



City of Chelsea, Massachusetts

Comprehensive Annual Financial Report



July 1, 2006 – June 30, 2007

About the Cover:

Location, Location, Location: Just across the Mystic River, Chelsea is located minutes from Downtown Boston, Government Center, the Financial District, and Logan International Airport. Chelsea's proximity to Boston is a major component to its growing residential and commercial tax-base.

City of Chelsea, Massachusetts

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

Jay Ash
City Manager



Prepared by the Finance Division

CITY OF CHELSEA, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TABLE OF CONTENTS

	Page
Introductory Section.....	1
Letter of Transmittal.....	2
Organizational Chart.....	8
Elected Officials.....	9
Principal Officials.....	10
GFOA Certificate of Achievement.....	11
Financial Section	12
Independent Auditors' Report.....	13
Management's Discussion and Analysis	15
Basic Financial Statements.....	27
Statement of Net Assets	28
Statement of Activities	29
Governmental Funds - Balance Sheet.....	31
Reconciliation of the Governmental Funds Total Fund Balances to the Statement of Net Assets	34
Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances	35
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	38
Proprietary Funds - Statement of Fund Net Assets.....	39
Proprietary Funds - Statement of Revenues, Expenses and Changes in Fund Net Assets	40
Proprietary Funds - Statement of Cash Flows.....	41
Fiduciary Funds - Statement of Fiduciary Net Assets.....	42
Fiduciary Funds - Statement of Changes in Fiduciary Net Assets.....	43
Notes to Basic Financial Statements	44
Required Supplementary Information.....	71
General Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual.....	71
Notes to Required Supplementary Information.....	73
Combining and Individual Fund Statements and Schedules	74

Nonmajor Governmental Funds.....	75
Narrative	75
Combining Balance Sheet	77
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	81
Internal Service Funds.....	86
Narrative	86
Combining Statement of Fund Net Assets	87
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	88
Combining Statement of Cash Flows	89
Agency Funds.....	90
Narrative	90
Statement of Changes in Assets and Liabilities	91
General Fund.....	92
Narrative	92
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	93
Statistical Section.....	98
Table of Contents	99
Net Assets by Component.....	100
Governmental Activities – Changes in Net Assets.....	101
Business-Type Activities – Changes in Net Assets	102
Primary Government – Changes in Net Assets	103
Governmental Funds – Fund Balances	105
Governmental Funds – Changes in Fund Balances.....	107
Assessed Value and Estimated Actual Value of Taxable Property	109
Direct Property Tax Rates.....	110
Principal Property Taxpayers.....	111
Property Tax Levies and Collections.....	112
Ratios of Outstanding Debt by Type.....	113
Ratios of Net General Bonded Debt Outstanding	114
Direct and Overlapping Governmental Activities Debt.....	115
Legal Debt Margin Information.....	117
Demographic and Economic Statistics.....	119
Principal Employers	120
Employees by Function/Program.....	121
Operating Indicators by Function/Program.....	123
Capital Asset Statistics by Function/Program.....	125

Introductory Section



Group Insurance Commission

City Manager Jay Ash participated in Governor Deval Patrick's bill signing of legislation Ash and other municipal and state leaders crafted to provide cities and towns the option of joining the State's Group Insurance Commission as a means to reduce the impact of health insurance costs on municipal budgets.



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



**Jay Ash
City Manager**

Telephone (617)466-4100
Fax (617)466-4105

December 12, 2007

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, 2007. The City is responsible for the accuracy, completeness and fairness of the data presented in the CAFR. 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 the maintenance and enhancement of municipal services to follow. This cornerstone of philosophy as to the workings of a municipality has allowed the City to maintain its fiscal stability, even in the face of tremendous pressure on both revenues and expenditures during this particularly troubling period for cities and towns everywhere. The City's efforts to plan and then act based upon that plan recognizes and encourages honest financial planning. Balanced budgets, 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 thirteen years since the City emerged from Receivership, the positive, “pro-Chelsea” vision that we have created and the stability of government that has turned the abstract into the concrete have been significant factors in the City’s recognized rejuvenation. In fact, our ability to ask ourselves tough questions and then get to the business of responding effectively and efficiently to the answers has resulted in so many gains, including our ability to address fiscal pressures from threatening areas like still depressed local aid revenues and still skyrocketing 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 attached CAFR places the administration of the City’s financial processes.

REPORTING ENTITY AND SERVICES PROVIDED

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

The City has included the Chelsea Contributory Retirement System (System) as a component unit (blended) in the basic financial statements. The financial statements of the System are presented for the year ended December 31, 2006, 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, culture and recreation and water and sewer services to its citizenry.

ECONOMIC CONDITIONS

The depths of the recent recession have past, 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 and retirement costs, 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 non-school local aid continues to be below fiscal year 2001 highs, the City continues to be focused upon issues that are more in local control. An aggressive economic development plan established in 2005 has been implemented, with the City pinning hopes for greater fiscal stability on new growth revenues from the development of 1,200 units of housing by the end of 2008. With the community's revitalization now thirteen year's strong, Chelsea's greatest asset, proximity to Boston, can be and is now being leveraged as part of that initiative. Even in what many considered to be a depressed housing market, the City has found ways to continue to take advantage of that great asset. With 1,500 units actually at various stages of development, it appears the City's total goal may be exceeded. As a result of those projects, the City could realize more than \$5 million in one time revenues and \$3 million or more in annual property taxes. Perhaps as important, the elevation of Chelsea as a place worthy of even greater residential investment carries with it great promise for the future.

Getting through construction to occupancy and then planning for the next wave of investment, though, and ensuring that the secured, additional revenues are sufficient to address structural 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. The City saved for bad times, and utilized those savings to help relieve the pressures while solutions could be developed and implemented. The City's greatest need has been to first climb out of the structural deficits that have existed when the State cut local aid. Now there, the next priority needs to be to start rebuilding those reserves for the next bumpy period ahead.

Perhaps the great challenge on the expenditure side is to manage health insurance spending. Double-digit increases have become routine, with those annual increases often outpacing the growth of existing property tax charges in various years. In fiscal year 2007, for example, health insurance is up approximately \$1 million, while property tax receipts, less new growth, are rising by approximately \$708,000. Unfortunately, health insurance is one of the most difficult expenditures for the City to impact. Nonetheless, the City has attempted 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, with the former causing the greatest strife, as the historic underfunding of the City's pension system has the City now paying millions of dollars annually in catch-up payments in order to meet the full-funding requirement of all retirement systems by the year 2028.

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 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 critical challenges that lie ahead is eliminating the structural deficits that have eroded the City's reserves. Fortunately, structural deficits have been reduced of the last five years to modest levels. As noted, once those deficits are finally 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-plus. 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, looks like it will be more than met. 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 at Chelsea Commons, the former 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 embodying the City's planning, vision, action and achievement on the residential/industrial conflict agenda was realized. Having envisioned a residential neighborhood in the Gerrish Avenue area following a 1997 fire at Standard Box, the then most significant industrial presence in the neighborhood, the City was able to help move another major industrial user, Atlas Bedding, to a more appropriate industrial location. A ribbon cutting for the first phase of 121 residential units to be completed over multiple properties in the newly established "Box District" has taken place. More than half of those units will be affordable. Now, pressure exists to convert that Standard Box site to residential, while smaller industrial properties being acquired in the Box District for residential development. The upgrading of Chelsea's neighborhoods, including a pending project on Webster Block, is fueling the overall livability of the community.

Community development impacts the livability of neighborhoods by helping individuals and families enjoy personal growth on the way to contributing more to the community. In the schools and throughout any of the City's accomplished community-based organizations, programs and activities are achieving that broad goal. For example, the opening 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 a portion of its retirees' health insurance and all of its workers' compensation activities. These activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when 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, 2007, totaled \$49,921,891, of which \$41,390,000 relates to School Construction and \$5,060,000 relates to urban renewal, leaving a balance of \$3,471,891 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 previously funded a portion (\$200,000 annually) of its CIP on a "pay-as-you-go" basis out of current revenues. In order to maintain this type of funding, even in difficult economic conditions, a Capital Stabilization Fund was established and, as of June 30, 2007, totals approximately \$850,000.

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, 2007, general fund cash and cash equivalents totaled \$16,434,344, while the balance of unrestricted cash and cash equivalents for all governmental funds totaled \$29,010,130.

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, 2007. The independent auditors' report on the basic financial statements, for the fiscal year ended June 30, 2007, is included herein and contains an unqualified opinion.

CERTIFICATES, AFFILIATIONS AND AWARDS

For the ninth 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, 2006 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 2007 CAFR continues to meet the Certificate Program's requirements and, accordingly, we have submitted it to the GFOA to determine its eligibility for another Certificate of Achievement.

ACKNOWLEDGMENTS

Chelsea works because the City and the community are together committed to advancing causes and promoting even greater revitalization. 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.

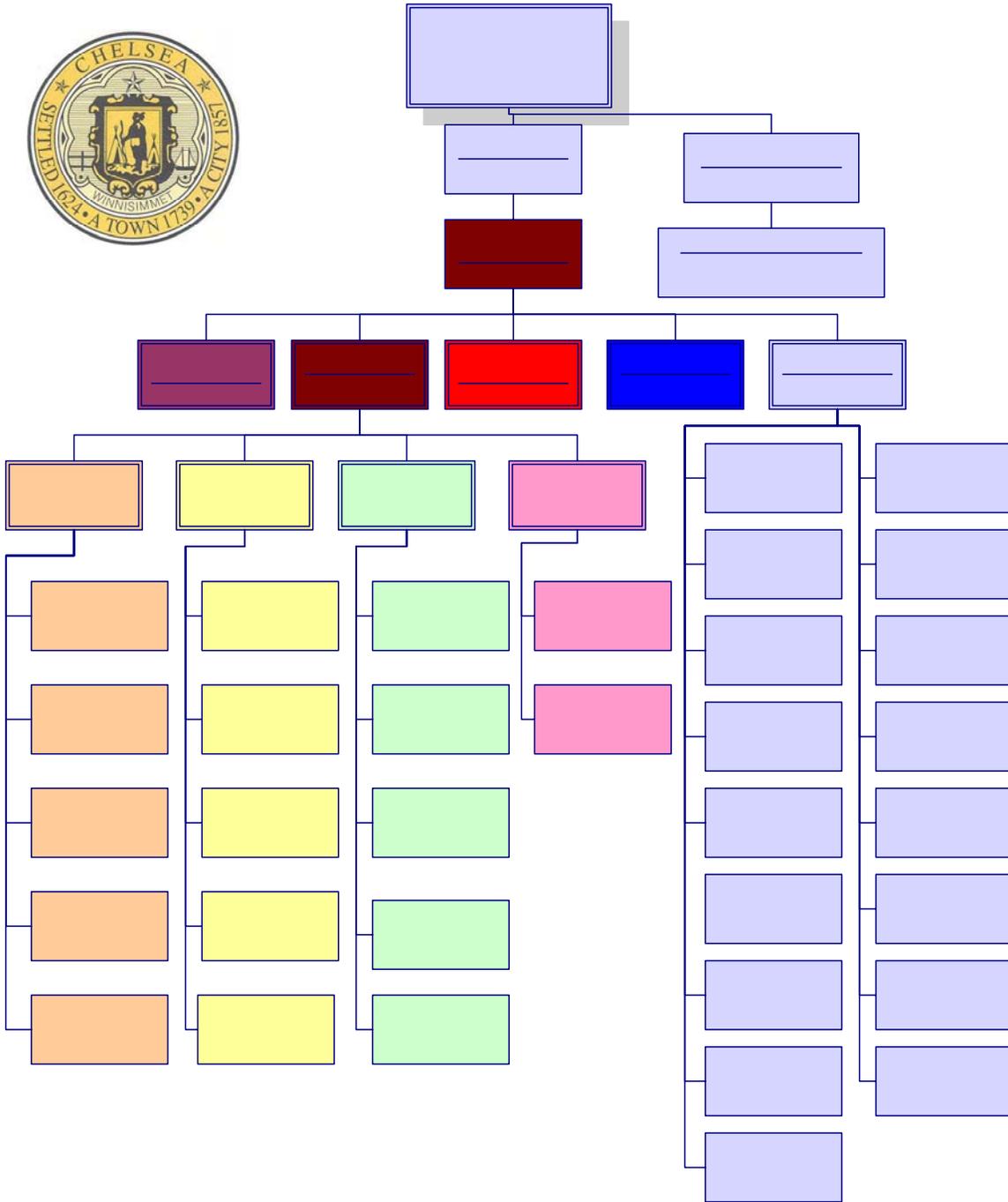
On behalf of all of us, including you, City Council, I am pleased to share with the public the City's fiscal year 2007 CAFR. Once again, municipal government is not only accurately and openly reporting on its operations, but also doing so in a manner which demonstrates why Chelsea City government is 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, Vice Chairman
District Two	Michael J. Caulfield
District Three	Annemarie Boudreau
District Four	Lucia H. Colon
District Five	Morrie Seigal
District Six	James Dwyer, Chairman
District Seven	Deborah A. Washington
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	Roseann Bongiovani, President Paul Casino, Administrator	
Executive	Jay Ash, City Manager Thomas Durkin, Deputy City Manager	
Emergency Management	Allan Alpert, Director	E911
Fire Chief	Herbert Fothergill, 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.	John Hyland, Acting 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	Robert Boulrice, Treasurer/Collector	Central Billing and Research
Veteran Services	Theodore Sobolewski, Interim Director	

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, 2006

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.



President

Executive Director

Financial Section



Parkside Commons

City Manager Jay Ash (center) is flanked by City officials, including (left to right), City Solicitor Cheryl Watson, DPW Director Joe Foti, Deputy City Manager Tom Durkin, Planning & Development Director Ned Keefe, and Planning Director John DePriest, at the June 2007 groundbreaking for Parkside Commons, a 238-unit apartment complex in Chelsea Commons. The development was one of several that was advanced during fiscal year 2007 as part of the City's 1,200-unit housing goal.

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, 2007 (except for the Chelsea Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2006), 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.

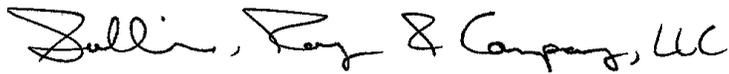
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2007 (except for the Chelsea Contributory Retirement System, which is as of December 31, 2006), and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2007 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 26) and budgetary comparison information (located on pages 71 through 73) are not a required part of the basic financial statements but are 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 "Sullivan, King & Company, LLC". The signature is written in a cursive, flowing style.

December 12, 2007

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, 2007.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$151,586,036 (net assets). Of this amount, \$32,326,486 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$4,472,508.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances totaling \$34,674,422, a decrease of \$699,666 in comparison with the prior year. Approximately \$35,683,000 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 \$6,952,163 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 \$8,961,459, or 8.2 percent of total general fund expenditures.
- The City's total outstanding long-term debt principal decreased by \$4,886,559 during the fiscal year. The City issued \$3,150,000 in general obligation bonds 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 75-84 of this report.

The basic governmental funds financial statements can be found on pages 31-38 of this report.

Proprietary funds

The City maintains two types of proprietary funds.

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

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for a portion of its retirees' health insurance and all of its workers' compensation risk-financing activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements but are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 86-89 of this report.

