



City of Chelsea, Massachusetts

Comprehensive Annual Financial Report



July 1, 2005 - June 30, 2006

About the Cover:

Flowers planted in the traffic island at the intersection of City Hall Avenue and Broadway welcome motorists to Chelsea's downtown. This planting is one of many throughout Chelsea.

City of Chelsea, Massachusetts

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

Jay Ash
City Manager



Prepared by the Finance Division

CITY OF CHELSEA, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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Introductory Section



City Hall

Flower baskets hanging from the many period street lights decorate Broadway. This basket is in front of City Hall.



City Of Chelsea
Executive Office
City Hall, 500 Broadway
Chelsea, Massachusetts 02150



Jay Ash
City Manager

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October 31, 2006

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, 2006. The City is responsible for the accuracy, completeness and fairness of the data presented in the CAFR based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. 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 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 even greater 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, solid bond ratings, material weakness-free 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 announce. Rhetoric aside, the aforementioned financial management achievements, combined with burgeoning development, neighborhood advancements, community programming expansions, public safety gains and, perhaps most importantly, an open and inclusive community dialogue, are all indisputable results of our work together.

As is the case with much that has been accomplished in the decade-plus 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 lower local aid revenues and exploding health insurance costs.

This CAFR, the annual Budget, the Five-Year Financial Forecast, the Three Year Budget Plan 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 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.

The remainder of this transmittal letter will highlight concepts important to the overall context in which the 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, 2005, 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

The depths of the recent recession have passed, but the impacts on municipal governments are still being felt. The worst municipal finance period since maybe the Great Depression was hard on local budgets, as revenues plummeted in the face of ever rising costs. Most notably, overhead, in the form of health insurance, retirement, debt service and assessments, continue to strain municipal finances.

However, given that the City submitted to a relatively mild recession in the early 1990's and was thrust into Receivership from 1991-1994, escaping such a relapse, especially considering the pressures, was a significant accomplishment. The experience was more than just an escape, as the City demonstrated that prudent fiscal management is embedded into the process of managing today's municipal government.

As local aid bounces back, the City is focused upon issues that are more in local control. An aggressive economic development plan has been implemented; with the City pinning hopes for greater fiscal stability on new growth revenues from the area's expanding housing market. With the community's revitalization now a decade strong, Chelsea's greatest asset, proximity to Boston, can be and is now being leveraged. Skyrocketing residential values, including a doubling in residential values over the last five years, has provided ample evidence that the city can become an urban bedroom in support of the entire region. Thus, the combination of higher values and great demand has the City attempting to permit 1,200 new units of housing locally by the end of fiscal year 2008. The results could be to build the tax base by some 12%, raising \$5 million in one time revenues and \$3 million or more in annual property taxes.

Getting there, though, and ensuring that once there the additional revenues are sufficient to address structure deficits is the focus of City leaders. The City, therefore, has had to continue to limit spending increases, raise non-property tax revenues and, at the end of the day, judiciously use reserves to balance budgets. Save for bad times we did, and utilizing those savings during those bad times was critical. The City's greatest need is to first climb out of the modest structural deficit that exists today, and then to start rebuilding those reserves for the next bumpy period ahead.

Perhaps the great challenge is to manage health insurance spending. Double-digit increases have become routine, with those annual increases now outpacing the growth of existing property tax charges. In fiscal year 2007, for example, health insurance is up \$1 million, while property tax receipts, less new growth, are rising by \$750,000. Unfortunately, health insurance is one of the most difficult expenditures for the City to impact. Nonetheless, the City is attempting to do so both through local administration and statewide advocacy. In the meantime, other "budget busters" are 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. Much deserved pay raises were negotiated fairly, with employees receiving 2% increases for the three year contract period and management receiving favorable overtime and health insurance concessions. Retirement and assessments are almost beyond the City's ability to control.

Ample reserves and strong policies on their use promise to help the City maintain municipal services while local aid bounces back and economic development in the form of residential building takes hold. In general, the City is well positioned to continue to benefit from an expanding general economy. However, the strength and duration of that expansion will have a direct bearing on the long term health of the City.

FUTURE OUTLOOK

Notwithstanding the uncontrollable, the future outlook of the City is very favorable. Stability and success is a driving force behind additional stability and success. Planning and vision have resulted in action and achievement. For sure, a focus on the bottom line, the City's finances, needs to 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 an already glowing outlook.

Financially, the City is continuing to balance budgets and examine its financial strengths and weaknesses for years out. Central to the most immediate challenges that lie ahead is eliminating the structural deficits that have eroded the City's reserves. As noted, once those deficits are eliminated, and a plan to do so exists for as early as fiscal year 2009, the next step needs to be to rebuild reserve balances. Both require the continued fiscal constraint that has served the City well for the last decade. Some deferment of core service issues must be addressed, like staffing levels. Until that takes place, only targeted growth can take place in other priority areas before any additional growth can occur in convenience areas. With this as a backdrop, though, the City's finances have the City positioned to be able to continue to meet existing and future challenges.

Certainly, economic development is a central part to the financial equation. The City's 1,200-unit housing goal, which includes 10% affordability as a concurrent goal, is well on the way to being achieved. In fact, more than 1,200 units of housing are currently being discussed with development officials. 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. Home Depot, for example, has opened and further redevelopment is underway in Parkway Plaza. At the same time, but in the city's other significant shopping center, Market Basket is under construction at the Mystic Mall for a new and larger space. State approval has been secured to expand the Everett Avenue Urban Renewal District (EAURD) and allow for other "landscape-changing" development along the City's most visible face: Route 1.

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 embodied the City's planning, vision, action and achievement on the residential/industrial conflict agenda. 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. A groundbreaking is in the works for 121 residential units to be constructed over multiple properties, with more than half of those units to be affordable. Now, pressure exists to convert that Standard Box site to residential, while smaller industrial properties are also being eyed for residential development. The upgrading of Chelsea's neighborhoods, including a pending project on Webster Block, is fueling property values and 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. The ribbon cutting this month, for example, of HarborCOVs 24-unit development supporting survivors of domestic violence is one of several significant undertakings in recent years that 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.

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. Overall, the City's public safety officers are having an even greater impact on the accomplishment of their respective missions.

Those missions include contribution to the government philosophy that 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.

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.

RISK MANAGEMENT

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. The City participates in a premium-based health care plan for its active employees.

The City is self-insured for its retirees' health insurance and workers' compensation activities. These activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

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, 2006, totaled \$56,126,282, of which \$47,110,000 relates to School Construction and \$5,490,000 relates to urban renewal, leaving a balance of \$3,526,282 related to CIP projects. The Commonwealth of Massachusetts reimburses the City for 95 percent of the principal and interest related to the School Construction bonds.

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 has been funded with four years worth of "pay-as-you-go" reserves totaling approximately \$810,000.

CASH MANAGEMENT

The municipal finance laws of the Commonwealth authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool. In addition, there are various restrictions limiting the amount and length of deposits and investments.

Idle cash is invested. The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City does not require collateral for its certificates of deposit, money market accounts, checking or savings accounts when dealing with major banking institutions in the Boston area. However, City officials reserve the right to require collateral when it is in the best interest of the City to do so.

At June 30, 2006, general fund cash and cash equivalents totaled \$11,893,659, while the balance of unrestricted cash and cash equivalents for all governmental funds totaled \$23,988,718.

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, 2006. The independent auditors' report on the basic financial statements, for the fiscal year ended June 30, 2006, is included herein and contains an unqualified opinion.

CERTIFICATES, AFFILIATIONS AND AWARDS

For the eighth 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, 2005 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 2006 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 toiling. We collectively are addressing our shortcomings and building on our 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 that challenge.

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 shortfalls. 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 continuing bond ratings to a long string of municipal awards. This CAFR stands as a further testament to their work.

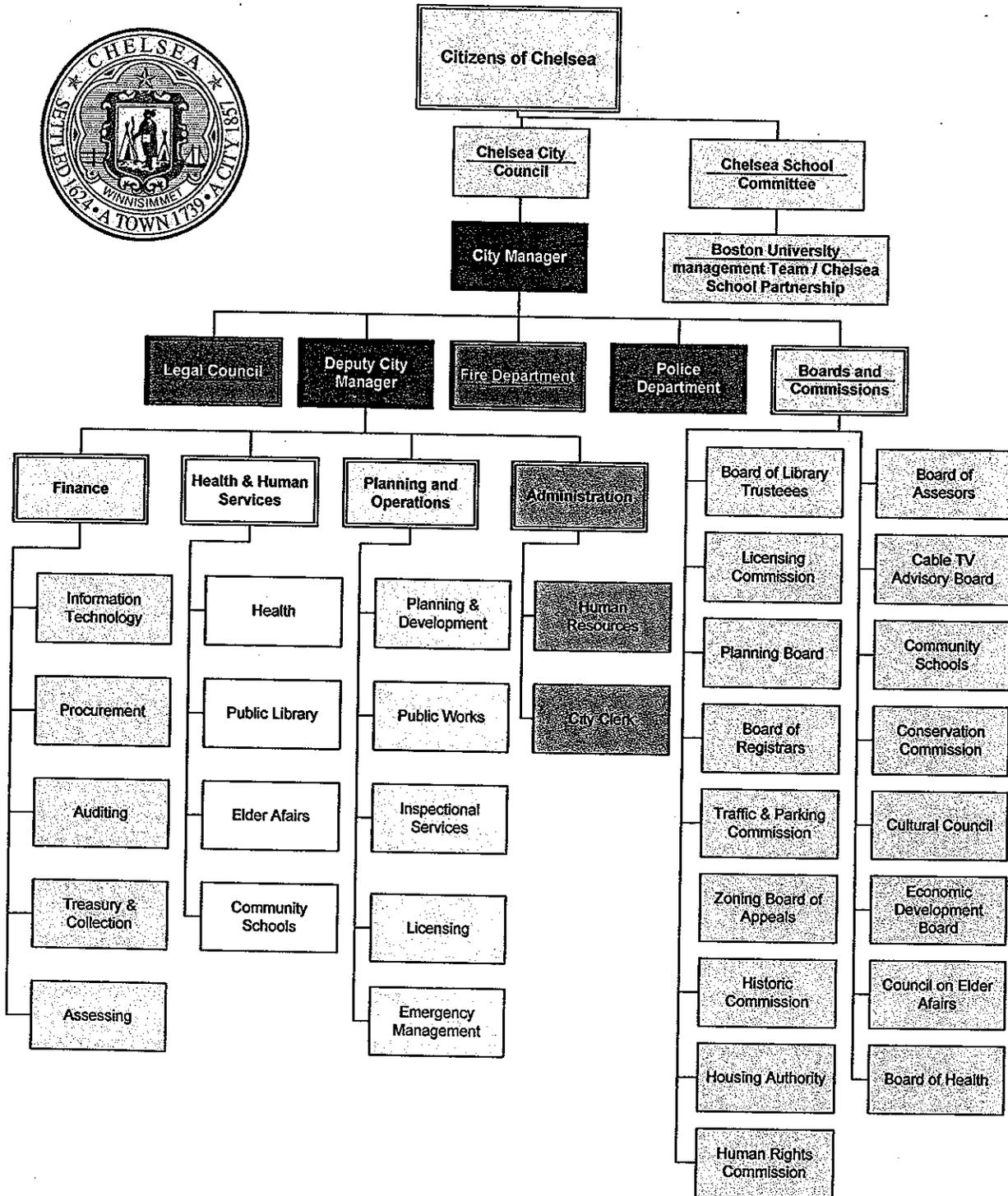
On behalf of all of us, including you, City Council, I am pleased to share with the public the City's fiscal year 2006 CAFR. Once again, municipal government is not only accurately and openly reporting on its operations, but also doing so in a manner which demonstrates why Chelsea City government is considered the role model that it is.

Very truly yours,



Jay Ash
City Manager

City of Chelsea Organization



Elected Officials - City Council

At Large	Paul R. Nowicki
At Large	Roy A. Avellaneda
At Large	Leo Robinson
District One	Stanley Troisi
District Two	Mike McKonnen Tsegaye
District Three	Roseann T. Bongiovanni
District Four	Paula S. Barton
District Five	Brian B. Hatleberg
District Six	Marilyn Vega-Torres
District Seven	Calvin T. Brown
District Eight	Ron D. Morgese

Elected Officials - School Committee

At Large	Elizabeth A. McBride
District One	Rosemarie Carlisle
District Two	Michael J. Caulfield
District Three	Annemarie Boudreau
District Four	Lucia H. Colon, Vice Chairman
District Five	Morrie Seigal
District Six	James Dwyer
District Seven	Deborah A. Washington, Chairman
District Eight	Edward C. Ells

Principal Officials

Department	Official(s)	Additional Areas of Authority
Assessors	Philip J. Waterman, Chairman Ken Stein, Director	
Auditing	Edward Dunn, Auditor	
City Clerk	Robert Bishop, City Clerk	Traffic & Parking
City Council	Paul Nowicki, President Paul Casino, Administrator	
Executive	Jay Ash, City Manager Thomas Durkin, Deputy City Manager	
Emergency Management	Allan Alpert, Director	E911
Fire Chief	Joseph Siewko, Chief	
Health & Human Services	Luis Prado, Director	Elder Affairs, Health, Library, Veterans Services, Community Schools
Human Resources	Karen Budrow, Director	
Inspectional Services	Joseph Cooney, Director	
Legal	Cheryl Watson, Corporate Counsel	
Licensing	Deborah Colombo, Director	
M.I.S.	Mathew Killen, Director	
Planning & Development	Ned Keefe, Executive Director	Planning, Economic Development, Housing
Police	Frank Garvin, Chief	Animal Control, Harbor Master
Public Works	Joseph Foti, Director	
Retirement Board	Joseph Siewko, Chairman	
School	Deborah Washington, Chairperson Dr. Thomas Kingston, Superintendent	
Treasurer/Collector	Anna Tenaglia, Assistant Finance Director / Treasurer	Central Billing and Research

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Chelsea
Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Ronald J. Hawn".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

Financial Section



Heard Street Dilapidated

This property located on Heard Street is scheduled to be demolished along with the beige building in the background and several other large buildings as part of Chelsea's second phase of its Urban Renewal Plan. In their place will be a newly constructed residential housing complex.



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

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Burlington, Massachusetts 01803

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Independent Auditors' Report

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

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 fiscal year ended June 30, 2006 (except for the Chelsea Contributory Retirement System which is as of and for the fiscal year ended December 31, 2005), which collectively comprise the City of Chelsea, Massachusetts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Chelsea, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

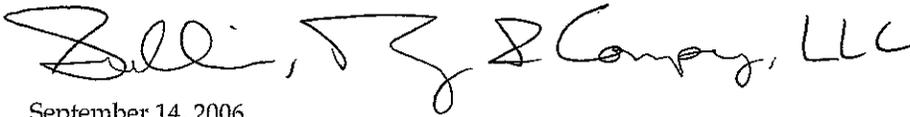
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chelsea, Massachusetts, as of June 30, 2006 (except for the Chelsea Contributory Retirement System, which is as of December 31, 2005), and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2006 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (located on pages 15 through 25) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Bill J. Conway, LLC". The signature is written in a cursive, flowing style.

September 14, 2006

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, 2006.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$147,113,528 (net assets). Of this amount, \$37,192,562 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$3,839,663.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances totaling \$35,374,088, a decrease of \$1,418,651 in comparison with the prior year. Approximately \$33,606,690 represents unreserved fund balance of the general fund, special revenue funds, debt service fund, school facilities fund (major fund), nonmajor capital projects funds and permanent funds. The Urban Renewal II (major fund) fund deficit totaling \$4,048,507 will be funded by the issuance of long-term debt in future fiscal years.
- At the end of the fiscal year, undesignated fund balance for the general fund totaled \$8,307,212, or 7.8 percent of total general fund expenditures.
- The City's total long-term debt principal decreased by \$4,471,327 during the fiscal year. The City issued \$3,442,669 in general obligation bonds and Massachusetts Water Resource Authority (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 other supplementary 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 assets** presents information on all of the City's non-fiduciary assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 28-30 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 22 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, stabilization (special revenue), debt service, school facilities (capital projects) and urban renewal II (capital projects) funds, each of which are considered to be major funds. 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 73-82 of this report.

The City adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided to demonstrate compliance with the fiscal year 2006 budget.

The basic governmental funds financial statements can be found on pages 31-39 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 its retirees' health insurance and 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 fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 84-87 of this report.

The basic proprietary fund financial statements can be found on pages 40-42 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 43-44 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 45-71 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the City's progress in funding its obligation to provide pension benefits to its employees. Such information can be located on page 69 of this report.

The combining statements previously referred to are presented immediately following the basic financial statements.

Government-Wide Financial Analysis

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

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$147,113,528 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets.....	\$ 45,051,223	\$ 42,883,873	\$ 7,095,788	\$ 4,798,675	\$ 52,147,011	\$ 47,682,548
Noncurrent assets (excluding capital assets).....	39,908,660	46,419,787	-	-	39,908,660	46,419,787
Capital assets (net).....	<u>126,808,360</u>	<u>126,248,939</u>	<u>12,753,226</u>	<u>13,078,694</u>	<u>139,561,586</u>	<u>139,327,633</u>
Total assets.....	<u>211,768,243</u>	<u>215,552,599</u>	<u>19,849,014</u>	<u>17,877,369</u>	<u>231,617,257</u>	<u>233,429,968</u>
Liabilities						
Current liabilities (excluding debt).....	4,220,849	4,269,264	244,885	697,481	4,465,734	4,966,745
Noncurrent liabilities (excluding debt).....	2,471,000	2,019,000	-	-	2,471,000	2,019,000
Current debt.....	16,857,391	10,422,994	1,179,168	943,712	18,036,559	11,366,706
Noncurrent debt.....	<u>49,268,891</u>	<u>55,435,282</u>	<u>10,261,545</u>	<u>8,689,044</u>	<u>59,530,436</u>	<u>64,124,326</u>
Total liabilities.....	<u>72,818,131</u>	<u>72,146,540</u>	<u>11,685,598</u>	<u>10,330,237</u>	<u>84,503,729</u>	<u>82,476,777</u>
Net Assets						
Invested in capital assets (net of related debt).....	95,076,444	104,156,143	1,312,513	3,445,938	96,388,957	107,602,081
Restricted.....	13,532,009	14,856,655	-	-	13,532,009	14,856,655
Unrestricted.....	<u>30,341,659</u>	<u>24,393,261</u>	<u>6,850,903</u>	<u>4,101,194</u>	<u>37,192,562</u>	<u>28,494,455</u>
Total net assets.....	<u>\$ 138,950,112</u>	<u>\$ 143,406,059</u>	<u>\$ 8,163,416</u>	<u>\$ 7,547,132</u>	<u>\$ 147,113,528</u>	<u>\$ 150,953,191</u>

The largest portion of the City's net assets (65.5%) reflects its investment in capital assets (e.g., land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure); less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the 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 assets (9.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (25.3% or \$37,192,562) may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$30,341,659 may be used to support governmental activities and \$6,850,903 may be used to support business-type activities.

