomplishment of the City’s policing efforts. Critical federal funding helped spare significant cuts in Fire manpower, and provided for the affordable acquisition of new apparatus and the rehabilitation of an aging fire house. As noted, though, even with the expiration of those manpower funds, the City is committing to maintain Fire and Police levels, at least while other budget impacts are manageable.

Loyalty to the government philosophy continues to permeate City government. Technology has especially allowed residents and municipal officials to interact and collaborate. Throughout City Hall and out to the community and beyond, the City's efforts to remain open and engaging has resulted in the establishment of a better general understanding of government and an advancement of partnerships that address common agendas. The City has used "Occasional Forums for Public Input" to bring residents together to talk about issues like trash, parking, health, economic development and drug use in the city. As a result, major initiatives have been adopted about each topic area. Those highly successful community-wide meetings and an expanded information sharing effort on email known as "The Inside Scoop" has City Hall reaching out to engaging residents in so many more aspects of their community.

Overall, the City continues to work to improve itself. Those efforts are reflected in each of the Fundamental areas discussed above and evident in reporting documents like this CAFR.

CAPITAL FINANCING AND DEBT MANAGEMENT

The City's debt burden is relatively low in relation to other communities its size. Outstanding long-term debt (related to governmental funds) as of June 30, 2013, totaled approximately \$21,672,000, of which \$880,000 relates to school remodeling projects and \$8,440,000 relates to urban renewal, leaving a balance of approximately \$12,352,000 related to CIP projects.

Since fiscal year 1997, the City had funded a portion (\$200,000 annually) of its CIP on a "pay-as-you-go" basis out of current revenues. In order to maintain this type of funding, even in difficult economic conditions, a Capital Stabilization Fund was established and, as of June 30, 2013, the fund totaled approximately \$998,000.

INDEPENDENT AUDIT

The City's financial records, books of accounts and financial transactions are audited each fiscal year by an independent firm of certified public accountants. The independent public accounting firm of Sullivan, Rogers & Company LLC performed the City's annual audit for the fiscal year ended June 30, 2013. The independent auditors' report on the basic financial statements, for the fiscal year ended June 30, 2013, is included herein and contains an unmodified opinion.

CERTIFICATES, AFFILIATIONS AND AWARDS

For the fifteenth straight year, the City has been recognized by the Government Finance Officers Association of the United States and Canada (GFOA) with a “Certificate of Achievement for Excellence in Financial Reporting” for its June 30, 2012 CAFR. The Certificate of Achievement is the most prestigious award of its kind. The award reflects the effort and emphasis that the City places in meeting and exceeding the highest standards for financial and operational reporting. In order to be awarded the Certificate of Achievement, a government must publish an easily readable and well-organized document that conforms to accounting principles generally accepted in the United States of America and the Certificate Program requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this fiscal year 2013 CAFR continues to meet the Certificate Program’s requirements and, accordingly, we have submitted it to the GFOA to determine its eligibility for another Certificate of Achievement.

ACKNOWLEDGMENTS

Chelsea works because the City and the community are together committed to advancing causes and promoting even greater revitalization. Stakeholders are collectively addressing shortcomings and building on achievements.

At City Hall, the credit begins with you, the City Council, and extends to a loyal and dedicated staff, which is in turn supported by many volunteer boards and commissions. Our government is best characterized as an activist one, so our continuing effort to get out into the community and address every issue we see has us reaching beyond providing core municipal services. Being able to do that requires a strong financial foundation back at City Hall and an achievable economic development agenda to build upon that foundation. Fortunately, we have been equal to those and many other tasks.

Yes, not everything is perfect. We are sometimes reminded of this by local observers or discover it ourselves as we experience happenings or self-detected realizations. Admitting that perfection is still a ways-off is no condemnation, as no community can claim to be without shortcomings. Admitting the problems, though, is the first step to conquering them, and in our community, we hide nothing and have the capacity to address almost everything.

This CAFR and our variety of financial reporting documents are reflective of that openness and activism. Some dread audits; we welcome them. The opportunity to check where we are sure and explore where we are not so sure allows all of us in municipal government to embrace without equivocation a shared sense of accomplishment and advance our professional management.

While we all share in the achievement of another positive CAFR, I especially wish to recognize our financial officials for their continuing work. At City Hall, we have assembled a team that has earned distinction, from confirming bond ratings to a long string of municipal awards. This CAFR stands as a further testament to their work.

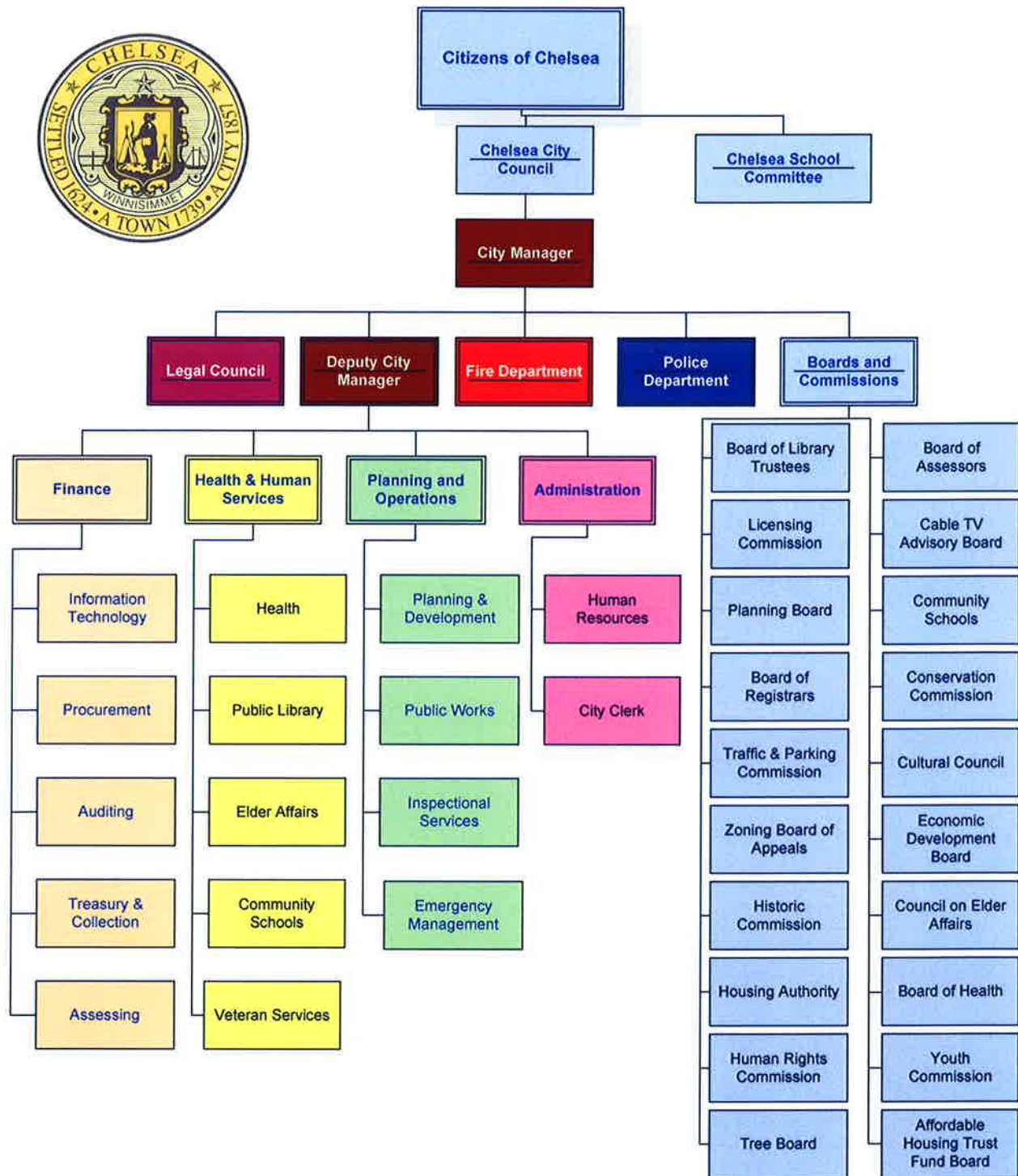
On behalf of all of us, including you, City Council, I am pleased to share with the public the City's fiscal year 2013 CAFR. Once again, municipal government is not only accurately and openly reporting on its operations, but also doing so in a manner which demonstrates why Chelsea City government is the transparent success it is.

Very truly yours,

A handwritten signature in black ink that reads "Jay Ash". The signature is written in a cursive, flowing style.

Jay Ash
City Manager

City of Chelsea Organization



Elected Officials - City Council

At Large	Leo Robinson
At Large	Brian Hatleberg, <i>Vice President</i>
At Large	Calvin T. Brown
District One	Paul R. Murphy
District Two	Christopher Cataldo
District Three	Matthew R. Frank
District Four	Paula S. Barton
District Five	Joseph Perlatonda
District Six	Giovanni A. Recupero
District Seven	Clifford Cunningham
District Eight	Dan Cortell, <i>President</i>

Elected Officials - School Committee

At Large	Angel G. Meza
District One	Rosemarie Carlisle, <i>Vice Chairperson</i>
District Two	Jeannette Velez
District Three	Carlos J. Rodriguez
District Four	Lucia H. Colón
District Five	Lisa Lineweaver
District Six	Ana Hernandez
District Seven	Charles Klauder, <i>Delegate to City Council</i>
District Eight	Edward C. Ells, <i>Chairperson</i>

Principal Officials

Department	Official(s)	Additional Areas of Authority
Assessors	Philip J. Waterman, Chairman Steve Roche, Director	
Auditing	Edward Dunn, Auditor	
City Clerk	Deborah Clayman, City Clerk	Traffic & Parking
City Council	Dan Cortell, President Paul Casino, Administrator	
Executive	Jay Ash, City Manager Ned Keefe, Deputy City Manager	
Emergency Management	Allan Alpert, Director	E911
Fire	Robert Better, Jr., Chief	
Health & Human Services	Luis Prado, Director	Elder Affairs, Health, Library, Veterans Services, Community Schools
Human Resources	Robert Joy, Director	
Inspectional Services	Joseph Cooney, Director	
Legal	Cheryl Watson, City Solicitor	
M.I.S.	Ramon Garcia, Director	
Planning & Development	John DePriest, Executive Director	Planning, Economic Development, Housing
Police	Brian Kyes, Chief	Animal Control, Harbor Master
Public Works	Joseph Foti, Director	
Retirement Board	Joseph Siewko, Chairman	
School	Edward C. Ells, Chairperson Mary M. Bourque, Superintendent	
Treasurer/Collector	Robert Boulrice, Director Treasurer/Collector	Central Billing and Research
Veteran Services	Francisco Toro, Director	



Government Finance Officers Association

**Certificate of
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**City of Chelsea
Massachusetts**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

Financial Section



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

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Independent Auditors' Report

To the Honorable City Council and City Manager
City of Chelsea, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chelsea, Massachusetts, as of and for the year ended June 30, 2013 (except for the Chelsea Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the City of Chelsea, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chelsea, Massachusetts, as of June 30, 2013 (except for the Chelsea Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2012), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 21 through 30) and general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 74 through 87) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

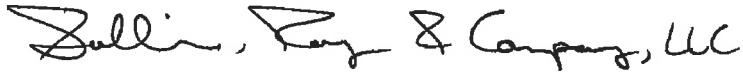
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chelsea, Massachusetts' basic financial statements. The introductory section, combining and individual fund statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013 on our consideration of the City of Chelsea, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Chelsea, Massachusetts' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Sullivan, Ray & Company, LLC". The signature is written in a cursive, flowing style.

December 17, 2013

Management's Discussion and Analysis

As management of the City of Chelsea, Massachusetts (City), we offer readers of these financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2013.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$93,632,990 (net position).
- The City's total net position decreased \$7,165,465.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$26,894,097, or 20.7 percent of total general fund expenditures and transfers out.
- The City's total outstanding long-term debt principal decreased by \$64,419 during the fiscal year. The City issued \$4,883,959 in general obligation bonds, private loans and MWRA notes during the fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains required supplementary and other information in addition to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net position** presents information on all of the City's non-fiduciary assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, community development and debt service (interest). Business-type activities include the water and sewer operations.

The government-wide financial statements can be found on pages 32-34 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 18 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other 17 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements on pages 89-97 of this report.

The basic governmental funds financial statements can be found on pages 35-38 of this report.

Proprietary funds

The City maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer operations and is considered to be a major fund.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for a portion of its retirees' health insurance and all of its workers' compensation risk-financing activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements but are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 98-101 of this report.

The basic proprietary fund financial statements can be found on pages 39-41 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary funds provide separate information for the City's pension trust fund. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary fund financial statements can be found on pages 42-43 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44-73 of this report.

Required Supplementary and Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the budget comparison for the general fund and certain pension and other postemployment benefits information. Such information can be located on pages 74-87 of this report.

The combining statements previously referred to are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$93,632,990 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
Assets						
Current assets.....	\$ 66,820,768	\$ 60,010,074	\$ 19,105,523	\$ 16,248,844	\$ 85,926,291	\$ 76,258,918
Noncurrent assets (excluding capital assets).....	1,222,707	1,596,038	-	-	1,222,707	1,596,038
Capital assets (net).....	130,359,112	130,253,034	24,160,393	22,967,033	154,519,505	153,220,067
Total assets.....	198,402,587	191,859,146	43,265,916	39,215,877	241,668,503	231,075,023
Liabilities						
Current liabilities (excluding debt).....	8,723,365	6,122,591	388,270	283,262	9,111,635	6,405,853
Noncurrent liabilities (excluding debt).....	102,785,823	87,770,914	1,090,908	988,235	103,876,731	88,759,149
Current debt.....	2,627,887	2,756,573	2,260,104	2,191,805	4,887,991	4,948,378
Noncurrent debt.....	19,043,650	18,919,909	11,115,506	11,243,279	30,159,156	30,163,188
Total liabilities.....	133,180,725	115,569,987	14,854,788	14,706,581	148,035,513	130,276,568
Net Position						
Net investment in capital assets.....	112,646,295	110,297,865	16,948,277	15,188,269	129,594,572	125,486,134
Restricted.....	19,798,007	21,541,560	-	-	19,798,007	21,541,560
Unrestricted.....	(67,222,440)	(55,550,266)	11,462,851	9,321,027	(55,759,589)	(46,229,239)
Total net position.....	\$ 65,221,862	\$ 76,289,159	\$ 28,411,128	\$ 24,509,296	\$ 93,632,990	\$ 100,798,455

The largest portion of the City's net position (\$129,594,572) reflects its net investment in capital assets (e.g., land, buildings and improvements, machinery and equipment, and infrastructure). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$19,798,007) represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position of \$11,462,851 may be used to meet the City's ongoing obligations to citizens and creditors for the City's water and sewer activities.

The City has no unrestricted net position available for the support of governmental activities. Such resources have been consumed with the recognition of postemployment benefits liabilities.

Changes in Net Position

For the fiscal year ended June 30, 2013, the City's total net position decreased by \$7,165,465, compared to a decrease of \$6,338,171 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 9,431,480	\$ 8,934,069	\$ 18,474,949	\$ 18,344,616	\$ 27,906,429	\$ 27,278,685
Operating grants and contributions.....	83,700,933	78,837,387	2,412	21,966	83,703,345	78,859,353
Capital grants and contributions.....	310,844	(1,065,126)	320,320	1,671	631,164	(1,063,455)
<i>General Revenues:</i>						
Real estate and personal property taxes.....	42,040,017	38,375,534	-	-	42,040,017	38,375,534
Motor vehicle and other excise taxes.....	8,198,951	8,253,392	-	-	8,198,951	8,253,392
Meals and room taxes.....	871,300	602,918	-	-	871,300	602,918
Penalties and interest on taxes.....	375,953	553,029	-	-	375,953	553,029
Payments in lieu of taxes.....	1,221,631	1,221,920	-	-	1,221,631	1,221,920
Grants and contributions not restricted to specific programs.....	7,538,595	7,718,417	-	-	7,538,595	7,718,417
Unrestricted investment income.....	142,796	406,508	-	-	142,796	406,508
Total revenues.....	<u>153,832,500</u>	<u>143,838,048</u>	<u>18,797,681</u>	<u>18,368,253</u>	<u>172,630,181</u>	<u>162,206,301</u>
Expenses						
General government.....	6,753,023	6,303,492	-	-	6,753,023	6,303,492
Public safety.....	37,168,245	34,245,664	-	-	37,168,245	34,245,664
Education.....	106,039,385	101,583,304	-	-	106,039,385	101,583,304
Public works.....	7,054,957	6,392,827	-	-	7,054,957	6,392,827
Health and human services.....	4,311,783	4,003,944	-	-	4,311,783	4,003,944
Culture and recreation.....	980,683	909,974	-	-	980,683	909,974
Community development.....	3,324,674	1,774,591	-	-	3,324,674	1,774,591
Debt service - interest.....	977,150	742,879	-	-	977,150	742,879
Water and sewer.....	-	-	13,185,746	12,587,797	13,185,746	12,587,797
Total expenses.....	<u>166,609,900</u>	<u>155,956,675</u>	<u>13,185,746</u>	<u>12,587,797</u>	<u>179,795,646</u>	<u>168,544,472</u>
Change in net position before transfers.....	(12,777,400)	(12,118,627)	5,611,935	5,780,456	(7,165,465)	(6,338,171)
Transfers, net.....	<u>1,710,103</u>	<u>1,668,393</u>	<u>(1,710,103)</u>	<u>(1,668,393)</u>	<u>-</u>	<u>-</u>
Change in net position.....	(11,067,297)	(10,450,234)	3,901,832	4,112,063	(7,165,465)	(6,338,171)
Net position - beginning of year.....	<u>76,289,159</u>	<u>86,739,393</u>	<u>24,509,296</u>	<u>20,397,233</u>	<u>100,798,455</u>	<u>107,136,626</u>
Net position - end of year.....	<u>\$ 65,221,862</u>	<u>\$ 76,289,159</u>	<u>\$ 28,411,128</u>	<u>\$ 24,509,296</u>	<u>\$ 93,632,990</u>	<u>\$ 100,798,455</u>

Governmental activities decreased the City's net position by \$11,067,297. This is consistent with the prior year decrease in net position of \$10,450,234.

Business-type activities increased the City's net position by \$3,901,832. This is consistent with the prior year increase in net position of \$4,112,063.

Fund Financial Statement Analysis

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

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$55,416,062, an increase of \$4,486,662 in comparison with the prior year. Approximately \$26,864,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$791,258)
- Restricted (\$21,690,551)
- Committed (\$2,328,995)
- Assigned (\$3,741,435)

The general fund is the primary operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$26,894,097, while total fund balance was \$33,277,147. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 20.7% of total general fund expenditures and transfers out, while total fund balance represents 25.6% of that same amount.