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

Fiduciary funds

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

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

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 44-69 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 budget comparison for the general fund. Such information can be located on pages 71-73 of this report, respectively.

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

Government-Wide Financial Analysis

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

Net 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 \$151,586,036 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets.....	\$ 48,133,534	\$ 45,051,223	\$ -	\$ 7,095,788	\$ 48,133,534	\$ 52,147,011
Noncurrent assets (excluding capital assets).....	35,107,729	39,908,660	-	-	35,107,729	39,908,660
Capital assets (net).....	129,698,274	126,808,360	-	12,753,226	129,698,274	139,561,586
Total assets.....	212,939,537	211,768,243	-	19,849,014	212,939,537	231,617,257
Liabilities						
Current liabilities (excluding debt).....	6,841,059	4,220,849	-	244,885	6,841,059	4,465,734
Noncurrent liabilities (excluding debt).....	2,967,817	2,471,000	-	-	2,967,817	2,471,000
Current debt.....	16,797,357	16,857,391	-	1,179,168	16,797,357	18,036,559
Noncurrent debt.....	43,124,534	49,268,891	-	10,261,545	43,124,534	59,530,436
Total liabilities.....	69,730,767	72,818,131	-	11,685,598	69,730,767	84,503,729
Net Assets						
Invested in capital assets (net of related debt).....	103,040,202	102,535,541	3,382,731	4,197,376	106,422,933	106,732,917
Restricted.....	12,836,617	13,532,009	-	-	12,836,617	13,532,009
Unrestricted.....	27,331,951	22,882,562	(3,382,731)	3,966,040	23,949,220	26,848,602
Total net assets.....	\$ 143,208,770	\$ 138,950,112	\$ -	\$ 8,163,416	\$ 143,208,770	\$ 147,113,528

The largest portion of the City's net assets (70.2%) reflects its investment in capital assets (e.g., land, assets held for resale, 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 (8.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (21.3% or \$32,326,486) may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$27,331,951 may be used to support governmental activities and \$4,994,535 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, 2007, the City's total net assets increased by \$4,472,508, compared to a decrease of \$3,839,663 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 8,659,510	\$ 7,228,905	\$ 11,219,309	\$ 10,967,624	\$ 19,878,819	\$ 18,196,529
Operating grants and contributions.....	67,520,030	63,410,195	86,085	78,403	67,606,115	63,488,598
Capital grants and contributions.....	3,786,207	1,021,324	41,358	386,927	3,827,565	1,408,251
<i>General Revenues:</i>						
Real estate and personal property taxes.....	29,579,552	27,718,447	-	-	29,579,552	27,718,447
Motor vehicle and other excise taxes.....	2,111,357	2,829,277	-	-	2,111,357	2,829,277
Tax and trash liens.....	535,440	442,603	-	-	535,440	442,603
Penalties and interest on taxes.....	301,942	380,239	-	-	301,942	380,239
Payments in lieu of taxes.....	1,185,030	1,195,899	-	-	1,185,030	1,195,899
Grants and contributions not restricted to specific programs.....	10,539,794	9,050,539	-	-	10,539,794	9,050,539
Unrestricted investment income.....	1,695,467	1,245,853	-	-	1,695,467	1,245,853
Gain (Loss) on sale of capital assets.....	-	297,780	-	-	-	297,780
Other.....	-	282,085	-	-	-	282,085
Total revenues.....	<u>125,914,329</u>	<u>115,103,146</u>	<u>11,346,752</u>	<u>11,432,954</u>	<u>137,261,081</u>	<u>126,536,100</u>
Expenses						
General government.....	4,800,810	4,706,250	-	-	4,800,810	4,706,250
Public safety.....	26,964,061	25,120,329	-	-	26,964,061	25,120,329
Education.....	75,539,107	75,452,209	-	-	75,539,107	75,452,209
Public works.....	5,738,727	5,135,556	-	-	5,738,727	5,135,556
Health and human services.....	4,170,478	4,803,211	-	-	4,170,478	4,803,211
Culture and recreation.....	728,672	708,300	-	-	728,672	708,300
Community development.....	1,760,889	1,481,448	-	-	1,760,889	1,481,448
Debt service - interest.....	3,460,180	3,507,512	-	-	3,460,180	3,507,512
Water and sewer.....	-	-	9,625,649	9,460,948	9,625,649	9,460,948
Total expenses.....	<u>123,162,924</u>	<u>120,914,815</u>	<u>9,625,649</u>	<u>9,460,948</u>	<u>132,788,573</u>	<u>130,375,763</u>
Change in net assets before transfers.....	2,751,405	(5,811,669)	1,721,103	1,972,006	4,472,508	(3,839,663)
Transfers, net.....	<u>1,507,253</u>	<u>1,355,722</u>	<u>(1,507,253)</u>	<u>(1,355,722)</u>	-	-
Change in net assets.....	4,258,658	(4,455,947)	213,850	616,284	4,472,508	(3,839,663)
Net assets - beginning of year.....	<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>
Net assets - end of year.....	<u>\$ 143,208,770</u>	<u>\$ 138,950,112</u>	<u>\$ 8,377,266</u>	<u>\$ 8,163,416</u>	<u>\$ 151,586,036</u>	<u>\$ 147,113,528</u>

Governmental activities increased the City's net assets by \$4,258,658. In the prior year, governmental activities decreased the City's net assets by \$4,455,947. The key elements of this change are as follows:

- An increase in the net change in fund balance in the general fund of approximately \$3,780,000. This is primarily attributable to a decrease in the amount of reserves used to fund the budget (approximately \$1,470,000) and conservative spending against the budget (positive variance between final budget and actual expenditures increased by approximately \$2,200,000).
- An increase in capital grants and contributions of approximately \$2,760,000. This is primarily attributable to community development grants received by the City in which the grant disbursements have been capitalized as assets.
- An increase in the investment income earned by the debt service major fund of approximately \$950,000

Business-type activities increased the City's net assets by \$213,850. In the prior year, business-type activities increased the City's net assets by \$616,284. The key element of this change is fiscal year 2006 proceeds from MWRA grants of approximately \$387,000. The City did not receive any MWRA grants in fiscal year 2007.

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 \$34,674,422, a decrease of \$699,666 in comparison with the prior year. Approximately 99.3% of this total amount, or \$34,426,000, 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 \$6,952,163 will be funded by the issuance of long-term debt in future fiscal years. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to:

- Liquidate contracts and purchase orders (\$2,637,577)
- Loans (\$1,595,798)
- Perpetual permanent funds (\$22,392)
- Other specific purposes (\$1,687,333)
- Funding the fiscal year 2008 operating budget (\$1,257,414)

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 \$8,961,459, while total fund balance was \$12,856,450. 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 8.2% of total general fund expenditures, while total fund balance represents 11.7% of that same amount.

The balance of the City's general fund increased \$2,795,521 during fiscal year 2007. The City's net increase in fund balance on a budgetary basis (excluding encumbrances and continuing appropriations) was approximately \$2,836,000. This was the result of a positive variance in revenue collections totaling approximately \$1,372,000 and conservative spending against budgeted appropriations.

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

The fund balance of the stabilization fund (special revenue) increased \$173,976 during the current fiscal year. This is attributable to investment income earned by the fund.

The fund balance of the debt service fund increased \$59,569 during the current fiscal year. This is attributable to unrealized gains on investments retained in the fund (see note 11).

The fund balance of the school facilities fund (capital project) decreased \$1,119,786 during the current fiscal year. This is primarily attributable to transfers to the general fund totaling \$1,064,630 for MSBA reimbursements for school construction debt service interest costs previously incurred by the general fund.

The fund balance of the Urban Renewal II fund (capital project) decreased \$2,903,656 during the current fiscal year. This is attributable to expenditures and other financing uses 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 \$4,994,535. The water and sewer enterprise fund had an increase in net assets for the year of \$213,850. 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 \$109,391,798 (including prior year encumbrances and continuing appropriations) was increased by \$490,448 (0.4%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
School department.....	\$ 386,430	Intergovernmental revenues
Emergency management.....	<u>104,018</u>	Undesignated fund balance
Total increase.....	<u>\$ 490,448</u>	

During the year, general fund revenues and other financing sources exceeded budgetary estimates and expenditures, encumbrances and continuing appropriations were less than appropriations, resulting in an actual increase in fund balance that exceeded the final amended budget amount by approximately \$4,327,000.

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 \$143,666,675 (net of accumulated depreciation). This investment in capital assets includes land, assets held for resale, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled 3.0% (a 2.1% increase for governmental activities and a 0.9% increase for business-type activities).

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

- Construction related to the Atlas/Janus affordable rental apartment project (\$1,800,000)
- Purchases of land held for resale as part of the urban renewal II project (\$1,751,000)
- Continued reconstruction of roadways, sidewalks and drains (\$1,187,000)
- Phone system upgrades (\$870,000)
- HVAC upgrades (\$335,000)

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>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land.....	\$ 5,672,285	\$ 9,520,762	\$ -	\$ -	\$ 5,672,285	\$ 9,520,762
Assets held for resale.....	5,598,094	-	-	-	5,598,094	-
Buildings and improvements.....	107,939,112	108,464,828	-	-	107,939,112	108,464,828
Machinery and equipment.....	3,830,835	3,129,754	-	-	3,830,835	3,129,754
Infrastructure.....	<u>6,657,948</u>	<u>5,693,016</u>	<u>13,968,401</u>	<u>12,753,226</u>	<u>20,626,349</u>	<u>18,446,242</u>
Total capital assets.....	<u>\$ 129,698,274</u>	<u>\$ 126,808,360</u>	<u>\$ 13,968,401</u>	<u>\$ 12,753,226</u>	<u>\$ 143,666,675</u>	<u>\$ 139,561,586</u>

Additional information on the City's capital assets can be found in Note 5 on pages 59-60 of this report.

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$62,680,436, 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>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General obligation bonds.....	\$ 49,921,891	\$ 55,906,155	\$ 12,113,106	\$ 10,578,841	\$ 62,034,997	\$ 66,484,996
State house notes.....	-	220,127	-	-	-	220,127
MWRA notes.....	-	-	<u>645,439</u>	<u>861,872</u>	<u>645,439</u>	<u>861,872</u>
Total bonds and notes.....	<u>\$ 49,921,891</u>	<u>\$ 56,126,282</u>	<u>\$ 12,758,545</u>	<u>\$ 11,440,713</u>	<u>\$ 62,680,436</u>	<u>\$ 67,566,995</u>

The City's total bonded debt decreased \$4,886,559 (or 7.2 %) during the fiscal year. The City issued \$3,150,000 in general obligation bonds during the fiscal year.

The City has an A 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 \$61,220,999.

Additional information on the City's long-term debt can be found in Note 9 on pages 61-66 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 thirteen years have 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 \$10.8 million for fiscal year 2008 having only expended \$9.8 million in fiscal year 2007. Other accounts also provide concern, most notably retirement costs. In fact, health insurance and retirement funding costs are proving to be the bane of municipal budgeting locally and in many communities throughout the state, and costing the City millions of more dollars annually to provide.

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 have been successful. 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. Limiting collective bargaining increases to 2%, for example and 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. Perhaps more promising, the City's success in contributing to a statewide effort to give municipalities the option of joining the State's Group Insurance Commission program means that additional relief from overly burdensome health insurance expenses may be in reach. If that option, which requires the approval of 70% of the City's unionized workforce, is acted upon, the City estimates savings could be as much as \$2 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. For example, last year, *The Boston Globe* called the City's economic development agenda a model worthy of state emulation.

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, Chelsea Commons (the former 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 Everett Avenue Urban Renewal District (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 saw significant progress in fiscal year 2007. The Emerald Block is poised for a major mixed-use redevelopment on the sites of former underperforming properties. A second hotel group is seeking to resolve environmental issues in Chelsea Gateway in order to break ground on its 100+ room proposal. 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. With acquisitions almost complete for Phase IV, the first of what could be two 250-unit residential developments will soon begin the permitting process.

Currently, Home Depot's opening has rejuvenated what had been a dormant Parkway Plaza, now called Chelsea Commons. That Phase I project injected new life into retailing activities there, and has resulted in Phase II retail and a major residential development being undertaken for the site. With construction activity continuing in earnest there, both the 238-apartment complex and three restaurants anticipate being open in early 2008.