At the end of the current fiscal year, the City reports positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Assets

For the fiscal year ended June 30, 2006, the City's total net assets decreased by \$3,839,663, compared to an increase of \$11,949,810 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2006	2005	2006	2005	2006	2005
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 7,228,905	\$ 6,990,567	\$ 10,967,624	\$ 10,365,205	\$ 18,196,529	\$ 17,355,772
Operating grants and contributions.....	63,410,195	63,868,631	78,403	29,020	63,488,598	63,897,651
Capital grants and contributions.....	1,021,324	17,262,055	386,927	-	1,408,251	17,262,055
<i>General Revenues:</i>						
Real estate and personal property taxes.....	27,718,447	26,143,234	-	-	27,718,447	26,143,234
Motor vehicle and other excise taxes.....	2,829,277	2,890,852	-	-	2,829,277	2,890,852
Tax and trash liens.....	442,603	440,194	-	-	442,603	440,194
Penalties and interest on taxes.....	380,239	331,215	-	-	380,239	331,215
Payments in lieu of taxes.....	1,195,899	609,949	-	-	1,195,899	609,949
Grants and contributions not restricted to specific programs.....	9,050,539	9,035,989	-	-	9,050,539	9,035,989
Unrestricted investment income.....	1,245,853	525,769	-	-	1,245,853	525,769
Gain (Loss) on sale of capital assets.....	297,780	25,000	-	-	297,780	25,000
Other.....	282,085	23,717	-	-	282,085	23,717
Total revenues.....	115,103,146	128,147,172	11,432,954	10,394,225	126,536,100	138,541,397
Expenses						
General government.....	4,706,250	4,498,641	-	-	4,706,250	4,498,641
Public safety.....	25,120,329	23,411,640	-	-	25,120,329	23,411,640
Education.....	75,452,209	72,144,706	-	-	75,452,209	72,144,706
Public works.....	5,135,556	6,349,328	-	-	5,135,556	6,349,328
Health and human services.....	4,803,211	4,515,046	-	-	4,803,211	4,515,046
Culture and recreation.....	708,300	645,308	-	-	708,300	645,308
Community development.....	1,481,448	1,827,184	-	-	1,481,448	1,827,184
Debt service - interest.....	3,507,512	4,114,478	-	-	3,507,512	4,114,478
Water and sewer.....	-	-	9,460,948	9,085,256	9,460,948	9,085,256
Total expenses.....	120,914,815	117,506,331	9,460,948	9,085,256	130,375,763	126,591,587
Change in net assets before transfers.....	(5,811,669)	10,640,841	1,972,006	1,308,969	(3,839,663)	11,949,810
Transfers, net.....	1,355,722	1,270,254	(1,355,722)	(1,270,254)	-	-
Change in net assets.....	(4,455,947)	11,911,095	616,284	38,715	(3,839,663)	11,949,810
Net assets - beginning of year	143,406,059	131,494,964	7,547,132	7,508,417	150,953,191	139,003,381
Net assets - end of year.....	\$ 138,950,112	\$ 143,406,059	\$ 8,163,416	\$ 7,547,132	\$ 147,113,528	\$ 150,953,191

Governmental activities decreased the City's net assets by \$4,455,947. In the prior year, governmental activities increased the City's net assets by \$11,911,095. The key element of this change is the fiscal year 2005 recognition of school construction reimbursement revenues from the Massachusetts School Building Authority (MSBA) of approximately \$16,100,000.

Business-type activities increased the City's net assets by \$616,284. In the prior year, business-type activities increased the City's net assets by \$38,715. The key elements of this change are increased water (14%) and sewer (1%) user charge rates and proceeds from MWRA grants of approximately \$387,000.

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. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$35,374,088, a decrease of \$1,418,651 in comparison with the prior year. Approximately 95% of this total amount, or \$33,606,690, represents undesignated fund balance of the general fund, special revenue funds, debt service fund, school facilities fund (major fund), nonmajor capital projects funds and permanent funds. The Urban Renewal II (major fund) fund deficit totaling \$4,048,507 will be funded by the issuance of long-term debt in future fiscal years. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders (\$1,753,717)
- Loans (\$1,988,355)
- Perpetual permanent funds (\$22,392)
- Other specific purposes (\$2,051,441)

The general fund is the primary operating fund of the City. At the end of the current fiscal year, undesignated fund balance of the general fund totaled \$8,307,212, while total fund balance was \$10,060,929. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total general fund expenditures. Undesignated fund balance represents 7.8% of total general fund expenditures, while total fund balance represents 9.5% of that same amount.

The balance of the City's general fund decreased \$1,216,608 during fiscal year 2006. Although the City recognized an approximate \$4,518,000 budgetary surplus (budget vs. actual activity), approximately \$5,600,000 of reserves was utilized for spending during fiscal year 2006.

Financial highlights of the City's other major governmental funds are as follows:

The fund balance of the stabilization fund (special revenue) increased \$308,991 during the current fiscal year. This is attributable to investment income earned by the fund.

The fund balance of the debt service fund decreased \$908,389 during the current fiscal year. This is attributable to unrealized losses on investments (which were retained in the fund) and transfers of realized gains on investments to the general fund.

The fund balance of the school facilities fund (capital project) increased \$3,780,883 during the current fiscal year. This is primarily attributable to \$3,865,295 of MSBA reimbursement revenues received in fiscal year 2006.

The fund balance of the Urban Renewal II fund (capital project) decreased \$4,048,507 during the current fiscal year. This is attributable to expenditures incurred on the project before the issuance of long-term debt.

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 assets of the water and sewer enterprise fund at the end of the year amounted to \$6,850,903. The water and sewer enterprise fund had an increase in net assets for the year of \$616,284. 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 \$104,563,283 was increased by \$279,543 (0.3%) during the fiscal year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Transfer to capital projects - school repairs and maintenance.....	\$ 150,000	Undesignated fund balance
Veterans' benefits.....	46,140	Undesignated fund balance
Fire department lighting.....	40,718	Undesignated fund balance
Police department lighting.....	31,945	Undesignated fund balance
DPW structures and grounds lighting.....	<u>10,740</u>	Undesignated fund balance
Total increase.....	<u>\$ 279,543</u>	

During the year, general fund revenues and other financing sources exceeded budgetary estimates and expenditures were less than appropriations, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$4,518,000. Of this amount, \$1,753,717 is reserved for encumbrances and continuing appropriations as of June 30, 2006.

Capital Asset and Debt Administration

Capital assets

The City’s investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$139,561,586 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled 0.17% (a 0.40% increase for governmental activities and a 0.23% decrease for business-type activities).

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

- Purchase of land as part of the urban renewal II project (\$3,847,000)
- Chiller replacement at the Williams School (\$269,000)
- Continued reconstruction of roadways, sidewalks and drains (\$256,000)
- Purchases of vehicles (\$184,000)
- Playground and park improvements (\$168,000)
- Computer equipment upgrades (\$146,000)

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>	
	2006	2005	2006	2005	2006	2005
Land.....	\$ 9,520,762	\$ 5,673,731	\$ -	\$ -	\$ 9,520,762	\$ 5,673,731
Construction in progress.....	-	1,624,272	-	-	-	1,624,272
Buildings and improvements.....	108,464,828	110,017,584	-	-	108,464,828	110,017,584
Machinery and equipment.....	3,129,754	3,254,977	-	-	3,129,754	3,254,977
Infrastructure.....	5,693,016	5,678,375	12,753,226	13,078,694	18,446,242	18,757,069
Total capital assets.....	\$ 126,808,360	\$ 126,248,939	\$ 12,753,226	\$ 13,078,694	\$ 139,561,586	\$ 139,327,633

Additional information on the City’s capital assets can be found in Note 5 on pages 60-61 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$67,566,995, 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>	
	2006	2005	2006	2005	2006	2005
General obligation bonds.....	\$ 55,906,155	\$ 61,965,318	\$ 10,578,841	\$ 9,231,678	\$ 66,484,996	\$ 71,196,996
State house notes.....	220,127	440,248	-	-	220,127	440,248
MWRA notes.....	-	-	861,872	401,078	861,872	401,078
Total bonds and notes.....	\$ 56,126,282	\$ 62,405,566	\$ 11,440,713	\$ 9,632,756	\$ 67,566,995	\$ 72,038,322

The City’s total bonded debt decreased \$4,471,327 (or 6.2%) during the fiscal year. The City issued \$3,442,669 in general obligation bonds and Massachusetts Water Resource Authority (MWRA) notes during the fiscal year.

The City has an AAA bond rating from Standard & Poor’s.

State statutes limit the amount of general obligation debt the City may issue to 2 ½% of its total assessed valuation. The current debt limit is \$66,052,890. However, through various debt exclusions, the City’s legal debt margin (capacity to borrow within the debt limit) totals \$61,396,103.

Additional information on the City’s long-term debt can be found in Note 9 on pages 62-67 of this report.

Economic Factors and Next Year’s Budgets and Rates

Passages like these might as well be “boilerplate.” After all, any description of municipal budgeting anywhere since fiscal year 2002 might very well sound like this: skyrocketing costs in non-discretionary spending and sluggish revenue growth, at best, are combining to further squeeze the local budget. What is different, though, is the response that each municipality may have in facing those all too grim realities. Here in Massachusetts, only one has succumbed and now has State involvement in its fiscal affairs. Many others, though, are only steps away from also entering a process that the City became all too familiar with a decade and a half ago. Even out of Receivership for more than a decade, the City remains focused on positioning itself to outlast the financial strains that are abounding. Solid financial planning, pointed spending restraint and the benefits of a visionary economic development strategy over the last 10-plus years has allowed the City to continue to balance budgets while hoping for better days ahead.

Perhaps better days will soon be upon the City and its neighbors. Until then, though, certain "budget busters" continue to pressure the present and threaten even more the future. Most egregious of those "budget busters" is health insurance spending. We have budgeted \$10.7 million for fiscal year 2007 having only expended \$9.7 in fiscal year 2006. Other accounts also provide concern, including retirement costs. In fact, increases in health insurance are projected to be greater than the deficits the City faces in those out years. Combined with increases in retirement assessments, the charges are proving to be the bane of municipal budgeting locally and in many communities throughout the state.

Those budget busters are among the spending areas for which the City has the least control. Nonetheless, it is control, or more accurately stability that the City continues to seek in even the most challenging accounts. For example, many communities find increasing debt service particularly burdensome, but the City's efforts to control debt are resulting in local debt service being under control. In some communities, contractual obligations are most problematic. Locally, though, both vendor and employee contracts have been managed with an eye towards their impacts on the City's fiscal health. Thus, re-bidding the trash contract and selecting a new trash hauler has saved the City money. Limiting collective bargaining increases to 2%, as the City has been successful in negotiating with its labor unions for fiscal years 2006 - 2008, means that wages will increase below inflation.

Regarding health insurance and with the same approach as has been successfully implemented to provide some level of control over other, so-called, uncontrollable costs, the City will be attempting to bring some sanity to the double-digit increases that have plagued public and private employers alike. Already, the City has successfully negotiated a reduction in premium costs with several bargaining units. That is one of seven initiatives the City is pursuing in relation to health insurance, including statewide advocacy to give municipalities the option of joining the State's Group Insurance Commission program. If that option was available, the City estimates savings could be as much as \$1 million annually. Overall, each and every spending item remains under microscopic review. As another example, the City is formulating a "technology forecast" to better plan for equipment acquisition and to ensure that related software and other supports are affordable.

Not all of the budget pressures on municipalities relate to spending. Local aid, for many, including the City, is the single largest source of revenues. Yet, non-school local aid levels remain below their fiscal year 2002 highs. State budget troubles, even more significant than those found in most municipalities, have resulted in local aid cuts during the depths of the recently concluded recession. The modest increases that have followed have yet to make cities and towns "whole." While again a difficult issue for the City to exercise any control, City officials are among statewide leaders that have thrust municipal finance to the forefront of the public policy agenda.

As that debate intensifies, economic development activities on the local level have been prioritized to attempt to fill a portion of the gaps created by reduced local aid levels with new growth of the local tax base. The City has been among the more aggressive and successful in the state on an economic development agenda that is not only expanding the local tax base but also changing the City's skyline. It is somewhat ironic that, in what has been the most difficult of municipal budgeting times, the City has produced an economic development agenda that may be unparalleled in the City's history. In a recent editorial, *The Boston Globe* called the City's economic development agenda a model worthy of state emulation.

Almost a decade ago, the Chelsea Business Agenda was offered to jumpstart the local economy, seeking to raise the tax base, increase local employment and lead to the revitalization of the community. Still today, three of the five points of the CBA remain the centerpiece of the City's economic development agenda. The Anchor Projects Program directs intensive redevelopment activities on three prime targets: the Everett Avenue Urban Renewal District (EAURD), Parkway Plaza, and the Chelsea Waterfront. The TIRE (Tax Incentive for the Retention and Expansion of business) Program has provided financial supports for projects in those areas and elsewhere in the City. The Sector Strategy focuses on five sectors of the economy for which the City has the resources and desire to attract: Airport-related, Food, Back Office, Downtown Boston Supports and Health Care. Each of these points and their component parts have been hugely successful and won the City praise and further investment recognition.

Specifically, the centerpiece project within the EAURD, the Wyndham Hotel, has replaced a former auto junkyard and other unsavory business with a gleaming development. In addition to increasing local revenues from the parcels 10-fold, the Wyndham has attracted other investment inside and out of the EAURD by demonstrating the City's resolve and abilities. For example, Phases II and III of the EAURD each expect to see significant progress in fiscal year 2007. The Emerald Block is poised for a major mixed-use redevelopment on the sites of former underperforming properties. Catamount Management, controlling entity of HP Hood, is expected to break ground on a corporate headquarters, again on former underperforming properties. In fact, so successful has the 10-acres of Phases I-III been that the City has been working on a Phase IV acquisition and redevelopment of an additional 8-acres.

Currently, Home Depot's opening has rejuvenated what had been a dormant Parkway Plaza. That Phase I project injected new life into the retailing activities of Parkway Plaza, and has resulted in Phase II retail and a major residential development being envisioned for the site. Permitting having taken place on both, construction activity is expected to begin in early 2007.

In the Chelsea Waterfront District, commercial and residential activity has been abounding. The MWRA (Massachusetts Water Resources Authority) opened a full-taxable corporate headquarters there recently. The second phase of the Mill Creek Condominiums, first envisioned more than twenty years ago, has finally moved skyward. Key waterfront projects, including the conversion of Forbes Industrial Park to a residential enclave and the purchase by GE Capital of the parking facilities on Eastern Avenue, foretell what could be an exciting future for the waterfront

Changing market and, therefore, development conditions have caused the City to reassess and re-envision its economic development priorities. Notwithstanding the Catamount development, for example, there is likely to be little or any office development opportunities for the City to capitalize upon in the near future. In assessing current market conditions, the City has decided to focus upon residential development for the next three years in an effort to further accelerate both community revitalization and tax base growth.

Thus, in January of 2005, the City announced an aggressive initiative to promote the construction of 1,200 new units of housing in the community by the end of fiscal year 2008. As a goal, the City hopes to create affordable housing opportunities in 10% of those units. The 1,200 units would increase the overall local housing stock by 10%. Moreover, the creation of those units could increase the local tax base by \$3,000,000. The achievement of that goal, along with other priorities, like controlling spending, addressing the budget busters and securing higher levels of local aid, could completely eliminate the projected deficits as early as fiscal year 2009. To date, more than 1,200 units have been proposed, with about half those permitted. In the meantime, reserves are aiding the City in addressing modest budget shortfalls and maintaining, and in some cases expanding, critical municipal services.

The basis for the above and, really, the overall administration of City government is solid planning and skillful action. Five year financial forecasts, three year budget projections and five year capital improvement programs, as well as economic development studies, technology forecasts and other non-financial initiatives, allow the City to anticipate and examine issues well in advance of the need for the development and implementation of an action agenda. Those action agendas, though, once developed and implemented, are rarely strayed from, as much a testament to the stability of the leadership as to the accuracy of the initiatives. "Plan the work and work the plan" is a mantra City officials have followed for the last decade. The City continues to remain loyal to that mantra with no change in sight.