The balance of the City's general fund increased \$3,889,549 during fiscal year 2013. Although the City recognized a positive budget to actual variance totaling approximately \$12,661,000 (prior to encumbrances and continuing appropriations), approximately \$9,300,000 of reserves were used to fund the fiscal year 2013 budget.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water and sewer enterprise fund at the end of the year amounted to \$11,462,851. The water and sewer enterprise fund had an increase in net position for the year of \$3,901,832. Other factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The original general fund budget of \$119,876,776 was increased by \$6,193,730 (5.2%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase/Decrease</u>	<u>Amount</u>	<u>Funding Source</u>
Police and Fire personal services.....	2,048,839	Unassigned fund balance
Transfer to capital projects - various.....	1,463,800	Unassigned fund balance
Transfer to capital projects - land acquisition.....	825,000	Unassigned fund balance
Transfer to capital stabilization fund.....	750,000	Unassigned fund balance
Various departments' personal services.....	340,620	Unassigned fund balance
Health insurance.....	274,212	Unassigned fund balance
Veterans services.....	194,390	Unassigned fund balance
Department of Public Works.....	91,769	Unassigned fund balance
Emergency management.....	78,502	Unassigned fund balance
Fire department.....	57,350	Unassigned fund balance
Employee benefits.....	38,350	Unassigned fund balance
Transfer to firearms permit fund.....	16,275	Unassigned fund balance
Transfer to Planning & Development funds.....	9,173	Unassigned fund balance
Executive department.....	7,220	Unassigned fund balance
Transfer to fire details fund.....	7,090	Unassigned fund balance
MIS department.....	3,694	Unassigned fund balance
Debt service.....	535	Unassigned fund balance
Canceled encumbrances.....	(13,089)	Assigned fund balance
Total net increase.....	<u>\$ 6,193,730</u>	

During the year, general fund revenues and other financing sources exceeded budgetary estimates and expenditures, encumbrances and continuing appropriations were less than appropriations, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$8,919,000.

Capital Asset and Debt AdministrationCapital assets

The City's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$154,519,505 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled 0.8% (a 0.1% increase for governmental activities and a 0.7% increase for business-type activities).

Major capital asset events that occurred during the current fiscal year include the following:

- Continued reconstruction of roadways, sidewalks and drains (\$2,889,000)
- Continued improvements to water and sewer infrastructure (\$1,889,000)
- Fire station construction in progress (\$1,176,000)
- Land acquisition (\$712,000)

The following table summarizes the City's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
Land.....	\$ 18,620,663	\$ 17,908,663	\$ -	\$ -	\$ 18,620,663	\$ 17,908,663
Construction in progress.....	1,272,906	125,429	560,989	245,000	1,833,895	370,429
Buildings and improvements.....	92,726,533	96,134,657	-	-	92,726,533	96,134,657
Machinery and equipment.....	2,996,966	3,769,598	-	-	2,996,966	3,769,598
Infrastructure.....	14,742,044	12,314,687	23,599,404	22,722,033	38,341,448	35,036,720
Total capital assets.....	<u>\$ 130,359,112</u>	<u>\$ 130,253,034</u>	<u>\$ 24,160,393</u>	<u>\$ 22,967,033</u>	<u>\$ 154,519,505</u>	<u>\$ 153,220,067</u>

Additional information on the City's capital assets can be found in Note 5 on pages 58-59 of this report.

Long-Term Debt

At the end of the current fiscal year, total debt outstanding was \$35,047,147, which is backed by the full faith and credit of the City, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
General obligation bonds.....	\$ 20,021,537	\$ 21,341,482	\$ 9,273,463	\$ 10,017,518	\$ 29,295,000	\$ 31,359,000
State House notes.....	250,000	335,000	-	-	250,000	335,000
Private loans.....	1,400,000	-	-	-	1,400,000	-
MWPAT notes.....	-	-	224,670	234,937	224,670	234,937
MWRA notes.....	-	-	3,877,477	3,182,629	3,877,477	3,182,629
Total bonds, notes and loans.....	<u>\$ 21,671,537</u>	<u>\$ 21,676,482</u>	<u>\$ 13,375,610</u>	<u>\$ 13,435,084</u>	<u>\$ 35,047,147</u>	<u>\$ 35,111,566</u>

The City's total debt decreased \$64,419 (or 0.2%) during the fiscal year. The City issued \$4,883,959 in general obligation bonds, private loans and MWRA notes during the fiscal year.

The City received an AA- bond rating from Standard & Poor's for the general obligation bonds issued on May 15, 2013.

State statutes limit the amount of general obligation debt the City may issue to 5% of its total assessed valuation. The current debt limit is \$111,887,125. However, through various debt exclusions, the City's legal debt margin (capacity to borrow within the debt limit) totals \$95,690,838.

Additional information on the City's long-term debt can be found in Note 10 on pages 61-65 of this report.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Office, City Hall, 500 Broadway, Chelsea, Massachusetts 02150.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 28,187,690	\$ 8,498,668	\$ 36,686,358
Restricted cash and cash equivalents.....	21,752,464	6,183,840	27,936,304
Investments.....	9,903,798	-	9,903,798
Restricted investments.....	2,247,192	-	2,247,192
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	1,841,755	-	1,841,755
Tax, trash and utility liens.....	823,424	351,010	1,174,434
Motor vehicle and other excise taxes.....	604,639	-	604,639
User charges.....	-	4,072,005	4,072,005
Trash.....	297,801	-	297,801
Departmental and other.....	855,223	-	855,223
Intergovernmental.....	254,636	-	254,636
Loans.....	48,293	-	48,293
Prepaid expenses.....	3,853	-	3,853
Total current assets.....	66,820,768	19,105,523	85,926,291
Noncurrent assets:			
Restricted investments.....	308,767	-	308,767
Receivables, net of allowance for uncollectible amounts:			
Loans.....	716,720	-	716,720
Tax foreclosures.....	197,220	-	197,220
Capital assets not being depreciated.....	19,893,569	560,989	20,454,558
Capital assets, net of accumulated depreciation.....	110,465,543	23,599,404	134,064,947
Total noncurrent assets.....	131,581,819	24,160,393	155,742,212
Total assets.....	198,402,587	43,265,916	241,668,503
LIABILITIES			
Current liabilities:			
Warrants payable.....	6,561,740	264,089	6,825,829
Accrued payroll.....	588,958	-	588,958
Tax refunds payable.....	220,592	-	220,592
Other liabilities.....	2,500	-	2,500
Abandoned property.....	180,783	-	180,783
Customer deposits.....	-	20,346	20,346
Accrued interest.....	377,421	103,835	481,256
Workers' compensation claims.....	202,371	-	202,371
Compensated absences.....	589,000	-	589,000
Long-term bonds, notes and loans payable.....	2,627,887	2,260,104	4,887,991
Total current liabilities.....	11,351,252	2,648,374	13,999,626
Noncurrent liabilities:			
Workers' compensation claims.....	142,240	-	142,240
Compensated absences.....	4,763,000	-	4,763,000
Net OPEB obligation.....	97,880,583	1,090,908	98,971,491
Long-term bonds, notes and loans payable.....	19,043,650	11,115,506	30,159,156
Total noncurrent liabilities.....	121,829,473	12,206,414	134,035,887
Total liabilities.....	133,180,725	14,854,788	148,035,513
NET POSITION			
Net investment in capital assets.....	112,646,295	16,948,277	129,594,572
Restricted for:			
OPEB.....	308,767	-	308,767
Loans.....	765,013	-	765,013
Permanent funds:			
Expendable.....	98,941	-	98,941
Nonexpendable.....	22,392	-	22,392
Community development and redevelopment.....	4,548,542	-	4,548,542
Receipts reserved.....	2,212,876	-	2,212,876
Gifts and grants.....	3,092,912	-	3,092,912
School lunch and other school revolving.....	2,833,785	-	2,833,785
Capital.....	5,914,779	-	5,914,779
Unrestricted.....	(67,222,440)	11,462,851	(55,759,589)
Total net position.....	\$ 65,221,862	\$ 28,411,128	\$ 93,632,990

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense)/Revenue
Primary government:					
Governmental activities:					
General government.....	\$ 6,753,023	\$ 1,399,797	\$ 575,170	\$ -	\$ (4,778,056)
Public safety.....	37,168,245	5,215,386	2,579,005	26,681	(29,347,173)
Education.....	106,039,385	1,152,843	77,274,164	-	(27,612,378)
Public works.....	7,054,957	1,434,148	6,300	34,163	(5,580,346)
Health and human services.....	4,311,783	89,767	663,558	-	(3,558,458)
Culture and recreation.....	980,683	26,317	49,158	-	(905,208)
Community development.....	3,324,674	113,222	2,553,330	250,000	(408,122)
Debt service - interest.....	977,150	-	248	-	(976,902)
Total governmental activities...	166,609,900	9,431,480	83,700,933	310,844	(73,166,643)
Business-type activities:					
Water and sewer.....	13,185,746	18,474,949	2,412	320,320	5,611,935
Total primary government.....	\$ 179,795,646	\$ 27,906,429	\$ 83,703,345	\$ 631,164	\$ (67,554,708)

(continued)

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net position:			
Net (expense)/revenue (from previous page).....	\$ (73,166,643)	\$ 5,611,935	\$ (67,554,708)
<i>General revenues:</i>			
Real estate and personal property taxes.....	42,040,017	-	42,040,017
Motor vehicle and other excise taxes.....	8,198,951	-	8,198,951
Meals and room taxes.....	871,300	-	871,300
Penalties and interest on taxes.....	375,953	-	375,953
Payments in lieu of taxes.....	1,221,631	-	1,221,631
Grants and contributions not restricted to specific programs.....	7,538,595	-	7,538,595
Unrestricted investment income.....	142,796	-	142,796
Transfers, net	1,710,103	(1,710,103)	-
Total general revenues and transfers.....	62,099,346	(1,710,103)	60,389,243
Change in net position.....	(11,067,297)	3,901,832	(7,165,465)
Net position - beginning of year.....	76,289,159	24,509,296	100,798,455
Net position - end of year.....	\$ 65,221,862	\$ 28,411,128	\$ 93,632,990

See notes to basic financial statements.

(concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2013

ASSETS	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 28,187,690	\$ -	\$ 28,187,690
Investments.....	9,903,798	-	9,903,798
Restricted cash and cash equivalents.....	-	20,837,546	20,837,546
Restricted investments.....	308,767	2,247,192	2,555,959
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	1,841,755	-	1,841,755
Tax and trash liens.....	823,424	-	823,424
Motor vehicle and other excise taxes.....	604,639	-	604,639
Trash.....	297,801	-	297,801
Departmental and other.....	667,607	187,616	855,223
Intergovernmental.....	-	254,636	254,636
Loans.....	-	765,013	765,013
Due from other funds.....	209,376	-	209,376
Prepaid expenditures.....	3,853	-	3,853
Tax foreclosures.....	197,220	-	197,220
TOTAL ASSETS.....	\$ 43,045,930	\$ 24,292,003	\$ 67,337,933
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 4,618,028	\$ 1,943,712	\$ 6,561,740
Accrued payroll.....	588,958	-	588,958
Tax refunds payable.....	220,592	-	220,592
Other liabilities.....	2,500	-	2,500
Abandoned property.....	178,435	-	178,435
Deferred revenue.....	4,160,270	-	4,160,270
Due to other funds.....	-	209,376	209,376
TOTAL LIABILITIES.....	9,768,783	2,153,088	11,921,871
FUND BALANCES:			
Nonspendable.....	3,853	787,405	791,258
Restricted.....	308,767	21,381,784	21,690,551
Committed.....	2,328,995	-	2,328,995
Assigned.....	3,741,435	-	3,741,435
Unassigned.....	26,894,097	(30,274)	26,863,823
TOTAL FUND BALANCES.....	33,277,147	22,138,915	55,416,062
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 43,045,930	\$ 24,292,003	\$ 67,337,933

See notes to basic financial statements.

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

JUNE 30, 2013

Total governmental fund balances (page 35).....	\$ 55,416,062
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....	130,359,112
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....	4,160,270
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....	(377,421)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds, notes and loans payable.....	(21,671,537)
Compensated absences.....	(5,352,000)
Net OPEB obligation.....	(97,880,583)
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 reported as governmental activities in the statement of net position.....	567,959
Net position of governmental activities (page 32).....	\$ <u>65,221,862</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Real estate and personal property taxes.....	\$ 40,349,818	\$ -	\$ 40,349,818
Motor vehicle and other excise taxes.....	9,340,599	-	9,340,599
Meals and room taxes.....	871,300	-	871,300
Tax and trash liens.....	1,836,771	-	1,836,771
Payments in lieu of taxes.....	1,221,631	-	1,221,631
Charges for services.....	-	3,400,408	3,400,408
Trash disposal.....	1,351,774	-	1,351,774
Intergovernmental.....	72,273,502	17,724,468	89,997,970
Penalties and interest on taxes.....	375,953	-	375,953
Licenses and permits.....	1,544,748	-	1,544,748
Fines and forfeitures.....	2,007,744	-	2,007,744
Department and other.....	851,650	281,495	1,133,145
Contributions.....	-	1,483,355	1,483,355
Investment income.....	120,417	80,886	201,303
TOTAL REVENUES.....	132,145,907	22,970,612	155,116,519
EXPENDITURES			
Current:			
General government.....	3,315,384	1,206,305	4,521,689
Public safety.....	20,308,813	6,035,841	26,344,654
Education.....	66,861,043	13,748,326	80,609,369
Public works.....	4,707,379	1,759,779	6,467,158
Health and human services.....	1,137,301	399,680	1,536,981
Culture and recreation.....	334,879	83,620	418,499
Community development.....	-	5,264,289	5,264,289
Pension benefits.....	12,731,118	-	12,731,118
Employee benefits.....	6,022,290	-	6,022,290
Property and liability insurance.....	475,362	-	475,362
Claims and judgments.....	36,098	-	36,098
State and county charges.....	6,900,308	-	6,900,308
Debt service:			
Principal.....	2,756,573	-	2,756,573
Interest.....	1,007,448	-	1,007,448
TOTAL EXPENDITURES.....	126,593,996	28,497,840	155,091,836
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	5,551,911	(5,527,228)	24,683
OTHER FINANCING SOURCES (USES)			
Transfers in.....	1,892,453	3,854,760	5,747,213
Issuance of bonds, notes and loans.....	-	2,751,628	2,751,628
Premium from issuance of bonds and notes.....	248	-	248
Transfers out.....	(3,555,063)	(482,047)	(4,037,110)
TOTAL OTHER FINANCING SOURCES (USES).....	(1,662,362)	6,124,341	4,461,979
NET CHANGE IN FUND BALANCES.....	3,889,549	597,113	4,486,662
FUND BALANCES AT BEGINNING OF YEAR.....	29,387,598	21,541,802	50,929,400
FUND BALANCES AT END OF YEAR.....	\$ 33,277,147	\$ 22,138,915	\$ 55,416,062

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds (page 37).....	\$ 4,486,662
<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. These amounts represent the related activity of the current period.</p>	
Capital outlays.....	5,617,313
Depreciation.....	(5,511,235)
<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>	
	(1,284,267)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. 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. These amounts represent the related activity of the current period.</p>	
Issuance of bonds, notes and loans.....	(2,751,628)
Bond maturities.....	2,756,573
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>	
	30,297
<p>Some expenses reported in the statement activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>	
Compensated absences.....	(542,000)
Net OPEB obligation.....	(14,157,421)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of the internal service funds is reported with governmental activities.....</p>	
	<u>288,409</u>
Changes in net position of governmental activities (page 34).....	<u>\$ (11,067,297)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION

JUNE 30, 2013

	Business-Type Activities - Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 8,498,668	\$ -
Restricted cash and cash equivalents.....	6,183,840	914,918
Receivables, net of allowance for uncollectible amounts:		
User charges.....	4,072,005	-
Utility liens.....	351,010	-
Total current assets.....	19,105,523	914,918
Noncurrent assets:		
Capital assets not being depreciated.....	560,989	-
Capital assets, net of accumulated depreciation.....	23,599,404	-
Total noncurrent assets.....	24,160,393	-
Total assets.....	43,265,916	914,918
LIABILITIES		
Current liabilities:		
Warrants payable.....	264,089	-
Other liabilities.....	-	2,348
Customer deposits.....	20,346	-
Accrued interest.....	103,835	-
Workers' compensation claims.....	-	202,371
Long-term bonds and notes payable.....	2,260,104	-
Total current liabilities.....	2,648,374	204,719
Noncurrent liabilities:		
Workers' compensation claims.....	-	142,240
Net OPEB obligation.....	1,090,908	-
Long-term bonds and notes payable.....	11,115,506	-
Total noncurrent liabilities.....	12,206,414	142,240
Total liabilities.....	14,854,788	346,959
FUND NET POSITION		
Net investment in capital assets.....	16,948,277	-
Unrestricted.....	11,462,851	567,959
Total fund net position.....	\$ 28,411,128	\$ 567,959

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
OPERATING REVENUES		
Charges for services.....	\$ 18,474,949	\$ -
Employer contributions.....	-	383,672
TOTAL OPERATING REVENUES.....	18,474,949	383,672
OPERATING EXPENSES		
Cost of service and administration.....	1,999,019	-
MWRA assessment.....	9,857,357	-
Repairs and maintenance.....	289,888	-
Depreciation.....	695,933	-
Employee benefits.....	-	95,370
TOTAL OPERATING EXPENSES.....	12,842,197	95,370
OPERATING INCOME.....	5,632,752	288,302
NONOPERATING REVENUES (EXPENSES)		
Investment income.....	2,412	107
Interest expense.....	(343,549)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(341,137)	107
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS....	5,291,615	288,409
Capital contributions.....	320,320	
Transfers out.....	(1,710,103)	-
CHANGES IN FUND NET POSITION.....	3,901,832	288,409
FUND NET POSITION AT BEGINNING OF YEAR.....	24,509,296	279,550
FUND NET POSITION AT END OF YEAR.....	\$ 28,411,128	\$ 567,959