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 begun occupancy. 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. 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 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 permitting 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. It now looks like as many as 1,500 units or more may be permitted in that timeframe, with the 10% goal being met. If fully successful, the residential development would increase the overall local housing stock by 12%. 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, will completely eliminate the projected deficits as early as fiscal year 2009. 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, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 29,631,731	\$ 2,321,728	\$ 31,953,459
Restricted cash and cash equivalents.....	4,546,482	2,172,875	6,719,357
Investments.....	4,258,872	-	4,258,872
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	1,111,151	-	1,111,151
Tax, trash and utility liens.....	961,136	296,841	1,257,977
Motor vehicle and other excise taxes.....	259,690	-	259,690
User charges.....	-	2,867,334	2,867,334
Trash.....	356,720	-	356,720
Departmental and other.....	624,598	-	624,598
Intergovernmental.....	6,101,003	-	6,101,003
Loans.....	183,251	-	183,251
Other assets.....	98,900	-	98,900
Total current assets.....	<u>48,133,534</u>	<u>7,658,778</u>	<u>55,792,312</u>
Noncurrent assets:			
Restricted cash and cash equivalents.....	221,971	-	221,971
Restricted investments.....	9,208,576	-	9,208,576
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	24,154,619	-	24,154,619
Loans.....	1,412,547	-	1,412,547
Tax foreclosures.....	110,016	-	110,016
Capital assets not being depreciated.....	11,270,379	-	11,270,379
Capital assets, net of accumulated depreciation.....	<u>118,427,895</u>	<u>13,968,401</u>	<u>132,396,296</u>
Total noncurrent assets.....	<u>164,806,003</u>	<u>13,968,401</u>	<u>178,774,404</u>
Total assets.....	<u>212,939,537</u>	<u>21,627,179</u>	<u>234,566,716</u>
LIABILITIES			
Current liabilities:			
Warrants payable.....	4,422,866	340,137	4,763,003
Accrued payroll.....	105,125	-	105,125
Tax refunds payable.....	361,240	-	361,240
Other liabilities.....	4,130	-	4,130
Abandoned property.....	84,034	-	84,034
Liabilities due depositors.....	-	4,645	4,645
Accrued interest.....	525,967	146,586	672,553
Accrued health claims payable.....	51,264	-	51,264
Workers' compensation claims.....	536,433	-	536,433
Compensated absences.....	750,000	-	750,000
Short-term notes payable.....	10,000,000	-	10,000,000
Long-term bonds and notes payable.....	<u>6,797,357</u>	<u>1,303,777</u>	<u>8,101,134</u>
Total current liabilities.....	<u>23,638,416</u>	<u>1,795,145</u>	<u>25,433,561</u>
Noncurrent liabilities:			
Workers' compensation claims.....	681,817	-	681,817
Compensated absences.....	2,286,000	-	2,286,000
Long-term bonds and notes payable.....	<u>43,124,534</u>	<u>11,454,768</u>	<u>54,579,302</u>
Total noncurrent liabilities.....	<u>46,092,351</u>	<u>11,454,768</u>	<u>57,547,119</u>
Total liabilities.....	<u>69,730,767</u>	<u>13,249,913</u>	<u>82,980,680</u>
NET ASSETS			
Invested in capital assets, net of related debt.....	103,040,202	3,382,731	106,422,933
Restricted for:			
Loans.....	1,595,798	-	1,595,798
Debt service.....	9,430,547	-	9,430,547
Permanent funds:			
Expendable.....	100,547	-	100,547
Nonexpendable.....	22,392	-	22,392
Other specific purposes.....	1,687,333	-	1,687,333
Unrestricted.....	<u>27,331,951</u>	<u>4,994,535</u>	<u>32,326,486</u>
Total net assets.....	<u>\$ 143,208,770</u>	<u>\$ 8,377,266</u>	<u>\$ 151,586,036</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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.....	\$ 4,800,810	\$ 824,138	\$ 206,871	\$ -	\$ (3,769,801)
Public safety.....	26,964,061	4,998,734	1,122,645	229,900	(20,612,782)
Education.....	75,539,107	948,379	61,142,642	123,756	(13,324,330)
Public works.....	5,738,727	1,358,377	139,743	219,552	(4,021,055)
Health and human services.....	4,170,478	68,032	1,125,231	-	(2,977,215)
Culture and recreation.....	728,672	24,228	63,475	-	(640,969)
Community development.....	1,760,889	437,622	788,549	3,212,999	2,678,281
Debt service - interest.....	3,460,180	-	2,930,874	-	(529,306)
Total governmental activities.....	<u>123,162,924</u>	<u>8,659,510</u>	<u>67,520,030</u>	<u>3,786,207</u>	<u>(43,197,177)</u>
Business-type activities:					
Water and sewer.....	<u>9,625,649</u>	<u>11,219,309</u>	<u>86,085</u>	<u>41,358</u>	<u>1,721,103</u>
Total primary government.....	<u>\$ 132,788,573</u>	<u>\$ 19,878,819</u>	<u>\$ 67,606,115</u>	<u>\$ 3,827,565</u>	<u>\$ (41,476,074)</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page).....	\$ (43,197,177)	\$ 1,721,103	\$ (41,476,074)
<i>General revenues:</i>			
Real estate and personal property taxes.....	29,579,552	-	29,579,552
Motor vehicle and other excise taxes.....	2,111,357	-	2,111,357
Tax and trash liens.....	535,440	-	535,440
Penalties and interest on taxes.....	301,942	-	301,942
Payments in lieu of taxes.....	1,185,030	-	1,185,030
Grants and contributions not restricted to specific programs.....	10,539,794	-	10,539,794
Unrestricted investment income.....	1,695,467	-	1,695,467
<i>Transfers, net</i>	1,507,253	(1,507,253)	-
Total general revenues and transfers.....	47,455,835	(1,507,253)	45,948,582
Change in net assets.....	4,258,658	213,850	4,472,508
Net assets - beginning of year.....	138,950,112	8,163,416	147,113,528
Net assets - end of year.....	\$ 143,208,770	\$ 8,377,266	\$ 151,586,036

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2007

ASSETS	General	Stabilization	Debt Service
Cash and cash equivalents.....	\$ 16,434,344	\$ 343,131	\$ -
Investments.....	-	4,258,872	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	1,111,151	-	-
Tax and trash liens.....	961,136	-	-
Motor vehicle and other excise taxes.....	259,690	-	-
Trash.....	356,720	-	-
Departmental and other.....	374,128	-	-
Intergovernmental.....	29,611,401	-	-
Loans.....	-	-	-
Due from other funds.....	354,772	-	-
Other assets.....	98,900	-	-
Tax foreclosures.....	110,016	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	221,971
Investments.....	-	-	9,208,576
TOTAL ASSETS.....	\$ 49,672,258	\$ 4,602,003	\$ 9,430,547
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 3,417,487	\$ -	\$ -
Accrued payroll.....	105,125	-	-
Tax refunds payable.....	361,240	-	-
Other liabilities.....	4,130	-	-
Abandoned property.....	81,686	-	-
Deferred revenue.....	32,567,373	-	-
Due to other funds.....	-	-	-
Accrued short-term interest.....	278,767	-	-
Short-term notes payable.....	-	-	-
TOTAL LIABILITIES.....	36,815,808	-	-
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	2,637,577	-	-
Loans.....	-	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	1,257,414	-	-
Undesignated, reported in:			
General fund.....	8,961,459	-	-
Special revenue funds.....	-	4,602,003	-
Debt service fund.....	-	-	9,430,547
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	12,856,450	4,602,003	9,430,547
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 49,672,258	\$ 4,602,003	\$ 9,430,547

See notes to basic financial statements.

School Facilities	Urban Renewal II	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 12,232,655	\$ 29,010,130
-	-	-	4,258,872
-	-	-	1,111,151
-	-	-	961,136
-	-	-	259,690
-	-	-	356,720
-	-	250,470	624,598
-	-	644,221	30,255,622
-	-	1,595,798	1,595,798
-	-	-	354,772
-	-	-	98,900
-	-	-	110,016
108,891	3,065,313	1,372,278	4,768,453
-	-	-	9,208,576
<u>\$ 108,891</u>	<u>\$ 3,065,313</u>	<u>\$ 16,095,422</u>	<u>\$ 82,974,434</u>

\$ 1,540	\$ 17,476	\$ 986,363	\$ 4,422,866
-	-	-	105,125
-	-	-	361,240
-	-	-	4,130
-	-	-	81,686
-	-	124,053	32,691,426
-	-	354,772	354,772
-	-	-	278,767
-	10,000,000	-	10,000,000
<u>1,540</u>	<u>10,017,476</u>	<u>1,465,188</u>	<u>48,300,012</u>

-	-	-	2,637,577
-	-	1,595,798	1,595,798
-	-	22,392	22,392
-	-	1,687,333	1,687,333
-	-	-	1,257,414
-	-	-	8,961,459
-	-	9,725,470	14,327,473
-	-	-	9,430,547
107,351	(6,952,163)	1,498,694	(5,346,118)
-	-	100,547	100,547
<u>107,351</u>	<u>(6,952,163)</u>	<u>14,630,234</u>	<u>34,674,422</u>
<u>\$ 108,891</u>	<u>\$ 3,065,313</u>	<u>\$ 16,095,422</u>	<u>\$ 82,974,434</u>



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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Total governmental fund balances (page 32).....	\$	34,674,422
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		129,698,274
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		32,691,426
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(247,200)
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.....		(49,921,891)
Compensated absences.....		(3,036,000)
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>(650,261)</u>
Net assets of governmental activities (page 28).....	\$	<u><u>143,208,770</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, 2007

	General	Stabilization	Debt Service
REVENUES			
Real estate and personal property taxes.....	\$ 28,944,381	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,332,484	-	-
Tax and trash liens.....	366,997	-	-
Payments in lieu of taxes.....	1,185,030	-	-
Charges for services.....	-	-	-
Trash disposal.....	1,270,801	-	-
Intergovernmental.....	68,761,700	-	-
Penalties and interest on taxes.....	301,942	-	-
Licenses, permits and fees.....	2,238,705	-	-
Fines and forfeitures.....	1,534,903	-	-
Departmental.....	23,378	-	-
Contributions.....	-	-	-
Investment income.....	1,528,094	173,976	627,049
TOTAL REVENUES.....	108,488,415	173,976	627,049
EXPENDITURES			
Current:			
General government.....	3,102,078	-	-
Public safety.....	15,815,505	-	-
Education.....	55,991,658	-	-
Public works.....	4,622,596	-	-
Health and human services.....	712,484	-	-
Culture and recreation.....	340,361	-	-
Community development.....	-	-	-
Pension benefits.....	9,001,662	-	-
Employee benefits.....	5,839,623	-	-
Property and liability insurance.....	558,328	-	-
Claims and judgments.....	21,180	-	-
State and county charges.....	3,310,117	-	-
Debt service:			
Principal.....	6,857,391	-	-
Interest.....	3,497,188	-	-
TOTAL EXPENDITURES.....	109,670,171	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,181,756)	173,976	627,049
OTHER FINANCING SOURCES (USES)			
Transfers in.....	3,947,990	-	-
Issuance of bonds and notes.....	-	-	-
Premium from issuance of bonds and notes.....	29,287	-	-
Sale of capital assets.....	-	-	-
Transfers out.....	-	-	(567,480)
TOTAL OTHER FINANCING SOURCES (USES).....	3,977,277	-	(567,480)
NET CHANGE IN FUND BALANCES.....	2,795,521	173,976	59,569
FUND BALANCES AT BEGINNING OF YEAR.....	10,060,929	4,428,027	9,370,978
FUND BALANCES AT END OF YEAR.....	\$ 12,856,450	\$ 4,602,003	\$ 9,430,547

See notes to basic financial statements.

School Facilities	Urban Renewal II	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 28,944,381
-	-	-	2,332,484
-	-	-	366,997
-	-	-	1,185,030
-	-	2,491,044	2,491,044
-	-	-	1,270,801
-	-	16,061,630	84,823,330
-	-	-	301,942
-	-	44,697	2,283,402
-	-	-	1,534,903
-	-	619,241	642,619
-	-	690,561	690,561
-	-	192,210	2,521,329
-	-	20,099,383	129,388,823
-	-	326,349	3,428,427
-	-	2,341,810	18,157,315
43,376	-	11,833,292	67,868,326
-	-	489,422	5,112,018
-	-	931,425	1,643,909
-	-	119,686	460,047
-	2,399,656	4,385,113	6,784,769
-	-	-	9,001,662
-	-	-	5,839,623
-	-	-	558,328
-	-	-	21,180
-	-	-	3,310,117
-	-	-	6,857,391
-	-	-	3,497,188
43,376	2,399,656	20,427,097	132,540,300
(43,376)	(2,399,656)	(327,714)	(3,151,477)
-	-	11,780	3,959,770
-	-	653,000	653,000
-	-	-	29,287
-	-	250,000	250,000
(1,076,410)	(504,000)	(292,356)	(2,440,246)
(1,076,410)	(504,000)	622,424	2,451,811
(1,119,786)	(2,903,656)	294,710	(699,666)
1,227,137	(4,048,507)	14,335,524	35,374,088
\$ 107,351	\$ (6,952,163)	\$ 14,630,234	\$ 34,674,422



**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, 2007

Net change in fund balances - total governmental funds (page 36).....	\$	(699,666)
<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.....		7,676,601
Depreciation.....		(4,785,241)
<p>In the statement of activities, only the <i>gain</i> or <i>loss</i> on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.....</p>		
		(1,446)
<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>		
		(3,723,048)
<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.....		(653,000)
Bond maturities.....		6,857,391
<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>		
		7,721
<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.....		(312,000)
<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>(258,654)</u>
Changes in net assets of governmental activities (page 30).....	\$	<u><u>4,258,658</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS

JUNE 30, 2007

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 2,321,728	\$ 621,601
Restricted cash and cash equivalents.....	2,172,875	-
Receivables, net of allowance for uncollectible amounts:		
User charges.....	2,867,334	-
Utility liens.....	296,841	-
	7,658,778	621,601
Total current assets.....		
	7,658,778	621,601
Noncurrent assets:		
Capital assets, net of accumulated depreciation.....	13,968,401	-
	13,968,401	-
Total assets.....		
	21,627,179	621,601
LIABILITIES		
Current liabilities:		
Warrants payable.....	340,137	-
Abandoned property.....	-	2,348
Liabilities due depositors.....	4,645	-
Accrued interest.....	146,586	-
Accrued health claims payable.....	-	51,264
Workers' compensation claims.....	-	536,433
Long-term bonds and notes payable.....	1,303,777	-
	1,795,145	590,045
Total current liabilities.....		
	1,795,145	590,045
Noncurrent liabilities:		
Workers' compensation claims.....	-	681,817
Long-term bonds and notes payable.....	11,454,768	-
	11,454,768	681,817
Total noncurrent liabilities.....		
	11,454,768	681,817
Total liabilities.....		
	13,249,913	1,271,862
FUND NET ASSETS		
Invested in capital assets, net of related debt.....	3,382,731	-
Unrestricted.....	4,994,535	(650,261)
	8,377,266	(650,261)
Total net assets.....		
	8,377,266	(650,261)

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, 2007

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
OPERATING REVENUES		
Charges for services.....	\$ 10,468,620	\$ -
Utility liens.....	750,689	-
Employer contributions.....	-	1,550,567
Employee contributions.....	-	80,804
	<u>11,219,309</u>	<u>1,631,371</u>
OPERATING EXPENSES		
Cost of service and administration.....	1,637,713	-
MWRA assessment.....	7,096,504	-
Repairs and maintenance.....	34,104	-
Depreciation.....	354,529	-
Employee benefits.....	-	1,890,350
	<u>9,122,850</u>	<u>1,890,350</u>
TOTAL OPERATING EXPENSES.....	<u>9,122,850</u>	<u>1,890,350</u>
OPERATING INCOME (LOSS).....	<u>2,096,459</u>	<u>(258,979)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental.....	41,359	-
Investment income.....	86,084	12,596
Interest expense.....	(502,799)	-
	<u>(375,356)</u>	<u>12,596</u>
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	<u>(375,356)</u>	<u>12,596</u>
INCOME (LOSS) BEFORE TRANSFERS.....	<u>1,721,103</u>	<u>(246,383)</u>
TRANSFERS		
Transfers in.....	12,356	-
Transfers out.....	(1,519,609)	(12,271)
	<u>(1,507,253)</u>	<u>(12,271)</u>
TOTAL TRANSFERS.....	<u>(1,507,253)</u>	<u>(12,271)</u>
CHANGE IN FUND NET ASSETS.....	213,850	(258,654)
FUND NET ASSETS AT BEGINNING OF YEAR.....	<u>8,163,416</u>	<u>(391,607)</u>
FUND NET ASSETS AT END OF YEAR.....	<u>\$ 8,377,266</u>	<u>\$ (650,261)</u>

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$ 11,015,837	\$ 80,804
Receipts from interfund services provided.....	-	1,550,567
Payments to vendors.....	(8,308,616)	-
Payments to employees.....	(272,217)	-
Payments for interfund services used.....	-	(1,615,553)
	<u>2,435,004</u>	<u>15,818</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in.....	12,356	-
Transfers out.....	(1,519,609)	(12,271)
Intergovernmental revenue.....	41,359	-
	<u>(1,465,894)</u>	<u>(12,271)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the issuance of bonds and notes.....	2,497,000	-
Acquisition and construction of capital assets.....	(1,569,704)	-
Principal payments on bonds and notes.....	(1,179,168)	-
Interest expense.....	(443,804)	-
	<u>(695,676)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income.....	86,084	12,596
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	<u>359,518</u>	<u>16,143</u>
CASH AND CASH EQUIVALENTS AT BEGINNING 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>
CASH AND CASH EQUIVALENTS AT END OF YEAR		
(Includes \$2,172,875 reported as restricted in the Water and Sewer Enterprise Fund).....	<u>\$ 4,494,603</u>	<u>\$ 621,601</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss).....	\$ 2,096,459	\$ (258,979)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....	354,529	-
Changes in assets and liabilities:		
User charges.....	(74,079)	-
Utility liens.....	(129,393)	-
Warrants payable.....	192,601	-
Liabilities due depositors.....	(5,113)	-
Accrued health claims payable.....	-	(100,453)
Workers' compensation.....	-	375,250
Total adjustments.....	<u>338,545</u>	<u>274,797</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 2,435,004</u>	<u>\$ 15,818</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