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 ASSETS

JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 24,594,176	\$ 1,250,222	\$ 25,844,398
Restricted cash and cash equivalents.....	8,147,841	2,884,863	11,032,704
Investments.....	3,953,458	-	3,953,458
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	671,730	-	671,730
Tax, trash and utility liens.....	792,693	167,448	960,141
Motor vehicle and other excise taxes.....	480,816	-	480,816
User charges.....	-	2,793,255	2,793,255
Trash.....	318,980	-	318,980
Departmental and other.....	73,532	-	73,532
Intergovernmental.....	5,679,599	-	5,679,599
Loans.....	133,346	-	133,346
Prepaid expenses.....	95,036	-	95,036
Tax foreclosures.....	110,016	-	110,016
Total current assets.....	<u>45,051,223</u>	<u>7,095,788</u>	<u>52,147,011</u>
Noncurrent assets:			
Restricted cash and cash equivalents.....	171,291	-	171,291
Restricted investments.....	9,199,687	-	9,199,687
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	28,682,673	-	28,682,673
Loans.....	1,855,009	-	1,855,009
Capital assets not being depreciated.....	9,520,762	-	9,520,762
Capital assets, net of accumulated depreciation.....	<u>117,287,598</u>	<u>12,753,226</u>	<u>130,040,824</u>
Total noncurrent assets.....	<u>166,717,020</u>	<u>12,753,226</u>	<u>179,470,246</u>
Total assets.....	<u>211,768,243</u>	<u>19,849,014</u>	<u>231,617,257</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	1,946,577	147,536	2,094,113
Accrued payroll.....	31,314	-	31,314
Tax refunds payable.....	262,571	-	262,571
Other liabilities.....	1,496	-	1,496
Abandoned property.....	72,182	-	72,182
Liabilities due depositors.....	-	9,758	9,758
Accrued interest.....	508,992	87,591	596,583
Accrued health claims payable.....	151,717	-	151,717
Workers' compensation claims.....	390,000	-	390,000
Court judgments.....	150,000	-	150,000
Compensated absences.....	706,000	-	706,000
Short-term notes payable.....	10,000,000	-	10,000,000
Long-term bonds and notes payable.....	<u>6,857,391</u>	<u>1,179,168</u>	<u>8,036,559</u>
Total current liabilities.....	<u>21,078,240</u>	<u>1,424,053</u>	<u>22,502,293</u>
Noncurrent liabilities:			
Workers' compensation claims.....	453,000	-	453,000
Compensated absences.....	2,018,000	-	2,018,000
Long-term bonds and notes payable.....	<u>49,268,891</u>	<u>10,261,545</u>	<u>59,530,436</u>
Total noncurrent liabilities.....	<u>51,739,891</u>	<u>10,261,545</u>	<u>62,001,436</u>
Total liabilities.....	<u>72,818,131</u>	<u>11,685,598</u>	<u>84,503,729</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	95,076,444	1,312,513	96,388,957
Restricted for:			
Loans.....	1,988,355	-	1,988,355
Debt service.....	9,370,978	-	9,370,978
Permanent funds:			
Expendable.....	98,843	-	98,843
Nonexpendable.....	22,392	-	22,392
Other specific purposes.....	2,051,441	-	2,051,441
Unrestricted.....	<u>30,341,659</u>	<u>6,850,903</u>	<u>37,192,562</u>
Total net assets.....	<u>\$ 138,950,112</u>	<u>\$ 8,163,416</u>	<u>\$ 147,113,528</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 4,706,250	\$ 853,210	\$ 56,373	\$ -	\$ (3,796,667)
Public safety.....	25,120,329	3,831,602	962,344	175,648	(20,150,735)
Education.....	75,452,209	890,296	58,074,063	331,013	(16,156,837)
Public works.....	5,135,556	1,223,069	11,144	60,765	(3,840,578)
Health and human services.....	4,803,211	84,615	928,321	-	(3,790,275)
Culture and recreation.....	708,300	21,067	68,746	-	(618,487)
Community development.....	1,481,448	325,046	1,057,954	453,898	355,450
Debt service - interest.....	3,507,512	-	2,251,250	-	(1,256,262)
Total governmental activities.....	120,914,815	7,228,905	63,410,195	1,021,324	(49,254,391)
Business-type activities:					
Water and sewer.....	9,460,948	10,967,624	78,403	386,927	1,972,006
Total primary government.....	\$ 130,375,763	\$ 18,196,529	\$ 63,488,598	\$ 1,408,251	\$ (47,282,385)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (49,254,391)	\$ 1,972,006	\$ (47,282,385)
<i>General revenues:</i>			
Real estate and personal property taxes.....	27,718,447	-	27,718,447
Motor vehicle and other excise taxes.....	2,829,277	-	2,829,277
Tax and trash liens.....	442,603	-	442,603
Penalties and interest on taxes.....	380,239	-	380,239
Payments in lieu of taxes.....	1,195,899	-	1,195,899
Grants and contributions not restricted to specific programs.....	9,050,539	-	9,050,539
Unrestricted investment income.....	1,245,853	-	1,245,853
Gain on sale of capital assets.....	297,780	-	297,780
Other.....	282,085	-	282,085
<i>Transfers, net</i>	1,355,722	(1,355,722)	-
Total general revenues and transfers.....	44,798,444	(1,355,722)	43,442,722
Change in net assets.....	(4,455,947)	616,284	(3,839,663)
Net assets - beginning of year.....	143,406,059	7,547,132	150,953,191
Net assets - end of year.....	\$ 138,950,112	\$ 8,163,416	\$ 147,113,528

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2006

ASSETS	General	Stabilization	Debt Service
Cash and cash equivalents.....	\$ 11,893,659	\$ 474,569	\$ -
Investments.....	-	3,953,458	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	671,730	-	-
Tax and trash liens.....	792,693	-	-
Motor vehicle and other excise taxes.....	480,816	-	-
Trash.....	318,980	-	-
Departmental and other.....	-	-	-
Intergovernmental.....	34,174,239	-	-
Loans.....	-	-	-
Due from other funds.....	62,511	-	-
Prepaid expenditures.....	95,036	-	-
Tax foreclosures.....	110,016	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	171,291
Investments.....	-	-	9,199,687
TOTAL ASSETS.....	\$ 48,599,680	\$ 4,428,027	\$ 9,370,978
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 1,504,991	\$ -	\$ -
Accrued payroll.....	31,314	-	-
Tax refunds payable.....	262,571	-	-
Other liabilities.....	1,496	-	-
Abandoned property.....	69,834	-	-
Deferred revenue.....	36,414,474	-	-
Due to other funds.....	-	-	-
Accrued short-term interest.....	254,071	-	-
Short-term notes payable.....	-	-	-
TOTAL LIABILITIES.....	38,538,751	-	-
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	1,753,717	-	-
Loans.....	-	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Undesignated, reported in:			
General fund.....	8,307,212	-	-
Special revenue funds.....	-	4,428,027	-
Debt service fund.....	-	-	9,370,978
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	10,060,929	4,428,027	9,370,978
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 48,599,680	\$ 4,428,027	\$ 9,370,978

See notes to basic financial statements.

School Facilities	Urban Renewal II	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 11,620,490	\$ 23,988,718
-	-	-	3,953,458
-	-	-	671,730
-	-	-	792,693
-	-	-	480,816
-	-	-	318,980
-	-	73,532	73,532
-	-	188,033	34,362,272
-	-	1,988,355	1,988,355
-	-	-	62,511
-	-	-	95,036
-	-	-	110,016
1,228,366	5,952,438	967,037	8,319,132
-	-	-	9,199,687
<u>\$ 1,228,366</u>	<u>\$ 5,952,438</u>	<u>\$ 14,837,447</u>	<u>\$ 84,416,936</u>

\$ 1,229	\$ 945	\$ 439,412	\$ 1,946,577
-	-	-	31,314
-	-	-	262,571
-	-	-	1,496
-	-	-	69,834
-	-	-	36,414,474
-	-	62,511	62,511
-	-	-	254,071
-	10,000,000	-	10,000,000
<u>1,229</u>	<u>10,000,945</u>	<u>501,923</u>	<u>49,042,848</u>
-	-	-	1,753,717
-	-	1,988,355	1,988,355
-	-	22,392	22,392
-	-	2,051,441	2,051,441
-	-	-	8,307,212
-	-	8,599,312	13,027,339
-	-	-	9,370,978
1,227,137	(4,048,507)	1,575,181	(1,246,189)
-	-	98,843	98,843
<u>1,227,137</u>	<u>(4,048,507)</u>	<u>14,335,524</u>	<u>35,374,088</u>
<u>\$ 1,228,366</u>	<u>\$ 5,952,438</u>	<u>\$ 14,837,447</u>	<u>\$ 84,416,936</u>



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Total governmental fund balances (page 32).....	\$	35,374,088
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		126,808,360
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		36,414,474
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(254,921)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable, net of unamortized premiums and deferred losses on refundings..		(56,126,282)
Court judgments.....		(150,000)
Compensated absences.....		(2,724,000)
Internal service funds are used by management to account for retirees' 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 assets.....		<u>(391,607)</u>
Net assets of governmental activities (page 28).....	\$	<u><u>138,950,112</u></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, 2006

	General	Stabilization	Debt Service
REVENUES			
Real estate and personal property taxes.....	\$ 27,786,205	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,737,502	-	-
Tax and trash liens.....	505,964	-	-
Payments in lieu of taxes.....	1,195,899	-	-
Charges for services.....	-	-	-
Trash disposal.....	1,230,498	-	-
Intergovernmental.....	64,864,367	-	-
Penalties and interest on taxes.....	380,239	-	-
Licenses, permits and fees.....	1,564,014	-	-
Fines and forfeitures.....	1,578,152	-	-
Departmental.....	282,635	-	-
Contributions.....	-	-	-
Investment income.....	947,018	308,991	(320,328)
	<u>103,072,493</u>	<u>308,991</u>	<u>(320,328)</u>
TOTAL REVENUES.....			
EXPENDITURES			
Current:			
General government.....	2,827,709	-	-
Public safety.....	15,310,955	-	-
Education.....	47,976,960	-	-
Public works.....	4,282,677	-	-
Health and human services.....	1,075,917	-	-
Culture and recreation.....	346,577	-	-
Community development.....	-	-	-
Pension benefits.....	9,991,344	-	-
Employee benefits.....	10,672,888	-	-
Property and liability insurance.....	426,165	-	-
Claims and judgments.....	9,210	-	-
State and county charges.....	2,977,746	-	-
Debt service:			
Principal.....	6,970,284	-	-
Interest.....	3,549,065	-	-
	<u>106,417,497</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES.....			
EXCESS (DEFICIENCY) OF REVENUES			
OVER EXPENDITURES.....	<u>(3,345,004)</u>	<u>308,991</u>	<u>(320,328)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in.....	2,266,211	-	-
Issuance of bonds and notes.....	-	-	-
Premium from issuance of bonds and notes.....	12,185	-	-
Sale of capital assets.....	-	-	-
Transfers out.....	(150,000)	-	(588,061)
	<u>2,128,396</u>	<u>-</u>	<u>(588,061)</u>
TOTAL OTHER FINANCING SOURCES (USES).....			
NET CHANGE IN FUND BALANCES.....	<u>(1,216,608)</u>	<u>308,991</u>	<u>(908,389)</u>
FUND BALANCES AT BEGINNING OF YEAR.....	<u>11,277,537</u>	<u>4,119,036</u>	<u>10,279,367</u>
FUND BALANCES AT END OF YEAR.....	<u>\$ 10,060,929</u>	<u>\$ 4,428,027</u>	<u>\$ 9,370,978</u>

See notes to basic financial statements.

School Facilities	Urban Renewal II	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 27,786,205
-	-	-	2,737,502
-	-	-	505,964
-	-	-	1,195,899
-	-	2,409,626	2,409,626
-	-	-	1,230,498
3,865,295	-	12,826,793	81,556,455
-	-	-	380,239
-	-	70,225	1,634,239
-	-	-	1,578,152
-	-	885,034	1,167,669
-	-	664,958	664,958
-	-	155,344	1,091,025
<u>3,865,295</u>	<u>-</u>	<u>17,011,980</u>	<u>123,938,431</u>
-	-	223,280	3,050,989
-	-	2,547,225	17,858,180
84,412	-	11,878,220	59,939,592
-	-	252,752	4,535,429
-	-	840,478	1,916,395
-	-	133,625	480,202
-	4,048,507	1,300,201	5,348,708
-	-	-	9,991,344
-	-	-	10,672,888
-	-	-	426,165
-	-	-	9,210
-	-	-	2,977,746
-	-	-	6,970,284
-	-	-	3,549,065
<u>84,412</u>	<u>4,048,507</u>	<u>17,175,781</u>	<u>127,726,197</u>
<u>3,780,883</u>	<u>(4,048,507)</u>	<u>(163,801)</u>	<u>(3,787,766)</u>
-	-	150,000	2,416,211
-	-	691,000	691,000
-	-	-	12,185
-	-	297,780	297,780
-	-	(310,000)	(1,048,061)
-	-	828,780	2,369,115
3,780,883	(4,048,507)	664,979	(1,418,651)
<u>(2,553,746)</u>	<u>-</u>	<u>13,670,545</u>	<u>36,792,739</u>
<u>\$ 1,227,137</u>	<u>\$ (4,048,507)</u>	<u>\$ 14,335,524</u>	<u>\$ 35,374,088</u>



**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, 2006

Net change in fund balances - total governmental funds (page 36).....	\$	(1,418,651)
<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.....		5,097,589
Depreciation.....		(4,538,168)
<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>		
		(9,133,065)
<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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(691,000)
Bond maturities.....		6,970,284
<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>		
		29,368
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. This amount represents the net change:</p>		
Court judgments.....		(150,000)
Compensated absences.....		(328,000)
<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>(294,304)</u>
Changes in net assets of governmental activities (page 30).....	\$	<u><u>(4,455,947)</u></u>

See notes to basic financial statements.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 27,758,910	\$ 27,758,910	\$ 27,683,776	\$ (75,134)
Motor vehicle and other excise taxes.....	2,175,000	2,175,000	2,737,502	562,502
Tax and trash liens.....	-	-	505,964	505,964
Payments in lieu of taxes.....	1,092,945	1,092,945	1,195,899	102,954
Trash disposal.....	1,249,404	1,249,404	1,230,498	(18,906)
Intergovernmental.....	60,524,856	60,524,856	61,082,743	557,887
Penalties and interest on taxes.....	160,000	160,000	380,239	220,239
Licenses, permits and fees.....	1,312,610	1,312,610	1,564,014	251,404
Fines and forfeitures.....	1,947,690	1,947,690	1,578,152	(369,538)
Departmental.....	-	-	282,635	282,635
Investment income.....	1,440,733	1,440,733	1,602,229	161,496
TOTAL REVENUES.....	97,662,148	97,662,148	99,843,651	2,181,503
EXPENDITURES				
Current:				
General government.....	3,419,493	3,221,458	2,827,709	393,749
Public safety.....	15,342,976	15,553,408	15,310,955	242,453
Education.....	48,917,825	48,917,825	47,976,960	940,865
Public works.....	4,684,551	4,695,291	4,282,677	412,614
Health and human services.....	993,658	1,087,922	1,075,917	12,005
Culture and recreation.....	338,967	351,109	346,577	4,532
Pension benefits.....	6,224,609	6,224,609	6,209,720	14,889
Employee benefits.....	10,672,998	10,672,998	10,672,888	110
Property and liability insurance.....	528,918	528,918	426,165	102,753
Claims and judgments.....	29,490	29,490	9,210	20,280
State and county charges.....	3,115,527	3,115,527	2,977,746	137,781
Debt service:				
Principal.....	6,972,285	6,972,285	6,970,284	2,001
Interest.....	3,321,986	3,321,986	3,312,176	9,810
TOTAL EXPENDITURES.....	104,563,283	104,692,826	102,398,984	2,293,842
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(6,901,135)	(7,030,678)	(2,555,333)	4,475,345
OTHER FINANCING SOURCES (USES)				
Transfers in.....	1,581,000	1,581,000	1,611,000	30,000
Premium from issuance of bonds and notes.....	-	-	12,185	12,185
Transfers out.....	-	(150,000)	(150,000)	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,581,000	1,431,000	1,473,185	42,185
NET CHANGE IN FUND BALANCE.....	(5,320,135)	(5,599,678)	(1,082,148)	4,517,530
FUND BALANCE AT BEGINNING OF YEAR.....	11,525,719	11,525,719	11,525,719	-
FUND BALANCE AT END OF YEAR.....	\$ 6,205,584	\$ 5,926,041	\$ 10,443,571	\$ 4,517,530

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS

JUNE 30, 2006

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,250,222	\$ 605,458
Restricted cash and cash equivalents.....	2,884,863	-
Receivables, net of allowance for uncollectible amounts:		
User charges.....	2,793,255	-
Utility liens.....	167,448	-
	7,095,788	605,458
Total current assets.....		
	7,095,788	605,458
Noncurrent assets:		
Capital assets, net of accumulated depreciation.....	12,753,226	-
	12,753,226	-
Total assets.....		
	19,849,014	605,458
LIABILITIES		
Current liabilities:		
Warrants payable.....	147,536	-
Abandoned property.....	-	2,348
Liabilities due depositors.....	9,758	-
Accrued interest.....	87,591	-
Accrued health claims payable.....	-	151,717
Workers' compensation claims.....	-	390,000
Long-term bonds and notes payable.....	1,179,168	-
	1,424,053	544,065
Total current liabilities.....		
	1,424,053	544,065
Noncurrent liabilities:		
Workers' compensation claims.....	-	453,000
Long-term bonds and notes payable.....	10,261,545	-
	10,261,545	453,000
Total noncurrent liabilities.....		
	10,261,545	453,000
Total liabilities.....		
	11,685,598	997,065
FUND NET ASSETS		
Invested in capital assets, net of related debt.....	1,312,513	-
Unrestricted.....	6,850,903	(391,607)
	8,163,416	(391,607)
Total net assets.....		
	\$ 8,163,416	\$ (391,607)

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
OPERATING REVENUES		
Charges for services.....	\$ 10,304,840	\$ -
Utility liens.....	662,784	-
Employer contributions.....	-	1,360,516
Employee contributions.....	-	120,027
TOTAL OPERATING REVENUES.....	10,967,624	1,480,543
OPERATING EXPENSES		
Cost of service and administration.....	1,538,780	-
MWRA assessment.....	7,077,346	-
Repairs and maintenance.....	119,924	-
Depreciation.....	352,910	-
Employee benefits.....	-	1,774,847
TOTAL OPERATING EXPENSES.....	9,088,960	1,774,847
OPERATING INCOME (LOSS).....	1,878,664	(294,304)
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental.....	410,608	-
Investment income.....	54,722	12,428
Interest expense.....	(371,988)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	93,342	12,428
INCOME (LOSS) BEFORE TRANSFERS.....	1,972,006	(281,876)
TRANSFERS		
Transfers out.....	(1,355,722)	(12,428)
CHANGE IN FUND NET ASSETS.....	616,284	(294,304)
FUND NET ASSETS AT BEGINNING OF YEAR.....	7,547,132	(97,303)
FUND NET ASSETS AT END OF YEAR.....	\$ 8,163,416	\$ (391,607)