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Water & Sewer Enterprise	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$ 18,102,935	\$ -
Receipts from interfund services provided.....	-	383,672
Payments to vendors.....	(11,676,866)	-
Payments to employees.....	(255,797)	-
Payments for interfund services used.....	-	(108,960)
NET CASH FROM OPERATING ACTIVITIES.....	<u>6,170,272</u>	<u>274,712</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out.....	<u>(1,710,103)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the issuance of bonds and notes.....	2,132,331	-
Capital contributions.....	320,320	-
Acquisition and construction of capital assets.....	(1,889,293)	-
Principal payments on bonds and notes.....	(2,191,805)	-
Interest expense.....	<u>(349,469)</u>	<u>-</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(1,977,916)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income.....	<u>2,412</u>	<u>107</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	2,484,665	274,819
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$5,673,466 and \$640,099 reported as restricted in the Water/Sewer enterprise fund and internal service fund, respectively).....	<u>12,197,843</u>	<u>640,099</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$6,183,840 and \$914,918 reported as restricted in the Water/Sewer enterprise fund and internal service fund, respectively).....	<u>\$ 14,682,508</u>	<u>\$ 914,918</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income.....	\$ 5,632,752	\$ 288,302
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Adjustments not requiring current cash flows:		
Depreciation.....	695,933	-
Net OPEB obligation.....	102,673	-
Adjustments requiring current cash flows:		
Changes in assets and liabilities:		
Utility liens.....	5,225	-
User charges.....	(377,239)	-
Warrants payable.....	107,728	-
Customer deposits.....	3,200	-
Workers' compensation claims.....	-	(13,590)
Total adjustments.....	<u>537,520</u>	<u>(13,590)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 6,170,272</u>	<u>\$ 274,712</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2013

ASSETS	Pension Trust Fund (As of 12/31/12)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 290,468	\$ 516,632	\$ 986,135
Investments:			
External investment pools.....	89,714,478	-	-
Receivables, net of allowance for uncollectible amounts:			
Employer contributions.....	4,809,132	-	-
Total assets.....	94,814,078	516,632	986,135
LIABILITIES			
Warrants payable.....	166	-	2,500
Liabilities due depositors.....	-	-	983,635
Total liabilities.....	166	-	986,135
NET POSITION			
Assets held in trust for pension benefits and other purposes.....	\$ 94,813,912	\$ 516,632	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Pension Trust Fund (As of 12/31/12)	Private Purpose Trust Funds
ADDITIONS		
Contributions:		
Employer.....	\$ 9,380,817	\$ -
Plan members.....	2,775,570	-
Private donations.....	-	30,552
Total contributions.....	12,156,387	30,552
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	8,255,146	-
Interest.....	2,676,645	1,263
Total investment income (loss).....	10,931,791	1,263
Less investment expense.....	(449,230)	-
Net investment income (loss).....	10,482,561	1,263
Intergovernmental.....	460,729	-
Transfers from other systems.....	167,561	-
TOTAL ADDITIONS.....	23,267,238	31,815
DEDUCTIONS		
Administration.....	192,607	-
Retirement benefits and refunds.....	9,387,758	-
Transfers to other systems.....	399,750	-
Scholarships awarded.....	-	46,700
TOTAL DEDUCTIONS.....	9,980,115	46,700
CHANGE IN NET POSITION.....	13,287,123	(14,885)
NET POSITION AT BEGINNING OF YEAR.....	81,526,789	531,517
NET POSITION AT END OF YEAR.....	\$ 94,813,912	\$ 516,632

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. General**

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

B. Reporting Entity

The City of Chelsea, Massachusetts (City) is a municipal corporation that is governed by a City Manager and an 11-member elected City Council (Council).

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the City.

The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (primary government) and its component units.

The City has included one entity as a component unit (fiduciary fund) in the reporting entity because of the significance of its operational and financial relationship with the City. Component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City.

Fiduciary Fund Component Unit

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

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 500 Broadway, Chelsea, Massachusetts 02150.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The City participates in one joint venture with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients. The following table identifies the City's joint venture and related information:

<u>Name</u>	<u>Purpose</u>	<u>Address</u>	<u>Fiscal Year 2013 Assessment</u>
Northeast Metropolitan Regional Vocational School District	To provide vocational education services	100 Hemlock Road Wakefield, MA 01880	\$ 607,103

The City is indirectly liable for the Northeast Metropolitan Regional Vocational School District's (District) debt and other expenditures and is assessed annually for its share of operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the address identified above.

C. Implementation of New Accounting Principles

For the year ending June 30, 2013, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB Statement No. 63 identifies net position as the residual of all other elements presented in a statement of financial position, which amends the net asset reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements, by renaming net assets to net position.

The implementation of GASB Statement No.'s 60, 61 and 62 had no reporting impact for the City.

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

E. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements

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

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

Program revenues include the following:

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

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

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

Fund Financial Statements

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

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

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

The following major governmental fund is reported:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund.

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

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

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

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

The following major proprietary fund is reported:

The *water/sewer enterprise fund* is used to account for the City's water and sewer activities.

Additionally, the following proprietary fund type is reported:

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

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

The following fiduciary fund types are reported:

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

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

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of performance bonds and bid deposits. Agency funds do not present the results of operations or have a measurement focus.

F. Deposits and Investments

Government-Wide and Fund Financial Statements

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

Investments are carried at fair value. Fair value is based on quotations from a national securities exchange except for pooled funds, for which fair value is based on unit value reported by the funds.

G. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Real Estate Taxes, Personal Property Taxes and Tax Liens

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

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

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

Trash and Trash Liens

Trash fees are levied monthly for each type of property that utilizes the collection service and are based upon a third party waste collection contract. Single-family residences are not charged a fee for the services provided. The contract is funded from multi-family residence billings, available funds and the tax levy. Trash fees are recorded as receivables in the fiscal year of the levy.

Trash liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Water and Sewer User Charges and Utility Liens

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

Departmental and Other

Departmental and other receivables primarily consist of parking ticket fines and police and fire details and are recorded as receivables in the fiscal year accrued.

Employer Contributions

Employer contribution receivables consist of City and Chelsea Housing Authority contributions to the System and are recorded as receivables in the fiscal year accrued.

Intergovernmental

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

Loans

The Department of Planning and Development administers loan programs that provide housing assistance to residents and capital needs for small businesses. Loans are recorded as receivables upon issuance.

H. Allowance for Uncollectible Amounts

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other

The following types of accounts receivable are secured via the lien process (or other means) and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax and trash liens
- Water and sewer user charges and utility liens
- Loans

Employer contribution and intergovernmental receivables are considered 100% collectible.

I. Inventories**Government-Wide and Fund Financial Statements**

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

J. Restricted Assets**Government-Wide and Fund Financial Statements**

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

K. Capital AssetsGovernment-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, buildings and improvements, machinery and equipment and infrastructure (e.g., roads, water mains, sewer mains, and similar items) are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Construction period interest is not capitalized on constructed capital assets.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and improvements.....	8 - 40
Machinery and equipment.....	5 - 15
Infrastructure.....	10 - 50

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

Governmental Fund Financial Statements

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

L. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

M. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

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

N. Deferred Revenue

Deferred revenue at the 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 financial statements (full accrual).

O. Net Position and Fund Balances

Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net Position)

Net position is reported as restricted when amounts are restricted by outside parties for a specific future use.

Net position has been "restricted" for the following:

"OPEB" represents amounts restricted for other postemployment benefits.

"Loans" represents amounts restricted for outstanding Department of Planning and Development loans.

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Community development and redevelopment" represents amounts restricted for all federal, state and locally funded community development and redevelopment activities.

"Receipts reserved" represents amounts restricted for receipts that are designated to fund and supplement specific operating budgets of various departments.

"Gifts and grants" represents amounts restricted for gifts used to provide a specific benefit to governmental programs and state and federal grants for specific programs.

"School lunch and other school revolving" represents amounts restricted for the activity of the school lunch program (which includes charges for services and state and federal reimbursements for meals served) and activity of the school department's other revolving funds.

“Capital” represents amounts restricted for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable — represents amounts that cannot be spent either because they are in nonspendable form (i.e., loans receivable) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

Restricted — represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — represents amounts that can be used only for specific purposes imposed by a formal action of City Council, which is the highest level of decision-making authority for the City. The formal action required to establish, modify, or rescind committed amounts is majority Council approval through a Council Order.

Assigned — represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the City’s structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads. The policy established by the governing body (i.e., City Council) pursuant to which this authorization is given is based on applicable Massachusetts General Laws (MGL) related to encumbrances.

Unassigned — represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

P. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

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

Q. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by MGL. Investment income derived from proprietary funds are retained in the funds.

R. *Compensated Absences*

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

S. *Post Retirement Benefits***Government-Wide and Fund Financial Statements**

In addition to providing pension benefits, and as more fully described in Note 11, the City provides health and life insurance coverage for current and future retirees and their spouses.

T. *Use of Estimates***Government-Wide and Fund Financial Statements**

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

U. *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 presented 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 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**A. *Budgetary Information***

Municipal Law requires the adoption of a balanced budget that is approved by the Council. The City Manager presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases to the annual budget subsequent to the approval of the annual budget require majority Council approval through a Council Order.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the City is statutorily required to pay debt service and certain other obligations, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2013 approved budget for the general fund authorized \$119,876,776 in appropriations and other amounts to be raised. During fiscal year 2013, supplemental appropriations totaling \$6,193,730 were authorized.

The Auditor's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

The budgetary comparison schedule presented in the accompanying required supplementary information presents a comparison of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

B. Fund Deficits

At June 30, 2013, a fund deficit exists in the city revolving fund (special revenue) in the amount of \$30,274. This amount will be funded in future fiscal years through charges for services and/or other available funds.

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2013, expenditures exceeded appropriations for snow and ice removal and veterans' services personal services. These amounts will be funded in the fiscal year 2014 tax levy.

NOTE 3 - DEPOSITS AND INVESTMENTS

City (with the exception of the Pension Trust Fund)

The municipal finance laws of the Commonwealth authorize the City to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT).

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee and provides regulatory oversight. The reported value of the pool is the same as the fair value of pool shares.

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of private purpose trust funds and the pension trust fund are held separately from other City funds.

Deposits - 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's policy for mitigating custodial credit risk is to limit deposit amounts in any institution to no more than 5% of assets. In addition, no more than 25% of deposits may be comprised on unsecured bank deposits. This percentage may be increased no more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the City in the future.

As of June 30, 2013, \$28,810,749 of the City's bank balance of \$44,916,589 was uninsured and uncollateralized and exposed to custodial credit risk.

Investments Summary

The City's investments at June 30, 2013 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1 - 5	6 - 10
<u>Debt Securities:</u>				
U.S. Agencies.....	\$ 3,831,110	\$ -	\$ 3,051,808	\$ 779,302
U.S. Treasuries.....	1,064,209	-	1,064,209	-
Corporate bonds.....	2,953,015	284,660	2,668,355	-
Money market mutual funds.....	1,864,360	1,864,360	-	-
Certificates of deposit.....	3,923,789	1,820,275	2,103,514	-
Mutual bond funds.....	3,057,426	3,057,426	-	-
External investment pools.....	18,722,673	18,722,673	-	-
Total debt securities.....	35,416,582	\$ 25,749,394	\$ 8,887,886	\$ 779,302
<u>Other Investments:</u>				
Equity securities.....	1,398,175			
Equity mutual funds.....	155,820			
Total other investments.....	1,553,995			
Total investments.....	\$ 36,970,577			

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The City does not have a specific policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy is to maintain investments held directly by the City or held in the City's name and tax identification number by a third-party custodian approved by the Treasurer. As of June 30, 2013, the City's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The City's policy is to place no limit on the amount of investments in United States Government Agencies and MMDT, and to purchase other debt securities with a high concentration of A credit ratings or better. As of June 30, 2013, the credit quality ratings of the City's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *			
		AA+	A-	BBB+	Unrated
Corporate bonds.....	\$ 2,953,015	\$ 1,052,970	\$ 547,751	\$ 1,352,294	\$ -
Money market mutual funds.....	1,864,360	-	-	-	1,864,360
Certificates of deposit.....	3,923,789	-	-	-	3,923,789
Mutual bond funds.....	3,057,426	-	-	-	3,057,426
External investment pools.....	18,722,673	-	-	-	18,722,673
Total.....	\$ 30,521,263	\$ 1,052,970	\$ 547,751	\$ 1,352,294	\$ 27,568,248

* Per the rating scale of Standard and Poor's (a national credit rating organization)

Pension Trust Fund (The System)

The System has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee and provides regulatory oversight. The reported value of the pool is the same as the fair value of the System's position in pool shares.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System's policy is to rely on FDIC and DIF insurance coverage, when applicable. As of December 31, 2012, the System's bank balance of \$480,005 was not exposed to custodial credit risk.

Investments Summary

The System's investments of \$89,714,478 at December 31, 2012 consisted entirely of PRIT.

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's policy is to insure all of their investments. As of December 31, 2012, the System's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. As of December 31, 2012, the System's investment in PRIT was unrated by a national credit rating organization.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2013, receivables for the individual major governmental funds and nonmajor governmental, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,960,491	\$ (118,736)	\$ 1,841,755
Tax and trash liens.....	823,424	-	823,424
Motor vehicle and other excise taxes.....	1,545,808	(941,169)	604,639
Trash.....	297,801	-	297,801
Departmental and other.....	2,849,957	(1,994,734)	855,223
Intergovernmental.....	254,636	-	254,636
Loans.....	765,013	-	765,013
Employer contributions.....	4,809,132	-	4,809,132
	<u>\$ 13,306,262</u>	<u>\$ (3,054,639)</u>	<u>\$ 10,251,623</u>

At June 30, 2013, receivables for the water and sewer enterprise fund consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 4,072,005	\$ -	\$ 4,072,005
Utility liens.....	351,010	-	351,010
	<u>\$ 4,423,015</u>	<u>\$ -</u>	<u>\$ 4,423,015</u>

Governmental funds report deferred revenue in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of deferred revenue reported in the governmental funds:

	<u>General Fund</u>
<u>Receivable type:</u>	
Real estate and personal property taxes.....	\$ 1,569,579
Tax and trash liens.....	823,424
Motor vehicle and other excise taxes.....	604,639
Trash.....	297,801
Departmental and other.....	667,607
Tax foreclosures.....	<u>197,220</u>
Total.....	<u>\$ 4,160,270</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 17,908,663	\$ 712,000	\$ -	\$ 18,620,663
Construction in progress.....	<u>125,429</u>	<u>1,176,152</u>	<u>(28,675)</u>	<u>1,272,906</u>
Total capital assets not being depreciated.....	<u>18,034,092</u>	<u>1,888,152</u>	<u>(28,675)</u>	<u>19,893,569</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	152,616,172	556,104	-	153,172,276
Machinery and equipment.....	13,786,208	312,906	(85,730)	14,013,384
Infrastructure.....	<u>18,303,105</u>	<u>2,888,826</u>	<u>-</u>	<u>21,191,931</u>
Total capital assets being depreciated.....	<u>184,705,485</u>	<u>3,757,836</u>	<u>(85,730)</u>	<u>188,377,591</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(56,481,515)	(3,964,228)	-	(60,445,743)
Machinery and equipment.....	(10,016,610)	(1,085,538)	85,730	(11,016,418)
Infrastructure.....	<u>(5,988,418)</u>	<u>(461,469)</u>	<u>-</u>	<u>(6,449,887)</u>
Total accumulated depreciation.....	<u>(72,486,543)</u>	<u>(5,511,235)</u>	<u>85,730</u>	<u>(77,912,048)</u>
Total capital assets being depreciated, net.....	<u>112,218,942</u>	<u>(1,753,399)</u>	<u>-</u>	<u>110,465,543</u>
Total governmental activities capital assets, net.....	<u>\$ 130,253,034</u>	<u>\$ 134,753</u>	<u>\$ (28,675)</u>	<u>\$ 130,359,112</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 245,000	\$ 315,989	\$ -	\$ 560,989
<u>Capital assets being depreciated:</u>				
Infrastructure.....	32,202,737	1,573,304	-	33,776,041
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	(9,480,704)	(695,933)	-	(10,176,637)
Total capital assets being depreciated, net.....	22,722,033	877,371	-	23,599,404
Total business-type activities capital assets, net.....	\$ 22,967,033	\$ 1,193,360	\$ -	\$ 24,160,393

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

Governmental Activities:

General government.....	\$ 149,770
Public safety.....	500,661
Education.....	3,883,866
Public works.....	558,451
Health and human services.....	25,781
Culture and recreation.....	156,337
Community development.....	236,369

Total depreciation expense - governmental activities..... \$ 5,511,235

Business-Type Activities:

Water and sewer.....	\$ 695,933
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NOTE 6 - NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets at June 30, 2013 is summarized as follows:

Governmental Activities

Capital assets.....	\$ 208,271,160
Less accumulated depreciation.....	(77,912,048)
Less outstanding bonds, notes and loans payable.....	(21,671,537)
Add outstanding bonds, notes and loans payable that is not capital related.....	1,400,000
Add unspent proceeds of capital related debt.....	2,558,720
Net investment in capital assets.....	\$ 112,646,295

Business-Type Activities

Capital assets.....	\$ 34,337,030
Less accumulated depreciation.....	(10,176,637)
Less outstanding bonds and notes payable.....	(13,375,610)
Add unspent proceeds of capital related debt.....	<u>6,163,494</u>
Net investment in capital assets.....	<u>\$ 16,948,277</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and payables between funds at June 30, 2013, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund.....	Nonmajor governmental funds (City revolving).....	<u>\$ 209,376 (1)</u>

(1) Represents advance-funding of various revolving fund programs

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

<u>Transfers Out:</u>	<u>Transfers In:</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
General Fund.....	\$ -	\$ 3,555,063	\$ 3,555,063 (1)
Nonmajor Governmental Funds.....	182,350	299,697	482,047 (2)
Water/Sewer Enterprise Fund.....	<u>1,710,103</u>	<u>-</u>	<u>1,710,103 (3)</u>
	<u>\$ 1,892,453</u>	<u>\$ 3,854,760</u>	<u>\$ 5,747,213</u>

- (1) Represents budgeted transfers to various capital projects funds (\$3,538,800), redevelopment special revenue fund (\$9,173) and fire details special revenue fund (\$7,090)
- (2) Represents funding of the fiscal year 2013 operating budget (\$182,350), transfer of funds from the school capital reserve fund to various school capital projects funds (\$273,850) and transfers between capital projects funds (\$25,847)
- (3) Represents transfer of indirect costs

NOTE 8 - SHORT-TERM FINANCING

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

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

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

The City has no short-term debt outstanding at June 30, 2013, and did not issue or retire any short-term debt during the fiscal year.