ASSETS	Pension Trust Fund (As of 12/31/06)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 63,673,408	\$ 506,477	\$ 493,861
Receivables, net of allowance for uncollectible amounts:			
Departmental and other.....	<u>3,615,298</u>	<u>-</u>	<u>-</u>
Total assets.....	<u>67,288,706</u>	<u>506,477</u>	<u>493,861</u>
LIABILITIES			
Warrants payable.....	-	-	19,100
Liabilities due depositors.....	<u>-</u>	<u>-</u>	<u>474,761</u>
Total liabilities.....	<u>-</u>	<u>-</u>	<u>493,861</u>
NET ASSETS			
Held in trust for pension benefits and other purposes.....	<u>\$ 67,288,706</u>	<u>\$ 506,477</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, 2007

	<u>Pension Trust Fund (As of 12/31/06)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Employer.....	\$ 7,230,596	\$ -
Plan members.....	2,357,291	-
Private donations.....	<u>-</u>	<u>50,501</u>
Total contributions.....	<u>9,587,887</u>	<u>50,501</u>
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	7,168,140	-
Interest.....	<u>2,007,792</u>	<u>18,993</u>
Total investment income (loss).....	9,175,932	18,993
Less investment expense.....	<u>(335,241)</u>	<u>-</u>
Net investment income (loss).....	<u>8,840,691</u>	<u>18,993</u>
Intergovernmental.....	<u>485,515</u>	<u>-</u>
Transfers from other systems.....	<u>102,014</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>19,016,107</u>	<u>69,494</u>
DEDUCTIONS		
Administration.....	199,920	-
Retirement benefits and refunds.....	7,738,183	-
Transfers to other systems.....	310,063	-
Scholarships awarded.....	<u>-</u>	<u>64,852</u>
TOTAL DEDUCTIONS.....	<u>8,248,166</u>	<u>64,852</u>
CHANGE IN NET ASSETS.....	10,767,941	4,642
NET ASSETS AT BEGINNING OF YEAR.....	<u>56,520,765</u>	<u>501,835</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 67,288,706</u>	<u>\$ 506,477</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 2007 Assessment
Northeast Metropolitan Regional Vocational School District	To provide vocational education services	100 Hemlock Road Wakefield, MA 01880	\$ 825,626

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 employer contributions to the System, parking ticket fines and 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, 2007, the allowance for uncollectible amounts for loan receivables is 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, assets held for resale, 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. In the case of the initial capitalization of infrastructure assets, the City chose to include all such items regardless of their acquisition date. 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. Designations of fund balance represent tentative management plans that are subject to change.

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.

Fund balances have been “designated for” the following:

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2008 operating budget.

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 BenefitsGovernment-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, 2007, this expenditure totaled approximately \$2,060,000. There were approximately 475 participants eligible to receive benefits at June 30, 2007.

S. Use of EstimatesGovernment-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 ColumnGovernment-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 2007 approved budget for the general fund authorized \$109,391,798 (including prior year encumbrances and continuing appropriations) in appropriations and other amounts to be raised. During fiscal year 2007, supplemental appropriations totaling \$490,448 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. Fund Deficits

At June 30, 2007, the following fund deficits exist:

Fund	Amount	Funding Source
Urban Renewal II capital project (major fund).....	\$ 6,952,163	Issuance of long-term debt
Highway improvement special revenue.....	73,943	State grant
Workers' compensation internal service.....	848,997	Employer contributions

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2007, expenditures exceeded appropriations for workers’ compensation. This over-expenditure will be funded by taxes during fiscal year 2008.

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, 2007, \$34,678,038 of the City’s bank balance of \$35,789,149 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Investments Summary

The City's investments at June 30, 2007 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.....	\$ 2,045,721	\$ -	\$ -	\$ 2,045,721
U.S. Agencies.....	11,172,224	897,636	2,185,263	8,089,325
Corporate bonds.....	249,503	-	249,503	-
Money market mutual funds.....	4,747,903	4,747,903	-	-
External investment pools.....	3,380,832	3,380,832	-	-
Total debt securities and investments....	<u>21,596,183</u>	<u>\$ 9,026,371</u>	<u>\$ 2,434,766</u>	<u>\$ 10,135,046</u>

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, 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, 2007, the City's investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The City's policy is to 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, 2007, the credit quality ratings of the City's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *		
		A	AAA	Unrated
Corporate bonds.....	\$ 249,503	\$ 249,503	\$ -	\$ -
Money market mutual funds.....	4,747,903	-	1,068,681	3,679,222
External investment pools.....	3,380,832	-	-	3,380,832
Total.....	<u>\$ 8,378,238</u>	<u>\$ 249,503</u>	<u>\$ 1,068,681</u>	<u>\$ 7,060,054</u>

* Per the rating scale of Standard and Poor's (a national credit 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, 2007, 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, 2007, the City was not exposed to concentration of credit risk.

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 December 31, 2006, \$812,779 of the System's bank balance of \$912,779 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Investments Summary

The System's investments of \$63,005,551 at December 31, 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 December 31, 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 December 31, 2006, the System's investments in debt securities were unrated by a national credit 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 System does not have a policy for foreign currency risk. As of December 31, 2006, the System 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 December 31, 2006, the System was not exposed to concentration of credit risk.

NOTE 4 – ACCOUNTS RECEIVABLE

At June 30, 2007, 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:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,174,871	\$ (63,720)	\$ 1,111,151
Tax and trash liens.....	961,136	-	961,136
Motor vehicle and other excise taxes.....	1,022,369	(762,679)	259,690
Trash.....	356,720	-	356,720
Departmental and other.....	5,736,407	(1,496,511)	4,239,896
Intergovernmental.....	30,255,622	-	30,255,622
Loans.....	1,595,798	-	1,595,798
	<u>\$ 41,102,923</u>	<u>\$ (2,322,910)</u>	<u>\$ 38,780,013</u>

At June 30, 2007, 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.....	\$ 2,867,334	\$ -	\$ 2,867,334
Utility liens.....	296,841	-	296,841
	<u>\$ 3,164,175</u>	<u>\$ -</u>	<u>\$ 3,164,175</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>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Real estate and personal property taxes.....	\$ 894,282	\$ -	\$ 894,282
Tax and trash liens.....	961,136	-	961,136
Motor vehicle and other excise taxes.....	259,690	-	259,690
Trash.....	356,720	-	356,720
Departmental and other.....	374,128	124,053	498,181
Intergovernmental (state school construction).....	29,611,401	-	29,611,401
Tax foreclosures.....	110,016	-	110,016
 Total.....	 <u>\$ 32,567,373</u>	 <u>\$ 124,053</u>	 <u>\$ 32,691,426</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 2007, \$7,795,391 of such assistance was received. \$37,418,307 will be received in future fiscal years. Of this amount, \$7,806,906 represents reimbursement of long-term interest costs, and \$29,611,401 represents reimbursement of approved construction costs. Accordingly, a \$29,611,401 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, 2007, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,673,731	\$ -	\$ (1,446)	\$ 5,672,285
Assets held for resale.....	3,847,031	1,751,063	-	5,598,094
Total capital assets not being depreciated.....	9,520,762	1,751,063	(1,446)	11,270,379
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	142,465,982	3,085,270	(151,000)	145,400,252
Machinery and equipment.....	9,193,076	1,653,424	-	10,846,500
Infrastructure.....	9,621,744	1,186,844	-	10,808,588
Total capital assets being depreciated.....	161,280,802	5,925,538	(151,000)	167,055,340
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(34,001,154)	(3,610,986)	151,000	(37,461,140)
Machinery and equipment.....	(6,063,322)	(952,343)	-	(7,015,665)
Infrastructure.....	(3,928,728)	(221,912)	-	(4,150,640)
Total accumulated depreciation.....	(43,993,204)	(4,785,241)	151,000	(48,627,445)
Total capital assets being depreciated, net.....	117,287,598	1,140,297	-	118,427,895
Total governmental activities capital assets, net.....	\$ 126,808,360	\$ 2,891,360	\$ (1,446)	\$ 129,698,274
Business-Type Activities:				
<u>Capital assets being depreciated:</u>				
Infrastructure.....	\$ 19,195,023	\$ 1,569,704	\$ -	\$ 20,764,727
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	(6,441,797)	(354,529)	-	(6,796,326)
Total business-type activities capital assets, net.....	\$ 12,753,226	\$ 1,215,175	\$ -	\$ 13,968,401

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

Governmental Activities:

General government.....	\$ 271,988
Public safety.....	525,142
Education.....	3,469,896
Public works.....	356,921
Health and human services.....	45,601
Culture and recreation.....	<u>115,693</u>

Total depreciation expense - governmental activities..... \$ 4,785,241

Business-Type Activities:

Water and sewer.....	<u>\$ 354,529</u>
----------------------	-------------------

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and payables between funds at June 30, 2007, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund.....	Nonmajor governmental funds (Highway Improvement).....	\$ 230,984 (1)
General Fund.....	Nonmajor governmental funds (City Federal Grants).....	<u>123,788 (2)</u>
		<u>\$ 354,772</u>

- (1) Represents advance-funding of a state grant
- (2) Represents advance-funding of various federal grants

Interfund transfers for the fiscal year ended June 30, 2007, are summarized as follows:

<u>Transfers Out:</u>	<u>Transfers In:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water and Sewer Enterprise Fund</u>	
Debt Service Fund.....	\$ 567,480	\$ -	\$ -	\$ 567,480 (1)
School Facilities Fund.....	1,064,630	11,780	-	1,076,410 (2)
Urban Renewal II Fund.....	504,000	-	-	504,000 (3)
Nonmajor Governmental Funds.....	280,000	-	12,356	292,356 (4)
Water and Sewer Enterprise Fund.....	1,519,609	-	-	1,519,609 (5)
Internal Service Fund.....	<u>12,271</u>	<u>-</u>	<u>-</u>	<u>12,271 (6)</u>
	<u>\$ 3,947,990</u>	<u>\$ 11,780</u>	<u>\$ 12,356</u>	<u>\$ 3,972,126</u>

- (1) Represents transfer of realized investment income

- (2) Represents transfer of MSBA reimbursements to the general fund for debt service interest (\$1,064,630) and funding of a capital projects fund (\$11,780)
- (3) Represents transfer to the general fund for short-term debt service interest costs
- (4) Represents funding of the fiscal year 2007 operating budget (\$154,000), transfer of indirect costs from various federal education grants (\$126,000) and funding of a water/sewer capital project (\$12,356)
- (5) Represents transfer of indirect costs (\$1,433,526) and voluntary transfer of investment income (\$86,083)
- (6) 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, 2007, the outstanding principal amount of the Bonds totaled \$70,150,000. 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, 2007, is as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2006	Increases	Decreases	Balance at 6/30/2007
BAN	Urban Renewal II.....	12/28/05	12/27/06	5.04%	\$ 10,000,000	\$ -	\$ (10,000,000)	\$ -
BAN	Urban Renewal II.....	12/27/06	12/27/07	5.50%	-	10,000,000	-	10,000,000
Total.....					\$ 10,000,000	\$ 10,000,000	\$ (10,000,000)	\$ 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, 2007, \$2,795,000 of bonds outstanding from this advance refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2007, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2006	Additions	Reductions	Outstanding at June 30, 2007
State loan.....	0.00%	\$ 220,127	\$ -	\$ (220,127)	\$ -
Municipal purpose.....	4.30 - 5.75%	121,528	-	(121,528)	-
School buildings refunding.....	3.65 - 5.13%	40,210,000	-	(180,000)	40,030,000
Urban renewal*.....	6.15 - 6.35%	5,410,000	-	(420,000)	4,990,000
Urban renewal.....	4.50 - 4.70%	80,000	-	(10,000)	70,000
Municipal purpose.....	4.50 - 4.70%	344,970	-	(89,990)	254,980
Municipal purpose.....	4.10 - 5.00%	574,035	-	(94,807)	479,228
School buildings refunding.....	2.00 - 5.00%	5,460,000	-	(5,460,000)	-
School building remodeling.....	2.37 - 4.75%	1,440,000	-	(80,000)	1,360,000
Municipal purpose.....	3.00 - 4.00%	575,400	-	(65,600)	509,800
Municipal purpose refunding....	3.00 - 4.50%	999,222	-	(8,439)	990,783
Equipment.....	3.75 - 4.00%	290,000	-	(58,000)	232,000
Renovations.....	3.75 - 4.00%	263,000	-	(26,300)	236,700
Public safety.....	3.75 - 4.00%	88,000	-	(17,600)	70,400
Sidewalks.....	3.75 - 4.00%	50,000	-	(5,000)	45,000
Municipal purpose.....	3.50 - 4.00%	-	653,000	-	653,000
Total.....		\$ 56,126,282	\$ 653,000	\$ (6,857,391)	\$ 49,921,891

* Federally taxable general obligation bonds

During fiscal year 2007, the City issued \$653,000 of general obligation bonds for equipment, building remodeling, outdoor recreational facilities and sidewalks.