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Water and Sewer</u>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$ 10,839,393	\$ 120,027
Receipts from interfund services provided.....	-	1,360,516
Payments to vendors.....	(8,959,729)	-
Payments to employees.....	(221,136)	-
Payments for interfund services used.....	-	(1,545,048)
	<u>1,658,528</u>	<u>(64,505)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out.....	(1,355,722)	(12,428)
Intergovernmental revenue.....	410,608	-
	<u>(945,114)</u>	<u>(12,428)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the issuance of bonds and notes.....	2,751,669	-
Acquisition and construction of capital assets.....	(27,442)	-
Principal payments on bonds and notes.....	(943,712)	-
Interest expense.....	(379,769)	-
	<u>1,400,746</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income.....	54,722	12,428
	<u>54,722</u>	<u>12,428</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	2,168,882	(64,505)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
(Includes \$810,126 reported as restricted in the Water and Sewer Enterprise Fund).....	1,966,203	669,963
CASH AND CASH EQUIVALENTS AT END OF YEAR		
(Includes \$2,884,863 reported as restricted in the Water and Sewer Enterprise Fund).....	<u>\$ 4,135,085</u>	<u>\$ 605,458</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss).....	\$ 1,878,664	\$ (294,304)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....	352,910	-
Changes in assets and liabilities:		
User charges.....	(123,670)	-
Utility liens.....	(4,561)	-
Warrants payable.....	(413,493)	(32,583)
Other liabilities.....	-	87
Liabilities due depositors.....	(31,322)	-
Accrued health claims payable.....	-	19,295
Workers' compensation.....	-	243,000
	<u>(220,136)</u>	<u>229,799</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 1,658,528</u>	<u>\$ (64,505)</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2006

ASSETS	Pension Trust Fund (As of 12/31/05)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 52,945,619	\$ 501,835	\$ 406,213
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	<u>3,575,146</u>	<u>-</u>	<u>-</u>
Total assets.....	<u>56,520,765</u>	<u>501,835</u>	<u>406,213</u>
LIABILITIES			
Liabilities due depositors.....	<u>-</u>	<u>-</u>	<u>406,213</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 56,520,765</u>	<u>\$ 501,835</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Pension Trust Fund (As of 12/31/05)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Employer.....	\$ 6,674,108	\$ -
Plan members.....	2,345,854	-
Private donations.....	<u>-</u>	<u>44,065</u>
Total contributions.....	<u>9,019,962</u>	<u>44,065</u>
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	3,819,767	-
Interest.....	<u>1,288,232</u>	<u>13,712</u>
Total investment income (loss).....	5,107,999	13,712
Less investment expense.....	<u>(266,126)</u>	<u>-</u>
Net investment income (loss).....	<u>4,841,873</u>	<u>13,712</u>
Intergovernmental.....	<u>830,399</u>	<u>-</u>
Transfers from other systems.....	<u>227,204</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>14,919,438</u>	<u>57,777</u>
DEDUCTIONS		
Administration.....	192,132	-
Retirement benefits and refunds.....	7,544,499	-
Transfers to other systems.....	416,959	-
Scholarships awarded.....	<u>-</u>	<u>63,163</u>
TOTAL DEDUCTIONS.....	<u>8,153,590</u>	<u>63,163</u>
CHANGE IN NET ASSETS.....	6,765,848	(5,386)
NET ASSETS AT BEGINNING OF YEAR.....	<u>49,754,917</u>	<u>507,221</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 56,520,765</u>	<u>\$ 501,835</u>

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 (blended) in the reporting entity because of the significance of its operational and financial relationship with the City. Blended 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.

Blended 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:

Name	Purpose	Address	Fiscal Year 2006 Assessment
Northeast Metropolitan Regional Vocational School District	To provide vocational education services	100 Hemlock Road Wakefield, MA 01880	\$ 1,269,085

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. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net assets 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.

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

Government-Wide and Fund Financial Statements

The government-wide and enterprise fund financial statements apply all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 is restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that is 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 fund, 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 funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and capital reserves, and planning and development's ongoing and future operations. Use of this fund is subject to Council approval.

The *debt service fund* is used to account for the accumulation of resources and payment of school construction long-term bond principal and interest (see Note 11).

The *school facilities fund* is a capital projects fund used to account for financial resources to expand and upgrade the school facilities.

The *Urban Renewal II fund* is a capital projects fund used to account for financial resources for the development, acquisition and any other related costs of an urban renewal project associated with the redevelopment of the 155 6th Street building site.

The nonmajor governmental funds consist of other 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:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than capital projects funds or permanent funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support governmental programs.

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 and sewer enterprise fund* is used to account for the 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 various scholarship and welfare funds, 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.

E. 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.

F. 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 and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

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

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.

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 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 consist primarily of police and fire details 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.

G. Allowance for Uncollectible Accounts

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

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

As of June 30, 2006, the allowance for uncollectible amounts for departmental and other and loan receivables are immaterial and therefore not reported.

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

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

Intergovernmental receivables are considered 100% collectible.

H. 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.

I. Restricted Assets

Government-Wide and Fund Financial Statements

The assets of the debt service fund (governmental activities) are classified as restricted since their use is limited by the terms of a Trust Agreement (see Note 11).

Certain assets of the enterprise fund are classified as restricted because their use is restricted by contract covenants.

Other assets are reported as restricted when limitations on their use change the nature and 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.

J. Capital Assets

Government-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. Except for capital assets of the governmental activities column in the government-wide financial statements, construction period interest is 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.

K. 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 assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets 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.

L. 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 assets. 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.

M. 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).

N. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

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

Net assets have been "restricted" for the following:

"Loans" represents outstanding community development loans receivable.

"Debt service" represents the amount accumulated for the future payment of long-term debt service costs (see Note 11).

"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.

"Other specific purposes" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Loans” represents outstanding community development loans receivable.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

“Other specific purposes” represents restrictions placed on assets from outside parties.

O. 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 assets. 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.

P. 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 Massachusetts General Law (MGL).

Investment income and realized gains/losses on investments from the debt service fund are transferred to the general fund. Unrealized gains/losses on investments are retained in the debt service fund.

Except for investment income of the workers’ compensation internal service fund, investment income from proprietary funds is voluntarily assigned and transferred to the general fund.

Q. 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.

R. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided (on a pay-as-you-go basis) for retired employees (eligibility requirement) and their survivors in accordance with MGL Chapter 32. These costs are recognized by recording the employer's 75% - 90% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2006, this expenditure totaled approximately \$2,517,000. There were approximately 540 participants eligible to receive benefits at June 30, 2006.

S. 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.

T. 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 City Manager and 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 or transfers between and within departments subsequent to the approval of the annual budget, requires majority Council approval via a supplemental appropriation or 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. These carry forwards are included as part of the subsequent fiscal year's original budget.

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, 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 2006 approved budget for the general fund authorized \$104,563,283 in appropriations and other amounts to be raised. During fiscal year 2006, supplemental appropriations totaling \$279,543 were authorized.

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

B. 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, 2006, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the statement of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 99,843,651	\$ 102,398,984	\$ 1,473,185
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	9,000	-	-
Net change in recording tax refunds payable.....	93,429	-	-
To reclassify investment income related to other funds to transfers in.....	(655,211)	-	655,211
To record activity for MTRS on-behalf payments.....	3,781,624	3,781,624	-
Net change in recording short-term interest accrual.....	-	236,889	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 103,072,493</u>	<u>\$ 106,417,497</u>	<u>\$ 2,128,396</u>

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2006, expenditures exceeded appropriations for snow and ice removal. This over-expenditure will be funded by taxes during fiscal year 2007.

D. Fund Deficits

At June 30, 2006, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Urban Renewal II capital project.....	\$ 4,048,507	Issuance of long-term debt
Highway improvement special revenue.....	62,511	State grant
Workers' compensation internal service.....	655,988	Employer contributions

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 the City’s position in 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 permanent funds, 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 is to rely on FDIC and DIF insurance coverage, when applicable. As of June 30, 2006, \$31,538,548 of the City’s bank balance of \$32,630,842 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Investments Summary

The City’s investments at June 30, 2006 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. Treasuries.....	\$ 1,923,337	\$ -	\$ -	\$ 1,923,337
U.S. Agencies.....	11,229,808	942,551	3,010,907	7,276,350
Money market mutual funds.....	6,658,395	6,658,395	-	-
Total debt securities.....	19,811,540	\$ 7,600,946	\$ 3,010,907	\$ 9,199,687
<u>Other Investments:</u>				
External investment pools.....	873,883			
Total investments.....	\$ 20,685,423			

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’s policy is to follow MGL Chapter 44, Sections 54 and 55, which limits the maturities of investments to one year or less, except for those of certain permanent and private purpose trust funds.

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 rely on SIPC insurance coverage, when applicable. As of June 30, 2006, \$3,953,458 of the City's investments of \$20,685,423 was uninsured, not registered in the name of the City and collateralized with securities held by counterparties and, therefore, 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 follow the guidelines prescribed by the Commonwealth, which limits the credit risk of certain investments, except for those of certain permanent and private purpose trust funds. As of June 30, 2006, the City's debt securities were unrated by a national credit quality rating organization.

Deposits and Investments - Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The City does not have a policy for foreign currency risk. As of June 30, 2006, the City was not exposed to foreign currency risk.

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City does not have a policy for concentration of credit risk. As of June 30, 2006, the City did not have any investments with a single issuer that represent 5 percent or more of the City's total investments, nor did the City have any investments with a single issuer that represent 5 percent or more of the City's fund balances/net assets of governmental activities, business-type activities, individual major funds, nonmajor funds in the aggregate, or fiduciary fund types.

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 Pension Reserve Investment Trust (PRIT) 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 City'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 June 30, 2006, \$834,328 of the System's bank balance of \$934,328 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Investments Summary

The System's investments of \$52,405,325 at June 30, 2006 consisted entirely of external investment pools (PRIT) with maturities of one year or less.

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 for custodial credit risk is to insure all of their investments. As of June 30, 2006, 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 June 30, 2006, the System was not exposed to credit risk.

Deposits and Investments – Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a policy for foreign currency risk. As of June 30, 2006, the System did not have foreign currency or security deposits and investments and therefore, was not exposed to foreign currency risk.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System’s investment in a single issuer. The System does not have a policy for concentration of credit risk. As of June 30, 2006, the System was not exposed to concentration of credit risk.

NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2006, 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.....	\$ 723,549	\$ (51,819)	\$ 671,730
Tax and trash liens.....	792,693	-	792,693
Motor vehicle and other excise taxes.....	1,207,691	(726,875)	480,816
Trash.....	318,980	-	318,980
Departmental and other.....	73,532	-	73,532
Intergovernmental.....	37,937,418	-	37,937,418
Loans.....	1,988,355	-	1,988,355
	<u>\$ 43,042,218</u>	<u>\$ (778,694)</u>	<u>\$ 42,263,524</u>

At June 30, 2006, receivables for the water and sewer enterprise fund consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
User charges.....	\$ 2,793,255	\$ -	\$ 2,793,255
Utility liens.....	<u>167,448</u>	<u>-</u>	<u>167,448</u>
	<u>\$ 2,960,703</u>	<u>\$ -</u>	<u>\$ 2,960,703</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>Receivable type:</u>	<u>General Fund</u>
Real estate and personal property taxes.....	\$ 537,730
Tax and trash liens.....	792,693
Motor vehicle and other excise taxes.....	480,816
Trash.....	318,980
Intergovernmental (state school construction).....	34,174,239
Tax foreclosures.....	<u>110,016</u>
Total.....	<u>\$ 36,414,474</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2006, \$11,958,583 of such assistance was received. \$45,213,698 will be received in future fiscal years. Of this amount, \$11,039,459 represents reimbursement of long-term interest costs, and \$34,174,239 represents reimbursement of approved construction costs. Accordingly, a \$34,174,239 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,673,731	\$ 3,847,031	\$ -	\$ 9,520,762
Construction in progress.....	1,624,272	-	(1,624,272)	-
Total capital assets not being depreciated.....	<u>7,298,003</u>	<u>3,847,031</u>	<u>(1,624,272)</u>	<u>9,520,762</u>
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	140,483,895	1,982,087	-	142,465,982
Machinery and equipment.....	8,532,188	660,888	-	9,193,076
Infrastructure.....	9,389,889	231,855	-	9,621,744
Total capital assets being depreciated.....	<u>158,405,972</u>	<u>2,874,830</u>	<u>-</u>	<u>161,280,802</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(30,466,311)	(3,534,843)	-	(34,001,154)
Machinery and equipment.....	(5,277,211)	(786,111)	-	(6,063,322)
Infrastructure.....	(3,711,514)	(217,214)	-	(3,928,728)
Total accumulated depreciation.....	<u>(39,455,036)</u>	<u>(4,538,168)</u>	<u>-</u>	<u>(43,993,204)</u>
Total capital assets being depreciated, net.....	<u>118,950,936</u>	<u>(1,663,338)</u>	<u>-</u>	<u>117,287,598</u>
Total governmental activities capital assets, net.....	<u>\$ 126,248,939</u>	<u>\$ 2,183,693</u>	<u>\$ (1,624,272)</u>	<u>\$ 126,808,360</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets being depreciated:</u>				
Infrastructure.....	\$ 19,167,581	\$ 27,442	\$ -	\$ 19,195,023
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	(6,088,887)	(352,910)	-	(6,441,797)
Total business-type activities capital assets, net.....	<u>\$ 13,078,694</u>	<u>\$ (325,468)</u>	<u>\$ -</u>	<u>\$ 12,753,226</u>

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

Governmental Activities:	
General government.....	\$ 236,361
Public safety.....	431,789
Education.....	3,364,412
Public works.....	354,286
Health and human services.....	44,781
Culture and recreation.....	<u>106,539</u>
Total depreciation expense - governmental activities.....	\$ <u>4,538,168</u>
Business-Type Activities:	
Water and sewer.....	\$ <u>352,910</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and payables between funds at June 30, 2006, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds (Highway Improvement)	\$ <u>62,511</u> (1)

(1) Represents advance-funding of a state grant

Interfund transfers for the fiscal year ended June 30, 2006, 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.....	\$ -	\$ 150,000	\$ 150,000 (1)
Debt Service Fund.....	588,061	-	588,061 (2)
Nonmajor Governmental Funds.....	310,000	-	310,000 (3)
Water/Sewer Enterprise Fund.....	1,355,722	-	1,355,722 (4)
Internal Service Fund.....	<u>12,428</u>	<u>-</u>	<u>12,428</u> (5)
	<u>\$ 2,266,211</u>	<u>\$ 150,000</u>	<u>\$ 2,416,211</u>

- (1) Represents funding for school repairs and maintenance
- (2) Represents transfer of realized investment income
- (3) Represents funding of the fiscal year 2006 operating budget (\$145,000) and transfer of indirect costs from various federal education grants (\$165,000)
- (4) Represents transfer of indirect costs (\$1,301,000) and voluntary transfer of investment income (\$54,722)
- (5) Represents voluntary transfer of investment income

NOTE 7 - CONDUIT DEBT

In fiscal year 1994, the City, acting by and through its Industrial Development Financing Authority, issued \$95,750,000 in Lease Revenue Bonds (Bonds) as part of a loan and trust agreement with the Massachusetts Industrial Finance Agency (MIFA) for the construction of the *Massachusetts Information Technology Center* (MITC). The proceeds of the Bonds were loaned to the MITC. Simultaneously with the issuance of the Bonds, the Commonwealth entered into a 30-year lease with MIFA that provides for the payment of debt service and other costs associated with the project to a bond trustee. The Commonwealth has pledged its full faith and credit as security for the Bonds. The Bonds are limited obligations of the City and do not represent debt or a pledge of the full faith and credit of the City. At June 30, 2006, the outstanding principal amount of the Bonds totaled \$73,050,000. The land and buildings are owned by MITC until the end of the lease term, at which time ownership is transferred to the Commonwealth.

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.

Details related to the short-term debt activity for the fiscal year ended June 30, 2006, is as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2005	Increases	Decreases	Balance at 6/30/2006
BAN	School Construction.....	4/15/05	10/15/05	2.39%	\$ 3,452,710	\$ -	\$ (3,452,710)	\$ -
BAN	Urban Renewal II.....	12/28/05	12/28/06	5.04%	-	10,000,000	-	10,000,000
Total.....					\$ 3,452,710	\$ 10,000,000	\$ (3,452,710)	\$ 10,000,000

NOTE 9 - LONG-TERM OBLIGATIONS

Chapter 44, Section 10, of the MGL authorizes indebtedness up to a limit of 2 ½% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit”. However, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit”.

During fiscal year 2005, 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, 2006, \$2,795,000 of bonds outstanding from this advance refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2006, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2005	Additions	Reductions	Outstanding at June 30, 2006
State loan.....	0.00%	\$ 440,248	\$ -	\$ (220,121)	\$ 220,127
Consolidation/Receivership.....	5.90 - 6.00%	95,000	-	(95,000)	-
Municipal purpose.....	4.30 - 5.75%	273,437	-	(151,909)	121,528
School buildings refunding.....	3.65 - 5.13%	40,385,000	-	(175,000)	40,210,000
Urban renewal*.....	6.15 - 6.35%	5,830,000	-	(420,000)	5,410,000
Urban renewal.....	4.50 - 4.70%	90,000	-	(10,000)	80,000
Municipal purpose.....	4.50 - 4.70%	434,960	-	(89,990)	344,970
Municipal purpose.....	4.10 - 5.00%	748,260	-	(174,225)	574,035
School buildings refunding.....	2.00 - 5.00%	10,940,000	-	(5,480,000)	5,460,000
School building remodeling.....	2.37 - 4.75%	1,520,000	-	(80,000)	1,440,000
Municipal purpose.....	3.00 - 4.00%	641,000	-	(65,600)	575,400
Municipal purpose refunding....	3.00 - 4.50%	1,007,661	-	(8,439)	999,222
Equipment.....	3.75 - 4.00%	-	290,000	-	290,000
Renovations.....	3.75 - 4.00%	-	263,000	-	263,000
Public safety.....	3.75 - 4.00%	-	88,000	-	88,000
Sidewalks.....	3.75 - 4.00%	-	50,000	-	50,000
Total.....		\$ 62,405,566	\$ 691,000	\$ (6,970,284)	\$ 56,126,282

* Federally taxable general obligation bonds

During fiscal year 2006, the City issued \$691,000 of general obligation bonds for equipment, renovations, public safety and sidewalks.