NOTE 9 - LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2013:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion
Governmental Activities:					
Bonds, notes and loans payable.....	\$ 21,676,482	\$ 2,751,628	\$ (2,756,573)	\$ 21,671,537	\$ 2,627,887
Workers' compensation claims.....	358,201	85,070	(98,660)	344,611	202,371
Net OPEB obligation.....	83,723,162	18,239,713	(4,082,292)	97,880,583	-
Compensated absences.....	4,810,000	818,000	(276,000)	5,352,000	589,000
Total.....	\$ 110,567,845	\$ 21,894,411	\$ (7,213,525)	\$ 125,248,731	\$ 3,419,258
Business-type Activities:					
Bonds and notes payable.....	\$ 13,435,084	\$ 2,132,331	\$ (2,191,805)	\$ 13,375,610	\$ 2,260,104
Net OPEB obligation.....	988,235	132,278	(29,605)	1,090,908	-
Total.....	\$ 14,423,319	\$ 2,264,609	\$ (2,221,410)	\$ 14,466,518	\$ 2,260,104

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term obligations are included as part of the governmental activities totals above. At fiscal year-end, \$344,611 of internal service funds accrued liabilities (workers' compensation claims) is included above. Except for the amounts related to the internal service funds, the governmental activities long-term obligations are generally liquidated by the general fund.

NOTE 10 - LONG-TERM DEBT

During prior fiscal years, certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2013, \$4,255,000 of bonds outstanding from the advance refundings are considered defeased.

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

Bonds, Notes and Loans Payable – Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2012	Additions	Reductions	Outstanding at June 30, 2013
School building remodeling.....	2.37 - 4.75%	\$ 960,000	\$ -	\$ (80,000)	\$ 880,000
Municipal purpose.....	3.00 - 4.00%	187,800	-	(62,600)	125,200
Municipal purpose refunding.....	3.00 - 4.50%	491,171	-	(94,521)	396,650
Renovations.....	3.75 - 4.00%	105,200	-	(26,300)	78,900
Sidewalks.....	3.75 - 4.00%	20,000	-	(5,000)	15,000
Municipal purpose.....	3.50 - 4.00%	192,500	-	(38,500)	154,000
Municipal purpose.....	3.50 - 5.25%	310,800	-	(104,300)	206,500
Municipal purpose.....	3.50 - 5.00%	2,447,887	-	(489,443)	1,958,444
Municipal purpose refunding, series B.....	3.00 - 5.00%	88,750	-	(13,125)	75,625
Municipal purpose, series C.....	5.125 - 6.060%	7,695,000	-	(595,000)	7,100,000
Municipal purpose refunding, series C.....	3.0 - 5.0%	2,880,000	-	(425,000)	2,455,000
Municipal purpose, series A.....	3.00 - 4.00%	1,226,000	-	(199,500)	1,026,500
Urban renewal.....	3.00 - 4.00%	1,460,000	-	(120,000)	1,340,000
Municipal purpose.....	3.00 - 4.00%	2,793,374	-	(345,374)	2,448,000
Permanent state house loan notes.....	4.25%	335,000	-	(85,000)	250,000
Municipal purpose refunding.....	3.00 - 4.00%	89,000	-	(10,500)	78,500
Dump Trucks.....	2.00 - 2.25%	136,000	-	(27,400)	108,600
Rack Truck.....	2.00 - 2.25%	68,000	-	(13,600)	54,400
Senior Center Roof.....	2.00 - 3.00%	15,000	-	(1,364)	13,636
City Yard Roof.....	2.00 - 3.00%	105,000	-	(9,546)	95,454
Library Carpet.....	2.00 - 3.00%	35,000	-	(3,500)	31,500
City Hall Door.....	2.0-2.25%	35,000	-	(7,000)	28,000
Public Way/Outdoor Recreational Facility.....	2.0-2.25%	-	590,300	-	590,300
ESCO.....	2.0-2.75%	-	761,328	-	761,328
Everett Avenue.....	0.00%	-	1,400,000	-	1,400,000
Total.....		\$ 21,676,482	\$ 2,751,628	\$ (2,756,573)	\$ 21,671,537

The City issued \$1,351,628 of general obligation bonds on May 15, 2013 for various repairs and infrastructure projects.

In June 2013, the City received \$1,400,000 of loan proceeds from Lawrenceville, LLC (Lawrenceville) to fund site improvements on property that is expected to be acquired and redeveloped by Lawrenceville. The City shall repay the loan upon demand, on or before November 20, 2014, in the event Lawrenceville does not acquire the property. In the event Lawrenceville acquires the property, the loan shall be deemed to have been paid in full as additional consideration for the purchase of the property.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014.....	\$ 2,627,887	\$ 903,190	\$ 3,531,077
2015.....	3,993,746	794,808	4,788,554
2016.....	2,481,146	686,131	3,167,277
2017.....	2,292,471	579,696	2,872,167
2018.....	2,142,457	473,542	2,615,999
2019.....	2,045,328	369,375	2,414,703
2020.....	1,324,813	288,581	1,613,394
2021.....	1,195,313	229,702	1,425,015
2022.....	903,438	175,789	1,079,227
2023.....	899,938	131,971	1,031,909
2024.....	835,000	9,492	844,492
2025.....	755,000	4,676	759,676
2026.....	55,000	3,576	58,576
2027.....	60,000	2,476	62,476
2028.....	60,000	1,261	61,261
Total.....	\$ <u>21,671,537</u>	\$ <u>4,654,266</u>	\$ <u>26,325,803</u>

Bonds and Notes Payable – Enterprise Funds

Project	Interest Rate	Outstanding at June 30, 2012	Additions	Reductions	Outstanding at June 30, 2013
Water notes (MWRA).....	0.00%	\$ 38,584	\$ -	\$ (19,292)	\$ 19,292
Water notes (MWRA).....	0.00%	39,904	-	(9,976)	29,928
Water notes (MWRA).....	0.00%	114,000	-	(19,000)	95,000
Sewer notes (MWRA).....	0.00%	44,990	-	(44,990)	-
Water.....	2.37 - 4.75%	180,000	-	(15,000)	165,000
Sewer.....	2.37 - 4.75%	540,000	-	(45,000)	495,000
Water and sewer bonds.....	3.00 - 4.00%	577,200	-	(192,400)	384,800
Water and sewer refunding.....	3.00 - 4.50%	963,829	-	(185,479)	778,350
Water - meters.....	3.75 - 4.00%	179,200	-	(44,800)	134,400
Sewer - Crescent Street.....	3.75 - 4.00%	380,600	-	(96,400)	284,200
Water - Crescent Street.....	3.75 - 4.00%	9,200	-	(2,300)	6,900
Sewer - meters.....	3.75 - 4.00%	300,800	-	(75,200)	225,600
Water and sewer bonds.....	3.50 - 4.00%	1,257,500	-	(251,500)	1,006,000
Water and sewer bonds.....	3.50 - 5.25%	404,200	-	(75,700)	328,500
Water and sewer bonds.....	3.50 - 5.00%	352,113	-	(120,557)	231,556
Water notes (MWRA).....	0.00%	812,053	-	(116,007)	696,046
Municipal purpose refunding, series B.....	3.00%	621,250	-	(91,875)	529,375
Water notes (MWRA).....	0.00%	80,000	-	(10,000)	70,000
Water notes (MWRA).....	0.00%	180,000	-	(22,500)	157,500
Municipal purpose refunding, series A.....	3.00 - 4.00%	444,000	-	(55,500)	388,500
Sewer.....	3.00 - 4.00%	1,856,626	-	(204,626)	1,652,000
Water notes (MWRA).....	0.00%	1,084,828	-	(120,537)	964,291
Refunded bonds.....	3.00 - 4.00%	801,000	-	(94,500)	706,500
Sewer notes (MWRA).....	0.00%	319,880	-	(79,970)	239,910
Water (MWPAT).....	2.00%	234,937	-	(10,267)	224,670
Broadway sewer.....	2.00 - 3.00%	150,000	-	(17,998)	132,002
Broadway water line.....	2.00 - 3.00%	125,000	-	(16,864)	108,136
Storm water management plan.....	2.00 - 2.25%	50,000	-	(10,000)	40,000
Everett avenue redirect.....	2.00 - 3.00%	250,000	-	(26,728)	223,272
Water (MWRA).....	0.00%	468,390	-	(46,839)	421,551
Water and sewer refunding bonds.....	2.00 - 3.00%	575,000	-	(70,000)	505,000
Water (MWRA).....	0.00%	-	1,183,959	-	1,183,959
Sewer.....	2.00-2.75%	-	948,372	-	948,372
Total.....		<u>\$ 13,435,084</u>	<u>\$ 2,132,331</u>	<u>\$ (2,191,805)</u>	<u>\$ 13,375,610</u>

The City issued \$948,372 of general obligation bonds on May 15, 2013 for various sewer infrastructure projects.

The Massachusetts Water Resource Authority (MWRA) operates financial assistance programs for community owned collection systems. Financial assistance received from the MWRA consists of non-interest bearing loans (payable in five equal annual installments) and, in some instances, grants. During fiscal year 2013, \$1,183,959 was received from the program, all of which was a loan. At June 30, 2013, the outstanding principal amount of MWRA loans totaled \$3,877,477.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014.....	\$ 2,260,104	\$ 314,935	\$ 2,575,039
2015.....	2,195,165	256,454	2,451,619
2016.....	1,987,980	198,782	2,186,762
2017.....	1,671,931	149,801	1,821,732
2018.....	1,297,167	109,264	1,406,431
2019.....	1,150,530	79,807	1,230,337
2020.....	865,268	55,599	920,867
2021.....	777,502	35,964	813,466
2022.....	379,088	23,544	402,632
2023.....	335,997	16,336	352,333
2024.....	132,793	10,790	143,583
2025.....	73,051	6,571	79,622
2026.....	73,315	5,107	78,422
2027.....	68,584	3,638	72,222
2028.....	63,858	2,153	66,011
2029.....	14,138	724	14,862
2030.....	14,424	438	14,862
2031.....	14,715	147	14,862
Total.....	\$ 13,375,610	\$ 1,270,054	\$ 14,645,664

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2013, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Pension obligation bonds.....	\$ 47,000,000
Capital Improvement Plans.....	2,492,430
Corcoran Park construction.....	1,482,865
Chelsea High School extension.....	1,150,000
Highland Park improvement.....	1,000,000
Washington Park renovation.....	500,000
Park renovation - Washington Avenue.....	587,087
Refunding.....	265,000
Energy conservation improvements.....	28,672
Total.....	\$ 54,506,054

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Plan Description – The City provides health, dental and life insurance coverage for its retirees and their survivors (hereinafter referred to as the “Plan”) as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process.

The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2011, the latest actuarial valuation, is as follows:

Active employees.....	1,211
Retired employees and spouses.....	<u>574</u>
Total.....	<u><u>1,785</u></u>

Funding Policy - The contribution requirements of Plan members and the City are established and may be amended by the City. The required health insurance (including Medicare Part B) contribution rates of Plan members and the City are 17.5 – 25.0% and 75.0 – 82.5%, respectively. The required dental insurance (including Medicare Part B) contribution rates of Plan members is 100%. The Plan members and the City each contribute 50% towards a \$5,000 term life insurance premium. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the City.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the City's net OPEB obligation:

	<u>Amount</u>
Annual required contribution.....	\$ 19,789,014
Interest on net OPEB obligation.....	3,388,456
Adjustment to annual required contribution.....	<u>(4,805,569)</u>
Annual OPEB cost.....	18,371,991
Contributions made.....	<u>(4,111,897)</u>
Increase in net OPEB obligation.....	14,260,094
Net OPEB obligation at beginning of year.....	<u>84,711,397</u>
Net OPEB obligation at end of year.....	<u><u>\$ 98,971,491</u></u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011.....	\$ 24,604,966	29.0%	\$ 71,682,000
June 30, 2012.....	17,745,250	26.6%	84,711,397
June 30, 2013.....	18,371,991	22.4%	98,971,491

Funded Status and Funding Progress – The funded status of the Plan at July 1, 2011, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/11	\$ -	\$ 169,212,224	\$ 169,212,224	-	\$ 60,733,942	279%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2011
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level dollar
Remaining amortization period:	30 years (open period)
Interest discount rate:	4.0%
Inflation rate:	2.5%
Healthcare/Medical cost trend rate:	Medical – 7.0% decreasing 1.0% to an ultimate level of 5.0% per year Dental – 6.0% decreasing 0.5% to an ultimate level of 5.0% per year
Projected salary increases:	3.0%

Allocation of AOEBC – AOEBC costs were allocated to the City's functions as follows:

Governmental Activities:

General government.....	\$ 1,194,179
Public safety.....	4,537,882
Education.....	11,280,402
Public works.....	626,485
Health and human services.....	268,231
Culture and recreation.....	176,371
Community development.....	<u>156,162</u>

Total AOEBC - governmental activities.....	<u>18,239,713</u>
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Business-Type Activities:

Water/Sewer.....	<u>132,278</u>
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Total AOEBC.....	<u>\$ 18,371,991</u>
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NOTE 12 - RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

A. Health Insurance

Prior to May 1, 2012, the City was self-insured for a portion of its retirees' health insurance activities, which were accounted for in the internal service fund. Since that date, the retirees' health insurance internal service fund has been accounting for the activities (i.e., run-off claims) related to when the City was self-insured. As of June 30, 2013, there are no material outstanding health insurance claims payable.

The City participates in premium-based health care plans for its active and retired employees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

B. Workers' Compensation

The City is self-insured for its workers' compensation activities. These activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when incurred. Workers' compensation claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type.

The liability at June 30, 2013, totaled \$344,611. Changes in the reported liability since July 1, 2011, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal year 2012.....	\$ 318,000	\$ 487,773	\$ (447,572)	\$ 358,201
Fiscal year 2013.....	358,201	85,070	(98,660)	344,611

NOTE 13 - FUND BALANCES

The constraints on fund balances in the Governmental Funds Balance Sheet are detailed as follows:

	General	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepaid expenses.....	\$ 3,853	\$ -	\$ 3,853
Loans.....	-	765,013	765,013
Permanent fund principal.....	-	22,392	22,392
Sub-total - Nonspendable.....	3,853	787,405	791,258
Restricted:			
Other postemployment benefits (OPEB).....	308,767	-	308,767
Redevelopment.....	-	3,139,826	3,139,826
Other community development.....	-	1,529,946	1,529,946
Receipts reserved.....	-	2,212,876	2,212,876
City gifts.....	-	960,020	960,020
City state grants.....	-	142,179	142,179
City federal grants.....	-	231,663	231,663
School lunch.....	-	1,565,011	1,565,011
School revolving.....	-	1,268,774	1,268,774
School gifts.....	-	846,238	846,238
State school grants.....	-	860,949	860,949
Federal school grants.....	-	51,863	51,863
Urban I & II renewal.....	-	1,581,233	1,581,233
Other capital.....	-	4,436,045	4,436,045
School capital reserve.....	-	2,456,221	2,456,221
Permanent funds - health and human services.....	-	749	749
Permanent funds - culture and recreation.....	-	98,191	98,191
Sub-total - Restricted.....	308,767	21,381,784	21,690,551
Committed:			
Subsequent year's expenditures.....	1,164,658	-	1,164,658
Capital stabilization.....	998,240	-	998,240
Redevelopment stabilization.....	166,097	-	166,097
Sub-total - Committed.....	2,328,995	-	2,328,995
Assigned:			
Encumbrances - school.....	3,022,535	-	3,022,535
Encumbrances - other.....	718,900	-	718,900
Sub-total - Assigned.....	3,741,435	-	3,741,435
Unassigned.....	26,894,097	(30,274)	26,863,823
Total fund balances.....	\$ 33,277,147	\$ 22,138,915	\$ 55,416,062

NOTE 14 - STABILIZATION FUNDS

The City maintains the following stabilization funds that were established under MGL Chapter 40, Section 5B:

- General stabilization
- Operating stabilization
- Capital stabilization
- Redevelopment stabilization

Appropriations in and out of the stabilization funds require City Council majority approval. Investment income is retained by the funds.

The balance of the general stabilization, operating stabilization, capital stabilization and redevelopment stabilization funds at June 30, 2013 total \$4,304,423, \$3,076,215, \$998,240 and \$166,097, respectively. The capital stabilization and redevelopment stabilization funds are reported in the general fund as committed fund balance. The general and operating stabilization funds are reported in the general fund as unassigned fund balance.

NOTE 15 - PENSION PLAN

Plan Description – The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Chelsea Contributory Retirement Board. Substantially all employees of the City are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Chelsea Contributory Retirement Board and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 500 Broadway, Chelsea, Massachusetts, 02150.

Plan Membership - At December 31, 2012, the System's membership consists of the following:

Active members.....	675
Inactive members.....	150
Retirees and beneficiaries currently receiving benefits.....	<u>409</u>
Total.....	<u><u>1,234</u></u>

Funding Policy – Chapter 32 of MGL governs the contributions of plan members and the City. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements. Benefits and refunds are recognized as deductions when incurred and administrative expenses are funded through investment earnings.

Annual Pension Cost – The City's contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$8,516,467, \$8,257,705, and \$7,850,301, respectively. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute between approximately 91-92% of the total. At June 30, 2013, the City did not have a net pension obligation.

Funded Status and Funding Progress – The funded status of the plan at January 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 84,087,066	\$ 157,628,890	\$ 73,541,824	53.3%	\$ 29,750,417	247.2%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2011
Actuarial cost method:	Entry age normal
Amortization method:	Increasing payments 2.95%
Remaining amortization period:	17 years (closed period)
Asset valuation method:	Actuarial value, 5-year smoothing

Actuarial assumptions:

Investment rate of return:	8.00%
Projected salary increases:	4.75% - 5.25%
Inflation rate:	2.95%
Cost of living adjustments:	3.00% of the first \$12,000 of retirement income

Legally Required Reserve Accounts - The balance in the System's legally required reserves as of December 31, 2012 are as follows:

Description	Amount	Purpose
Annuity Savings Fund.....	\$ 31,970,392	Active members' contribution balance
Annuity Reserve Fund.....	6,385,943	Retired members' contribution account
Military Service Fund.....	2,404	Military leave of absence contribution balance
Pension Reserve Fund.....	41,024,418	Amounts appropriated to fund future retiremer
Pension Fund.....	15,430,755	Remaining net assets
Total.....	\$ 94,813,912	

NOTE 16 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$6,707,000 for the fiscal year ended June 30, 2013, and accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 17 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$20,000,000 for equipment, parks and open space, buildings and facilities, public safety and infrastructure in accordance with its five-year capital improvement plan.

Other significant commitments include the encumbrances outstanding for the general fund, which totaled \$4,352,104 at June 30, 2013.

NOTE 18 - CONTINGENCIES

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2013.