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>
2008.....	\$ 6,797,357	\$ 2,662,368	\$ 9,459,725
2009.....	6,800,670	2,290,225	9,090,895
2010.....	6,711,492	1,924,129	8,635,621
2011.....	6,703,492	1,561,617	8,265,109
2012.....	6,534,709	1,202,472	7,737,181
2013.....	3,634,421	847,082	4,481,503
2014.....	1,787,733	663,731	2,451,464
2015.....	2,806,045	571,261	3,377,306
2016.....	6,013,445	426,154	6,439,599
2017.....	643,770	114,530	758,300
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>49,921,891</u>	\$ <u>12,437,951</u>	\$ <u>62,359,842</u>

Bonds and Notes Payable - Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2006	Additions	Reductions	Outstanding at June 30, 2007
Sewer notes (MWRA).....	0.00%	\$ 84,568	\$ -	\$ (42,284)	\$ 42,284
Sewer notes (MWRA).....	0.00%	50,299	-	(50,299)	-
Sewer notes (MWRA).....	0.00%	472,909	-	(94,582)	378,327
Water notes (MWRA).....	0.00%	154,336	-	(19,292)	135,044
Water notes (MWRA).....	0.00%	99,760	-	(9,976)	89,784
Water and sewer bonds.....	4.30 - 5.75%	238,471	-	(238,471)	-
Water and sewer bonds.....	4.50 - 4.70%	1,070,030	-	(65,010)	1,005,020
Water and sewer bonds.....	4.10 - 5.00%	1,300,962	-	(80,193)	1,220,769
Water and sewer bonds.....	4.80 - 5.20%	980,000	-	(85,000)	895,000
Water.....	2.37 - 4.75%	275,000	-	(17,500)	257,500
Sewer.....	2.37 - 4.75%	835,000	-	(47,500)	787,500
Water and sewer bonds.....	3.00 - 4.00%	1,739,600	-	(194,400)	1,545,200
Water and sewer refunding....	3.00 - 4.50%	1,960,778	-	(16,561)	1,944,217
Water - meters.....	3.75 - 4.00%	448,000	-	(44,800)	403,200
Sewer - Crescent Street.....	3.75 - 4.00%	956,000	-	(95,800)	860,200
Water - Crescent Street.....	3.75 - 4.00%	23,000	-	(2,300)	20,700
Sewer - meters.....	3.75 - 4.00%	752,000	-	(75,200)	676,800
Water and sewer bonds.....	3.50 - 4.00%	-	2,497,000	-	2,497,000
Total.....		\$ 11,440,713	\$ 2,497,000	\$ (1,179,168)	\$ 12,758,545

During fiscal year 2007, the City issued \$2,497,000 of general obligation bonds for water meters, water mains, surface drains and other sewer infrastructure 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). At June 30, 2007, the outstanding principal amount of these loans totaled \$645,439. 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>
2008.....	\$ 1,303,777	\$ 507,453	\$ 1,811,230
2009.....	1,258,181	440,002	1,698,183
2010.....	1,277,358	397,151	1,674,509
2011.....	1,275,357	353,216	1,628,573
2012.....	1,184,559	308,574	1,493,133
2013.....	1,174,847	261,432	1,436,279
2014.....	1,171,535	215,110	1,386,645
2015.....	1,148,931	168,642	1,317,573
2016.....	951,531	121,487	1,073,018
2017.....	716,231	85,302	801,533
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>12,758,545</u>	\$ <u>3,025,827</u>	\$ <u>15,784,372</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, 2007, the City had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Unfunded pension liability.....	\$ 47,000,000
Urban Renewal II.....	12,000,000
Funding of Capital Improvement Plan (CIP).....	2,689,380
High school extension.....	1,150,000
Refunding of previously issued debt.....	<u>265,000</u>
Total.....	\$ <u>63,104,380</u>

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2007, the following changes occurred in long-term liabilities:

	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 56,126,282	\$ 653,000	\$ (6,857,391)	\$ 49,921,891	\$ 6,797,357
Workers' compensation claims.....	843,000	723,088	(347,838)	1,218,250	536,433
Court judgments.....	150,000	-	(150,000)	-	-
Compensated absences.....	2,724,000	1,002,334	(690,334)	3,036,000	750,000
Total.....	\$ 59,843,282	\$ 2,378,422	\$ (8,045,563)	\$ 54,176,141	\$ 8,083,790
Business-type Activities:					
Bonds and notes payable.....	\$ 11,440,713	\$ 2,497,000	\$ (1,179,168)	\$ 12,758,545	\$ 1,303,777

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, \$1,218,250 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, 2007, \$4,602,003 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, \$3,610,129 can be used for general and/or capital purposes, \$849,520 for capital purposes, and \$142,354 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 and a portion of its retirees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

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

A. Retiree Health Insurance

The estimated “Incurred But Not Reported (IBNR)” claims are based on actual and historical lag claims. The liability at June 30, 2007 totaled \$51,264. Changes in the reported liability since July 1, 2005, 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 2006.....	\$ 132,422	\$ 1,019,877	\$ (1,000,582)	\$ 151,717
Fiscal year 2007.....	151,717	1,121,935	(1,222,388)	51,264

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, 2007, totaled \$1,218,250. Changes in the reported liability since July 1, 2005, 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 2006.....	\$ 600,000	\$ 710,096	\$ (467,096)	\$ 843,000
Fiscal year 2007.....	843,000	723,088	(347,838)	1,218,250

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 \$4,290,033 for the fiscal year ended June 30, 2007, 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, 2006, the System’s membership consists of the following:

Active members.....	692
Inactive members.....	139
Disabled members.....	81
Retirees and beneficiaries currently receiving benefits.....	<u>304</u>
 Total.....	 <u><u>1,216</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%, 92% and 91%, respectively, of the total.

Annual Pension Cost – The City’s actual and required contributions to the System for the fiscal years ended June 30, 2007, 2006, and 2005 were \$6,617,937, \$6,121,184, and \$5,597,912, respectively. At June 30, 2007, 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, 2007, was 21 years. This remaining amortization period is closed.

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/07	\$ 62,032	\$ 130,398	\$ 68,366	47.6%	\$ 26,952	253.7%
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%

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 2007 totaled approximately \$66,000.

NOTE 14 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$18,000,000 for equipment, parks and open space, public buildings and facilities, public safety, roadway and water and sewer system improvements in accordance with its five-year capital improvement plan for fiscal years 2008 through 2012.

NOTE 15 - CONTINGENCIES

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2007 cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2007.

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, 2007, 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 2007, the City implemented GASB Statement #43 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement had no impact on the City's basic financial statements.

NOTE 17 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following 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.
- Statement #48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which is required to be implemented during fiscal year 2008. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is required to be implemented during fiscal year 2009. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #50, *Pension Disclosures*, which is required to be implemented during fiscal year 2008. The City is currently evaluating the effect that this Statement will have on its basic financial statements.
- Statement #51, *Accounting and Financial Reporting for Intangible Assets*, which is required to be implemented during fiscal year 2010. The City is currently evaluating the effect that this Statement will have on its basic financial statements.

These pronouncements will be implemented by their respective due dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 29,542,591	\$ -	\$ 29,542,591
Motor vehicle and other excise taxes.....	-	2,175,000	-	2,175,000
Tax and trash liens.....	-	-	-	-
Payments in lieu of taxes.....	-	1,225,886	-	1,225,886
Trash disposal.....	-	1,308,773	-	1,308,773
Intergovernmental.....	-	63,524,986	386,430	63,911,416
Penalties and interest on taxes.....	-	160,000	-	160,000
Licenses, permits and fees.....	-	1,687,176	-	1,686,176
Fines and forfeitures.....	-	1,947,690	-	1,947,690
Departmental.....	-	-	-	-
Investment income.....	-	1,550,000	-	1,550,000
TOTAL REVENUES.....	-	103,122,102	386,430	103,507,532
EXPENDITURES				
Current:				
General government.....	54,849	3,670,670	(37,846)	3,659,038
Public safety.....	39,970	15,844,303	157,313	16,041,586
Education.....	1,249,303	56,452,715	365,431	58,067,449
Public works.....	311,205	4,854,353	(1,287)	5,164,271
Health and human services.....	932	762,180	7,050	770,162
Culture and recreation.....	213	392,597	(213)	392,597
Pension benefits.....	-	4,723,201	-	4,723,201
Employee benefits.....	-	6,227,783	-	6,227,783
Property and liability insurance.....	92,755	513,113	-	605,868
Claims and judgments.....	4,490	25,000	-	29,490
State and county charges.....	-	3,838,282	-	3,838,282
Debt service:				
Principal.....	-	6,857,391	-	6,857,391
Interest.....	-	3,476,493	-	3,476,493
TOTAL EXPENDITURES.....	1,753,717	107,638,081	490,448	109,853,611
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,753,717)	(4,515,979)	(104,018)	(6,346,079)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	2,217,526	-	2,217,526
Premium from issuance of bonds and notes.....	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	2,217,526	-	2,217,526
NET CHANGE IN FUND BALANCE.....	(1,753,717)	(2,298,453)	(104,018)	(4,128,553)
FUND BALANCE AT BEGINNING OF YEAR.....	10,443,571	10,443,571	10,443,571	10,443,571
FUND BALANCE AT END OF YEAR.....	\$ 8,689,854	\$ 8,145,118	\$ 10,339,553	\$ 6,315,018

See notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	28,960,180	\$ -	\$ 28,960,180	(582,411)
	2,332,484	-	2,332,484	157,484
	366,997	-	366,997	366,997
	1,185,030	-	1,185,030	(40,856)
	1,270,801	-	1,270,801	(37,972)
	64,471,667	-	64,471,667	560,251
	301,942	-	301,942	141,942
	2,238,705	-	2,238,705	552,529
	1,534,903	-	1,534,903	(412,787)
	23,378	-	23,378	23,378
	2,193,928	-	2,193,928	643,928
	<u>104,880,015</u>	<u>-</u>	<u>104,880,015</u>	<u>1,372,483</u>
	3,102,078	52,626	3,154,704	504,334
	15,815,505	42,052	15,857,557	184,029
	55,991,658	1,982,216	57,973,874	93,575
	4,622,596	226,174	4,848,770	315,501
	712,484	506	712,990	57,172
	340,361	55	340,416	52,181
	4,711,629	-	4,711,629	11,572
	5,839,623	333,948	6,173,571	54,212
	558,328	-	558,328	47,540
	21,180	-	21,180	8,310
	3,310,117	-	3,310,117	528,165
	6,857,391	-	6,857,391	-
	3,472,492	-	3,472,492	4,001
	<u>105,355,442</u>	<u>2,637,577</u>	<u>107,993,019</u>	<u>1,860,592</u>
	<u>(475,427)</u>	<u>(2,637,577)</u>	<u>(3,113,004)</u>	<u>3,233,075</u>
	3,282,156	-	3,282,156	1,064,630
	29,287	-	29,287	29,287
	<u>3,311,443</u>	<u>-</u>	<u>3,311,443</u>	<u>1,093,917</u>
	2,836,016	(2,637,577)	198,439	4,326,992
	<u>10,443,571</u>	<u>10,443,571</u>	<u>10,443,571</u>	<u>-</u>
\$	<u>13,279,587</u>	<u>\$ 7,805,994</u>	<u>\$ 10,642,010</u>	<u>\$ 4,326,992</u>

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, 2007, 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.....	\$ 104,880,015	\$ 107,993,019	\$ 3,311,443
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	82,870	-	-
Net change in recording tax refunds payable.....	(98,669)	-	-
To reclassify investment income related to other funds to transfers in.....	(665,834)	-	665,834
To record activity for MTRS on-behalf payments.....	4,290,033	4,290,033	-
Net change in recording short-term interest accrual.....	-	24,696	-
To record encumbrances and continuing appropriations.....	-	(2,637,577)	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 108,488,415</u>	<u>\$ 109,670,171</u>	<u>\$ 3,977,277</u>

Combining and Individual Fund Statements and Schedules



2007 E-Government Award

Common Cause Massachusetts, a nonpartisan, nonprofit, government watchdog, dedicated to citizen participation in an open, honest, and accountable government, recognized the City's website with its 2007 E-Government Award for meeting six key criteria to promote openness and access to municipal documents. Pictured at the recent State House ceremony are Representative Eugene O'Flaherty, Common Cause Executive Director Pam Wilmot and City Manager Jay Ash.

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 – accounts for the activity related to the creation and preservation of affordable housing within the City.

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, 2007

Special Revenue Funds

ASSETS	Highway Improvement	Community Development	Affordable Housing	City Revolving	Receipts Reserved
Cash and cash equivalents.....	\$ -	\$ 3,706,463	\$ -	\$ 137,437	\$ 3,839,137
Receivables, net of allowance for uncollectible amounts:					
Departmental and other.....	-	-	-	207,638	-
Intergovernmental.....	157,041	204,848	-	-	-
Loans.....	-	1,595,798	-	-	-
Restricted assets:					
Cash and cash equivalents.....	-	530,166	240,959	-	-
TOTAL ASSETS.....	\$ 157,041	\$ 6,037,275	\$ 240,959	\$ 345,075	\$ 3,839,137
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ -	\$ 270,330	\$ -	\$ 5,316	\$ -
Deferred revenue.....	-	-	-	124,053	-
Due to other funds.....	230,984	-	-	-	-
TOTAL LIABILITIES.....	230,984	270,330	-	129,369	-
 FUND BALANCES:					
Reserved for:					
Loans.....	-	1,595,798	-	-	-
Perpetual permanent funds.....	-	-	-	-	-
Other specific purposes.....	-	-	-	-	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds.....	(73,943)	4,171,147	240,959	215,706	3,839,137
Capital projects funds.....	-	-	-	-	-
Permanent funds.....	-	-	-	-	-
TOTAL FUND BALANCES.....	(73,943)	5,766,945	240,959	215,706	3,839,137
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 157,041	\$ 6,037,275	\$ 240,959	\$ 345,075	\$ 3,839,137

Special Revenue Funds

City Gifts	City State Grants	City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants
\$ 134,322	\$ 615,766	\$ -	\$ 481,381	\$ 294,993	\$ 725,820	\$ 474,939
-	-	-	-	-	42,832	-
-	48,660	233,672	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 134,322</u>	<u>\$ 664,426</u>	<u>\$ 233,672</u>	<u>\$ 481,381</u>	<u>\$ 294,993</u>	<u>\$ 768,652</u>	<u>\$ 474,939</u>
\$ 62	\$ 48,552	\$ 14,500	\$ 335,816	\$ 4,186	\$ 6,820	\$ 171,274
-	-	-	-	-	-	-
-	-	123,788	-	-	-	-
<u>62</u>	<u>48,552</u>	<u>138,288</u>	<u>335,816</u>	<u>4,186</u>	<u>6,820</u>	<u>171,274</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	615,874	95,384	-	-	-	303,665
134,260	-	-	145,565	290,807	761,832	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>134,260</u>	<u>615,874</u>	<u>95,384</u>	<u>145,565</u>	<u>290,807</u>	<u>761,832</u>	<u>303,665</u>
<u>\$ 134,322</u>	<u>\$ 664,426</u>	<u>\$ 233,672</u>	<u>\$ 481,381</u>	<u>\$ 294,993</u>	<u>\$ 768,652</u>	<u>\$ 474,939</u>

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2007

	<i>Special Revenue Funds</i>		<i>Capital Projects Funds</i>	
ASSETS	School Federal Grants	Sub-total	Urban Renewal	Other Capital
Cash and short-term investments.....	\$ 769,584	\$ 11,179,842	\$ 635,774	\$ 417,039
Receivables, net of allowance for uncollectible amounts:				
Departmental and other.....	-	250,470	-	-
Intergovernmental.....	-	644,221	-	-
Loans.....	-	1,595,798	-	-
Restricted assets:				
Cash and short-term investments.....	-	771,125	-	478,214
TOTAL ASSETS.....	\$ 769,584	\$ 14,441,456	\$ 635,774	\$ 895,253
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 97,174	\$ 954,030	\$ -	\$ 32,333
Deferred revenue.....	-	124,053	-	-
Due to other funds.....	-	354,772	-	-
TOTAL LIABILITIES.....	97,174	1,432,855	-	32,333
FUND BALANCES:				
Reserved for:				
Loans.....	-	1,595,798	-	-
Perpetual permanent funds.....	-	-	-	-
Other specific purposes.....	672,410	1,687,333	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds.....	-	9,725,470	-	-
Capital projects funds.....	-	-	635,774	862,920
Permanent funds.....	-	-	-	-
TOTAL FUND BALANCES.....	672,410	13,008,601	635,774	862,920
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 769,584	\$ 14,441,456	\$ 635,774	\$ 895,253