During fiscal year 1986, the Commonwealth issued an interest free loan to help finance general operating and maintenance costs. At June 30, 2006, the outstanding principal amount of this loan totaled \$220,127. All other outstanding governmental long-term debt represents general obligation bonds.

Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$ 6,857,391	\$ 2,959,717	\$ 9,817,108
2008.....	6,705,257	2,629,795	9,335,052
2009.....	6,708,570	2,267,819	8,976,389
2010.....	6,619,392	1,905,407	8,524,799
2011.....	6,611,392	1,546,578	8,157,970
2012.....	6,442,609	1,192,496	7,635,105
2013.....	3,595,921	839,718	4,435,639
2014.....	1,749,233	657,811	2,407,044
2015.....	2,767,545	566,785	3,334,330
2016.....	5,974,945	423,218	6,398,163
2017.....	605,270	113,760	719,030
2018.....	551,257	79,271	630,528
2019.....	517,500	47,110	564,610
2020.....	90,000	16,470	106,470
2021.....	90,000	12,770	102,770
2022.....	80,000	9,260	89,260
2023.....	80,000	5,700	85,700
2024.....	80,000	3,800	83,800
Total.....	\$ <u>56,126,282</u>	\$ <u>15,277,485</u>	\$ <u>71,403,767</u>

Bonds and Notes Payable – Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2005	Additions	Reductions	Outstanding at June 30, 2006
Sewer notes (MWRA).....	0.00%	\$ 126,852	\$ -	\$ (42,284)	\$ 84,568
Sewer notes (MWRA).....	0.00%	100,598	-	(50,299)	50,299
Sewer notes (MWRA).....	0.00%	-	472,909	-	472,909
Water notes (MWRA).....	0.00%	173,628	-	(19,292)	154,336
Water notes (MWRA).....	0.00%	-	99,760	-	99,760
Water and sewer bonds.....	4.30 - 5.75%	536,562	-	(298,091)	238,471
Water and sewer bonds.....	4.50 - 4.70%	1,135,040	-	(65,010)	1,070,030
Water and sewer bonds.....	4.10 - 5.00%	1,406,737	-	(105,775)	1,300,962
Water and sewer bonds.....	4.80 - 5.20%	1,065,000	-	(85,000)	980,000
Water.....	2.37 - 4.75%	292,500	-	(17,500)	275,000
Sewer.....	2.37 - 4.75%	882,500	-	(47,500)	835,000
Water and sewer bonds.....	3.00 - 4.00%	1,936,000	-	(196,400)	1,739,600
Water and sewer refunding....	3.00 - 4.50%	1,977,339	-	(16,561)	1,960,778
Water - meters.....	3.75 - 4.00%	-	448,000	-	448,000
Sewer - Crescent Street.....	3.75 - 4.00%	-	956,000	-	956,000
Water - Crescent Street.....	3.75 - 4.00%	-	23,000	-	23,000
Sewer - meters.....	3.75 - 4.00%	-	752,000	-	752,000
Total.....		\$ 9,632,756	\$ 2,751,669	\$ (943,712)	\$ 11,440,713

During fiscal year 2006, the City issued \$2,179,000 of general obligation bonds to finance water and sewer improvements.

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA typically consists of a grant and non-interest bearing loan (payable in five or ten equal annual installments). During fiscal year 2006, \$572,669 of MWRA note proceeds were received from the program. At June 30, 2006, the outstanding principal amount of these loans totaled \$861,872. All other outstanding enterprise long-term debt represents general obligation bonds.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007.....	\$ 1,179,168	\$ 421,226	\$ 1,600,394
2008.....	1,055,877	383,632	1,439,509
2009.....	1,010,281	350,753	1,361,034
2010.....	1,029,458	317,817	1,347,275
2011.....	1,027,457	283,705	1,311,162
2012.....	936,659	248,694	1,185,353
2013.....	923,347	211,540	1,134,887
2014.....	920,035	174,650	1,094,685
2015.....	897,431	137,614	1,035,045
2016.....	700,031	102,123	802,154
2017.....	464,731	80,272	545,003
2018.....	358,741	58,908	417,649
2019.....	292,500	42,110	334,610
2020.....	205,000	28,278	233,278
2021.....	204,997	18,560	223,557
2022.....	115,000	11,050	126,050
2023.....	60,000	5,702	65,702
2024.....	60,000	2,850	62,850
Total.....	\$ <u>11,440,713</u>	\$ <u>2,879,484</u>	\$ <u>14,320,197</u>

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, 2006, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Unfunded pension liability.....	\$ 47,000,000
High school extension.....	17,150,000
Urban Renewal II.....	12,000,000
Funding of Capital Improvement Plan (CIP)....	3,197,380
Refunding of previously issued debt.....	<u>265,000</u>
Total.....	\$ <u>79,612,380</u>

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2006, the following changes occurred in long-term liabilities:

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 62,405,566	\$ 691,000	\$ (6,970,284)	\$ 56,126,282	\$ 6,857,391
Workers' compensation claims.....	600,000	710,096	(467,096)	843,000	390,000
Court judgments.....	-	150,000	-	150,000	150,000
Compensated absences.....	2,396,000	920,911	(592,911)	2,724,000	706,000
Total.....	<u>\$ 65,401,566</u>	<u>\$ 2,472,007</u>	<u>\$ (8,030,291)</u>	<u>\$ 59,843,282</u>	<u>\$ 8,103,391</u>
Business-type Activities:					
Bonds and notes payable.....	<u>\$ 9,632,756</u>	<u>\$ 2,751,669</u>	<u>\$ (943,712)</u>	<u>\$ 11,440,713</u>	<u>\$ 1,179,168</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund’s long-term liabilities are included as part of the governmental activities totals above. At fiscal year-end, \$843,000 of the 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 liabilities are generally liquidated by the general fund.

NOTE 10 - STABILIZATION FUND

At June 30, 2006, \$4,428,027 has been set aside in a stabilization fund, which is classified as a major fund in the governmental funds financial statements. Of the total stabilization fund balance, \$3,482,377 can be used for general and/or capital purposes, \$809,899 for capital purposes, and \$135,751 for the Department of Planning and Development’s ongoing and future operations, upon Council approval.

NOTE 11 - DEBT SERVICE FUND

During fiscal year 1995, the City issued \$109,975,000 in school construction general obligation bonds (Bonds). Simultaneously with the issuance of the Bonds, the City entered into a Trust Agreement (Agreement) to further secure the City’s obligation related to the repayment of the Bonds. The Agreement provided that the City establish a Debt Service Fund (Fund) in the amount of the MSBA’s (formerly the School Building Assistance Bureau) first payment to the City. This payment was received during fiscal year 1995 in the amount of \$8,433,352. The purpose of the Fund is to provide for any deficiencies on bond principal and interest payments throughout the loan period and to make final payment on the Bonds in fiscal year 2016. Investment income and realized gains (losses) on investments of the Fund are transferred to the general fund. Unrealized gains (losses) on investments are reported in the Fund.

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

The City is self-insured for its retirees’ health insurance and 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.

A. Retiree Health Insurance

The estimated “Incurred But Not Reported (IBNR)” claims are based on a three month claims paid average. The liability at June 30, 2006 totaled \$151,717. Changes in the reported liability since July 1, 2004, 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 2005.....	\$ 109,000	\$ 1,165,078	\$ (1,141,656)	\$ 132,422
Fiscal year 2006.....	132,422	1,019,877	(1,000,582)	151,717

B. Workers’ Compensation

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, 2006, totaled \$843,000. Changes in the reported liability since July 1, 2004, 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 2005.....	\$ 804,000	\$ 169,454	\$ (373,454)	\$ 600,000
Fiscal year 2006.....	600,000	710,096	(467,096)	843,000

NOTE 13 – 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’s Teachers Retirement System (MTRS), 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 \$3,781,624 for the fiscal year ended June 30, 2006, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. 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 PERAC. That report may be obtained by contacting the System located at 500 Broadway, Chelsea, Massachusetts 02150.

At December 31, 2005, the System’s membership consists of the following:

Active members.....	690
Inactive members.....	116
Disabled members.....	88
Retirees and beneficiaries currently receiving benefits.....	<u>321</u>
 Total.....	 <u><u>1,215</u></u>

Funding Policy – 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 active current payroll. Administrative expenses are funded through investment earnings. Chapter 32 of MGL governs the contributions of plan members. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute 92%, 91% and 91%, respectively, of the total.

Annual Pension Cost – The City’s contributions to the System for the fiscal years ended June 30, 2006, 2005, and 2004 were \$6,121,184, \$5,597,912, and \$5,271,131, respectively. At June 30, 2006, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.25% rate of return and projected salary increases ranging from 4.75% to 8.00% per year. The actuarial value of the System’s assets was determined using the fair value of the assets. The System’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2006, was 22 years. This remaining amortization period is closed.

**SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
01/01/05	\$ 50,307	\$ 114,626	\$ 64,319	43.9%	\$ 24,443	263.1%
01/01/03	40,964	105,624	64,660	38.8%	23,843	271.2%
01/01/01	39,748	88,940	49,192	44.7%	20,266	242.7%
01/01/99	39,899	84,532	44,633	47.2%	17,364	257.0%
01/01/97	31,509	67,398	35,889	46.8%	16,135	222.4%
01/01/95	23,417	59,902	36,485	39.1%	14,254	256.0%

Funding progress is reported based on the biennial actuarial valuation performed by the System and is being accumulated on a biennial basis. The City is responsible for approximately 92% of the unfunded liability.

Noncontributory Retirement Allowance – The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2006 totaled approximately \$89,000.

NOTE 14 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$25,607,000 for equipment acquisition, parks and open space, public buildings and facilities, public safety, roadway, water distribution and sewer collection system improvements in accordance with its five-year capital improvement plan for fiscal years 2007 through 2011.

NOTE 15 - CONTINGENCIES

At June 30, 2006, \$150,000 is reported as a potential liability for an outstanding legal claim pending against the City for alleged property damage caused by a water main break. The \$150,000 reported as a potential liability represents the largest amount in a range of probable losses because no amount within that range is a better estimate of loss.

Various other 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, from the other legal actions and claims at June 30, 2006 cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2006.

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, 2006, 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 16 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

During fiscal year 2006, the City implemented the following GASB pronouncements:

- Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
- Statement #44, *Economic Condition Reporting: The Statistical Section*
- Statement #46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*
- Statement #47, *Accounting for Termination Benefits*

The implementation of pronouncement #44 modified the information presented in the statistical section, which is located on pages 96 - 124.

The implementation of pronouncements #42, #46 and #47 had no impact on the basic financial statements.

NOTE 17 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented during fiscal year 2007. This Statement will not impact the City's basic financial statements.
- Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented during fiscal year 2008. The City is currently evaluating the effect that this Statement will have on the basic financial statements.

Combining and Individual Fund Statements and Schedules

Nonmajor Governmental Funds

Narrative

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than capital projects funds or permanent funds) that are restricted by law or administrative action to expenditures for specified purposes.

Highway Improvement – accounts for roadway improvements for which expenditures are reimbursed 100% by the Commonwealth.

Community Development – accounts for all federal, state and locally funded community development projects.

Affordable Housing Trust – accounts for activity of the affordable housing trust fund established in accordance with MGL Chapter 44, Section 55C.

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 lunch department's revolving funds established in accordance with MGL Chapter 44, Section 53E ½.

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 financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds). The capital projects funds are grouped into the following categories:

Urban 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).

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support governmental programs.

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, 2006

Special Revenue Funds

ASSETS	Highway Improvement	Community Development	Affordable Housing Trust	City Revolving	Receipts Reserved
Cash and cash equivalents.....	\$ -	\$ 3,066,043	\$ -	\$ 45,707	\$ 3,557,531
Receivables, net of allowance for uncollectible amounts:					
Departmental and other.....	-	-	-	73,532	-
Intergovernmental.....	-	188,033	-	-	-
Loans.....	-	1,988,355	-	-	-
Restricted assets:					
Cash and cash equivalents.....	-	335,561	231,948	-	-
TOTAL ASSETS.....	\$ -	\$ 5,577,992	\$ 231,948	\$ 119,239	\$ 3,557,531
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ -	\$ 58,916	\$ -	\$ 2,159	\$ 2,220
Due to other funds.....	62,511	-	-	-	-
TOTAL LIABILITIES.....	62,511	58,916	-	2,159	2,220
 FUND BALANCES:					
Reserved for:					
Loans.....	-	1,988,355	-	-	-
Perpetual permanent funds.....	-	-	-	-	-
Other specific purposes.....	-	-	-	-	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds.....	(62,511)	3,530,721	231,948	117,080	3,555,311
Capital projects funds.....	-	-	-	-	-
Permanent funds.....	-	-	-	-	-
TOTAL FUND BALANCES.....	(62,511)	5,519,076	231,948	117,080	3,555,311
TOTAL LIABILITIES AND FUND BALANCES.....	\$ -	\$ 5,577,992	\$ 231,948	\$ 119,239	\$ 3,557,531

Special Revenue Funds

City Gifts	City State Grants	City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants
\$ 47,244	\$ 568,946	\$ 100,885	\$ 448,869	\$ 315,044	\$ 618,470	\$ 535,474
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 47,244</u>	<u>\$ 568,946</u>	<u>\$ 100,885</u>	<u>\$ 448,869</u>	<u>\$ 315,044</u>	<u>\$ 618,470</u>	<u>\$ 535,474</u>
\$ -	\$ 5,345	\$ 8,536	\$ 196,434	\$ 1,150	\$ 5,280	\$ 51,067
-	-	-	-	-	-	-
-	5,345	8,536	196,434	1,150	5,280	51,067
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	563,601	92,349	-	-	-	484,407
47,244	-	-	252,435	313,894	613,190	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>47,244</u>	<u>563,601</u>	<u>92,349</u>	<u>252,435</u>	<u>313,894</u>	<u>613,190</u>	<u>484,407</u>
<u>\$ 47,244</u>	<u>\$ 568,946</u>	<u>\$ 100,885</u>	<u>\$ 448,869</u>	<u>\$ 315,044</u>	<u>\$ 618,470</u>	<u>\$ 535,474</u>

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2006

ASSETS	<i>Special Revenue Funds</i>		<i>Capital Projects Funds</i>	
	School Federal Grants	Sub-total	Urban Renewal	Other Capital
Cash and short-term investments.....	\$ 972,742	\$ 10,276,955	\$ 578,329	\$ 765,206
Receivables, net of allowance for uncollectible amounts:				
Departmental and other.....	-	73,532	-	-
Intergovernmental.....	-	188,033	-	-
Loans.....	-	1,988,355	-	-
Restricted assets:				
Cash and short-term investments.....	-	567,509	-	278,293
TOTAL ASSETS.....	\$ 972,742	\$ 13,094,384	\$ 578,329	\$ 1,043,499
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 61,658	\$ 392,765	\$ -	\$ 46,647
Due to other funds.....	-	62,511	-	-
TOTAL LIABILITIES.....	61,658	455,276	-	46,647
 FUND BALANCES:				
Reserved for:				
Loans.....	-	1,988,355	-	-
Perpetual permanent funds.....	-	-	-	-
Other specific purposes.....	911,084	2,051,441	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds.....	-	8,599,312	-	-
Capital projects funds.....	-	-	578,329	996,852
Permanent funds.....	-	-	-	-
TOTAL FUND BALANCES.....	911,084	12,639,108	578,329	996,852
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 972,742	\$ 13,094,384	\$ 578,329	\$ 1,043,499

<i>Capital Projects Funds</i>		<i>Permanent Funds</i>			
<u>Sub-total</u>	<u>Health and Human Services</u>	<u>Culture and Recreation</u>	<u>Sub-total</u>	<u>Total Nonmajor Governmental Funds</u>	
\$ 1,343,535	\$ -	\$ -	\$ -	\$ 11,620,490	
-	-	-	-	73,532	
-	-	-	-	188,033	
-	-	-	-	1,988,355	
-	-	-	-	-	
<u>278,293</u>	<u>12,745</u>	<u>108,490</u>	<u>121,235</u>	<u>967,037</u>	
<u>\$ 1,621,828</u>	<u>\$ 12,745</u>	<u>\$ 108,490</u>	<u>\$ 121,235</u>	<u>\$ 14,837,447</u>	
\$ 46,647	\$ -	\$ -	\$ -	\$ 439,412	
-	-	-	-	62,511	
<u>46,647</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>501,923</u>	
-	-	-	-	1,988,355	
-	11,996	10,396	22,392	22,392	
-	-	-	-	2,051,441	
-	-	-	-	8,599,312	
1,575,181	-	-	-	1,575,181	
-	749	98,094	98,843	98,843	
<u>1,575,181</u>	<u>12,745</u>	<u>108,490</u>	<u>121,235</u>	<u>14,335,524</u>	
<u>\$ 1,621,828</u>	<u>\$ 12,745</u>	<u>\$ 108,490</u>	<u>\$ 121,235</u>	<u>\$ 14,837,447</u>	

(Concluded)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Special Revenue Funds

	Highway Improvement	Community Development	Affordable Housing Trust	City Revolving	Receipts Reserved
REVENUES					
Charges for services.....	\$ -	\$ -	-	\$ 1,348,237	\$ 174,238
Intergovernmental	60,765	551,885	-	32,928	-
Licenses, permits and fees.....	-	-	-	-	70,225
Departmental.....	-	325,046	-	88,522	-
Contributions.....	-	-	88,000	-	-
Investment income.....	-	133,241	3,948	-	-
TOTAL REVENUES.....	60,765	1,010,172	91,948	1,469,687	244,463
EXPENDITURES					
Current:					
General government.....	-	-	-	110	92,378
Public safety.....	-	-	-	1,348,326	-
Education.....	-	-	-	-	-
Public works.....	62,511	-	-	-	-
Health and human services.....	-	-	-	23,354	-
Culture and recreation.....	-	-	-	73,767	-
Community development.....	-	1,153,898	-	-	-
TOTAL EXPENDITURES.....	62,511	1,153,898	-	1,445,557	92,378
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,746)	(143,726)	91,948	24,130	152,085
OTHER FINANCING SOURCES (USES)					
Transfers in.....	-	-	-	-	-
Issuance of bonds and notes.....	-	-	-	-	-
Sale of capital assets.....	-	-	-	-	297,780
Transfers out.....	-	-	-	-	(145,000)
TOTAL OTHER FINANCING SOURCES (USES)....	-	-	-	-	152,780
NET CHANGE IN FUND BALANCES.....	(1,746)	(143,726)	91,948	24,130	304,865
FUND BALANCES AT BEGINNING OF YEAR.....	(60,765)	5,662,802	140,000	92,950	3,250,446
FUND BALANCES AT END OF YEAR.....	\$ (62,511)	\$ 5,519,076	231,948	\$ 117,080	\$ 3,555,311