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2013, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 19 – FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is required to be implemented during fiscal year 2014. The implementation of this Statement will require a change to the title of the Statement of Fiduciary Net Assets to the Statement of Fiduciary Net Position, as well as expanded note disclosures and required supplementary information.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the City will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 40,399,463	\$ -	\$ 40,399,463
Motor vehicle and other excise taxes.....	-	4,765,000	-	4,765,000
Meals and room taxes.....	-	652,000	-	652,000
Tax and trash liens.....	-	-	-	-
Payments in lieu of taxes.....	-	1,198,061	-	1,198,061
Trash disposal.....	-	1,563,125	-	1,563,125
Intergovernmental	-	65,307,453	-	65,307,453
Penalties and interest on taxes.....	-	310,000	-	310,000
Licenses and permits.....	-	1,231,450	-	1,231,450
Fines and forfeitures.....	-	1,765,000	-	1,765,000
Departmental and other.....	-	462,700	-	462,700
Investment income.....	-	274,000	-	274,000
TOTAL REVENUES.....	-	117,928,252	-	117,928,252
EXPENDITURES				
GENERAL GOVERNMENT				
Legislative				
Personal services.....	-	133,784	5,722	139,506
Expenditures.....	377	68,300	-	68,677
Total.....	377	202,084	5,722	208,183
Executive Office				
Personal services.....	-	321,055	14,201	335,256
Expenditures.....	980	20,221	7,220	28,421
Total.....	980	341,276	21,421	363,677
Auditor's Office				
Personal services.....	-	225,660	21,530	247,190
Expenditures.....	1,200	42,473	24	43,697
Total.....	1,200	268,133	21,554	290,887
Treasurer's/Collector's Office				
Personal services.....	-	395,705	32,593	428,298
Expenditures.....	22,822	219,750	825	243,397
Total.....	22,822	615,455	33,418	671,695
Assessing				
Personal services.....	-	205,295	6,841	212,136
Expenditures.....	3,761	84,050	-	87,811
Total.....	3,761	289,345	6,841	299,947
Procurement				
Personal services.....	-	104,964	451	105,415
Expenditures.....	1,688	8,192	2	9,882
Total.....	1,688	113,156	453	115,297
Central Billing				
Personal services.....	-	87,657	5,655	93,312
Expenditures.....	-	64,800	-	64,800
Total.....	-	152,457	5,655	158,112

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 40,354,828	\$ -	\$ 40,354,828	\$ (44,635)
8,866,791	-	8,866,791	4,101,791
871,300	-	871,300	219,300
1,836,771	-	1,836,771	1,836,771
1,221,631	-	1,221,631	23,570
1,351,774	-	1,351,774	(211,351)
65,566,350	-	65,566,350	258,897
375,953	-	375,953	65,953
1,544,748	-	1,544,748	313,298
2,007,744	-	2,007,744	242,744
851,648	-	851,648	388,948
211,223	-	211,223	(62,777)
125,060,761	-	125,060,761	7,132,509
138,994	-	138,994	512
62,615	98	62,713	5,964
201,609	98	201,707	6,476
324,245	-	324,245	11,011
24,549	10	24,559	3,862
348,794	10	348,804	14,873
242,618	-	242,618	4,572
18,670	17,000	35,670	8,027
261,288	17,000	278,288	12,599
378,915	-	378,915	49,383
179,839	13,935	193,774	49,623
558,754	13,935	572,689	99,006
210,843	-	210,843	1,293
68,951	-	68,951	18,860
279,794	-	279,794	20,153
77,373	-	77,373	28,042
9,028	-	9,028	854
86,401	-	86,401	28,896
92,834	-	92,834	478
63,675	-	63,675	1,125
156,509	-	156,509	1,603

(continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
Law Department				
Personal services.....	-	154,029	19,321	173,350
Expenditures.....	8,854	95,318	291	104,463
Total.....	8,854	249,347	19,612	277,813
Personnel Department				
Personal services.....	-	179,577	15,204	194,781
Expenditures.....	-	30,855	-	30,855
Total.....	-	210,432	15,204	225,636
Information System				
Personal services.....	-	222,569	8,780	231,349
Expenditures.....	-	391,910	3,694	395,604
Capital outlay.....	19,809	115,000	-	134,809
Total.....	19,809	729,479	12,474	761,762
City Clerk				
Personal services.....	-	214,117	5,996	220,113
Expenditures.....	1,175	39,400	-	40,575
Total.....	1,175	253,517	5,996	260,688
Office of Planning and Development				
Personal services.....	-	57,383	-	57,383
Expenditures.....	695	23,280	-	23,975
Total.....	695	80,663	-	81,358
Salary reserve.....	-	12,850	-	12,850
TOTAL GENERAL GOVERNMENT.....	61,361	3,518,194	148,350	3,727,905
PUBLIC SAFETY				
Police Department				
Personal services.....	-	8,166,877	1,064,040	9,230,917
Expenditures.....	8,464	788,281	-	796,745
Capital outlay.....	-	-	-	-
Total.....	8,464	8,955,158	1,064,040	10,027,662
Fire Department				
Personal services.....	-	6,933,490	996,164	7,929,654
Expenditures.....	16,027	423,400	7,350	446,777
Capital outlay.....	-	50,000	50,000	100,000
Total.....	16,027	7,406,890	1,053,514	8,476,431
Inspectional Services				
Personal services.....	-	576,822	76,349	653,171
Expenditures.....	1,923	28,917	-	30,840
Capital outlay.....	-	-	-	-
Total.....	1,923	605,739	76,349	684,011
Traffic and Parking				
Personal services.....	-	82,099	997	83,096
Expenditures.....	71,207	697,726	-	768,933
Total.....	71,207	779,825	997	852,029

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
165,882	-	165,882	7,468
70,622	17,167	87,789	16,674
236,504	17,167	253,671	24,142
169,174	-	169,174	25,607
22,020	3,278	25,298	5,557
191,194	3,278	194,472	31,164
220,692	-	220,692	10,657
339,280	53,780	393,060	2,544
102,169	24,873	127,042	7,767
662,141	78,653	740,794	20,968
218,691	-	218,691	1,422
33,692	2,452	36,144	4,431
252,383	2,452	254,835	5,853
57,312	-	57,312	71
22,702	439	23,141	834
80,014	439	80,453	905
-	-	-	12,850
3,315,385	133,032	3,448,417	279,488
9,201,567	-	9,201,567	29,350
700,990	17,742	718,732	78,013
-	-	-	-
9,902,557	17,742	9,920,299	107,363
7,639,419	-	7,639,419	290,235
429,867	5,180	435,047	11,730
50,000	50,000	100,000	-
8,119,286	55,180	8,174,466	301,965
626,307	-	626,307	26,864
18,834	716	19,550	11,290
-	-	-	-
645,141	716	645,857	38,154
62,783	-	62,783	20,313
679,646	9,630	689,276	79,657
742,429	9,630	752,059	99,970
(continued)			

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
Emergency Management				
Personal services.....	-	833,251	82,465	915,716
Expenditures.....	2,433	25,933	5,518	33,884
Total.....	2,433	859,184	87,983	949,600
TOTAL PUBLIC SAFETY.....	100,054	18,606,796	2,282,883	20,989,733
EDUCATION				
Operational.....	2,577,966	66,907,700	946	69,486,612
Northeast Regional Vocational High School Assessment.....	-	613,491	-	613,491
TOTAL EDUCATION.....	2,577,966	67,521,191	946	70,100,103
PUBLIC WORKS				
Administration				
Personal services.....	-	184,166	17,596	201,762
Expenditures.....	464	14,740	-	15,204
Total.....	464	198,906	17,596	216,966
Streets and Sidewalks				
Personal services.....	-	653,653	78,204	731,857
Expenditures.....	148,905	986,336	9,984	1,145,225
Capital outlay.....	53,848	152,946	-	206,794
Total.....	202,753	1,792,935	88,188	2,083,876
Solid Waste/Recycling				
Personal services.....	-	39,705	-	39,705
Expenditures.....	10,000	1,771,780	-	1,781,780
Total.....	10,000	1,811,485	-	1,821,485
Structure and Grounds				
Personal services.....	-	258,031	24,605	282,636
Expenditures.....	47,142	849,072	13,565	909,779
Capital outlay.....	-	85,000	-	85,000
Total.....	47,142	1,192,103	38,170	1,277,415
Snow and Ice Removal				
Personal services.....	-	25,000	-	25,000
Expenditures.....	1,100	76,260	-	77,360
Total.....	1,100	101,260	-	102,360
TOTAL PUBLIC WORKS.....	261,459	5,096,689	143,954	5,502,102
HEALTH AND HUMAN SERVICES				
Administration				
Personal services.....	-	56,295	-	56,295
Health Division				
Personal services.....	-	173,959	12,431	186,390
Expenditures.....	-	1,125	-	1,125
Total.....	-	175,084	12,431	187,515

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
869,524	-	869,524	46,192
29,876	2,936	32,812	1,072
899,400	2,936	902,336	47,264
20,308,813	86,204	20,395,017	594,716
66,253,940	3,022,535	69,276,475	210,137
607,103	-	607,103	6,388
66,861,043	3,022,535	69,883,578	216,525
197,375	-	197,375	4,387
3,322	379	3,701	11,503
200,697	379	201,076	15,890
670,382	-	670,382	61,475
1,001,991	109,876	1,111,867	33,358
56,794	150,000	206,794	-
1,729,167	259,876	1,989,043	94,833
39,672	-	39,672	33
1,559,358	74,457	1,633,815	147,965
1,599,030	74,457	1,673,487	147,998
273,924	-	273,924	8,712
731,273	65,243	796,516	113,263
4,572	9,500	14,072	70,928
1,009,769	74,743	1,084,512	192,903
33,792	-	33,792	(8,792)
134,924	-	134,924	(57,564)
168,716	-	168,716	(66,356)
4,707,379	409,455	5,116,834	385,268
56,295	-	56,295	-
185,341	-	185,341	1,049
691	-	691	434
186,032	-	186,032	1,483

(continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
Veteran's Services				
Personal services.....	-	56,595	-	56,595
Expenditures.....	550	487,250	194,390	682,190
Total.....	550	543,845	194,390	738,785
Elder Affairs				
Personal services.....	-	164,294	8,227	172,521
Expenditures.....	-	26,250	-	26,250
Total.....	-	190,544	8,227	198,771
TOTAL HEALTH AND HUMAN SERVICES.....	550	965,768	215,048	1,181,366
CULTURE AND RECREATION				
Recreation and Cultural Affairs				
Personal services.....	-	71,283	-	71,283
Expenditures.....	-	53,000	-	53,000
Total.....	-	124,283	-	124,283
Public Library				
Personal services.....	-	242,054	18,114	260,168
Expenditures.....	108	22,540	-	22,648
Capital outlay.....	-	990	-	990
Total.....	108	265,584	18,114	283,806
TOTAL CULTURE AND RECREATION.....	108	389,867	18,114	408,089
PENSION BENEFITS				
Contributory Retirement System				
Expenditures.....	-	6,008,078	-	6,008,078
Non-Contributory Pension Benefits				
Expenditures.....	-	17,000	-	17,000
TOTAL PENSION BENEFITS.....	-	6,025,078	-	6,025,078
EMPLOYEE BENEFITS				
Unemployment Compensation				
Expenditures.....	-	80,000	-	80,000
Health Insurance				
Expenditures.....	792	5,069,325	274,212	5,344,329
Worker's Compensation				
Expenditures.....	-	380,000	-	380,000
Payroll Taxes				
Expenditures.....	-	295,000	38,350	333,350

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
56,711	-	56,711	(116)
644,997	3,133	648,130	34,060
701,708	3,133	704,841	33,944
168,572	-	168,572	3,949
24,695	-	24,695	1,555
193,267	-	193,267	5,504
1,137,302	3,133	1,140,435	40,931
54,289	-	54,289	16,994
-	50,000	50,000	3,000
54,289	50,000	104,289	19,994
258,241	-	258,241	1,927
22,349	100	22,449	199
-	975	975	15
280,590	1,075	281,665	2,141
334,879	51,075	385,954	22,135
6,008,078	-	6,008,078	-
15,888	-	15,888	1,112
6,023,966	-	6,023,966	1,112
12,890	18,860	31,750	48,250
5,305,245	-	5,305,245	39,084
379,857	143	380,000	-
313,804	-	313,804	19,546

(continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
Life Insurance				
Expenditures.....	-	18,250	-	18,250
TOTAL EMPLOYEE BENEFITS.....	792	5,842,575	312,562	6,155,929
PROPERTY AND LIABILITY INSURANCE				
Expenditures.....	9,087	471,275	-	480,362
CLAIMS AND JUDGMENTS				
Expenditures.....	38,096	25,000	-	63,096
STATE AND COUNTY CHARGES				
Expenditures.....	-	7,011,538	-	7,011,538
DEBT SERVICE PRINCIPAL				
Expenditures.....	-	2,762,164	-	2,762,164
DEBT SERVICE INTEREST				
Expenditures.....	-	1,006,916	535	1,007,451
TOTAL EXPENDITURES.....	3,049,473	119,243,051	3,122,392	125,414,916
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,049,473)	(1,314,799)	(3,122,392)	(7,486,664)
OTHER FINANCING SOURCES (USES):				
Premium from issuance of bonds.....	-	-	-	-
Transfers in.....	-	1,892,453	-	1,892,453
Transfers out.....	-	(633,725)	(3,071,338)	(3,705,063)
Total other financing sources (uses).....	-	1,258,728	(3,071,338)	(1,812,610)
NET CHANGE IN FUND BALANCE.....	(3,049,473)	(56,071)	(6,193,730)	(9,299,274)
FUND BALANCE AT BEGINNING OF YEAR.....	21,466,843	21,466,843	21,466,843	21,466,843
FUND BALANCE AT END OF YEAR.....	\$ 18,417,370	\$ 21,410,772	\$ 15,273,113	\$ 12,167,569

See notes to required supplementary information.

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
10,495	-	10,495	7,755
6,022,291	19,003	6,041,294	114,635
475,362	-	475,362	5,000
36,098	16,998	53,096	10,000
6,900,308	-	6,900,308	111,230
2,756,573	-	2,756,573	5,591
1,007,447	-	1,007,447	4
119,886,846	3,741,435	123,628,281	1,786,635
5,173,915	(3,741,435)	1,432,480	8,919,144
248	-	248	248
1,892,453	-	1,892,453	-
(3,705,063)	-	(3,705,063)	-
(1,812,362)	-	(1,812,362)	248
3,361,553	(3,741,435)	(379,882)	8,919,392
21,466,843	21,466,843	21,466,843	-
\$ 24,828,396	\$ 17,725,408	\$ 21,086,961	\$ 8,919,392
			(concluded)

PENSION PLAN SCHEDULES

The following schedules provide information related to the System as a whole, for which the City is one participating employer:

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/11	\$ 84,087,066	\$ 157,628,890	\$ 73,541,824	53.3%	\$ 29,750,417	247.2%
01/01/09	65,231,613	143,082,153	77,850,540	45.6%	29,412,382	264.7%
01/01/07	62,031,961	130,398,065	68,366,104	47.6%	26,951,807	253.7%
01/01/05	50,307,347	114,625,947	64,318,600	43.9%	24,442,724	263.1%
01/01/03	40,964,402	105,624,172	64,659,770	38.8%	23,843,397	271.2%
01/01/01	39,748,307	88,940,495	49,192,188	44.7%	20,265,717	242.7%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2007	\$ 7,650,765	100
2008	7,943,591	100
2009	8,260,223	100
2010	8,539,697	100
2011	8,949,178	100
2012	9,364,656	100

The following schedule provides information related to the City's portion of the System's ARC:

CITY SHARE OF SYSTEM ARC

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	City ARC as a Percentage of System ARC (%)
2008	\$ 7,029,096	100	91.9%
2009	7,329,618	100	92.3%
2010	7,589,877	100	91.9%
2011	7,850,301	100	91.9%
2012	8,257,705	100	92.3%
2013	8,516,467	100	90.9%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULES

The following schedules provide information related to the City's other postemployment benefits plan:

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/11	\$ -	\$ 169,212,224	\$ 169,212,224	-	\$ 60,733,942	279%
07/01/09	-	227,913,505	227,913,505	-	60,870,320	374%
07/01/07	-	184,805,511	184,805,511	-	26,951,807	686%

The significant changes to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress are as follows:

- The 07/01/11 valuation reflects the City's favorable claims experience during the period between the 07/01/09 valuation and the 07/01/11 valuation
- The 07/01/11 valuation reflects a decrease in the trend on medical and prescription drug costs as compared to the 07/01/09 valuation
- The 07/01/11 valuation reflects a decrease (from 85% to 40%) in the assumed percentage of spouses/dependents insured in retirement as compared to the 07/01/09 valuation, using actual coverage data

NOTE A - BUDGETARY - GAAP RECONCILIATION

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2013, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 125,060,761	\$ 123,628,281	\$ (1,812,362)
<u>Reclassifications</u>			
Activity of general stabilization fund recorded in the general fund for GAAP purposes.....	37,768	-	-
Activity of operating stabilization fund recorded in the general fund for GAAP purposes.....	30,981	-	-
Activity of capital stabilization fund recorded in the general fund for GAAP purposes.....	8,274	-	-
Activity of redevelopment stabilization fund recorded in the general fund for GAAP purposes.....	1,154	-	-
Activity of other postemployment benefits fund recorded in the general fund for GAAP purposes.....	8,767	-	150,000
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	42,382	-	-
Net change in recording tax refunds payable.....	426,416	-	-
Net change in investment market value.....	(177,746)	-	-
To record MTRS on-behalf payments.....	6,707,150	6,707,150	-
To record encumbrances and continuing appropriations.....	-	(3,741,435)	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 132,145,907</u>	<u>\$ 126,593,996</u>	<u>\$ (1,662,362)</u>

Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds

Narrative

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The special revenue funds are grouped into the following categories:

Redevelopment – accounts for all federal, state and locally funded redevelopment activities.

Other Community Development – accounts for all federal, state and locally funded community development activities other than redevelopment activities.

City Revolving – excluding the school department, accounts for the activity of revolving funds established in accordance with MGL Chapter 44, Section 53E ½.

Receipts Reserved – accounts for receipts that are designated to fund and supplement specific operating budgets of various departments.

City Gifts – accounts for revenues received from various residents and organizations that are to be used to provide a specific benefit to governmental programs.

City State Grants – accounts for grant funds received from the Commonwealth that are designated for specific programs, excluding school education grants which are accounted for in the School State Grants Special Revenue Fund.

City Federal Grants – accounts for grant funds received from the federal government that are designated for specific programs, excluding school education grants which are accounted for in the School Federal Grants Special Revenue Fund.

School Lunch – accounts for the activity of the school lunch program, which includes charges for services and state and federal reimbursements for meals served.

School Revolving – accounts for the activity of the school department's revolving funds

School Gifts - accounts for revenues received from various residents and organizations that are to be used to provide a specific benefit to the Chelsea schools.

School State Grants – accounts for grant funds received from the Commonwealth that are designated for specific education programs.

School Federal Grants – accounts for grant funds received from the federal government that is designated for specific education programs.

Capital Projects Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The capital projects funds are grouped into the following categories:

Urban I & II Renewal – accounts for the proceeds of bonds sold, intergovernmental grants and transfers in used to finance the cost of the Everett Avenue Urban Revitalization Project.