<i>Capital Projects Funds</i>		<i>Permanent Funds</i>			Total Nonmajor Governmental Funds
Sub-total	Health and Human Services	Culture and Recreation	Sub-total		
\$ 1,052,813	\$ -	\$ -	\$ -	\$	12,232,655
-	-	-	-		250,470
-	-	-	-		644,221
-	-	-	-		1,595,798
					-
<u>478,214</u>	<u>12,745</u>	<u>110,194</u>	<u>122,939</u>		<u>1,372,278</u>
<u>\$ 1,531,027</u>	<u>\$ 12,745</u>	<u>\$ 110,194</u>	<u>\$ 122,939</u>	<u>\$</u>	<u>16,095,422</u>
\$ 32,333	\$ -	\$ -	\$ -	\$	986,363
-	-	-	-		124,053
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>354,772</u>
<u>32,333</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>1,465,188</u>
-	-	-	-		1,595,798
-	11,996	10,396	22,392		22,392
-	-	-	-		1,687,333
-	-	-	-		9,725,470
1,498,694	-	-	-		1,498,694
<u>-</u>	<u>749</u>	<u>99,798</u>	<u>100,547</u>		<u>100,547</u>
<u>1,498,694</u>	<u>12,745</u>	<u>110,194</u>	<u>122,939</u>		<u>14,630,234</u>
<u>\$ 1,531,027</u>	<u>\$ 12,745</u>	<u>\$ 110,194</u>	<u>\$ 122,939</u>	<u>\$</u>	<u>16,095,422</u>

(Concluded)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Special Revenue Funds

	Highway Improvement	Community Development	Affordable Housing	City Revolving	Receipts Reserved
REVENUES					
Charges for services.....	\$ -	\$ -	-	\$ 1,354,200	\$ 189,148
Intergovernmental	219,552	3,779,488	-	4,983	-
Licenses, permits and fees.....	-	-	-	-	44,697
Departmental.....	-	437,621	-	82,439	43,194
Contributions.....	-	-	-	-	-
Investment income.....	-	163,681	9,011	-	-
TOTAL REVENUES.....	219,552	4,380,790	9,011	1,441,622	277,039
EXPENDITURES					
Current:					
General government.....	-	-	-	-	55,540
Public safety.....	-	-	-	1,274,482	-
Education.....	-	-	-	-	-
Public works.....	230,984	-	-	-	-
Health and human services.....	-	-	-	15,547	-
Culture and recreation.....	-	-	-	52,967	-
Community development.....	-	4,161,994	-	-	-
TOTAL EXPENDITURES.....	230,984	4,161,994	-	1,342,996	55,540
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(11,432)	218,796	9,011	98,626	221,499
OTHER FINANCING SOURCES (USES)					
Transfers in.....	-	-	-	-	-
Issuance of bonds and notes.....	-	-	-	-	-
Sale of capital assets.....	-	-	-	-	250,000
Transfers out.....	-	-	-	-	(187,673)
TOTAL OTHER FINANCING SOURCES (USES)....	-	-	-	-	62,327
NET CHANGE IN FUND BALANCES.....	(11,432)	218,796	9,011	98,626	283,826
FUND BALANCES AT BEGINNING OF YEAR.....	(62,511)	5,548,149	231,948	117,080	3,555,311
FUND BALANCES AT END OF YEAR.....	\$ (73,943)	\$ 5,766,945	240,959	\$ 215,706	\$ 3,839,137

Special Revenue Funds

City Gifts	City State Grants	City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants
\$ -	\$ -	\$ -	\$ 608,513	\$ 339,183	\$ -	\$ -
-	1,142,897	754,757	2,090,157	-	-	2,082,500
-	-	-	-	-	-	-
-	-	-	-	-	-	-
169,643	-	-	-	-	520,918	-
-	-	(2,715)	-	-	-	-
<u>169,643</u>	<u>1,142,897</u>	<u>752,042</u>	<u>2,698,670</u>	<u>339,183</u>	<u>520,918</u>	<u>2,082,500</u>
2,332	11,559	-	-	-	-	-
-	483,078	401,296	-	-	-	-
-	-	-	2,805,540	362,270	369,237	2,235,242
1,504	15,000	-	-	-	-	-
78,791	489,376	347,711	-	-	-	-
-	62,538	-	-	-	-	-
-	-	-	-	-	-	-
<u>82,627</u>	<u>1,061,551</u>	<u>749,007</u>	<u>2,805,540</u>	<u>362,270</u>	<u>369,237</u>	<u>2,235,242</u>
<u>87,016</u>	<u>81,346</u>	<u>3,035</u>	<u>(106,870)</u>	<u>(23,087)</u>	<u>151,681</u>	<u>(152,742)</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	(3,039)	(28,000)
-	-	-	-	-	(3,039)	(28,000)
87,016	81,346	3,035	(106,870)	(23,087)	148,642	(180,742)
47,244	534,528	92,349	252,435	313,894	613,190	484,407
<u>\$ 134,260</u>	<u>\$ 615,874</u>	<u>\$ 95,384</u>	<u>\$ 145,565</u>	<u>\$ 290,807</u>	<u>\$ 761,832</u>	<u>\$ 303,665</u>

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<i>Special Revenue Funds</i>		<i>Capital Projects Funds</i>	
	School Federal Grants	Sub-total	Urban Renewal	Other Capital
REVENUES				
Charges for services.....	\$ -	\$ 2,491,044	\$ -	\$ -
Intergovernmental	5,867,290	15,941,624	-	120,006
Licenses, permits and fees.....	-	44,697	-	-
Departmental.....	-	563,254	55,987	-
Contributions.....	-	690,561	-	-
Investment income.....	-	169,977	17,798	-
TOTAL REVENUES.....	5,867,290	19,901,157	73,785	120,006
EXPENDITURES				
Current:				
General government.....	-	69,431	-	256,918
Public safety.....	-	2,158,856	-	182,954
Education.....	6,011,003	11,783,292	-	50,000
Public works.....	-	247,488	-	241,934
Health and human services.....	-	931,425	-	-
Culture and recreation.....	-	115,505	-	1,450
Community development.....	-	4,161,994	16,340	206,779
TOTAL EXPENDITURES.....	6,011,003	19,467,991	16,340	940,035
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(143,713)	433,166	57,445	(820,029)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	-	-	11,780
Issuance of bonds and notes.....	-	-	-	653,000
Sale of capital assets.....	-	250,000	-	-
Transfers out.....	(94,961)	(313,673)	-	21,317
TOTAL OTHER FINANCING SOURCES (USES).....	(94,961)	(63,673)	-	686,097
NET CHANGE IN FUND BALANCES.....	(238,674)	369,493	57,445	(133,932)
FUND BALANCES AT BEGINNING OF YEAR.....	911,084	12,639,108	578,329	996,852
FUND BALANCES AT END OF YEAR.....	\$ 672,410	\$ 13,008,601	\$ 635,774	\$ 862,920

<i>Capital Projects Funds</i>	<i>Permanent Funds</i>			Total Nonmajor Governmental Funds
	Sub-total	Health and Human Services	Culture and Recreation	
\$ -	\$ -	\$ -	\$ -	\$ 2,491,044
120,006	-	-	-	16,061,630
-	-	-	-	44,697
55,987	-	-	-	619,241
-	-	-	-	690,561
17,798	-	4,435	4,435	192,210
193,791	-	4,435	4,435	20,099,383
256,918	-	-	-	326,349
182,954	-	-	-	2,341,810
50,000	-	-	-	11,833,292
241,934	-	-	-	489,422
-	-	-	-	931,425
1,450	-	2,731	2,731	119,686
223,119	-	-	-	4,385,113
956,375	-	2,731	2,731	20,427,097
(762,584)	-	1,704	1,704	(327,714)
11,780	-	-	-	11,780
653,000	-	-	-	653,000
-	-	-	-	250,000
21,317	-	-	-	(292,356)
686,097	-	-	-	622,424
(76,487)	-	1,704	1,704	294,710
1,575,181	12,745	108,490	121,235	14,335,524
\$ 1,498,694	\$ 12,745	\$ 110,194	\$ 122,939	\$ 14,630,234

(Concluded)



Internal Service Funds

Narrative

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

Retirees' Health Insurance – accounts for the health insurance activities of retirees' who 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, 2007

ASSETS	<u>Retirees' Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents.....	\$ 250,000	\$ 371,601	\$ 621,601
 LIABILITIES			
Current liabilities:			
Abandoned property.....	-	2,348	2,348
Accrued health claims payable.....	51,264	-	51,264
Workers' compensation claims.....	-	536,433	536,433
Total current liabilities.....	<u>51,264</u>	<u>538,781</u>	<u>590,045</u>
Noncurrent liabilities:			
Workers' compensation claims.....	-	681,817	681,817
Total liabilities.....	<u>51,264</u>	<u>1,220,598</u>	<u>1,271,862</u>
 FUND NET ASSETS			
Unrestricted.....	<u>\$ 198,736</u>	<u>\$ (848,997)</u>	<u>\$ (650,261)</u>

INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Retirees' Health Insurance	Workers' Compensation	Total
OPERATING REVENUES			
Employer contributions.....	\$ 975,486	\$ 575,081	\$ 1,550,567
Employee contributions.....	80,804	-	80,804
TOTAL OPERATING REVENUES.....	1,056,290	575,081	1,631,371
OPERATING EXPENSES			
Employee benefits.....	1,121,935	768,415	1,890,350
OPERATING INCOME (LOSS).....	(65,645)	(193,334)	(258,979)
NONOPERATING REVENUES (EXPENSES)			
Investment income.....	12,271	325	12,596
INCOME (LOSS) BEFORE TRANSFERS.....	(53,374)	(193,009)	(246,383)
TRANSFERS			
Transfers out.....	(12,271)	-	(12,271)
CHANGE IN FUND NET ASSETS.....	(65,645)	(193,009)	(258,654)
FUND NET ASSETS AT BEGINNING OF YEAR.....	264,381	(655,988)	(391,607)
FUND NET ASSETS AT END OF YEAR.....	\$ 198,736	\$ (848,997)	\$ (650,261)

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Retirees'</u> <u>Health</u> <u>Insurance</u>	<u>Workers'</u> <u>Compensation</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users.....	\$ 80,804	\$ -	\$ 80,804
Receipts from interfund services provided.....	975,486	575,081	1,550,567
Payments for interfund services used.....	<u>(1,222,388)</u>	<u>(393,165)</u>	<u>(1,615,553)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>(166,098)</u>	<u>181,916</u>	<u>15,818</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out.....	<u>(12,271)</u>	<u>-</u>	<u>(12,271)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	<u>12,271</u>	<u>325</u>	<u>12,596</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(166,098)	182,241	16,143
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>416,098</u>	<u>189,360</u>	<u>605,458</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 250,000</u>	<u>\$ 371,601</u>	<u>\$ 621,601</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ (65,645)	\$ (193,334)	\$ (258,979)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Accrued health claims payable.....	(100,453)	-	(100,453)
Workers' compensation.....	<u>-</u>	<u>375,250</u>	<u>375,250</u>
Total adjustments.....	<u>(100,453)</u>	<u>375,250</u>	<u>274,797</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ (166,098)</u>	<u>\$ 181,916</u>	<u>\$ 15,818</u>

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, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
ASSETS				
Cash and cash equivalents.....	\$ 406,213	\$ 271,186	\$ (183,538)	\$ 493,861
LIABILITIES				
Warrants payable.....	\$ -	\$ 177,922	\$ (158,822)	\$ 19,100
Liabilities due depositors.....	406,213	249,773	(181,225)	474,761
Total liabilities.....	\$ 406,213	\$ 427,695	\$ (340,047)	\$ 493,861

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, 2007

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 29,542,591	\$ 29,542,591	\$ 28,960,180	\$ (582,411)
Motor vehicle and other excise taxes.....	2,175,000	2,175,000	2,332,484	157,484
Tax and trash liens.....	-	-	366,997	366,997
Payments in lieu of taxes.....	1,225,886	1,225,886	1,185,030	(40,856)
Trash disposal.....	1,308,773	1,308,773	1,270,801	(37,972)
Intergovernmental	63,524,986	63,911,416	64,471,667	560,251
Penalties and interest on taxes.....	160,000	160,000	301,942	141,942
Licenses, permits and fees.....	1,687,176	1,686,176	2,238,705	552,529
Fines and forfeitures.....	1,947,690	1,947,690	1,534,903	(412,787)
Departmental.....	-	-	23,378	23,378
Investment income.....	1,550,000	1,550,000	2,193,928	643,928
TOTAL REVENUES.....	103,122,102	103,507,532	104,880,015	1,372,483
EXPENDITURES				
GENERAL GOVERNMENT				
LEGISLATIVE				
Salaries.....	150,719	150,719	150,718	1
Expenses.....	63,128	63,980	63,495	485
TOTAL.....	213,847	214,699	214,213	486
EXECUTIVE OFFICE				
Salaries.....	248,716	248,716	247,864	852
Expenses.....	32,999	32,959	29,435	3,524
TOTAL.....	281,715	281,675	277,299	4,376
AUDITOR'S OFFICE				
Salaries.....	208,144	208,144	207,691	453
Expenses.....	7,230	7,230	6,973	257
TOTAL.....	215,374	215,374	214,664	710
TREASURER'S/COLLECTOR'S OFFICE				
Salaries.....	435,190	435,190	424,034	11,156
Expenses.....	325,864	323,976	285,837	38,139
TOTAL.....	761,054	759,166	709,871	49,295
ASSESSING				
Salaries.....	191,507	191,507	191,507	-
Expenses.....	68,610	80,369	65,633	14,736
TOTAL.....	260,117	271,876	257,140	14,736
PROCUREMENT				
Salaries.....	100,682	100,682	100,644	38
Expenses.....	1,148	1,050	970	80
Capital.....	2,043	2,043	2,026	17
TOTAL.....	103,873	103,775	103,640	135

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
CENTRAL BILLING				
Salaries.....	112,279	112,279	99,652	12,627
Expenses.....	77,877	77,877	57,324	20,553
TOTAL.....	190,156	190,156	156,976	33,180
LAW DEPARTMENT				
Salaries.....	151,909	151,909	151,908	1
Expenses.....	76,210	76,210	55,689	20,521
TOTAL.....	228,119	228,119	207,597	20,522
PERSONNEL DEPARTMENT				
Salaries.....	118,255	118,255	118,255	-
Expenses.....	30,929	30,929	26,931	3,998
TOTAL.....	149,184	149,184	145,186	3,998
INFORMATION SYSTEMS				
Salaries.....	210,439	210,439	181,255	29,184
Expenses.....	264,564	264,564	254,323	10,241
Capital.....	68,000	68,000	68,000	-
TOTAL.....	543,003	543,003	503,578	39,425
CITY CLERK				
Salaries.....	236,978	236,978	228,569	8,409
Expenses.....	45,219	46,242	45,279	963
TOTAL.....	282,197	283,220	273,848	9,372
OFFICE OF PLANNING AND DEVELOPMENT				
Expenses.....	24,037	24,037	24,001	36
LICENSING				
Salaries.....	63,347	63,347	63,346	1
Expenses.....	3,696	3,345	3,345	-
TOTAL.....	67,843	66,692	66,691	1
SALARY RESERVE.....	405,000	# 328,064	-	328,064
TOTAL GENERAL GOVERNMENT.....	3,725,519	3,659,038	3,154,704	504,334
PUBLIC SAFETY				
POLICE DEPARTMENT				
Salaries.....	6,696,273	6,696,273	6,604,899	91,374
Expenses.....	494,624	494,347	484,582	9,765
Capital.....	107,000	107,000	106,109	891
TOTAL.....	7,297,897	7,297,620	7,195,590	102,030