Special Revenue Funds

City Gifts	City State Grants	City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants
\$ -	\$ -	\$ -	\$ 595,316	\$ 291,835	\$ -	\$ -
-	996,182	645,739	2,334,722	-	-	1,950,023
-	-	-	-	-	-	-
-	-	17,568	-	-	-	-
50,114	-	-	-	-	516,844	-
-	-	4,046	-	-	-	-
<u>50,114</u>	<u>996,182</u>	<u>667,353</u>	<u>2,930,038</u>	<u>291,835</u>	<u>516,844</u>	<u>1,950,023</u>
-	5,526	-	-	-	-	-
-	472,117	317,422	-	-	-	-
45	-	-	2,895,347	254,144	466,999	2,006,999
1,302	9,650	-	-	-	-	-
52,095	393,591	371,438	-	-	-	-
-	57,899	-	-	-	-	-
-	-	-	-	-	-	-
<u>53,442</u>	<u>938,783</u>	<u>688,860</u>	<u>2,895,347</u>	<u>254,144</u>	<u>466,999</u>	<u>2,006,999</u>
<u>(3,328)</u>	<u>57,399</u>	<u>(21,507)</u>	<u>34,691</u>	<u>37,691</u>	<u>49,845</u>	<u>(56,976)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(26,276)
-	-	-	-	-	-	(26,276)
<u>(3,328)</u>	<u>57,399</u>	<u>(21,507)</u>	<u>34,691</u>	<u>37,691</u>	<u>49,845</u>	<u>(83,252)</u>
<u>50,572</u>	<u>506,202</u>	<u>113,856</u>	<u>217,744</u>	<u>276,203</u>	<u>563,345</u>	<u>567,659</u>
<u>\$ 47,244</u>	<u>\$ 563,601</u>	<u>\$ 92,349</u>	<u>\$ 252,435</u>	<u>\$ 313,894</u>	<u>\$ 613,190</u>	<u>\$ 484,407</u>

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<i>Special Revenue Funds</i>		<i>Capital Projects Funds</i>	
	School Federal Grants	Sub-total	Urban Renewal	Other Capital
REVENUES				
Charges for services.....	\$ -	\$ 2,409,626	\$ -	\$ -
Intergovernmental	6,254,549	12,826,793	-	-
Licenses, permits and fees.....	-	70,225	-	-
Departmental.....	-	431,136	453,898	-
Contributions.....	-	654,958	-	-
Investment income.....	-	141,235	11,232	-
TOTAL REVENUES.....	6,254,549	16,533,973	465,130	-
EXPENDITURES				
Current:				
General government.....	-	98,014	-	125,266
Public safety.....	-	2,137,865	-	409,360
Education.....	6,104,686	11,728,220	-	150,000
Public works.....	-	73,463	-	179,289
Health and human services.....	-	840,478	-	-
Culture and recreation.....	-	131,666	-	-
Community development.....	-	1,153,898	146,303	-
TOTAL EXPENDITURES.....	6,104,686	16,163,604	146,303	863,915
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	149,863	370,369	318,827	(863,915)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	-	-	150,000
Issuance of bonds and notes.....	-	-	-	691,000
Sale of capital assets.....	-	297,780	-	-
Transfers out.....	(138,724)	(310,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	(138,724)	(12,220)	-	841,000
NET CHANGE IN FUND BALANCES.....	11,139	358,149	318,827	(22,915)
FUND BALANCES AT BEGINNING OF YEAR.....	899,945	12,280,959	259,502	1,019,767
FUND BALANCES AT END OF YEAR.....	\$ 911,084	\$ 12,639,108	\$ 578,329	\$ 996,852

<i>Capital Projects Funds</i>	<i>Permanent Funds</i>			Total Nonmajor Governmental Funds
	Health and Human Services	Culture and Recreation	Sub-total	
Sub-total				
\$ -	\$ -	\$ -	\$ -	\$ 2,409,626
-	-	-	-	12,826,793
-	-	-	-	70,225
453,898	-	-	-	885,034
-	-	10,000	10,000	664,958
11,232	-	2,877	2,877	155,344
<u>465,130</u>	<u>-</u>	<u>12,877</u>	<u>12,877</u>	<u>17,011,980</u>
125,266	-	-	-	223,280
409,360	-	-	-	2,547,225
150,000	-	-	-	11,878,220
179,289	-	-	-	252,752
-	-	-	-	840,478
-	-	1,959	1,959	133,625
146,303	-	-	-	1,300,201
<u>1,010,218</u>	<u>-</u>	<u>1,959</u>	<u>1,959</u>	<u>17,175,781</u>
<u>(545,088)</u>	<u>-</u>	<u>10,918</u>	<u>10,918</u>	<u>(163,801)</u>
150,000	-	-	-	150,000
691,000	-	-	-	691,000
-	-	-	-	297,780
-	-	-	-	(310,000)
<u>841,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>828,780</u>
295,912	-	10,918	10,918	664,979
<u>1,279,269</u>	<u>12,745</u>	<u>97,572</u>	<u>110,317</u>	<u>13,670,545</u>
<u>\$ 1,575,181</u>	<u>\$ 12,745</u>	<u>\$ 108,490</u>	<u>\$ 121,235</u>	<u>\$ 14,335,524</u>

(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 retirees' health insurance and 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 are eligible to participate in the Blue Cross Blue Shield MEDEX plan.

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

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF FUND NET ASSETS

JUNE 30, 2006

ASSETS	<u>Retirees' Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents.....	\$ 416,098	\$ 189,360	\$ 605,458
LIABILITIES			
Current liabilities:			
Abandoned property.....	-	2,348	2,348
Accrued health claims payable.....	151,717	-	151,717
Workers' compensation claims.....	-	390,000	390,000
Total current liabilities.....	<u>151,717</u>	<u>392,348</u>	<u>544,065</u>
Noncurrent liabilities:			
Workers' compensation claims.....	-	453,000	453,000
Total liabilities.....	<u>151,717</u>	<u>845,348</u>	<u>997,065</u>
FUND NET ASSETS			
Unrestricted.....	<u>\$ 264,381</u>	<u>\$ (655,988)</u>	<u>\$ (391,607)</u>

INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Retirees' Health Insurance	Workers' Compensation	Total
OPERATING REVENUES			
Employer contributions.....	\$ 1,000,000	\$ 360,516	\$ 1,360,516
Employee contributions.....	120,027	-	120,027
TOTAL OPERATING REVENUES.....	1,120,027	360,516	1,480,543
OPERATING EXPENSES			
Employee benefits.....	1,018,462	756,385	1,774,847
OPERATING INCOME (LOSS).....	101,565	(395,869)	(294,304)
NONOPERATING REVENUES (EXPENSES)			
Investment income.....	11,594	834	12,428
INCOME (LOSS) BEFORE TRANSFERS.....	113,159	(395,035)	(281,876)
TRANSFERS			
Transfers out.....	(12,428)	-	(12,428)
CHANGE IN FUND NET ASSETS.....	100,731	(395,035)	(294,304)
FUND NET ASSETS AT BEGINNING OF YEAR.....	163,650	(260,953)	(97,303)
FUND NET ASSETS AT END OF YEAR.....	\$ 264,381	\$ (655,988)	\$ (391,607)

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Retirees' Health Insurance	Workers' Compensation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 120,027	\$ -	\$ 120,027
Receipts from interfund services provided.....	1,000,000	360,516	1,360,516
Payments for interfund services used.....	(999,167)	(545,881)	(1,545,048)
	<u>120,860</u>	<u>(185,365)</u>	<u>(64,505)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out.....	(12,428)	-	(12,428)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	11,594	834	12,428
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	120,026	(184,531)	(64,505)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	296,072	373,891	669,963
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 416,098	\$ 189,360	\$ 605,458
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 101,565	\$ (395,869)	\$ (294,304)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Changes in assets and liabilities:			
Warrants payable.....	-	(32,583)	(32,583)
Other liabilities.....	-	87	87
Accrued health claims payable.....	19,295	-	19,295
Workers' compensation.....	-	243,000	243,000
Total adjustments.....	<u>19,295</u>	<u>210,504</u>	<u>229,799</u>
NET CASH FROM OPERATING ACTIVITIES.....	\$ 120,860	\$ (185,365)	\$ (64,505)

Agency Funds

Narrative

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

AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
ASSETS				
Cash and cash equivalents.....	\$ 666,611	\$ 114,546	\$ (374,944)	\$ 406,213
	<u>666,611</u>	<u>114,546</u>	<u>(374,944)</u>	<u>406,213</u>
LIABILITIES				
Warrants payable.....	\$ 252,389	\$ 116,277	\$ (368,666)	\$ -
Liabilities due depositors.....	414,222	116,884	(124,893)	406,213
	<u>414,222</u>	<u>116,884</u>	<u>(124,893)</u>	<u>406,213</u>
Total liabilities.....	\$ 666,611	\$ 233,161	\$ (493,559)	\$ 406,213
	<u>666,611</u>	<u>233,161</u>	<u>(493,559)</u>	<u>406,213</u>

General Fund

Narrative

The general fund is the general operating fund. It is used to account for all financial resources, except those required to be accounted for in another fund.

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 27,758,910	\$ 27,758,910	\$ 27,683,776	\$ (75,134)
Motor vehicle and other excise taxes.....	2,175,000	2,175,000	2,737,502	562,502
Tax and trash liens.....	-	-	505,964	505,964
Payments in lieu of taxes.....	1,092,945	1,092,945	1,195,899	102,954
Trash disposal.....	1,249,404	1,249,404	1,230,498	(18,906)
Intergovernmental.....	60,524,856	60,524,856	61,082,743	557,887
Penalties and interest on taxes.....	160,000	160,000	380,239	220,239
Licenses, permits and fees.....	1,312,610	1,312,610	1,564,014	251,404
Fines and forfeitures.....	1,947,690	1,947,690	1,578,152	(369,538)
Departmental.....	-	-	282,635	282,635
Investment income.....	1,440,733	1,440,733	1,602,229	161,496
TOTAL REVENUES.....	97,662,148	97,662,148	99,843,651	2,181,503
EXPENDITURES				
GENERAL GOVERNMENT				
LEGISLATIVE				
Salaries.....	146,456	146,456	145,141	1,315
Expenses.....	64,317	64,317	59,975	4,342
TOTAL.....	210,773	210,773	205,116	5,657
EXECUTIVE OFFICE				
Salaries.....	211,786	211,786	195,412	16,374
Expenses.....	42,984	42,984	32,926	10,058
TOTAL.....	254,770	254,770	228,338	26,432
AUDITOR'S OFFICE				
Salaries.....	212,807	219,843	213,490	6,353
Expenses.....	7,103	7,103	6,199	904
TOTAL.....	219,910	226,946	219,689	7,257
TREASURER'S/COLLECTOR'S OFFICE				
Salaries.....	412,861	425,950	420,836	5,114
Expenses.....	245,788	245,788	179,090	66,698
TOTAL.....	658,649	671,738	599,926	71,812
ASSESSING				
Salaries.....	163,627	175,011	171,728	3,283
Expenses.....	90,051	90,051	79,251	10,800
TOTAL.....	253,678	265,062	250,979	14,083
PROCUREMENT				
Salaries.....	91,036	91,036	89,848	1,188
Expenses.....	1,050	1,050	833	217
Capital.....	2,300	2,300	2,013	287
TOTAL.....	94,386	94,386	92,694	1,692

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
CENTRAL BILLING				
Salaries.....	103,427	107,111	105,869	1,242
Expenses.....	74,054	74,054	64,781	9,273
TOTAL.....	177,481	181,165	170,650	10,515
LAW DEPARTMENT				
Salaries.....	155,127	155,127	153,040	2,087
Expenses.....	63,524	63,524	42,164	21,360
TOTAL.....	218,651	218,651	195,204	23,447
PERSONNEL DEPARTMENT				
Salaries.....	114,795	114,795	114,795	-
Expenses.....	23,075	23,075	12,705	10,370
TOTAL.....	137,870	137,870	127,500	10,370
INFORMATION SYSTEMS				
Salaries.....	164,867	164,867	142,924	21,943
Expenses.....	221,300	221,300	217,328	3,972
Capital.....	40,000	40,000	40,000	-
TOTAL.....	426,167	426,167	400,252	25,915
CITY CLERK				
Salaries.....	221,392	221,392	215,594	5,798
Expenses.....	41,698	41,698	32,497	9,201
Capital.....	-	-	-	-
TOTAL.....	263,090	263,090	248,091	14,999
OFFICE OF PLANNING AND DEVELOPMENT				
Expenses.....	24,286	24,286	24,250	36
LICENSING				
Salaries.....	57,661	62,124	62,123	1
Expenses.....	2,989	2,989	2,897	92
TOTAL.....	60,650	65,113	65,020	93
SALARY RESERVE.....	419,132	181,441	-	181,441
TOTAL GENERAL GOVERNMENT.....	3,419,493	3,221,458	2,827,709	393,749
PUBLIC SAFETY				
POLICE DEPARTMENT				
Salaries.....	6,333,842	6,363,692	6,328,921	34,771
Expenses.....	436,442	468,387	446,576	21,811
Capital.....	133,429	133,429	133,429	-
TOTAL.....	6,903,713	6,965,508	6,908,926	56,582

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
FIRE DEPARTMENT				
Salaries.....	6,207,430	6,207,430	6,186,315	21,115
Expenses.....	314,448	355,166	339,057	16,109
Capital.....	-	-	-	-
TOTAL.....	6,521,878	6,562,596	6,525,372	37,224
INSPECTIONAL SERVICES				
Salaries.....	509,418	522,037	519,692	2,345
Expenses.....	43,183	43,183	31,093	12,090
TOTAL.....	552,601	565,220	550,785	14,435
TRAFFIC AND PARKING				
Salaries.....	36,161	40,461	39,692	769
Expenses.....	639,959	639,959	549,100	90,859
TOTAL.....	676,120	680,420	588,792	91,628
EMERGENCY MANAGEMENT				
Salaries.....	658,591	749,591	724,184	25,407
Expenses.....	30,073	30,073	12,896	17,177
TOTAL.....	688,664	779,664	737,080	42,584
TOTAL PUBLIC SAFETY.....	15,342,976	15,553,408	15,310,955	242,453
EDUCATION				
Operational.....	47,622,496	47,622,496	46,707,875	914,621
Northeast Regional Vocational High School Assessment.....	1,295,329	1,295,329	1,269,085	26,244
TOTAL EDUCATION.....	48,917,825	48,917,825	47,976,960	940,865
PUBLIC WORKS				
ADMINISTRATION				
Salaries.....	178,848	178,848	166,335	12,513
Expenses.....	12,030	12,030	11,198	832
TOTAL.....	190,878	190,878	177,533	13,345
STREETS AND SIDEWALKS				
Salaries.....	588,668	588,668	563,581	25,087
Expenses.....	951,195	951,195	821,310	129,885
TOTAL.....	1,539,863	1,539,863	1,384,891	154,972
SOLID WASTE/RECYCLING				
Salaries.....	16,992	16,992	-	16,992
Expenses.....	1,799,525	1,799,525	1,680,397	119,128
TOTAL.....	1,816,517	1,816,517	1,680,397	136,120

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
STRUCTURES AND GROUNDS				
Salaries.....	262,272	262,272	238,308	23,964
Expenses.....	765,986	776,726	667,332	109,394
TOTAL.....	1,028,258	1,038,998	905,640	133,358
SNOW AND ICE REMOVAL				
Salaries.....	25,000	25,000	18,720	6,280
Expenses.....	68,330	68,330	99,792	(31,462)
Capital.....	15,705	15,705	15,704	1
TOTAL.....	109,035	109,035	134,216	(25,181)
TOTAL PUBLIC WORKS.....	4,684,551	4,695,291	4,282,677	412,614
HEALTH AND HUMAN SERVICES				
ADMINISTRATION				
Salaries.....	128,270	135,602	134,933	669
Expenses.....	7,275	7,275	7,020	255
TOTAL.....	135,545	142,877	141,953	924
HEALTH DIVISION				
Salaries.....	383,486	409,019	406,946	2,073
VETERAN'S SERVICE				
Salaries.....	70,841	76,279	76,279	-
Expenses.....	209,903	256,043	249,233	6,810
TOTAL.....	280,744	332,322	325,512	6,810
ELDER AFFAIRS				
Salaries.....	175,019	184,840	183,621	1,219
Expenses.....	18,864	18,864	17,885	979
TOTAL.....	193,883	203,704	201,506	2,198
TOTAL HEALTH AND HUMAN SERVICES.....	993,658	1,087,922	1,075,917	12,005
CULTURE AND RECREATION				
RECREATION AND CULTURAL AFFAIRS				
Salaries.....	24,961	26,868	26,568	300
Expenses.....	50,000	50,000	50,000	-
TOTAL.....	74,961	76,868	76,568	300
PUBLIC LIBRARY				
Salaries.....	235,955	246,190	243,334	2,856
Expenses.....	28,051	28,051	26,675	1,376
TOTAL.....	264,006	274,241	270,009	4,232
TOTAL CULTURE AND RECREATION.....	338,967	351,109	346,577	4,532