Other Capital – accounts for the proceeds of bonds sold, intergovernmental grants and operating transfers in used to finance the City's capital projects (other than the Everett Avenue Urban Revitalization Project).

School Capital Reserve – accounts for funds restricted for long-term capital needs of school buildings.

Permanent Funds

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry. The permanent funds are grouped into the following categories:

Health and Human Services – accounts for various gifts, bequests and contributions held for which only earnings may be expended for purposes specified by the donor in relation to health and human service activities.

Culture and Recreation - accounts for various gifts, bequests and contributions held for which only earnings may be expended for purposes specified by the donor in relation to culture and recreational activities.

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2013

	<i>Special Revenue Funds</i>					
	Redevelopment	Other Community Development	City Revolving	Receipts Reserved	City Gifts	City State Grants
ASSETS						
Restricted cash and cash equivalents.....	\$ 1,585,473	\$ 987,272	\$ -	\$ 2,212,876	\$ 960,489	\$ 300,524
Restricted investments.....	1,554,878	692,314	-	-	-	-
Receivables, net of uncollectibles:						
Departmental and other.....	-	-	187,616	-	-	-
Intergovernmental.....	-	-	-	-	-	-
Loans.....	-	765,013	-	-	-	-
TOTAL ASSETS.....	\$ 3,140,351	\$ 2,444,599	\$ 187,616	\$ 2,212,876	\$ 960,489	\$ 300,524
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants payable.....	\$ 525	\$ 149,640	\$ 8,514	\$ -	\$ 469	\$ 158,345
Due to other funds.....	-	-	209,376	-	-	-
TOTAL LIABILITIES.....	525	149,640	217,890	-	469	158,345
FUND BALANCES:						
Nonspendable.....	-	765,013	-	-	-	-
Restricted.....	3,139,826	1,529,946	-	2,212,876	960,020	142,179
Unassigned.....	-	-	(30,274)	-	-	-
TOTAL FUND BALANCES.....	3,139,826	2,294,959	(30,274)	2,212,876	960,020	142,179
TOTAL LIABILITIES AND FUND BALANCES....	\$ 3,140,351	\$ 2,444,599	\$ 187,616	\$ 2,212,876	\$ 960,489	\$ 300,524

<i>Special Revenue Funds</i>							<i>Capital Projects Funds</i>	
City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants	School Federal Grants	Sub-total	Urban I & II Renewal	Other Capital
\$ 899,476	\$ 1,982,375	\$ 1,272,847	\$ 860,907	\$ 673,225	\$ 134,677	\$ 11,870,141	\$ 1,581,233	\$ 4,808,619
-	-	-	-	-	-	2,247,192	-	-
-	-	-	-	-	-	187,616	-	-
-	-	-	-	254,636	-	254,636	-	-
-	-	-	-	-	-	765,013	-	-
<u>\$ 899,476</u>	<u>\$ 1,982,375</u>	<u>\$ 1,272,847</u>	<u>\$ 860,907</u>	<u>\$ 927,861</u>	<u>\$ 134,677</u>	<u>\$ 15,324,598</u>	<u>\$ 1,581,233</u>	<u>\$ 4,808,619</u>
\$ 667,813	\$ 417,364	\$ 4,073	\$ 14,669	\$ 66,912	\$ 82,814	\$ 1,571,138	\$ -	\$ 372,574
-	-	-	-	-	-	209,376	-	-
<u>667,813</u>	<u>417,364</u>	<u>4,073</u>	<u>14,669</u>	<u>66,912</u>	<u>82,814</u>	<u>1,780,514</u>	<u>-</u>	<u>372,574</u>
-	-	-	-	-	-	765,013	-	-
231,663	1,565,011	1,268,774	846,238	860,949	51,863	12,809,345	1,581,233	4,436,045
-	-	-	-	-	-	(30,274)	-	-
<u>231,663</u>	<u>1,565,011</u>	<u>1,268,774</u>	<u>846,238</u>	<u>860,949</u>	<u>51,863</u>	<u>13,544,084</u>	<u>1,581,233</u>	<u>4,436,045</u>
<u>\$ 899,476</u>	<u>\$ 1,982,375</u>	<u>\$ 1,272,847</u>	<u>\$ 860,907</u>	<u>\$ 927,861</u>	<u>\$ 134,677</u>	<u>\$ 15,324,598</u>	<u>\$ 1,581,233</u>	<u>\$ 4,808,619</u>

(continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2013

	<i>Capital Projects Funds</i>		<i>Permanent Funds</i>			Total
	School Capital Reserve	Sub-total	Health and Human Services	Culture and Recreation	Sub-total	Nonmajor Governmental Funds
ASSETS						
Restricted cash and cash equivalents.....	\$ 2,456,221	\$ 8,846,073	\$ 12,745	\$ 108,587	\$ 121,332	\$ 20,837,546
Restricted investments.....	-	-	-	-	-	2,247,192
Receivables, net of uncollectibles:						
Departmental and other.....	-	-	-	-	-	187,616
Intergovernmental.....	-	-	-	-	-	254,636
Loans.....	-	-	-	-	-	765,013
TOTAL ASSETS.....	\$ 2,456,221	\$ 8,846,073	\$ 12,745	\$ 108,587	\$ 121,332	\$ 24,292,003
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants payable.....	\$ -	\$ 372,574	\$ -	\$ -	\$ -	\$ 1,943,712
Due to other funds.....	-	-	-	-	-	209,376
TOTAL LIABILITIES.....	-	372,574	-	-	-	2,153,088
FUND BALANCES:						
Nonspendable.....	-	-	11,996	10,396	22,392	787,405
Restricted.....	2,456,221	8,473,499	749	98,191	98,940	21,381,784
Unassigned.....	-	-	-	-	-	(30,274)
TOTAL FUND BALANCES.....	2,456,221	8,473,499	12,745	108,587	121,332	22,138,915
TOTAL LIABILITIES AND FUND BALANCES....	\$ 2,456,221	\$ 8,846,073	\$ 12,745	\$ 108,587	\$ 121,332	\$ 24,292,003

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<i>Special Revenue Funds</i>					
	Redevelopment	Other Community Development	City Revolving	Receipts Reserved	City Gifts	City State Grants
REVENUES						
Charges for services.....	\$ -	\$ -	\$ 1,910,721	\$ 301,353	\$ -	\$ -
Intergovernmental	-	2,033,290	-	-	-	1,092,232
Departmental and other.....	14,164	77,777	103,207	66,746	1,402	-
Contributions.....	-	250,000	-	150,000	559,547	-
Investment income.....	(4,340)	42,644	-	-	-	-
TOTAL REVENUES.....	9,824	2,403,711	2,013,928	518,099	560,949	1,092,232
EXPENDITURES						
Current:						
General government.....	-	-	-	54,494	195,441	26,836
Public safety.....	-	-	1,955,013	-	41,325	980,308
Education.....	-	-	-	-	3,219	23,282
Public works.....	-	-	-	-	4,436	64,612
Health and human services.....	-	-	97,050	-	254,360	38,593
Culture and recreation.....	-	-	25,559	-	-	57,040
Community development.....	256,015	3,068,646	20,183	-	8,807	-
TOTAL EXPENDITURES.....	256,015	3,068,646	2,097,805	54,494	507,588	1,190,671
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(246,191)	(664,935)	(83,877)	463,605	53,361	(98,439)
OTHER FINANCING SOURCES (USES)						
Transfers in.....	9,173	-	7,090	22,800	-	-
Issuance of bonds, notes and loans.....	-	-	-	-	-	-
Transfers out.....	-	-	(7,350)	(175,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)....	9,173	-	(260)	(152,200)	-	-
NET CHANGE IN FUND BALANCES.....	(237,018)	(664,935)	(84,137)	311,405	53,361	(98,439)
FUND BALANCES AT BEGINNING OF YEAR.....	3,376,844	2,959,894	53,863	1,901,471	906,659	240,618
FUND BALANCES AT END OF YEAR.....	\$ 3,139,826	\$ 2,294,959	\$ (30,274)	\$ 2,212,876	\$ 960,020	\$ 142,179

<i>Special Revenue Funds</i>							<i>Capital Projects Funds</i>	
City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants	School Federal Grants	Sub-total	Urban I & II Renewal	Other Capital
\$ 35,842	\$ 440,984	\$ 711,508	\$ -	\$ -	\$ -	\$ 3,400,408	\$ -	\$ -
1,649,294	2,660,374	13,652	-	2,002,462	7,696,964	17,148,268	-	576,200
-	-	-	-	-	-	263,296	18,199	-
-	-	-	523,808	-	-	1,483,355	-	-
18,772	-	-	-	-	-	57,076	-	-
1,703,908	3,101,358	725,160	523,808	2,002,462	7,696,964	22,352,403	18,199	576,200
72,405	-	-	-	-	-	349,176	-	857,129
2,986,712	-	-	-	-	-	5,963,358	-	72,483
-	3,241,765	622,966	352,484	1,816,728	7,653,330	13,713,774	-	34,552
-	-	-	-	-	-	69,048	-	1,690,731
9,677	-	-	-	-	-	399,680	-	-
-	-	-	-	-	-	82,599	-	-
-	-	-	-	-	-	3,353,651	1,430,788	479,850
3,068,794	3,241,765	622,966	352,484	1,816,728	7,653,330	23,931,286	1,430,788	3,134,745
(1,364,886)	(140,407)	102,194	171,324	185,734	43,634	(1,578,883)	(1,412,589)	(2,558,545)
-	-	-	-	-	-	39,063	-	3,815,697
-	-	-	-	-	-	-	1,400,000	1,351,628
-	-	-	-	-	-	(182,350)	-	(25,847)
-	-	-	-	-	-	(143,287)	1,400,000	5,141,478
(1,364,886)	(140,407)	102,194	171,324	185,734	43,634	(1,722,170)	(12,589)	2,582,933
1,596,549	1,705,418	1,166,580	674,914	675,215	8,229	15,266,254	1,593,822	1,853,112
\$ 231,663	\$ 1,565,011	\$ 1,268,774	\$ 846,238	\$ 860,949	\$ 51,863	\$ 13,544,084	\$ 1,581,233	\$ 4,436,045

(continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Capital Projects Funds		Permanent Funds			Total
	School Capital Reserve	Sub-total	Health and Human Services	Culture and Recreation	Sub-total	Nonmajor Governmental Funds
REVENUES						
Charges for services.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,400,408
Intergovernmental	-	576,200	-	-	-	17,724,468
Departmental and other.....	-	18,199	-	-	-	281,495
Contributions.....	-	-	-	-	-	1,483,355
Investment income.....	23,530	23,530	-	280	280	80,886
TOTAL REVENUES.....	23,530	617,929	-	280	280	22,970,612
EXPENDITURES						
Current:						
General government.....	-	857,129	-	-	-	1,206,305
Public safety.....	-	72,483	-	-	-	6,035,841
Education.....	-	34,552	-	-	-	13,748,326
Public works.....	-	1,690,731	-	-	-	1,759,779
Health and human services.....	-	-	-	-	-	399,680
Culture and recreation.....	-	-	-	1,021	1,021	83,620
Community development.....	-	1,910,638	-	-	-	5,264,289
TOTAL EXPENDITURES.....	-	4,565,533	-	1,021	1,021	28,497,840
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	23,530	(3,947,604)	-	(741)	(741)	(5,527,228)
OTHER FINANCING SOURCES (USES)						
Transfers in.....	-	3,815,697	-	-	-	3,854,760
Issuance of bonds, notes and loans.....	-	2,751,628	-	-	-	2,751,628
Transfers out.....	(273,850)	(299,697)	-	-	-	(482,047)
TOTAL OTHER FINANCING SOURCES (USES)....	(273,850)	6,267,628	-	-	-	6,124,341
NET CHANGE IN FUND BALANCES.....	(250,320)	2,320,024	-	(741)	(741)	597,113
FUND BALANCES AT BEGINNING OF YEAR.....	2,706,541	6,153,475	12,745	109,328	122,073	21,541,802
FUND BALANCES AT END OF YEAR.....	\$ 2,456,221	\$ 8,473,499	\$ 12,745	\$ 108,587	\$ 121,332	\$ 22,138,915

(concluded)

Internal Service Funds

Narrative

Internal service funds are used to account for the financing of services provided by one department to other departments or governmental units. The risk financing activities related to a portion of retirees' health insurance (through April 30, 2012) and all of the City's workers' compensation are accounted for in the internal service fund and are categorized as follows:

Retirees' Health Insurance – accounts for the health insurance activities of retirees' who were eligible to participate in the Blue Cross Blue Shield MEDEX plan through April 30, 2012.

Workers' Compensation – accounts for the activities of employees who are eligible to receive workers' compensation benefits.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION

JUNE 30, 2013

			<u>Total</u>
	Retirees' Health Insurance	Workers' Compensation	Internal Service Funds
ASSETS			
Current assets:			
Restricted cash and cash equivalents.....	\$ 235,643	\$ 679,275	\$ 914,918
LIABILITIES			
Current liabilities:			
Other liabilities.....	-	2,348	2,348
Workers' compensation claims.....	-	202,371	202,371
Total current liabilities.....	-	204,719	204,719
Noncurrent liabilities:			
Workers' compensation claims.....	-	142,240	142,240
Total liabilities.....	-	346,959	346,959
NET POSITION			
Unrestricted.....	\$ 235,643	\$ 332,316	\$ 567,959

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

			<u>Total</u>
	Retirees' Health Insurance	Workers' Compensation	Internal Service Funds
OPERATING REVENUES			
Employer contributions.....	\$ -	\$ 383,672	\$ 383,672
OPERATING EXPENSES			
Employee benefits.....	<u>10,300</u>	<u>85,070</u>	<u>95,370</u>
OPERATING INCOME (LOSS).....	(10,300)	298,602	288,302
NONOPERATING REVENUES (EXPENSES)			
Investment income.....	<u>-</u>	<u>107</u>	<u>107</u>
CHANGE IN NET POSITION.....	(10,300)	298,709	288,409
NET POSITION AT BEGINNING OF YEAR.....	<u>245,943</u>	<u>33,607</u>	<u>279,550</u>
NET POSITION AT END OF YEAR.....	<u>\$ 235,643</u>	<u>\$ 332,316</u>	<u>\$ 567,959</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Retirees' Health Insurance	Workers' Compensation	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided.....	\$ -	\$ 383,672	\$ 383,672
Payments for interfund services used.....	(10,300)	(98,660)	(108,960)
NET CASH FROM OPERATING ACTIVITIES.....	(10,300)	285,012	274,712
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	-	107	107
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(10,300)	285,119	274,819
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$245,943 and \$394,156 reported as restricted in the retirees' health insurance and workers' compensation fund, respectively).....			
	245,943	394,156	640,099
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$235,643 and \$679,275 reported as restricted in the retirees' health insurance and workers' compensation fund, respectively).....			
	\$ 235,643	\$ 679,275	\$ 914,918
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ (10,300)	\$ 298,602	\$ 288,302
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Adjustments requiring current cash flows:			
Changes in assets and liabilities:			
Workers' compensation claims.....	-	(13,590)	(13,590)
NET CASH FROM OPERATING ACTIVITIES.....	\$ (10,300)	\$ 285,012	\$ 274,712

Agency Funds

Narrative

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

AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Balance at</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2013</u>
ASSETS				
Cash and cash equivalents.....	\$ 877,777	\$ 12,677,752	\$ (12,569,394)	\$ 986,135
LIABILITIES				
Warrants payable.....	1,938	12,566,775	(12,566,213)	2,500
Liabilities due depositors.....	875,839	12,654,436	(12,546,640)	983,635
TOTAL LIABILITIES.....	\$ 877,777	\$ 25,221,211	\$ (25,112,853)	\$ 986,135

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Statistical Section

Statistical Section

This part of the City of Chelsea's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trends (pages 107 – 118)

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity (pages 119 – 122)

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity (pages 123 – 127)

These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information (pages 128 - 129)

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information (pages 130 – 134)

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

NET POSITION BY COMPONENT (1)
(ACCRUAL BASIS OF ACCOUNTING)

LAST TEN FISCAL YEARS

	2004	2005	2006	2007
Governmental Activities				
Net investment in capital assets (1).....	\$ 87,769,262	\$ 104,156,143	\$ 102,535,541	\$ 103,040,202
Restricted.....	15,183,702	14,856,655	13,532,009	12,836,617
Unrestricted.....	<u>28,500,604</u>	<u>24,393,261</u>	<u>22,882,562</u>	<u>27,331,951</u>
Total governmental activities net position (1).....	<u>\$ 131,453,568</u>	<u>\$ 143,406,059</u>	<u>\$ 138,950,112</u>	<u>\$ 143,208,770</u>
Business-Type Activities				
Net investment in capital assets (1).....	\$ 4,534,392	\$ 3,445,938	\$ 4,197,376	\$ 3,382,731
Restricted.....	-	-	-	-
Unrestricted.....	<u>3,015,421</u>	<u>4,101,194</u>	<u>3,966,040</u>	<u>4,994,535</u>
Total business-type activities net position (1).....	<u>\$ 7,549,813</u>	<u>\$ 7,547,132</u>	<u>\$ 8,163,416</u>	<u>\$ 8,377,266</u>
Primary Government				
Net investment in capital assets (1).....	\$ 92,303,654	\$ 107,602,081	\$ 106,732,917	\$ 106,422,933
Restricted.....	15,183,702	14,856,655	13,532,009	12,836,617
Unrestricted.....	<u>31,516,025</u>	<u>28,494,455</u>	<u>26,848,602</u>	<u>32,326,486</u>
Total primary government net position (1).....	<u>\$ 139,003,381</u>	<u>\$ 150,953,191</u>	<u>\$ 147,113,528</u>	<u>\$ 151,586,036</u>

(1) Net position and net investment in capital assets terminology per GASB Statement # 63 is being utilized