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
FIRE DEPARTMENT				
Salaries.....	6,233,251	6,233,251	6,226,680	6,571
Expenses.....	409,521	409,189	400,691	8,498
TOTAL.....	6,642,772	6,642,440	6,627,371	15,069
INSPECTIONAL SERVICES				
Salaries.....	554,656	554,656	550,255	4,401
Expenses.....	24,579	24,579	19,690	4,889
TOTAL.....	579,235	579,235	569,945	9,290
TRAFFIC AND PARKING				
Salaries.....	40,679	40,679	40,645	34
Expenses.....	629,079	629,079	573,671	55,408
TOTAL.....	669,758	669,758	614,316	55,442
EMERGENCY MANAGEMENT				
Salaries.....	668,254	830,628	830,628	-
Expenses.....	26,357	21,905	19,707	2,198
TOTAL.....	694,611	852,533	850,335	2,198
TOTAL PUBLIC SAFETY.....	15,884,273	16,041,586	15,857,557	184,029
EDUCATION				
Operational.....	56,773,515	57,138,946	57,129,907	9,039
Northeast Regional Vocational High School Assessment.....	928,503	928,503	843,967	84,536
TOTAL EDUCATION.....	57,702,018	58,067,449	57,973,874	93,575
PUBLIC WORKS				
ADMINISTRATION				
Salaries.....	203,090	203,090	171,619	31,471
Expenses.....	7,660	79,660	79,100	560
TOTAL.....	210,750	282,750	250,719	32,031
STREETS AND SIDEWALKS				
Salaries.....	652,258	652,258	564,669	87,589
Expenses.....	1,160,284	1,088,284	1,008,998	79,286
TOTAL.....	1,812,542	1,740,542	1,573,667	166,875
SOLID WASTE/RECYCLING				
Expenses.....	1,921,524	1,921,524	1,907,835	13,689

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
STRUCTURES AND GROUNDS				
Salaries.....	279,892	279,892	228,858	51,034
Expenses.....	839,590	838,303	820,317	17,986
TOTAL.....	1,119,482	1,118,195	1,049,175	69,020
SNOW AND ICE REMOVAL				
Salaries.....	25,000	25,000	13,192	11,808
Expenses.....	66,260	66,260	44,578	21,682
Capital.....	10,000	10,000	9,604	396
TOTAL.....	101,260	101,260	67,374	33,886
TOTAL PUBLIC WORKS.....	5,165,558	5,164,271	4,848,770	315,501
HEALTH AND HUMAN SERVICES				
ADMINISTRATION				
Salaries.....	138,914	138,914	138,913	1
Expenses.....	7,275	7,275	6,826	449
TOTAL.....	146,189	146,189	145,739	450
HEALTH DIVISION				
Salaries.....	66,314	66,314	50,964	15,350
VETERAN'S SERVICE				
Salaries.....	77,775	77,775	71,497	6,278
Expenses.....	266,983	266,983	237,510	29,473
TOTAL.....	344,758	344,758	309,007	35,751
ELDER AFFAIRS				
Salaries.....	195,892	195,892	191,148	4,744
Expenses.....	9,959	17,009	16,132	877
TOTAL.....	205,851	212,901	207,280	5,621
TOTAL HEALTH AND HUMAN SERVICES.....	763,112	770,162	712,990	57,172
CULTURE AND RECREATION				
RECREATION AND CULTURAL AFFAIRS				
Salaries.....	52,553	52,553	41,372	11,181
Expenses.....	65,000	65,000	30,000	35,000
TOTAL.....	117,553	117,553	71,372	46,181
PUBLIC LIBRARY				
Salaries.....	251,200	251,200	245,924	5,276
Expenses.....	24,057	23,844	23,120	724
TOTAL.....	275,257	275,044	269,044	6,000
TOTAL CULTURE AND RECREATION.....	392,810	392,597	340,416	52,181

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
PENSION BENEFITS				
CONTRIBUTORY RETIREMENT SYSTEM				
Expenses.....	4,645,939	4,645,939	4,645,939	-
NON-CONTRIBUTORY PENSION BENEFITS				
Expenses.....	77,262	77,262	65,690	11,572
TOTAL PENSION BENEFITS.....	4,723,201	4,723,201	4,711,629	11,572
EMPLOYEE BENEFITS				
UNEMPLOYMENT COMPENSATION				
Expenses.....	52,000	52,000	36,485	15,515
HEALTH INSURANCE				
Expenses.....	5,468,863	5,468,863	5,461,746	7,117
WORKER'S COMPENSATION				
Expenses.....	370,000	370,000	391,188	(21,188)
PAYROLL TAXES				
Expenses.....	301,920	301,920	273,119	28,801
LIFE INSURANCE				
Expenses.....	35,000	35,000	11,033	23,967
TOTAL EMPLOYEE BENEFITS.....	6,227,783	6,227,783	6,173,571	54,212
PROPERTY AND LIABILITY INSURANCE				
Expenses.....	605,868	605,868	558,328	47,540
CLAIMS AND JUDGMENTS				
Expenses.....	29,490	29,490	21,180	8,310
STATE AND COUNTY CHARGES				
Expenses.....	3,838,282	3,838,282	3,310,117	528,165
DEBT SERVICE PRINCIPAL				
Expenses.....	6,857,391	6,857,391	6,857,391	-
DEBT SERVICE INTEREST				
Expenses.....	3,476,493	3,476,493	3,472,492	4,001
TOTAL EXPENDITURES.....	109,391,798	109,853,611	107,993,019	1,860,592
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES.....	(6,269,696)	(6,346,079)	(3,113,004)	3,233,075
OTHER FINANCING SOURCES (USES):				
Transfers in.....	2,217,526	2,217,526	3,282,156	1,064,630
Premium from issuance of short-term notes.....	-	-	29,287	29,287
TOTAL OTHER FINANCING SOURCES (USES).....	2,217,526	2,217,526	3,311,443	1,093,917
NET CHANGE IN FUND BALANCE.....	(4,052,170)	(4,128,553)	198,439	4,326,992
BUDGETARY FUND BALANCE, Beginning of year.....	10,443,571	10,443,571	10,443,571	-
BUDGETARY FUND BALANCE, End of year.....	6,391,401	6,315,018	10,642,010	4,326,992

(Concluded)

Statistical Section



Site photo, fall 2005



Computer rendering of Forbes Park, phase one (projected summer '07 completion)

Forbes Before After

Forbes Park Lofts, currently permitted for 225 units, adds to the diversity of housing options and is helping the City meet its goal of 1,200 new housing units in the coming years. The rehabilitation of the old factory building into sustainable, “green” housing has attracted the interest of many looking to invest in Chelsea; more than 50% of their first phase building units have been reserved and are scheduled for summer 2008 occupancy.

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 100 – 108)

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 109 – 112)

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

Debt Capacity (pages 113 – 118)

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 119 – 120)

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 121 – 126)

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 SIX FISCAL YEARS (1)

	2002	2003	2004	2005	2006	2007
Governmental Activities						
Invested in capital assets, net of related debt.....	\$ 67,472,216	\$ 88,028,350	\$ 87,769,262	\$ 104,156,143	\$ 102,535,541	\$ 103,040,202
Restricted.....	24,425,588	24,824,976	15,183,702	14,856,655	13,532,009	12,836,617
Unrestricted.....	27,453,878	24,631,799	28,500,604	24,393,261	22,882,562	27,331,951
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>	<u>\$ 143,208,770</u>
Business-Type Activities						
Invested in capital assets, net of related debt.....	\$ 1,819,597	\$ 3,367,738	\$ 4,534,392	\$ 3,445,938	\$ 4,197,376	\$ 3,382,731
Restricted.....	-	957,423	-	-	-	-
Unrestricted.....	4,669,738	2,429,730	3,015,421	4,101,194	3,966,040	4,994,535
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>	<u>\$ 8,377,266</u>
Primary Government						
Invested in capital assets, net of related debt.....	\$ 69,291,813	\$ 91,396,088	\$ 92,303,654	\$ 107,602,081	\$ 106,732,917	\$ 106,422,933
Restricted.....	24,425,588	25,782,399	15,183,702	14,856,655	13,532,009	12,836,617
Unrestricted.....	32,123,616	27,061,529	31,516,025	28,494,455	26,848,602	32,326,486
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>	<u>\$ 151,586,036</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 SIX FISCAL YEARS (1)

	2002	2003	2004	2005	2006	2007
Expenses						
General government.....	\$ 3,067,105	\$ 4,175,305	\$ 4,012,030	\$ 4,498,641	\$ 4,706,250	\$ 4,800,810
Public safety.....	16,083,570	20,788,760	20,951,948	23,411,640	25,120,329	26,964,061
Education.....	59,176,317	68,117,532	70,629,480	72,144,706	75,452,209	75,539,107
Public works.....	6,829,141	6,170,407	5,390,668	6,352,279	5,135,556	5,738,727
Health and human services.....	1,964,649	4,362,128	4,297,219	4,515,046	4,803,211	4,170,478
Culture and recreation.....	211,407	607,745	603,279	645,308	708,300	728,672
Community development.....	2,343,653	2,503,532	2,607,842	1,824,233	1,481,448	1,760,889
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	3,460,180
Total expenses.....	109,809,702	111,720,407	115,493,149	117,506,331	120,914,815	123,162,924
Program Revenues						
Charges for services:						
Public safety.....	3,026,871	3,137,625	2,865,284	3,467,600	3,831,602	4,998,734
Public works.....	961,094	1,075,487	1,147,770	1,207,394	1,223,069	1,358,377
Other activities.....	1,828,150	1,939,778	2,186,801	2,315,573	2,174,234	2,302,399
Operating grants and contributions.....	59,855,934	70,132,050	60,350,646	63,868,631	63,410,195	67,520,030
Capital grants and contributions.....	184,878	438,833	400,045	17,262,055	1,021,324	3,786,207
Total program revenues.....	65,856,927	76,723,773	66,950,546	88,121,253	71,660,424	79,965,747
Net (expense)/revenue.....	(43,952,775)	(34,996,634)	(48,542,603)	(29,385,078)	(49,254,391)	(43,197,177)
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	29,579,552
Motor vehicle and other excise taxes.....	2,603,461	3,136,517	2,331,503	2,890,852	2,829,277	2,111,357
Tax and trash liens.....	179,670	636,587	321,130	440,194	442,603	535,440
Penalties and interest on taxes.....	371,265	272,770	661,775	331,215	380,239	301,942
Payments in lieu of taxes.....	1,124,092	1,641,658	1,132,798	609,949	1,195,899	1,185,030
Grants and contributions not restricted to specific programs.....	11,040,014	8,843,073	8,327,219	9,035,989	9,050,539	10,539,794
Unrestricted investment income.....	784,289	821,315	413,762	525,769	1,245,853	1,695,467
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	1,507,253
Total general revenues and other changes in net assets.....	38,908,195	39,952,822	36,358,198	41,296,173	44,798,444	47,455,835
Change in net assets.....	\$ (5,044,580)	\$ 4,956,188	\$ (12,184,405)	\$ 11,911,095	\$ (4,455,947)	\$ 4,258,658

(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 SIX FISCAL YEARS (1)

	2002	2003	2004	2005	2006	2007
Expenses						
Water and Sewer.....	\$ 6,716,508	\$ 8,364,159	\$ 9,365,460	\$ 9,085,256	\$ 9,460,948	\$ 9,625,649
Program Revenues						
Charges for services.....	8,640,017	9,304,762	11,137,737	10,365,205	10,967,624	11,219,309
Operating grants and contributions.....	144,536	36,892	14,132	14,844	54,722	86,085
Capital grants and contributions.....	241,692	302,313	-	14,176	410,608	41,358
Total program revenues.....	9,026,245	9,643,967	11,151,869	10,394,225	11,432,954	11,346,752
Net (expense)/revenue.....	2,309,737	1,279,808	1,786,409	1,308,969	1,972,006	1,721,103
General Revenues and Transfers						
Transfers, net.....	(1,121,892)	(1,014,252)	(991,487)	(1,270,254)	(1,355,722)	(1,507,253)
Change in net assets.....	\$ 1,187,845	\$ 265,556	\$ 794,922	\$ 38,715	\$ 616,284	\$ 213,850

(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 SIX FISCAL YEARS (1)

	2002	2003	2004	2005	2006	2007
Total expenses.....	\$ 116,526,210	\$ 120,084,566	\$ 124,858,609	\$ 126,591,587	\$ 130,375,763	\$ 132,788,573
Total program revenues.....	<u>74,883,172</u>	<u>86,367,740</u>	<u>78,102,415</u>	<u>98,515,478</u>	<u>83,093,378</u>	<u>91,312,499</u>
Net (expense)/revenue.....	(41,643,038)	(33,716,826)	(46,756,194)	(28,076,109)	(47,282,385)	(41,476,074)
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>	<u>45,948,582</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>	<u>\$ 4,472,508</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>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General Fund				
Reserved.....	\$ 1,619,488	\$ 2,141,354	\$ 1,548,720	\$ 1,825,526
Unreserved.....	<u>7,307,396</u>	<u>9,360,784</u>	<u>12,688,981</u>	<u>15,227,877</u>
Total general fund.....	<u>\$ 8,926,884</u>	<u>\$ 11,502,138</u>	<u>\$ 14,237,701</u>	<u>\$ 17,053,403</u>
All Other Governmental Funds				
Reserved.....	\$ 1,709,706	\$ 2,005,036	\$ 2,406,969	\$ 4,415,666
Unreserved, reported in:				
Special revenue funds.....	4,758,421	7,361,995	9,330,984	10,580,027
Debt service funds.....	9,344,916	8,759,619	8,380,476	8,936,238
Capital projects funds.....	4,254,600	3,809,945	1,474,281	3,485,056
Permanent funds.....	<u>306,362</u>	<u>286,847</u>	<u>416,902</u>	<u>493,365</u>
Total all other governmental funds.....	<u>\$ 20,374,005</u>	<u>\$ 22,223,442</u>	<u>\$ 22,009,612</u>	<u>\$ 27,910,352</u>

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 2,357,008	\$ 3,040,954	\$ 2,468,835	\$ 2,190,036	\$ 1,753,717	\$ 2,637,577
<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>10,218,873</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>	<u>\$ 12,856,450</u>
\$ 5,737,054	\$ 5,389,046	\$ 5,338,698	\$ 4,489,363	\$ 4,062,188	\$ 3,305,523
7,924,095	9,987,147	11,953,009	11,933,024	13,027,339	14,327,473
9,433,813	10,702,854	9,758,015	10,279,367	9,370,978	9,430,547
(6,635,417)	(10,252,232)	(9,122,271)	(1,274,477)	(1,246,189)	(5,346,118)
<u>86,900</u>	<u>86,480</u>	<u>86,989</u>	<u>87,925</u>	<u>98,843</u>	<u>100,547</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>	<u>\$ 21,817,972</u>