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive/ (Negative)
PENSION BENEFITS				
CONTRIBUTORY RETIREMENT SYSTEM				
Expenses.....	6,121,184	6,121,184	6,121,184	-
NON-CONTRIBUTORY PENSION BENEFITS				
Expenses.....	103,425	103,425	88,536	14,889
TOTAL PENSION BENEFITS.....	6,224,609	6,224,609	6,209,720	14,889
EMPLOYEE BENEFITS				
UNEMPLOYMENT COMPENSATION				
Expenses.....	52,000	52,000	1,590	50,410
HEALTH INSURANCE				
Expenses.....	9,760,908	9,760,908	9,755,810	5,098
WORKER'S COMPENSATION				
Expenses.....	313,000	313,000	302,143	10,857
PAYROLL TAXES				
Expenses.....	506,135	506,135	583,799	(77,664)
LIFE INSURANCE				
Expenses.....	40,955	40,955	29,546	11,409
TOTAL EMPLOYEE BENEFITS.....	10,672,998	10,672,998	10,672,888	110
PROPERTY AND LIABILITY INSURANCE				
Expenses.....	528,918	528,918	426,165	102,753
CLAIMS AND JUDGMENTS				
Expenses.....	29,490	29,490	9,210	20,280
STATE AND COUNTY CHARGES				
Expenses.....	3,115,527	3,115,527	2,977,746	137,781
DEBT SERVICE PRINCIPAL				
Expenses.....	6,972,285	6,972,285	6,970,284	2,001
DEBT SERVICE INTEREST				
Expenses.....	3,321,986	3,321,986	3,312,176	9,810
TOTAL EXPENDITURES.....	104,563,283	104,692,826	102,398,984	2,293,842
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES.....	(6,901,135)	(7,030,678)	(2,555,333)	4,475,345
OTHER FINANCING SOURCES (USES):				
Transfers in.....	1,581,000	1,581,000	1,611,000	30,000
Premium from issuance of short-term notes.....	-	-	12,185	12,185
Transfers out.....	-	(150,000)	(150,000)	-
TOTAL OTHER FINANCING SOURCES (USES).....	1,581,000	1,431,000	1,473,185	42,185
NET CHANGE IN FUND BALANCE.....	(5,320,135)	(5,599,678)	(1,082,148)	4,517,530
BUDGETARY FUND BALANCE, Beginning of year.....	11,525,719	11,525,719	11,525,719	-
BUDGETARY FUND BALANCE, End of year.....	\$ 6,205,584	\$ 5,926,041	\$ 10,443,571	\$ 4,517,530

(Concluded)

Statistical Section



Camera Demo

City Councilors watch a demonstration of the new Homeland Security/Public Safety cameras in operation. The Chelsea Police Department has installed a camera operations center in the existing police station to monitor and record 27 cameras strategically located throughout the City. These cameras zoom, pan and are in full color. The Chelsea police have already used the cameras to make several arrests

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 98 – 106)

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 107 – 110)

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

Debt Capacity (pages 111 – 116)

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 117 – 118)

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 119 – 124)

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 ASSETS BY COMPONENT
(ACCRUAL BASIS OF ACCOUNTING)

LAST FIVE FISCAL YEARS (1)

	2002	2003	2004	2005	2006
Governmental Activities					
Invested in capital assets, net of related debt....	\$ 67,472,216	\$ 88,028,350	\$ 87,769,262	\$ 104,156,143	\$ 95,076,444
Restricted.....	24,425,588	24,824,976	15,183,702	14,856,655	13,532,009
Unrestricted.....	<u>27,453,878</u>	<u>24,631,799</u>	<u>28,500,604</u>	<u>24,393,261</u>	<u>30,341,659</u>
Total governmental activities net assets.....	<u>\$ 119,351,682</u>	<u>\$ 137,485,125</u>	<u>\$ 131,453,568</u>	<u>\$ 143,406,059</u>	<u>\$ 138,950,112</u>
Business-Type Activities					
Invested in capital assets, net of related debt....	\$ 1,819,597	\$ 3,367,738	\$ 4,534,392	\$ 3,445,938	\$ 1,312,513
Restricted.....	-	957,423	-	-	-
Unrestricted.....	<u>4,669,738</u>	<u>2,429,730</u>	<u>3,015,421</u>	<u>4,101,194</u>	<u>6,850,903</u>
Total business-type activities net assets.....	<u>\$ 6,489,335</u>	<u>\$ 6,754,891</u>	<u>\$ 7,549,813</u>	<u>\$ 7,547,132</u>	<u>\$ 8,163,416</u>
Primary Government					
Invested in capital assets, net of related debt....	\$ 69,291,813	\$ 91,396,088	\$ 92,303,654	\$ 107,602,081	\$ 96,388,957
Restricted.....	24,425,588	25,782,399	15,183,702	14,856,655	13,532,009
Unrestricted.....	<u>32,123,616</u>	<u>27,061,529</u>	<u>31,516,025</u>	<u>28,494,455</u>	<u>37,192,562</u>
Total primary government net assets.....	<u>\$ 125,841,017</u>	<u>\$ 144,240,016</u>	<u>\$ 139,003,381</u>	<u>\$ 150,953,191</u>	<u>\$ 147,113,528</u>

(1) Data is presented starting with the fiscal year that the City implemented GASB Statement No. 34 (GASBS 34)

GOVERNMENTAL ACTIVITIES
CHANGES IN NET ASSETS (ACCRUAL BASIS OF ACCOUNTING)

LAST FIVE FISCAL YEARS (1)

	2002	2003	2004	2005	2006
Expenses					
General government.....	\$ 3,067,105	\$ 4,175,305	\$ 4,012,030	\$ 4,498,641	\$ 4,706,250
Public safety.....	16,083,570	20,788,760	20,951,948	23,411,640	25,120,329
Education.....	59,176,317	68,117,532	70,629,480	72,144,706	75,452,209
Public works.....	6,829,141	6,170,407	5,390,668	6,349,328	5,135,556
Health and human services.....	1,964,649	4,362,128	4,297,219	4,515,046	4,803,211
Culture and recreation.....	211,407	607,745	603,279	645,308	708,300
Community development.....	2,343,653	2,503,532	2,607,842	1,827,184	1,481,448
Pension benefits (2).....	5,303,065	-	-	-	-
Employee benefits (2).....	7,384,482	-	-	-	-
Property and liability insurance (2).....	305,040	-	-	-	-
Claims and judgments (2).....	9,699	-	-	-	-
State and county charges (2).....	1,775,003	-	-	-	-
Debt service - interest.....	5,356,571	4,994,998	7,000,683	4,114,478	3,507,512
Total expenses.....	109,809,702	111,720,407	115,493,149	117,506,331	120,914,815
Program Revenues					
Charges for services:					
Public safety.....	3,026,871	3,137,625	2,865,284	3,467,600	3,831,602
Public works.....	961,094	1,075,487	1,147,770	1,207,394	1,223,069
Other activities.....	1,828,150	1,939,778	2,186,801	2,315,573	2,174,234
Operating grants and contributions.....	59,855,934	70,132,050	60,350,646	63,868,631	63,410,195
Capital grants and contributions.....	184,878	438,833	400,045	17,262,055	1,021,324
Total program revenues.....	65,856,927	76,723,773	66,950,546	88,121,253	71,660,424
Net (expense)/revenue.....	(43,952,775)	(34,996,634)	(48,542,603)	(29,385,078)	(49,254,391)
General Revenues and Other Changes in Net Assets					
Real estate and personal property taxes.....	21,452,278	22,753,878	23,780,306	26,143,234	27,718,447
Motor vehicle and other excise taxes.....	2,603,461	3,136,517	2,331,503	2,890,852	2,829,277
Tax and trash liens.....	179,670	636,587	321,130	440,194	442,603
Penalties and interest on taxes.....	371,265	272,770	661,775	331,215	380,239
Payments in lieu of taxes.....	1,124,092	1,641,658	1,132,798	609,949	1,195,899
Grants and contributions not restricted to specific programs.....	11,040,014	8,843,073	8,327,219	9,035,989	9,050,539
Unrestricted investment income.....	784,289	821,315	413,762	525,769	1,245,853
Premium from issuance of short-term notes.....	-	760,544	1,706	-	-
Gain (Loss) on sale of capital assets.....	-	30,995	(1,636,100)	25,000	297,780
Other.....	231,234	41,233	32,612	23,717	282,085
Transfers, net.....	1,121,892	1,014,252	991,487	1,270,254	1,355,722
Total general revenues and other changes in net assets.....	38,908,195	39,952,822	36,358,198	41,296,173	44,798,444
Change in net assets.....	\$ (5,044,580)	\$ 4,956,188	\$ (12,184,405)	\$ 11,911,095	\$ (4,455,947)

(1) Data is presented starting with the fiscal year that the City implemented GASBS 34

(2) Beginning in fiscal year 2003, the City began allocating pension benefits, employee benefits, property and liability insurance, claims and judgments and state and county charges to functional expenditures, per GASBS 34 requirements

BUSINESS-TYPE ACTIVITIES
CHANGES IN NET ASSETS (ACCRUAL BASIS OF ACCOUNTING)

LAST FIVE FISCAL YEARS (1)

	2002	2003	2004	2005	2006
Expenses					
Water and Sewer.....	\$ 6,716,508	\$ 8,364,159	\$ 9,365,460	\$ 9,085,256	\$ 9,460,948
Program Revenues					
Charges for services.....	8,640,017	9,304,762	11,137,737	10,365,205	10,967,624
Operating grants and contributions.....	215,498	36,892	14,132	29,020	78,403
Capital grants and contributions.....	170,730	302,313	-	-	386,927
Total program revenues.....	9,026,245	9,643,967	11,151,869	10,394,225	11,432,954
Net (expense)/revenue.....	2,309,737	1,279,808	1,786,409	1,308,969	1,972,006
General Revenues and Transfers					
Transfers, net.....	(1,121,892)	(1,014,252)	(991,487)	(1,270,254)	(1,355,722)
Change in net assets.....	\$ 1,187,845	\$ 265,556	\$ 794,922	\$ 38,715	\$ 616,284

(1) Data is presented starting with the fiscal year that the City implemented GASBS 34

PRIMARY GOVERNMENT
CHANGES IN NET ASSETS (ACCRUAL BASIS OF ACCOUNTING)

LAST FIVE FISCAL YEARS (1)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total expenses.....	\$ 116,526,210	\$ 120,084,566	\$ 124,858,609	\$ 126,591,587	\$ 130,375,763
Total program revenues.....	74,883,172	86,367,740	78,102,415	98,515,478	83,093,378
Net (expense)/revenue.....	(41,643,038)	(33,716,826)	(46,756,194)	(28,076,109)	(47,282,385)
Total general revenues, transfers and other changes in net assets...	<u>37,786,303</u>	<u>38,938,570</u>	<u>35,366,711</u>	<u>40,025,919</u>	<u>43,442,722</u>
Change in net assets.....	\$ <u>(3,856,735)</u>	\$ <u>5,221,744</u>	\$ <u>(11,389,483)</u>	\$ <u>11,949,810</u>	\$ <u>(3,839,663)</u>

(1) Data is presented starting with the fiscal year that the City implemented GASBS 34



GOVERNMENTAL FUNDS
FUND BALANCES (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

LAST TEN FISCAL YEARS

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
General Fund				
Reserved.....	\$ 1,814,936	\$ 1,619,488	\$ 2,141,354	\$ 1,548,720
Unreserved.....	<u>4,893,299</u>	<u>7,307,396</u>	<u>9,360,784</u>	<u>12,688,981</u>
Total general fund.....	<u><u>\$ 6,708,235</u></u>	<u><u>\$ 8,926,884</u></u>	<u><u>\$ 11,502,138</u></u>	<u><u>\$ 14,237,701</u></u>
All Other Governmental Funds				
Reserved.....	\$ 1,572,476	\$ 1,709,706	\$ 2,005,036	\$ 2,406,969
Unreserved, reported in:				
Special revenue funds.....	3,143,106	4,758,421	7,361,995	9,330,984
Debt service funds.....	8,433,352	9,344,916	8,759,619	8,380,476
Capital projects funds.....	7,566,350	4,254,600	3,809,945	1,474,281
Permanent funds.....	<u>264,707</u>	<u>306,362</u>	<u>286,847</u>	<u>416,902</u>
Total all other governmental funds.....	<u><u>\$ 20,979,991</u></u>	<u><u>\$ 20,374,005</u></u>	<u><u>\$ 22,223,442</u></u>	<u><u>\$ 22,009,612</u></u>

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 1,825,526	\$ 2,357,008	\$ 3,040,954	\$ 2,468,835	\$ 2,190,036	\$ 1,753,717
<u>15,227,877</u>	<u>10,539,843</u>	<u>10,252,478</u>	<u>8,590,955</u>	<u>9,087,501</u>	<u>8,307,212</u>
<u>\$ 17,053,403</u>	<u>\$ 12,896,851</u>	<u>\$ 13,293,432</u>	<u>\$ 11,059,790</u>	<u>\$ 11,277,537</u>	<u>\$ 10,060,929</u>
\$ 4,415,666	\$ 5,737,054	\$ 5,389,046	\$ 5,338,698	\$ 4,489,363	\$ 4,062,188
10,580,027	7,924,095	9,987,147	11,953,009	11,933,024	13,027,339
8,936,238	9,433,813	10,702,854	9,758,015	10,279,367	9,370,978
3,485,056	(6,635,417)	(10,252,232)	(9,122,271)	(1,274,477)	(1,246,189)
<u>493,365</u>	<u>86,900</u>	<u>86,480</u>	<u>86,989</u>	<u>87,925</u>	<u>98,843</u>
<u>\$ 27,910,352</u>	<u>\$ 16,546,445</u>	<u>\$ 15,913,295</u>	<u>\$ 18,014,440</u>	<u>\$ 25,515,202</u>	<u>\$ 25,313,159</u>

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

LAST TEN FISCAL YEARS

	1997	1998	1999	2000	2001
REVENUES					
Real estate and personal property taxes.....	\$ 17,944,204	\$ 17,729,437	\$ 19,645,555	\$ 19,464,358	\$ 23,686,270
Motor vehicle and other excise taxes.....	1,344,464	2,538,763	1,422,042	2,307,286	1,905,700
Tax and utility liens.....	-	-	-	-	-
Payments in lieu of taxes.....	1,147,902	1,084,924	1,141,671	1,591,474	1,633,877
Charges for services.....	1,574,228	1,869,142	2,233,497	2,226,214	2,274,573
Trash disposal.....	-	-	-	-	-
Intergovernmental	53,710,621	57,445,599	65,099,855	68,747,661	76,188,575
Penalties and interest on taxes.....	674,305	335,862	546,923	414,379	1,520,929
Licenses, permits and fees.....	657,218	674,166	697,589	1,056,159	830,130
Fines and forfeitures.....	1,028,138	1,081,955	1,247,149	1,319,264	1,483,634
Departmental.....	-	-	-	-	-
Contributions.....	912,043	1,264,449	1,152,490	703,828	558,389
Investment income.....	2,306,987	2,918,609	1,171,362	1,848,589	3,154,945
Other.....	307,409	568,153	517,785	575,848	678,915
TOTAL REVENUES.....	81,607,519	87,511,059	94,875,918	100,255,060	113,915,937
EXPENDITURES					
Current:					
General government.....	1,559,537	2,483,691	2,078,627	2,397,043	2,601,668
Public safety.....	10,401,865	11,296,862	11,934,337	12,519,520	14,087,993
Education.....	34,251,505	40,421,521	44,933,711	48,704,754	51,468,402
Public works.....	4,145,781	4,055,683	4,004,265	3,940,400	4,341,867
Health and human services.....	1,145,428	1,054,548	1,234,793	1,318,863	1,438,230
Culture and recreation.....	371,810	431,546	364,813	381,304	455,534
Community development.....	1,301,635	1,831,729	1,441,518	1,480,392	1,660,953
Pension benefits.....	4,274,347	4,543,032	4,571,444	7,007,754	7,276,889
Employee benefits.....	4,146,891	4,496,173	5,284,037	4,997,082	6,039,105
Property and liability insurance.....	256,015	244,485	197,233	183,357	217,579
Claims and judgments.....	38,659	76,500	11,303	6,831	22,421
State and county charges.....	1,550,405	1,852,526	1,713,285	1,718,175	1,807,938
Capital outlay.....	18,664,827	5,870,449	12,056,873	3,054,115	4,943,097
Debt service:					
Principal.....	5,910,121	6,691,457	6,179,482	6,479,805	6,528,849
Interest.....	5,845,210	5,120,372	5,201,709	5,570,738	5,137,019
TOTAL EXPENDITURES.....	93,864,036	90,470,574	101,207,430	99,760,133	108,027,544
EXCESS (DEFICIENCY) OF REVENUES					
OVER EXPENDITURES.....	(12,256,517)	(2,959,515)	(6,331,512)	494,927	5,888,393
OTHER FINANCING SOURCES (USES)					
Transfers in.....	726,900	3,487,673	-	5,062,020	10,169,470
Proceeds of bonds and notes.....	56,070	2,617,900	9,821,569	-	1,454,000
Premium from issuance of bonds and notes.....	-	-	5,459,994	-	-
Proceeds of refunding bonds.....	-	42,090,000	-	-	-
Premium from issuance of refunding bonds.....	-	1,429,805	-	-	-
Sale of capital assets.....	-	-	-	1,098,686	224,370
Transfers out.....	(525,136)	(3,022,216)	(4,525,560)	(4,133,900)	(9,019,791)
Payments to refunding bond escrow agent.....	-	(42,928,283)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	257,834	3,674,879	10,756,003	2,026,806	2,828,049
NET CHANGE IN FUND BALANCES.....	\$ (11,998,683)	\$ 715,364	\$ 4,424,491	\$ 2,521,733	\$ 8,716,442
DEBT SERVICE EXPENDITURES AS A PERCENTAGE OF					
NONCAPITAL EXPENDITURES.....	15.63%	13.96%	12.77%	12.46%	11.32%