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 109,699,755	\$ 113,168,275	\$ 115,802,386	\$ 123,198,732	\$ 110,297,865	\$ 112,646,295
14,156,898	15,843,439	16,877,352	5,330,361	21,541,560	19,798,007
<u>3,182,167</u>	<u>(18,524,343)</u>	<u>(33,438,542)</u>	<u>(41,789,700)</u>	<u>(55,550,266)</u>	<u>(67,222,440)</u>
<u>\$ 127,038,820</u>	<u>\$ 110,487,371</u>	<u>\$ 99,241,196</u>	<u>\$ 86,739,393</u>	<u>\$ 76,289,159</u>	<u>\$ 65,221,862</u>
\$ 4,293,753	\$ 5,079,857	\$ 9,731,672	\$ 13,645,212	\$ 15,188,269	\$ 16,948,277
-	-	-	-	-	-
<u>4,377,713</u>	<u>7,437,258</u>	<u>6,073,506</u>	<u>6,752,021</u>	<u>9,321,027</u>	<u>11,462,851</u>
<u>\$ 8,671,466</u>	<u>\$ 12,517,115</u>	<u>\$ 15,805,178</u>	<u>\$ 20,397,233</u>	<u>\$ 24,509,296</u>	<u>\$ 28,411,128</u>
\$ 113,993,508	\$ 118,248,132	\$ 125,534,058	\$ 136,843,944	\$ 125,486,134	\$ 129,594,572
14,156,898	15,843,439	16,877,352	5,330,361	21,541,560	19,798,007
<u>7,559,880</u>	<u>(11,087,085)</u>	<u>(27,365,036)</u>	<u>(35,037,679)</u>	<u>(46,229,239)</u>	<u>(55,759,589)</u>
<u>\$ 135,710,286</u>	<u>\$ 123,004,486</u>	<u>\$ 115,046,364</u>	<u>\$ 107,136,626</u>	<u>\$ 100,798,455</u>	<u>\$ 93,632,990</u>

**GOVERNMENTAL ACTIVITIES
CHANGES IN NET POSITION (1)**

LAST TEN FISCAL YEARS

	2004	2005	2006
Expenses			
General government.....	\$ 5,802,030	\$ 6,368,641	\$ 6,633,250
Public safety.....	20,951,948	23,411,640	25,120,329
Education.....	70,629,480	72,144,706	75,452,209
Public works.....	5,390,668	6,352,279	5,135,556
Health and human services.....	2,507,219	2,645,046	2,876,211
Culture and recreation.....	603,279	645,308	708,300
Community development.....	2,607,842	1,824,233	1,481,448
Debt service - interest.....	7,000,683	4,114,478	3,507,512
Total expenses.....	<u>115,493,149</u>	<u>117,506,331</u>	<u>120,914,815</u>
Program Revenues			
Charges for services:			
Public safety.....	2,865,284	3,467,600	3,831,602
Public works.....	1,147,770	1,207,394	1,223,069
Other activities.....	2,186,801	2,315,573	2,174,234
Operating grants and contributions.....	60,350,646	63,868,631	63,410,195
Capital grants and contributions.....	400,045	17,262,055	1,021,324
Total program revenues.....	<u>66,950,546</u>	<u>88,121,253</u>	<u>71,660,424</u>
Net (expense)/revenue.....	<u>(48,542,603)</u>	<u>(29,385,078)</u>	<u>(49,254,391)</u>
General Revenues and Other Changes in Net Position (1)			
Real estate and personal property taxes.....	24,101,436	26,583,428	28,161,050
Meals and room taxes.....	-	-	-
Motor vehicle and other excise taxes.....	2,331,503	2,890,852	2,829,277
Penalties and interest on taxes.....	661,775	331,215	380,239
Payments in lieu of taxes.....	1,132,798	609,949	1,195,899
Unrestricted grants and contributions.....	8,327,219	9,035,989	9,050,539
Unrestricted investment income.....	413,762	525,769	1,245,853
Gain on sale of capital assets.....	-	25,000	297,780
Miscellaneous.....	(1,601,782)	23,717	282,085
Transfers, net.....	991,487	1,270,254	1,355,722
Total general revenues and other changes in net position (1).....	<u>36,358,198</u>	<u>41,296,173</u>	<u>44,798,444</u>
Change in net position (1).....	<u><u>\$ (12,184,405)</u></u>	<u><u>\$ 11,911,095</u></u>	<u><u>\$ (4,455,947)</u></u>

(1) Net position terminology per GASB Statement # 63 is being utilized

(2) Beginning in fiscal year 2008, the City implemented GASBS 45, which accounts for a significant portion of the decrease in net position of governmental activities

	(2)					
2007	2008	2009	2010	2011	2012	2013
\$ 6,749,810	\$ 8,802,344	\$ 9,465,362	\$ 8,584,122	\$ 8,878,505	\$ 6,303,492	\$ 6,753,023
26,964,061	33,766,246	35,665,589	36,002,662	38,057,558	34,245,664	37,168,245
75,539,107	89,459,187	92,186,880	97,560,358	97,529,142	101,583,304	106,039,385
5,738,727	6,296,006	6,336,398	6,187,990	6,888,278	6,392,827	7,054,957
2,221,478	2,542,823	2,699,727	1,854,061	1,845,688	4,003,944	4,311,783
728,672	1,150,914	1,355,992	916,324	990,915	909,974	980,683
1,760,889	1,833,093	1,372,317	1,546,870	1,345,920	1,774,591	3,324,674
3,460,180	3,162,519	2,527,602	2,756,957	1,918,692	742,879	977,150
123,162,924	147,013,132	151,609,867	155,409,344	157,454,698	155,956,675	166,609,900
4,998,734	4,514,069	4,700,260	4,276,170	4,377,770	4,335,583	5,215,386
1,358,377	1,210,082	1,446,499	1,529,503	1,346,420	1,421,310	1,434,148
2,302,399	2,039,329	2,563,792	2,711,537	2,872,521	3,177,176	2,781,946
67,520,030	72,252,579	73,086,636	77,955,416	78,148,183	78,837,387	83,700,933
3,786,207	580,592	1,890,029	2,389,700	408,766	(1,065,126)	310,844
79,965,747	80,596,651	83,687,216	88,862,326	87,153,660	86,706,330	93,443,257
(43,197,177)	(66,416,481)	(67,922,651)	(66,547,018)	(70,301,038)	(69,250,345)	(73,166,643)
30,114,992	31,523,741	34,562,918	34,585,525	37,049,408	38,375,534	42,040,017
-	-	-	83,513	556,526	602,918	871,300
2,111,357	2,846,327	2,841,288	7,467,078	7,001,354	8,253,392	8,198,951
301,942	273,865	312,440	576,893	457,401	553,029	375,953
1,185,030	1,792,342	1,537,180	1,738,295	1,483,189	1,221,920	1,221,631
10,539,794	10,560,559	10,440,670	8,629,072	7,698,509	7,718,417	7,538,595
1,695,467	1,710,427	2,100,745	1,352,951	940,588	406,508	142,796
-	-	-	-	2,115,000	-	-
-	-	-	-	-	-	-
1,507,253	1,539,270	(424,039)	867,506	497,270	1,668,393	1,710,103
47,455,835	50,246,531	51,371,202	55,300,833	57,799,245	58,800,111	62,099,346
\$ 4,258,658	\$ (16,169,950)	\$ (16,551,449)	\$ (11,246,185)	\$ (12,501,793)	\$ (10,450,234)	\$ (11,067,297)

BUSINESS-TYPE ACTIVITIES
CHANGES IN NET POSITION (1)

LAST TEN FISCAL YEARS

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses				
Water and Sewer.....	\$ 9,365,460	\$ 9,085,256	\$ 9,460,948	\$ 9,625,649
Program Revenues				
Charges for services.....	11,137,737	10,365,205	10,967,624	11,219,309
Operating grants and contributions.....	14,132	14,844	54,722	86,085
Capital grants and contributions.....	<u>-</u>	<u>14,176</u>	<u>410,608</u>	<u>41,358</u>
Total program revenues.....	<u>11,151,869</u>	<u>10,394,225</u>	<u>11,432,954</u>	<u>11,346,752</u>
Net (expense)/ revenue.....	1,786,409	1,308,969	1,972,006	1,721,103
General Revenues and Transfers				
Transfers, net.....	<u>(991,487)</u>	<u>(1,270,254)</u>	<u>(1,355,722)</u>	<u>(1,507,253)</u>
Change in net position (1).....	<u>\$ 794,922</u>	<u>\$ 38,715</u>	<u>\$ 616,284</u>	<u>\$ 213,850</u>

(1) Net position terminology per GASB Statement # 63 is being utilized

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ <u>10,265,022</u>	\$ <u>10,442,575</u>	\$ <u>11,932,616</u>	\$ <u>12,619,962</u>	\$ <u>12,587,797</u>	\$ <u>13,185,746</u>
11,791,807	13,864,185	16,012,276	17,304,563	18,344,616	18,474,949
69,906	-	75,909	-	21,966	2,412
<u>236,779</u>	<u>-</u>	<u>-</u>	<u>404,724</u>	<u>1,671</u>	<u>320,320</u>
<u>12,098,492</u>	<u>13,864,185</u>	<u>16,088,185</u>	<u>17,709,287</u>	<u>18,368,253</u>	<u>18,797,681</u>
1,833,470	3,421,610	4,155,569	5,089,325	5,780,456	5,611,935
<u>(1,539,270)</u>	<u>424,039</u>	<u>(867,506)</u>	<u>(497,270)</u>	<u>(1,668,393)</u>	<u>(1,710,103)</u>
\$ <u><u>294,200</u></u>	\$ <u><u>3,845,649</u></u>	\$ <u><u>3,288,063</u></u>	\$ <u><u>4,592,055</u></u>	\$ <u><u>4,112,063</u></u>	\$ <u><u>3,901,832</u></u>

**PRIMARY GOVERNMENT
CHANGES IN NET POSITION (1)**

LAST TEN FISCAL YEARS

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total expenses.....	\$ 124,858,609	\$ 126,591,587	\$ 130,375,763
Total program revenues.....	<u>78,102,415</u>	<u>98,515,478</u>	<u>83,093,378</u>
Net (expense)/revenue.....	(46,756,194)	(28,076,109)	(47,282,385)
Total general revenues, transfers and other changes in net position (1).....	<u>35,366,711</u>	<u>40,025,919</u>	<u>43,442,722</u>
Change in net position (1).....	\$ <u>(11,389,483)</u>	\$ <u>11,949,810</u>	\$ <u>(3,839,663)</u>

(1) Net position terminology per GASB Statement # 63 is being utilized

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 132,788,573	\$ 157,278,154	\$ 162,052,442	\$ 167,341,960	\$ 170,074,660	\$ 168,544,472	\$ 179,795,646
<u>91,312,499</u>	<u>92,695,143</u>	<u>97,551,401</u>	<u>104,950,511</u>	<u>104,862,947</u>	<u>105,074,583</u>	<u>112,240,938</u>
(41,476,074)	(64,583,011)	(64,501,041)	(62,391,449)	(65,211,713)	(63,469,889)	(67,554,708)
<u>45,948,582</u>	<u>48,707,261</u>	<u>51,795,241</u>	<u>54,433,327</u>	<u>57,301,975</u>	<u>57,131,718</u>	<u>60,389,243</u>
<u>\$ 4,472,508</u>	<u>\$ (15,875,750)</u>	<u>\$ (12,705,800)</u>	<u>\$ (7,958,122)</u>	<u>\$ (7,909,738)</u>	<u>\$ (6,338,171)</u>	<u>\$ (7,165,465)</u>

GOVERNMENTAL FUNDS
FUND BALANCES (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

LAST TEN FISCAL YEARS

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund				
Reserved.....	\$ 2,468,835	\$ 2,190,036	\$ 1,753,717	\$ 2,637,577
Unreserved.....	8,590,955	9,087,501	8,307,212	10,218,873
Nonspendable.....	-	-	-	-
Restricted.....	-	-	-	-
Committed.....	-	-	-	-
Assigned.....	-	-	-	-
Unassigned.....	-	-	-	-
Total general fund.....	<u>\$ 11,059,790</u>	<u>\$ 11,277,537</u>	<u>\$ 10,060,929</u>	<u>\$ 12,856,450</u>
All Other Governmental Funds				
Reserved.....	\$ 5,338,698	\$ 4,489,363	\$ 4,062,188	\$ 3,305,523
Unreserved, reported in:				
Special revenue funds.....	11,953,009	11,933,024	13,027,339	14,327,473
Debt service funds.....	9,758,015	10,279,367	9,370,978	9,430,547
Capital projects funds.....	(9,122,271)	(1,274,477)	(1,246,189)	(5,346,118)
Permanent funds.....	86,989	87,925	98,843	100,547
Nonspendable.....	-	-	-	-
Restricted.....	-	-	-	-
Unassigned.....	-	-	-	-
Total all other governmental funds.....	<u>\$ 18,014,440</u>	<u>\$ 25,515,202</u>	<u>\$ 25,313,159</u>	<u>\$ 21,817,972</u>

(1) Fiscal year 2011 represents the first year of implementing GASB Statement # 54

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>(1) 2011</u>	<u>2012</u>	<u>2013</u>
\$ 4,843,824	\$ 3,025,808	\$ 2,915,917	\$ -	\$ -	\$ -
11,257,433	11,379,449	14,297,478	-	-	-
-	-	-	-	9,506	3,853
-	-	-	-	150,000	308,767
-	-	-	-	2,099,166	2,328,995
-	-	-	2,385,892	3,049,473	3,741,435
-	-	-	24,345,161	24,079,453	26,894,097
<u>\$ 16,101,257</u>	<u>\$ 14,405,257</u>	<u>\$ 17,213,395</u>	<u>\$ 26,731,053</u>	<u>\$ 29,387,598</u>	<u>\$ 33,277,147</u>
\$ 3,880,532	\$ 1,454,773	\$ 1,381,756	\$ -	\$ -	\$ -
13,470,775	15,266,265	14,542,816	-	-	-
9,927,538	10,400,021	10,648,346	-	-	-
(8,762,135)	(727,133)	984,799	-	-	-
100,886	100,585	101,095	-	-	-
-	-	-	22,392	1,060,180	787,405
-	-	-	21,683,498	20,481,622	21,381,784
-	-	-	-	-	(30,274)
<u>\$ 18,617,596</u>	<u>\$ 26,494,511</u>	<u>\$ 27,658,812</u>	<u>\$ 21,705,890</u>	<u>\$ 21,541,802</u>	<u>\$ 22,138,915</u>

GOVERNMENTAL FUNDS
CHANGES IN FUND BALANCES (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

LAST TEN FISCAL YEARS

	2004	2005	2006	2007	2008
REVENUES					
Real estate and personal property taxes.....	\$ 24,656,790	\$ 25,996,104	\$ 27,786,205	\$ 28,944,381	\$ 30,782,138
Motor vehicle and other excise taxes.....	2,431,353	2,933,506	2,737,502	2,332,484	2,557,448
Meals and room taxes.....	-	-	-	-	-
Tax and trash liens.....	899,262	338,515	505,964	366,997	382,714
Payments in lieu of taxes.....	1,132,798	609,949	1,195,899	1,185,030	1,792,342
Charges for services.....	1,641,003	2,123,881	2,409,626	2,491,044	2,296,533
Trash disposal.....	1,034,814	1,120,391	1,230,498	1,270,801	1,230,237
Intergovernmental.....	76,383,765	90,513,250	81,556,455	84,823,330	86,499,436
Penalties and interest on taxes.....	661,775	331,215	380,239	301,942	273,865
Licenses, permits and fees.....	1,457,471	1,623,212	1,634,239	2,283,402	2,146,030
Fines and forfeitures.....	1,417,772	1,509,779	1,578,152	1,534,903	1,792,603
Departmental.....	751,036	633,612	1,167,669	642,619	287,836
Contributions.....	133,509	331,998	664,958	690,561	1,083,262
Investment income.....	216,136	1,810,607	1,091,025	2,521,329	2,943,049
TOTAL REVENUES.....	112,817,484	129,876,019	123,938,431	129,388,823	134,067,493
EXPENDITURES					
Current:					
General government.....	3,242,967	3,260,371	3,050,989	3,428,427	3,628,137
Public safety.....	14,945,125	18,612,071	17,858,180	18,157,315	19,180,605
Education (1).....	57,742,946	58,334,323	59,939,592	67,868,326	71,149,773
Public works.....	4,997,207	6,214,350	4,535,429	5,112,018	5,374,352
Health and human services.....	1,999,958	2,072,138	1,916,395	1,643,909	1,573,840
Culture and recreation.....	389,739	432,059	480,202	460,047	541,176
Community development.....	3,088,565	2,024,964	5,348,708	6,784,769	4,631,470
Pension benefits (1).....	8,357,720	9,203,469	9,991,344	9,001,662	9,807,679
Employee benefits (1).....	8,801,256	9,222,562	10,672,888	5,839,623	6,209,239
Property and liability insurance.....	457,240	473,443	426,165	558,328	463,140
Claims and judgments.....	15,835	20,498	9,210	21,180	3,473
State and county charges.....	2,552,188	2,883,357	2,977,746	3,310,117	4,021,544
Debt service:					
Principal.....	6,751,706	6,911,246	6,970,284	6,857,391	6,797,357
Interest.....	4,607,567	4,136,328	3,549,065	3,497,188	3,181,787
TOTAL EXPENDITURES.....	117,950,019	123,801,179	127,726,197	132,540,300	136,563,572
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES.....	(5,132,535)	6,074,840	(3,787,766)	(3,151,477)	(2,496,079)
OTHER FINANCING SOURCES (USES)					
Transfers in.....	4,526,909	5,636,392	2,416,211	3,959,770	2,897,989
Issuance of bonds and notes.....	1,600,000	641,000	691,000	653,000	743,000
Premium from issuance of bonds and notes.....	1,706	28,516	12,185	29,287	-
Issuance of refunding bonds.....	-	1,007,661	-	-	-
Premium from issuance of refunding bonds.....	-	18,978	-	-	-
Sale of capital assets.....	2,400,696	25,000	297,780	250,000	10,663
Capital leases.....	-	-	-	-	232,355
Transfers out.....	(3,529,273)	(4,354,515)	(1,048,061)	(2,440,246)	(1,343,497)
Refunded bonds redeemed.....	-	-	-	-	-
Payments to refunding bond escrow agent.....	-	(1,001,620)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	5,000,038	2,001,412	2,369,115	2,451,811	2,540,510
NET CHANGE IN FUND BALANCES.....	\$ (132,497)	\$ 8,076,252	\$ (1,418,651)	\$ (699,666)	\$ 44,431

DEBT SERVICE EXPENDITURES AS A PERCENTAGE
OF NONCAPITAL EXPENDITURES.....