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

LAST TEN FISCAL YEARS

	1998	1999	2000	2001	2002
REVENUES					
Real estate and personal property taxes.....	\$ 17,729,437	\$ 19,645,555	\$ 19,464,358	\$ 23,686,270	\$ 21,728,833
Motor vehicle and other excise taxes.....	2,538,763	1,422,042	2,307,286	1,905,700	2,170,362
Tax and trash liens.....	-	-	-	-	457,252
Payments in lieu of taxes.....	1,084,924	1,141,671	1,591,474	1,633,877	1,124,092
Charges for services.....	1,869,142	2,233,497	2,226,214	2,274,573	1,815,325
Trash disposal.....	-	-	-	-	866,277
Intergovernmental	57,445,599	65,099,855	68,747,661	76,188,575	74,378,281
Penalties and interest on taxes.....	335,862	546,923	414,379	1,520,929	371,265
Licenses, permits and fees.....	674,166	697,589	1,056,159	830,130	813,695
Fines and forfeitures.....	1,081,955	1,247,149	1,319,264	1,483,634	1,764,984
Departmental.....	-	-	-	-	72,016
Contributions.....	1,264,449	1,152,490	703,828	558,389	109,778
Investment income.....	2,918,609	1,171,362	1,848,589	3,154,945	2,105,219
Other.....	568,153	517,785	575,848	678,915	467,020
TOTAL REVENUES.....	87,511,059	94,875,918	100,255,060	113,915,937	108,244,399
EXPENDITURES					
Current:					
General government.....	2,483,691	2,078,627	2,397,043	2,601,668	2,996,976
Public safety.....	11,296,862	11,934,337	12,519,520	14,087,993	15,882,936
Education (1).....	40,421,521	44,933,711	48,704,754	51,468,402	67,437,206
Public works.....	4,055,683	4,004,265	3,940,400	4,341,867	7,601,737
Health and human services.....	1,054,548	1,234,793	1,318,863	1,438,230	1,908,806
Culture and recreation.....	431,546	364,813	381,304	455,534	444,751
Community development.....	1,831,729	1,441,518	1,480,392	1,660,953	2,332,017
Pension benefits (1).....	4,543,032	4,571,444	7,007,754	7,276,889	5,303,065
Employee benefits (1).....	4,496,173	5,284,037	4,997,082	6,039,105	6,919,831
Property and liability insurance.....	244,485	197,233	183,357	217,579	305,040
Claims and judgments.....	76,500	11,303	6,831	22,421	9,699
State and county charges.....	1,852,526	1,713,285	1,718,175	1,807,938	1,775,003
Capital outlay.....	5,870,449	12,056,873	3,054,115	4,943,097	-
Debt service:					
Principal.....	6,691,457	6,179,482	6,479,805	6,528,849	6,650,866
Interest.....	5,120,372	5,201,709	5,570,738	5,137,019	5,155,747
TOTAL EXPENDITURES.....	90,470,574	101,207,430	99,760,133	108,027,544	124,723,680
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(2,959,515)	(6,331,512)	494,927	5,888,393	(16,479,281)
OTHER FINANCING SOURCES (USES)					
Transfers in.....	3,487,673	-	5,062,020	10,169,470	10,022,247
Proceeds of bonds and notes.....	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.....	(3,022,216)	(4,525,560)	(4,133,900)	(9,019,791)	(8,890,143)
Payments to refunding bond escrow agent.....	(42,928,283)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	3,674,879	10,756,003	2,026,806	2,828,049	1,132,104
NET CHANGE IN FUND BALANCES.....	\$ 715,364	\$ 4,424,491	\$ 2,521,733	\$ 8,716,442	\$ (15,347,177)
DEBT SERVICE EXPENDITURES AS A PERCENTAGE OF NONCAPITAL EXPENDITURES.....					
	13.96%	12.77%	12.46%	11.32%	10.59%

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

	2003	2004	2005	2006	2007
\$	22,669,580	\$ 24,656,790	\$ 25,996,104	\$ 27,786,205	\$ 28,944,381
	3,251,518	2,431,353	2,933,506	2,737,502	2,332,484
	489,714	899,262	338,515	505,964	366,997
	1,641,658	1,132,798	609,949	1,195,899	1,185,030
	1,846,231	1,641,003	2,123,881	2,409,626	2,491,044
	907,205	1,034,814	1,120,391	1,230,498	1,270,801
	78,901,636	76,383,765	90,513,250	81,556,455	84,823,330
	272,770	661,775	331,215	380,239	301,942
	1,240,984	1,457,471	1,623,212	1,634,239	2,283,402
	1,578,661	1,417,772	1,509,779	1,578,152	1,534,903
	645,318	751,036	633,612	1,167,669	642,619
	181,635	133,509	331,998	664,958	690,561
	2,884,896	216,136	1,810,607	1,091,025	2,521,329
	-	-	-	-	-
	<u>116,511,806</u>	<u>112,817,484</u>	<u>129,876,019</u>	<u>123,938,431</u>	<u>129,388,823</u>
	3,280,440	3,242,967	3,260,371	3,050,989	3,428,427
	15,200,487	14,945,125	18,612,071	17,858,180	18,157,315
	59,553,050	57,742,946	58,334,323	59,939,592	67,868,326
	6,380,387	4,997,207	6,214,350	4,535,429	5,112,018
	2,017,643	1,999,958	2,072,138	1,916,395	1,643,909
	425,978	389,739	432,059	480,202	460,047
	2,351,070	3,088,565	2,024,964	5,348,708	6,784,769
	7,897,955	8,357,720	9,203,469	9,991,344	9,001,662
	7,401,070	8,801,256	9,222,562	10,672,888	5,839,623
	369,692	457,240	473,443	426,165	558,328
	18,377	15,835	20,498	9,210	21,180
	2,208,706	2,552,188	2,883,357	2,977,746	3,310,117
	-	-	-	-	-
	6,871,706	6,751,706	6,911,246	6,970,284	6,857,391
	4,700,550	4,607,567	4,136,328	3,549,065	3,497,188
	<u>118,677,111</u>	<u>117,950,019</u>	<u>123,801,179</u>	<u>127,726,197</u>	<u>132,540,300</u>
	<u>(2,165,305)</u>	<u>(5,132,535)</u>	<u>6,074,840</u>	<u>(3,787,766)</u>	<u>(3,151,477)</u>
	4,467,548	4,526,909	5,636,392	2,416,211	3,959,770
	-	1,600,000	641,000	691,000	653,000
	760,544	1,706	28,516	12,185	29,287
	16,660,000	-	1,007,661	-	-
	1,510,874	-	18,978	-	-
	30,995	2,400,696	25,000	297,780	250,000
	(3,451,011)	(3,529,273)	(4,354,515)	(1,048,061)	(2,440,246)
	<u>(18,050,214)</u>	<u>-</u>	<u>(1,001,620)</u>	<u>-</u>	<u>-</u>
	<u>1,928,736</u>	<u>5,000,038</u>	<u>2,001,412</u>	<u>2,369,115</u>	<u>2,451,811</u>
\$	<u>(236,569)</u>	<u>(132,497)</u>	<u>8,076,252</u>	<u>(1,418,651)</u>	<u>(699,666)</u>
	10.15%	9.83%	9.20%	8.58%	8.29%

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				
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%
2007	1,747,423,205	640,162,304	58,162,900	2,445,748,409	12.08	2,642,115,600	92.57%

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>
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
2007	9.33	19.54	19.54	12.08

Source: Assessing Department

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

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

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

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2007			1998		
	Amount of Tax	Rank	Percentage of Total Tax Levy	Amount of Tax	Rank	Percentage of Total Tax Levy
Urban Group Properties	\$ 826,542	1	2.80%	\$ -		-
Anthony Simboli	803,065	2	2.72%	491,095	3	2.72%
Nstar Services	605,662	3	2.05%	-		-
Griffin Way LLC	595,065	4	2.01%	-		-
Parkway Plaza	437,508	5	1.48%	-		-
Demoulas Super Markets Inc.	360,486	6	1.22%	-		-
Admiral Hill Associates Inc.	300,873	7	1.02%	-		-
New England Produce Center	295,730	8	1.00%	-		-
Catamount Petroleum L.P.	295,435	9	1.00%	314,004	5	1.74%
General Mills Operations Inc.	285,298	10	0.97%	-		-
Boston Edison	-		-	645,068	1	3.58%
Chelsea Development Associates	-		-	498,602	2	2.76%
Mystic Mall Limited Partnership	-		-	422,876	4	2.34%
Patric J. Glynn	-		-	275,066	6	1.53%
Boston Gas	-		-	242,623	7	1.35%
Stanton Black	-		-	231,706	8	1.28%
NYNEX	-		-	230,714	9	1.28%
Cargill	-		-	196,489	10	1.09%
Total	\$ 4,805,664		16.27%	\$ 3,548,243		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
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%	178,276	27,417,668	97.87%
2007	29,542,591	28,584,863	96.76%	-	28,584,863	96.76%

Source: Department of the Treasurer/Collector

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Median Family Income (1)	Per Capita (1)
	General Obligation Bonds	State House Notes	General Obligation Bonds	MWRA Notes			
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
2007	49,921,891	-	12,113,106	645,439	62,680,436	5.92%	1,787

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

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

RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

Fiscal Year	Net General Bonded Debt Outstanding					(1) Percentage of 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		
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
2007	49,921,891	-	49,921,891	9,430,547	40,491,344	1.53%	1,154

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

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

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

JUNE 30, 2007

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Massachusetts Water Resource Authority.....	\$ 5,486,650,000	1.52%	\$ 83,182,655
City direct debt.....			<u>62,680,436</u>
Total direct and overlapping debt.....			<u><u>\$ 145,863,091</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 2007

Fiscal year 2007 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.....	49,921,891
Less: General obligation bonds exempted by authority of state legislature.....	<u>(45,090,000)</u>
Total net debt applicable to limit.....	<u>4,831,891</u>
Legal debt margin.....	\$ <u>61,220,999</u>

	Fiscal Year		
	1998	1999	2000
Normal debt limit.....	\$ 20,310,380	\$ 20,977,218	\$ 25,961,683
Total net debt applicable to limit.....	<u>3,556,564</u>	<u>16,513,446</u>	<u>4,029,088</u>
Legal debt margin.....	\$ <u>16,753,816</u>	\$ <u>4,463,772</u>	\$ <u>21,932,595</u>
Total net debt applicable to the limit as a percentage of normal debt limit.....	17.51%	78.72%	15.52%

Fiscal Year						
2001	2002	2003	2004	2005	2006	2007
\$ 25,961,683	\$ 34,685,213	\$ 34,685,213	\$ 55,164,970	\$ 55,164,970	66,052,890	\$ 66,052,890
<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>4,831,891</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>	<u>\$ 61,220,999</u>
19.45%	12.98%	11.26%	6.20%	5.80%	7.05%	7.32%

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN CALENDAR YEARS

Year	Population (1)	Median Family Income (1)	Unemployment Rate (%) (2)
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%
2006	35,080	30,161 (3)	5.8%

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

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

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

PRINCIPAL EMPLOYERS

CURRENT YEAR AND NINE YEARS AGO

Employer	2007			1998		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
City of Chelsea	1,222	1	9.20%	1,239	2	9.93%
MITC	1,100	2	8.28%	1,600	1	12.82%
MWRA	564	3	4.25%	-		-
Market Basket	300	4	2.26%	-		-
Paul Revere Transportation	260	5	1.96%	500	4	4.01%
Massachusetts General Hospital	250	6	1.88%	200	8	1.60%
Signature Breads	230	7	1.73%	250	6	2.00%
Metropolitan Credit Union	221	8	1.66%	140	10	1.12%
Kayem Foods	179	9	1.35%	400	5	3.20%
Stop & Shop	147	10	1.11%	-		-
Town & Country	-		-	500	3	4.01%
Gulf Oil Company	-		-	225	7	1.80%
Eagle Air Freight	-		-	150	9	1.20%
Total	4,473		33.68%	5,204		41.69%

Source: Department of Planning and Development

EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Full-Time Equivalent Employees as of June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government.....	51	53	55	71	71	51	50	52	52	54
Public safety.....	186	186	187	193	197	199	186	197	200	212
Education (1).....	910	910	910	938	970	937	864	879	879	871
Public works.....	31	31	31	30	30	28	27	26	25	25
Health and human services.....	41	41	40	54	47	49	40	36	39	37
Culture and recreation.....	1	1	1	3	8	8	8	9	8	8
Community development.....	14	14	14	13	13	13	10	10	10	10
Water and sewer.....	5	5	5	4	4	4	4	5	5	5
Total.....	1,239	1,241	1,243	1,305	1,339	1,287	1,188	1,212	1,217	1,222

Source: Various departments

(1) 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			
	1998	1999	2000	2001
Public safety				
Police				
Offenses committed.....	8,845	8,406	7,816	7,693
Crime-related incidents.....	3,577	3,664	3,662	3,731
Non-crime related incidents.....	1,162	1,370	1,579	1,438
Arrests (on view).....	2,120	2,029	1,788	1,594
Arrests (based on incident/warrants).....	309	308	315	290
Summons arrests.....	3	2	1	3
Total arrests.....	2,432	2,339	2,104	1,887
Juvenile arrests.....	146	144	128	105
Hearings.....	287	210	169	241
Summons.....	75	41	64	60
Restraint orders.....	501	430	413	399
Citations.....	3,075	2,745	2,687	4,119
Fire				
Fires extinguished (1) (2).....	370	408	377	234
Education				
Public school enrollment.....	5,523	5,836	5,759	5,848
Culture and recreation				
Library volumes in collection.....	88,890	78,420	81,963	79,258
Library volumes borrowed.....	70,321	74,183	67,328	61,604
Water				
Average daily consumption (1) (million gallons/day).....	3.219	3.285	3.165	3.410
Peak daily consumption (1) (2) (million gallons/day).....	3.900	3.920	4.450	3.880
Sewer				
Average daily sewage treatment (1) (million gallons/day).....	4.960	4.410	4.700	4.570

Source: Various departments

(1) Data is on a calendar year basis

(2) Data is not available for 2007

Fiscal Year					
2002	2003	2004	2005	2006	2007
8,245	7,724	6,909	6,784	7,460	7,632
4,320	4,200	3,752	3,586	3,552	3,543
1,395	1,614	1,364	1,377	1,676	1,707
1,538	1,369	1,239	1,427	1,664	1,577
319	413	377	277	343	408
4	1	-	-	5	10
1,861	1,783	1,616	1,704	2,012	1,995
162	144	149	143	162	137
471	552	411	457	532	533
163	209	154	240	259	340
450	437	389	406	393	373
6,932	4,864	4,048	4,786	4,610	3,561
243	240	253	181	268	N/A
5,876	5,805	5,785	5,873	5,500	5,571
80,933	76,585	74,568	73,635	74,928	76,633
60,601	53,072	47,904	44,766	45,164	49,459
3.441	3.543	3.418	3.285	2.999	3.010
5.220	4.870	4.500	4.170	3.634	N/A
3.900	3.990	4.040	4.110	4.440	4.030

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Fiscal Year				
	1998	1999	2000	2001	2002
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.....	1,659	1,662	1,664	1,668	1,671
Traffic signals.....	46	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				
2003	2004	2005	2006	2007
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
1,675	1,677	1,680	1,683	1,708
46	46	46	46	47
1	1	1	1	1
61	61	61	61	61
41	41	41	41	41