	2002	2003	2004	2005	2006
\$	21,728,833	\$ 22,669,580	\$ 24,656,790	\$ 25,996,104	\$ 27,786,205
	2,170,362	3,251,518	2,431,353	2,933,506	2,737,502
	457,252	489,714	899,262	338,515	505,964
	1,124,092	1,641,658	1,132,798	609,949	1,195,899
	1,815,325	1,846,231	1,641,003	2,123,881	2,409,626
	866,277	907,205	1,034,814	1,120,391	1,230,498
	74,378,281	78,901,636	76,383,765	90,513,250	81,556,455
	371,265	272,770	661,775	331,215	380,239
	813,695	1,240,984	1,457,471	1,623,212	1,634,239
	1,764,984	1,578,661	1,417,772	1,509,779	1,578,152
	72,016	645,318	751,036	633,612	1,167,669
	109,778	181,635	133,509	331,998	664,958
	2,105,219	2,884,896	216,136	1,810,607	1,091,025
	467,020	-	-	-	-
	<u>108,244,399</u>	<u>116,511,806</u>	<u>112,817,484</u>	<u>129,876,019</u>	<u>123,938,431</u>
	2,996,976	3,280,440	3,242,967	3,260,371	3,050,989
	15,882,936	15,200,487	14,945,125	18,612,071	17,858,180
	67,437,206	59,553,050	57,742,946	58,334,323	59,939,592
	7,601,737	6,380,387	4,997,207	6,214,350	4,535,429
	1,908,806	2,017,643	1,999,958	2,072,138	1,916,395
	444,751	425,978	389,739	432,059	480,202
	2,332,017	2,351,070	3,088,565	2,024,964	5,348,708
	5,303,065	7,897,955	8,357,720	9,203,469	9,991,344
	6,919,831	7,401,070	8,801,256	9,222,562	10,672,888
	305,040	369,692	457,240	473,443	426,165
	9,699	18,377	15,835	20,498	9,210
	1,775,003	2,208,706	2,552,188	2,883,357	2,977,746
	-	-	-	-	-
	6,650,866	6,871,706	6,751,706	6,911,246	6,970,284
	5,155,747	4,700,550	4,607,567	4,136,328	3,549,065
	<u>124,723,680</u>	<u>118,677,111</u>	<u>117,950,019</u>	<u>123,801,179</u>	<u>127,726,197</u>
	<u>(16,479,281)</u>	<u>(2,165,305)</u>	<u>(5,132,535)</u>	<u>6,074,840</u>	<u>(3,787,766)</u>
	10,022,247	4,467,548	4,526,909	5,636,392	2,416,211
	-	-	1,600,000	641,000	691,000
	-	760,544	1,706	28,516	12,185
	-	16,660,000	-	1,007,661	-
	-	1,510,874	-	18,978	-
	-	30,995	2,400,696	25,000	297,780
	(8,890,143)	(3,451,011)	(3,529,273)	(4,354,515)	(1,048,061)
	-	(18,050,214)	-	(1,001,620)	-
	<u>1,132,104</u>	<u>1,928,736</u>	<u>5,000,038</u>	<u>2,001,412</u>	<u>2,369,115</u>
\$	<u>(15,347,177)</u>	<u>(236,569)</u>	<u>(132,497)</u>	<u>8,076,252</u>	<u>(1,418,651)</u>

9.47% 9.75% 9.63% 8.92% 8.24%

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (1)

LAST TEN FISCAL YEARS

Fiscal Year	Assessed Value (2)			Total Assessed Value	Total Direct Tax Rate	Estimated Actual Value (3)	Assessed Value as a Percentage of Actual Value
	Residential Real Property	Commercial and Industrial Real Property	Personal Property				
1997	\$ 527,327,140	\$ 257,944,810	\$ 32,710,050	\$ 817,982,000	\$ 20.94	\$ 812,415,200	100.69%
1998	511,815,000	258,730,800	38,791,342	809,337,142	22.29	812,415,200	99.62%
1999	514,389,000	257,928,100	37,507,061	809,824,161	23.87	839,088,700	96.51%
2000	568,102,590	287,527,010	38,369,380	893,998,980	22.70	1,038,467,300	86.09%
2001	760,735,197	306,489,193	39,465,410	1,106,689,800	18.70	1,038,467,300	106.57%
2002	825,837,480	321,823,420	40,520,720	1,188,181,620	18.50	1,387,408,500	85.64%
2003	1,128,710,498	490,899,818	47,763,890	1,667,374,206	13.61	1,387,408,500	120.18%
2004	1,327,636,240	581,492,726	53,601,470	1,962,730,436	12.82	2,206,598,800	88.95%
2005	1,451,146,085	579,176,954	53,696,950	2,084,019,989	12.69	2,206,598,800	94.44%
2006	1,625,780,262	578,648,023	56,399,900	2,260,828,185	12.39	2,642,115,600	85.57%

Source: Assessing Department

(1) Does not include valuation affected by residential exemption

(2) As of January 1st

(3) Estimated actual 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>
1997	\$ 14.23	\$ 37.50	\$ 37.50	\$ 20.94
1998	14.58	39.97	39.97	22.29
1999	15.39	41.78	41.78	23.87
2000	14.65	39.73	39.73	22.70
2001	14.39	33.53	33.53	18.70
2002	14.52	33.18	33.18	18.50
2003	10.04	22.41	22.41	13.61
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

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 TAX PAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2006			1997		
	Amount of Tax	Rank	Percentage of Total Tax Levy	Amount of Tax	Rank	Percentage of Total Tax Levy
Anthony Simboli	\$ 770,203	1	2.75%	\$ 340,414	5	1.99%
Chelsea Development Associations	701,668	2	2.50%	521,250	1	3.04%
NSTAR Services	592,422	3	2.11%	477,971	2	2.79%
Griffin Way LLC/Howland Development	578,761	4	2.07%	-	-	-
Demoulas Super Markets Inc	362,921	5	1.30%	-	-	-
Admiral Hill Association	326,595	6	1.17%	-	-	-
Catamount Petroleum L.P.	291,167	7	1.04%	347,869	4	2.03%
New England Produce Center	284,599	8	1.02%	-	-	-
General Mills	213,850	9	0.76%	-	-	-
Parkway Plaza Venture	194,483	10	0.69%	-	-	-
Mystic Mall Limited Partnership	-	-	-	467,527	3	2.73%
Patrick Glynn	-	-	-	312,968	6	1.83%
Stanton Black	-	-	-	269,561	7	1.57%
Boston Gas	-	-	-	220,189	8	1.29%
Chelsea Terminal Limited Partnership	-	-	-	206,355	9	1.20%
NYNEX	-	-	-	204,566	10	1.19%
Total	\$ 4,316,668		15.41%	\$ 3,368,670		19.67%

Source: Department of the Treasurer/Collector

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
1997	\$ 17,128,156	\$ 16,283,716	95.07%	\$ 72,650	\$ 16,356,366	95.49%
1998	18,036,139	17,102,086	94.82%	285,630	17,387,716	96.40%
1999	19,332,172	18,246,989	94.39%	179,967	18,426,956	95.32%
2000	20,297,536	18,960,365	93.41%	476,911	19,437,276	95.76%
2001	20,690,062	20,480,271	98.99%	27,769	20,508,040	99.12%
2002	21,984,490	20,450,338	93.02%	266,906	20,717,244	94.24%
2003	22,699,963	22,378,670	98.58%	85,487	22,464,157	98.96%
2004	25,165,331	24,745,235	98.33%	308,514	25,053,749	99.56%
2005	26,455,080	25,919,327	97.97%	333,804	26,253,131	99.24%
2006	28,013,781	27,239,392	97.24%	-	27,239,392	97.24%

Source: Department of the Treasurer/Collector

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

Fiscal Year	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		Total Primary Government	Percentage of Median Family Income (1)	Per Capita (1)
	General Obligation Bonds	State House Notes	General Obligation Bonds	MWRA Notes			
1997	\$ 94,720,000	\$ 2,201,216	\$ 322,546	\$ -	\$ 97,243,762	11.11%	\$ 3,522
1998	93,486,564	1,981,095	4,928,436	288,341	100,684,436	11.50%	3,647
1999	97,348,772	1,760,974	6,118,227	503,735	105,731,708	12.08%	3,830
2000	92,475,088	154,853	5,565,910	431,781	98,627,632	10.38%	3,435
2001	86,234,360	1,320,732	6,867,640	298,596	94,721,328	9.97%	3,299
2002	79,803,615	1,100,611	7,511,384	445,548	88,861,158	7.66%	2,533
2003	73,282,030	880,490	6,832,967	513,336	81,508,823	6.67%	2,324
2004	68,350,445	660,369	7,399,551	531,598	76,941,963	5.92%	2,193
2005	61,965,318	440,248	9,231,678	401,078	72,038,322	6.33%	2,054
2006	55,906,155	220,127	10,578,841	861,872	67,566,995	6.39%	1,926

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 (page 117) 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 Actual Taxable Value of Property	(2) Per Capita
	General Obligation Bonds	State House Notes	Total General Bonded Debt	Less: Resources Restricted for Debt Principal	Total Net General Bonded Debt		
1997	\$ 94,720,000	\$ 2,201,216	\$ 96,921,216	\$ 8,433,352	\$ 88,487,864	10.89%	\$ 3,205
1998	93,486,564	1,981,095	95,467,659	9,344,916	86,122,743	10.60%	3,119
1999	97,348,772	1,760,974	99,109,746	8,759,619	90,350,127	10.77%	3,273
2000	92,475,088	154,853	92,629,941	8,380,476	84,249,465	8.11%	2,934
2001	86,234,360	1,320,732	87,555,092	8,936,238	78,618,854	7.57%	2,738
2002	79,803,615	1,100,611	80,904,226	9,433,813	71,470,413	5.15%	2,037
2003	73,282,030	880,490	74,162,520	10,702,854	63,459,666	4.57%	1,809
2004	68,350,445	660,369	69,010,814	9,758,015	59,252,799	2.69%	1,689
2005	61,965,318	440,248	62,405,566	10,279,367	52,126,199	2.36%	1,486
2006	55,906,155	220,127	56,126,282	9,370,978	46,755,304	1.77%	1,333

Note: Details regarding the City's outstanding debt (and resources restricted for debt principal) can be found in the notes to the financial statements.

(1) See the "Assessed Value and Estimated Actual Value of Taxable Property" schedule located in the Statistical Section (page 107) for property value data.

(2) Population data can be found in the "Demographic and Economic Statistics" schedule located in the Statistical Section (page 117).

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

JUNE 30, 2006

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Massachusetts Water Resource Authority.....	\$ 5,421,081,000	1.53%	\$ 83,186,275
City direct debt.....			<u>67,566,995</u>
Total direct and overlapping debt.....			<u><u>\$ 150,753,270</u></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.



LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year 2006

Fiscal year 2006 equalized valuation.....	\$ <u>2,642,115,600</u>
Normal debt limit (2 1/2% of equalized valuation).....	<u>66,052,890</u>
Debt applicable to limit:	
Total bonded debt.....	56,126,282
Less: General obligation bonds exempted by authority of state legislature.....	<u>(51,469,495)</u>
Total net debt applicable to limit.....	<u>4,656,787</u>
Legal debt margin.....	\$ <u>61,396,103</u>

	Fiscal Year		
	1997	1998	1999
Normal debt limit.....	\$ 20,310,380	\$ 20,310,380	\$ 20,977,218
Total net debt applicable to limit.....	<u>3,596,216</u>	<u>3,556,564</u>	<u>16,513,446</u>
Legal debt margin.....	\$ <u>16,714,164</u>	\$ <u>16,753,816</u>	\$ <u>4,463,772</u>
Total net debt applicable to the limit as a percentage of normal debt limit.....	17.71%	17.51%	78.72%

Fiscal Year						
2000	2001	2002	2003	2004	2005	2006
\$ 25,961,683	\$ 25,961,683	\$ 34,685,213	\$ 34,685,213	\$ 55,164,970	\$ 55,164,970	\$ 66,052,890
<u>4,029,088</u>	<u>5,049,360</u>	<u>4,503,615</u>	<u>3,904,851</u>	<u>3,419,961</u>	<u>3,200,318</u>	<u>4,656,787</u>
<u>\$ 21,932,595</u>	<u>\$ 20,912,323</u>	<u>\$ 30,181,598</u>	<u>\$ 30,780,362</u>	<u>\$ 51,745,009</u>	<u>\$ 51,964,652</u>	<u>\$ 61,396,103</u>
15.52%	19.45%	12.98%	11.26%	6.20%	5.80%	7.05%

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN CALENDAR YEARS

Year	Population (1)	Median Family Income (1)	Unemployment Rate (%) (2)
1996	27,608	\$ 31,699	7.6%
1997	27,608	31,699	6.3%
1998	27,608	33,088	5.2%
1999	28,710	33,088	5.3%
2000	28,710	33,088	4.1%
2001	35,080	33,088	4.6%
2002	35,080	34,849	3.9%
2003	35,080	37,039	5.5%
2004	35,080	32,430	6.4%
2005	35,080	30,161	6.4%

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

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

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

Employer	2006			1997		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
City of Chelsea	1,217	1	9.16%	-		-
MITC	1,200	2	9.04%	1,600	1	12.82%
MWRA	575	3	4.33%	-		-
Market Basket	420	4	3.16%	-		-
Kayem Foods	317	5	2.39%	400	4	3.20%
Signature Foods	250	6	1.88%	-		-
Metropolitan Credit Union	205	7	1.54%	140	9	1.12%
Stop & Shop	163	8	1.23%	-		-
Kettle Cuisine	125	9	0.94%	-		-
Wyndam Hotel	85	10	0.64%	-		-
Town & Country	-		-	500	2	4.01%
Paul Revere Transportation	-		-	500	3	4.01%
Rudi Foods, Inc.	-		-	250	5	2.00%
Gulf Oil Co.	-		-	225	6	1.80%
Massachusetts General Hospital	-		-	200	7	1.60%
Eagle Air Freight	-		-	150	8	1.20%
Glenmor Oil	-		-	105	10	0.84%
Total	4,557		34.31%	4,070		32.60%

Source: Department of Planning and Development

EMPLOYEES BY FUNCTION/PROGRAM

LAST NINE FISCAL YEARS (1)

Function/Program	Full-Time Equivalent Employees as of June 30								
	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government.....	51	53	55	71	71	51	50	52	52
Public safety.....	186	186	187	193	197	199	186	197	200
Education (2).....	910	910	910	938	970	937	864	879	879
Public works	31	31	31	30	30	28	27	26	25
Health and human services.....	41	41	40	54	47	49	40	36	39
Culture and recreation.....	1	1	1	3	8	8	8	9	8
Community development.....	14	14	14	13	13	13	10	10	10
Water and sewer.....	5	5	5	4	4	4	4	5	5
Total.....	<u>1,239</u>	<u>1,241</u>	<u>1,243</u>	<u>1,305</u>	<u>1,339</u>	<u>1,287</u>	<u>1,188</u>	<u>1,212</u>	<u>1,217</u>

Source: Various departments

(1) Data is not available for fiscal year 1997

(2) Data is not available for fiscal years 1998, 1999 and 2006. Fiscal year 2000 data is being used for fiscal years 1998 and 1999 as an estimate. Fiscal year 2005 data is being used for fiscal year 2006 as an estimate.



OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Fiscal Year			
	1997	1998	1999	2000
Public safety				
Police				
Offenses committed.....	9,655	8,845	8,406	7,816
Crime-related incidents.....	3,621	3,577	3,664	3,662
Non-crime related incidents.....	818	1,162	1,370	1,579
Arrests (on view).....	2,418	2,120	2,029	1,788
Arrests (based on incident/warrants).....	450	309	308	315
Summons arrests.....	-	3	2	1
Total arrests.....	2,868	2,432	2,339	2,104
Juvenile arrests.....	217	146	144	128
Hearings.....	339	287	210	169
Summons.....	70	75	41	64
Restraint orders.....	466	501	430	413
Citations.....	4,501	3,075	2,745	2,687
Fire				
Fires extinguished (1).....	378	370	408	377
Education				
Public school enrollment.....	5,288	5,523	5,836	5,759
Culture and recreation				
Library volumes in collection.....	87,145	88,890	78,420	81,963
Library volumes borrowed.....	71,224	70,321	74,183	67,328
Water				
Average daily consumption (million gallons/day).....	3.160	3.219	3.285	3.165
Peak daily consumption (1) (million gallons/day).....	5.230	3.900	3.920	4.450
Sewer				
Average daily sewage treatment (million gallons/day).....	4.140	4.960	4.410	4.700

Source: Various departments

(1) Data is not available for fiscal year 2006

Fiscal Year

2001	2002	2003	2004	2005	2006
7,693	8,245	7,724	6,909	6,784	7,460
3,731	4,320	4,200	3,752	3,586	3,552
1,438	1,395	1,614	1,364	1,377	1,676
1,594	1,538	1,369	1,239	1,427	1,664
290	319	413	377	277	343
3	4	1	-	-	5
1,887	1,861	1,783	1,616	1,704	2,012
105	162	144	149	143	162
241	471	552	411	457	532
60	163	209	154	240	259
399	450	437	389	406	393
4,119	6,932	4,864	4,048	4,786	4,610
234	243	240	253	181	N/A
5,848	5,876	5,805	5,785	5,873	5,500
79,258	80,933	76,585	74,568	73,635	74,928
61,604	60,601	53,072	47,904	44,766	45,164
3,410	3,441	3,543	3,418	3,285	2,999
3,880	5,220	4,870	4,500	4,170	N/A
4,570	3,900	3,990	4,040	4,110	4,440

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Fiscal Year				
	1997	1998	1999	2000	2001
Public safety					
Police					
Stations.....	1	1	1	1	1
Fire					
Stations.....	3	3	3	3	3
Trucks.....	6	6	6	6	6
Education					
Public school buildings.....	4	4	4	4	4
Public works					
Streets (miles).....	44	44	44	44	44
Streetlights.....	1,657	1,659	1,662	1,664	1,668
Traffic signals.....	40	46	46	46	46
Culture and recreation					
Community centers.....	1	1	1	1	1
Water					
Water mains (miles).....	61	61	61	61	61
Sewer					
Sewers (miles).....	41	41	41	41	41

Source: Various departments

Fiscal Year				
2002	2003	2004	2005	2006
1	1	1	1	1
3	3	3	3	3
6	6	6	6	6
4	4	4	4	4
44	44	44	44	44
1,671	1,675	1,677	1,680	1,683
46	46	46	46	46
1	1	1	1	1
61	61	61	61	61
41	41	41	41	41