10.01% 9.08% 8.42% 8.17% 7.51%

(1) Beginning in fiscal year 2007, the City began reporting the School Department's share of pension and employee benefit costs as Education expenditures

	2009	2010	2011	2012	2013
\$	32,522,544	\$ 33,656,465	\$ 35,997,749	\$ 37,851,061	\$ 40,349,818
	2,858,058	7,241,592	7,111,447	7,161,510	9,340,599
	-	83,513	556,526	602,918	871,300
	305,512	1,058,925	907,060	697,979	1,836,771
	1,537,180	1,738,295	1,483,189	1,221,920	1,221,631
	2,522,413	2,768,668	3,142,666	3,403,374	3,400,408
	1,421,920	1,492,690	1,509,421	1,417,444	1,351,774
	89,664,616	89,848,841	102,461,524	85,285,276	89,997,970
	325,535	576,893	457,401	553,029	375,953
	2,111,520	1,661,067	1,686,406	1,217,335	1,544,748
	1,807,763	1,791,144	1,811,801	1,660,704	2,007,744
	513,831	321,045	371,243	1,408,644	1,133,145
	1,408,736	1,805,273	976,743	1,356,822	1,483,355
	2,077,494	1,347,159	936,009	677,185	201,303
	<u>139,077,122</u>	<u>145,391,570</u>	<u>159,409,185</u>	<u>144,515,201</u>	<u>155,116,519</u>
	4,456,416	3,647,141	4,116,985	3,705,904	4,521,689
	20,102,805	21,218,465	21,857,267	21,330,776	26,344,654
	75,392,603	77,835,710	78,049,056	78,478,431	80,609,369
	8,526,985	5,142,611	6,205,921	6,974,591	6,467,158
	1,637,992	1,395,638	1,247,303	1,250,883	1,536,981
	476,234	449,369	530,524	452,279	418,499
	3,447,654	1,869,328	1,762,797	3,117,710	5,264,289
	10,366,861	10,778,985	11,459,731	12,258,832	12,731,118
	6,877,797	6,511,415	6,259,620	6,763,964	6,022,290
	440,049	484,181	450,000	373,711	475,362
	25,215	38,920	46,059	29,167	36,098
	4,234,195	4,720,440	5,032,659	5,507,326	6,900,308
	6,913,970	7,439,494	25,196,312	2,761,359	2,756,573
	2,543,985	2,483,699	1,619,804	1,118,855	1,007,448
	<u>145,442,761</u>	<u>144,015,396</u>	<u>163,834,038</u>	<u>144,123,788</u>	<u>155,091,836</u>
	<u>(6,365,639)</u>	<u>1,376,174</u>	<u>(4,424,853)</u>	<u>391,413</u>	<u>24,683</u>
	4,271,345	4,372,919	27,034,339	6,230,321	5,747,213
	12,828,352	1,625,950	5,136,656	394,000	2,751,628
	61,562	-	239,006	38,651	248
	4,410,625	-	99,500	-	-
	121,901	-	4,991	-	-
	-	-	2,115,000	-	-
	-	102,809	-	-	-
	(4,695,384)	(3,505,413)	(26,537,069)	(4,561,928)	(4,037,110)
	-	-	(102,834)	-	-
	<u>(4,451,847)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>12,546,554</u>	<u>2,596,265</u>	<u>7,989,589</u>	<u>2,101,044</u>	<u>4,461,979</u>
\$	<u>6,180,915</u>	<u>3,972,439</u>	<u>3,564,736</u>	<u>2,492,457</u>	<u>4,486,662</u>
	6.90%	7.06%	16.82%	2.79%	2.52%

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Assessed Value (2)			Total Assessed Value	Total Direct Tax Rate	Equalized Actual Value (3)	Assessed Value as a Percentage of Actual Value
	Residential Real Property	Commercial and Industrial Real Property	Personal Property				
2004	\$ 1,327,636,240	\$ 581,492,726	\$ 53,601,470	\$ 1,962,730,436	\$ 12.98	\$ 2,206,598,800	88.95%
2005	1,451,146,085	579,176,954	53,696,950	2,084,019,989	12.90	2,206,598,800	94.44%
2006 (1)	1,625,780,262	578,648,023	56,399,900	2,260,828,185	12.53	2,642,115,600	85.57%
2007	1,747,423,205	640,162,304	58,162,900	2,445,748,409	12.25	2,642,115,600	92.57%
2008	1,734,194,631	614,984,682	70,899,900	2,420,079,213	13.01	2,856,347,100	84.73%
2009 (1)	1,532,423,197	617,642,043	79,844,500	2,229,909,740	14.92	2,856,347,100	78.07%
2010	1,284,140,289	597,622,166	85,033,150	1,966,795,605	17.96	2,344,168,400	83.90%
2011	1,266,881,856	573,416,736	92,734,520	1,933,033,112	19.01	2,344,168,400	82.46%
2012 (1)	1,232,708,179	556,636,461	95,916,000	1,885,260,640	20.00	2,237,742,500	84.25%
2013	1,264,203,453	571,459,665	111,145,390	1,946,808,508	20.75	2,237,742,500	87.00%

Source: Assessing Department

(1) Revaluation year

(2) As of January 1st

(3) Value is based on equalized valuations determined biennially by the Commissioner of Revenue

DIRECT PROPERTY TAX RATES (1) (2)

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Residential Real Property</u>	<u>Commercial and Industrial Real Property</u>	<u>Personal Property</u>	<u>Total Direct (3)</u>
2004	\$ 9.28	\$ 20.72	\$ 20.72	\$ 12.82
2005	9.54	20.60	20.60	12.69
2006	9.62	19.98	19.98	12.39
2007	9.33	19.54	19.54	12.08
2008	9.95	20.76	20.76	12.85
2009	10.80	23.96	23.96	13.69
2010	12.09	29.00	29.00	16.57
2011	12.92	30.60	30.60	17.49
2012	13.81	32.92	32.92	20.00
2013	14.13	34.20	34.20	20.75

Source: Assessing Department

(1) Rates are applicable to each \$1,000 of assessed value

(2) Per the initiatives of Proposition 2 1/2 adopted by the Commonwealth of Massachusetts, the City cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property. The City's levy is also limited in that it cannot increase more than 2.5 percent from the prior year, with certain exceptions for new growth or through overrides and exclusions adopted by City voters.

(3) Calculated by dividing the net tax levy by total assessed value divided by 1,000

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2013			2004		
	Amount of Tax	Rank	Percentage of Total Tax Levy	Amount of Tax	Rank	Percentage of Total Tax Levy
Nstar Services	\$ 2,234,412	1	5.53%	\$ 568,372	4	2.26%
Urban Growth Properties	1,373,889	2	3.40%	-	-	-
Demoulas Super Markets Inc.	1,169,671	3	2.90%	-	-	-
Anthony C Simboli	1,138,214	4	2.82%	807,475	1	3.21%
Griffin Way LLC	953,055	5	2.36%	593,995	3	2.36%
KeySpan	542,609	6	1.34%	-	-	-
FR Chelsea Commons	464,121	7	1.15%	-	-	-
Catamount Petroleum Limited Partnership	459,268	8	1.14%	302,889	9	1.20%
New England Produce Center	435,051	9	1.08%	303,283	8	1.21%
Parkside Commons	412,045	10	1.02%	-	-	-
Chelsea Development Associates	-	-	-	727,655	2	2.89%
Darman Sumner, Trustee	-	-	-	472,401	5	1.88%
Stanton Black	-	-	-	329,427	6	1.31%
Tobin, Mark et al	-	-	-	322,635	7	1.28%
Patrick Glynn, Trustee	-	-	-	243,555	10	0.97%
Total	\$ 9,182,335		22.73%	\$ 4,671,687		18.56%

Source: Assessing Department

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year	Net Tax Levy	Collected within the Fiscal Year of the Levy		Actual Subsequent Collections	Total Collections to Date	
		Current Tax Collections	Percent of Net Levy Collected		Total Tax Collections	Total Collections as a % of Net Levy
2004	\$ 25,165,331	\$ 24,745,235	98.3%	\$ 308,514	\$ 25,053,749	99.6%
2005	26,455,080	25,919,327	98.0%	333,804	26,253,131	99.2%
2006	28,013,781	27,239,392	97.2%	178,276	27,417,668	97.9%
2007	29,542,591	28,584,863	96.8%	87,245	28,672,108	97.1%
2008	31,094,201	30,159,309	97.0%	554,283	30,713,592	98.8%
2009	32,533,065	31,721,963	97.5%	561,502	32,283,465	99.2%
2010	34,888,374	33,582,088	96.3%	656,313	34,238,401	98.1%
2011	36,340,614	35,212,941	96.9%	786,348	35,999,289	99.1%
2012	37,698,372	37,043,761	98.3%	671,510	37,715,271	100.0%
2013	40,399,463	39,627,287	98.1%	-	39,627,287	98.1%

Source: Department of the Treasurer/Collector

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-Type Activities			Percentage of Median Family Income (1)	Per Capita (1)
	General Obligation Bonds	State House Notes	Loans	General Obligation Bonds	MWRA and MWPAT Notes	Total Primary Government		
2004	\$ 68,350,445	\$ 660,369	-	\$ 7,399,551	\$ 531,598	\$ 76,941,963	6.29%	\$ 2,193
2005	61,965,318	440,248	-	9,231,678	401,078	72,038,322	5.54%	2,054
2006	55,906,155	220,127	-	10,578,841	861,872	67,566,995	5.94%	1,926
2007	49,921,891	-	-	12,113,106	645,439	62,680,436	5.92%	1,787
2008	43,867,534	-	-	11,684,463	894,255	56,446,252	5.36%	1,615
2009	49,917,541	-	-	11,217,947	1,866,489	63,001,977	5.97%	1,801
2010	43,603,997	-	-	10,399,950	1,887,642	55,891,589	5.29%	1,592
2011	23,623,841	420,000	-	11,299,067	3,156,511	38,499,419	2.78%	1,097
2012	21,341,482	335,000	-	10,252,455	3,182,629	35,111,566	2.47%	998
2013	20,021,537	250,000	1,400,000	9,273,463	4,102,147	35,047,147	2.31%	996

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the "Demographic and Economic Statistics" schedule located in the Statistical Section for median family income and population data. These ratios are calculated using median family income and population for the prior calendar year in which both median family income and population data exist.

RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	Net General Bonded Debt Outstanding			(1) Percentage of Assessed Value	(2) Per Capita
	Total Gross General Bonded Debt	Less: Resources Restricted for Debt Principal	Total Net General Bonded Debt		
2004	\$ 75,749,996	\$ 9,758,015	\$ 65,991,981	3.36%	\$ 1,881
2005	71,196,996	10,279,367	60,917,629	2.92%	1,737
2006	66,484,996	9,370,978	57,114,018	2.53%	1,628
2007	62,034,997	9,430,547	52,604,450	2.15%	1,500
2008	55,551,997	9,927,538	45,624,459	1.89%	1,301
2009	61,135,488	10,400,021	50,735,467	2.28%	1,446
2010	54,003,947	10,648,346	43,355,601	2.20%	1,236
2011	34,922,908	-	34,922,908	1.81%	993
2012	31,593,937	-	31,593,937	1.68%	898
2013	29,295,000	-	29,295,000	1.50%	833

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) Property value data can be found in the "Assessed Value and Estimated Actual Value of Taxable Property" schedule located in the Statistical Section

(2) Population data can be found in the "Demographic and Economic Statistics" schedule located in the Statistical Section

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year 2013				
Fiscal year 2013 equalized valuation.....	\$	<u>2,237,742,500</u>		
Normal debt limit (5% of equalized valuation).....		<u>111,887,125</u>		
Debt applicable to limit:				
Total bonded debt.....		20,021,537		
Less: General obligation bonds exempted by authority of state legislature.....		<u>(3,825,250)</u>		
Total net debt applicable to limit.....		<u>16,196,287</u>		
Legal debt margin.....	\$	<u>95,690,838</u>		
		Fiscal Year		
		<u>2004</u>	<u>2005</u>	<u>2006</u>
Normal debt limit.....	\$	110,329,940	\$ 110,329,940	\$ 132,105,790
Total net debt applicable to limit.....		<u>3,419,961</u>	<u>3,200,318</u>	<u>4,656,787</u>
Legal debt margin.....	\$	<u>106,909,979</u>	\$ <u>107,129,622</u>	\$ <u>127,449,003</u>
Total net debt applicable to the limit as a percentage of normal debt limit.....		3.10%	2.90%	3.53%

Fiscal Year						
2007	2008	2009	2010	2011	2012	2013
\$ 132,105,791	\$ 142,817,356	\$ 142,817,357	\$ 117,208,420	\$ 117,208,420	\$ 111,887,125	\$ 111,887,125
4,831,891	4,942,534	17,082,541	20,793,997	24,043,841	16,965,982	16,196,287
\$ <u>127,273,900</u>	\$ <u>137,874,822</u>	\$ <u>125,734,816</u>	\$ <u>96,414,423</u>	\$ <u>93,164,579</u>	\$ <u>94,921,143</u>	\$ <u>95,690,838</u>
3.66%	3.46%	11.96%	17.74%	20.51%	15.16%	14.48%

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

JUNE 30, 2013

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (1)</u>	<u>Estimated Share of Overlapping Debt</u>
Massachusetts Water Resource Authority.....	\$ 6,150,683,000	1.64%	\$ 100,992,072
City direct debt.....			<u>21,671,537</u>
Total direct and overlapping debt.....			<u>\$ 122,663,609</u>

Source: Massachusetts Water Resource Authority

- (1) The percentage of total overlapping debt is derived from the City's share of capital charges divided by the total MWRA debt at fiscal year end.

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN CALENDAR YEARS

Year	Population (1)	Median Family Income (1) (4)	Unemployment Rate (%) (2)
2003	35,080	\$ 37,039	5.5%
2004	35,080	32,430	6.4%
2005	35,080	30,161	6.4%
2006	35,080	30,161 (3)	5.8%
2007	35,080	30,161 (3)	6.4%
2008	35,080	30,161 (3)	6.3%
2009	35,080	30,161 (3)	9.4%
2010	35,177	39,511	10.6%
2011	35,177	40,487	9.6%
2012	35,177	43,155	8.7%

Sources: (1) U.S. Department of Commerce, Bureau of Census

(2) U.S. Department of Labor, Bureau of Labor Statistics

(3) Data not available for 2006-2009 (the number reported is 2005 data)

(4) The City is presenting Median Family Income data because
Personal Income data is not available

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

Employer	2013			2004		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
City of Chelsea	1,265	1	9.49%	1,189	2	9.59%
MITC	1,000	2	7.56%	1,325	1	10.70%
Market Basket	900	3	6.81%	300	6	2.42%
MWRA	568	4	4.29%	521	3	4.21%
State Garden	500	5	3.78%	N/A	N/A	N/A
Kayem Foods	328	6	2.48%	390	5	3.15%
Massachusetts General Hospital	248	7	1.88%	225	8	1.82%
Paul Revere Transportation	220	8	1.66%	412	4	3.33%
Signature Breads	200	9	1.51%	250	7	2.02%
Metropolitan Credit Union	178	10	1.35%	142	10	1.15%
Stop & Shop	N/A	N/A	N/A	185	9	1.49%
Total	5,407		40.81%	4,939		39.86%

Source: Department of Planning and Development

EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Full-Time Equivalent Employees as of June 30									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government.....	50	52	52	54	55	55	55	48	48	49
Public safety.....	186	197	200	212	215	216	225	218	225	227
Education.....	864	879	879	871	901	926	930	907	910	918
Public works	27	26	25	25	25	25	25	22	24	24
Health and human services....	40	36	39	37	37	37	30	30	30	30
Culture and recreation.....	8	9	8	8	8	8	8	7	7	7
Community development.....	10	10	10	10	9	8	7	7	7	7
Water and sewer.....	4	5	5	5	5	5	3	3	3	3
Total.....	<u>1,189</u>	<u>1,214</u>	<u>1,218</u>	<u>1,222</u>	<u>1,255</u>	<u>1,280</u>	<u>1,283</u>	<u>1,242</u>	<u>1,254</u>	<u>1,265</u>

Source: Various departments

OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Fiscal Year				
	2004	2005	2006	2007	2008
Public safety					
Police					
Offenses committed.....	6,909	6,784	7,460	7,632	8,795
Crime-related incidents.....	3,752	3,586	3,552	3,543	3,878
Non-crime related incidents.....	1,364	1,377	1,676	1,707	1,636
Arrests (on view).....	1,239	1,427	1,664	1,577	1,713
Arrests (based on incident/warrants).....	377	277	343	408	388
Summons arrests.....	-	-	5	10	6
Total arrests.....	1,616	1,704	2,012	1,995	2,107
Juvenile arrests.....	149	143	162	137	124
Hearings.....	411	457	532	533	559
Summons.....	154	240	259	340	383
Restraint orders.....	389	406	393	373	367
Citations.....	4,048	4,786	4,610	3,561	6,966
Fire					
Fires extinguished (1).....	253	181	268	326	268
Education					
Public school enrollment.....	5,785	5,873	5,500	5,571	5,603
Culture and recreation					
Library volumes in collection.....	74,568	73,635	74,928	76,633	77,103
Library volumes borrowed.....	47,904	44,766	45,164	49,459	53,136
Water					
Average daily consumption (1) (million gallons/day).....	3.418	3.285	2.999	3.010	2.750
Peak daily consumption (1) (million gallons/day).....	4.500	4.170	3.634	4.400	3.700
Sewer					
Average daily sewage treatment (1) (million gallons/day).....	4.040	4.110	4.440	4.030	4.350

Source: Various departments

(1) Data is on a calendar year basis

(2) Data is not available

Fiscal Year				
2009	2010	2011	2012	2013
9,110	9,450	8,624	8,483	7,227
3,744	3,626	3,244	3,406	3,296
1,611	1,846	1,857	1,789	1,865
1,793	1,825	1,871	1,630	1,468
399	429	500	413	390
5	4	2	3	4
2,197	2,258	2,373	2,046	1,862
95	70	118	70	101
589	834	585	640	471
573	652	510	498	374
381	352	379	335	407
7,795	8,325	7,799	8,188	6,371
271	376	317	425	(2)
5,641	5,699	5,709	5,883	6,044
79,025	80,443	71,260	72,348	66,487
61,501	74,340	68,649	67,912	64,721
3.040	3.048	3.064	3.077	3.078
3.940	3.700	3.418	3.800	(2)
4.130	3.900	5.080	5.490	4.350

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Fiscal Year						
	2004	2005	2006	2007	2008	2009	2010
General Government							
Buildings.....	1	1	1	1	1	1	1
Public safety							
Police							
Stations.....	1	1	1	1	1	1	1
Fire							
Stations.....	3	3	3	3	3	3	3
Trucks.....	6	6	6	6	6	6	6
Education							
Public school buildings.....	4	4	4	4	4	4	4
Public works							
Streets (miles).....	44	44	44	44	44	44	44
Streetlights.....	1,677	1,680	1,683	1,708	1,805	1,805	1,771
Traffic signals.....	46	46	46	47	47	47	53
Culture and recreation							
Community centers.....	1	1	1	1	1	1	1
Water							
Water mains (miles).....	61	61	61	61	61	61	61
Sewer							
Sewers (miles).....	41	41	41	41	41	41	41

Source: Various departments

Fiscal Year		
2011	2012	2013
1	1	1
1	1	1
3	3	3
6	6	6
4	4	4
44	44	44
1,771	1,771	1,771
53	53	53
1	1	1
61	61	61
41	41	41

