



City of Chelsea, Massachusetts
Comprehensive Annual Financial Report



For the Fiscal Year Ended June 30, 2008

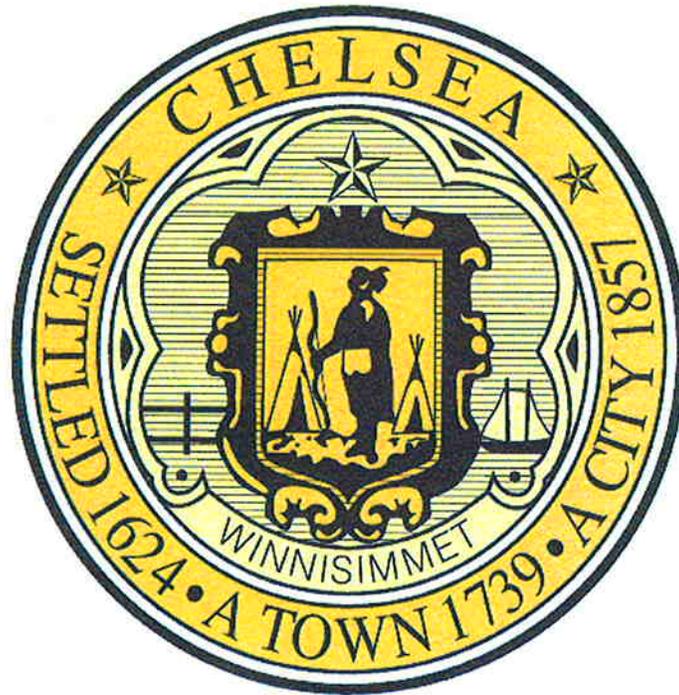
About the Cover:

A view with room...to grow; the Boston skyline, mountainous buildings set against the picturesque clouds, shows the proximity of Chelsea to the "Hub" of the New England. Just minutes from Government Center, the Financial District, Logan International Airport, and the many institutions of higher learning in Boston and Cambridge, Chelsea maintains a unique character of diversity, affordability, and convenience unlike any other inner-ring suburb.

City of Chelsea, Massachusetts
Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Jay Ash
City Manager



Prepared by the Finance Division

CITY OF CHELSEA, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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Introductory Section



Check Presentation

Dignitaries flank Councillor Roseann Bongiovanni and Governor Patrick as he presents nearly \$500,000 from the Executive Office of Energy and Environmental Affairs to help complete Creekside Commons, a state of the art multi-generational 1-Acre park serving a diverse population from both the new Parkside Commons Residential Community and the old neighborhoods that surround the development.



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Executive Office
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Jay Ash
City Manager

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January 27, 2009

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, 2008. 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.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

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, increasing bond ratings, solid audits and financial reporting awards reflect positively on the achievement of that latter goal and the stability in financing government that has been produced even during the most turbulent of fiscal times.

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

As is the case with much that has been accomplished in the 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 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, 2007, which represents the fiscal reporting period for the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission.

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

ECONOMIC CONDITIONS

The depths of the current recession are unknown, and the impacts on municipal governments remain a concern. Cities and towns had been reeling prior to this cataclysmic period, with revenues seemingly unable to keep up with rising costs. Most notably, overhead, in the form of health insurance and retirement costs, continue to strain municipal finances. Pressing infrastructure needs are similarly adding pressure on budgets. News of further State local aid cuts are giving municipal budget writers and those who are supported by their decisions great pause for concern.

The current recession comes after a brief period of recovery that did not allow cities and towns to fully recharge and prepare for the next period of tumult. The City has proven to be equal to financial challenges since a relatively mild recession in the early 1990's, and numerous other factors, thrust it into Receivership from 1991-1994. Escaping such a relapse has been a central focus of the Administration. Considering the pressures of subsequent down periods, the City's relative good health is a significant accomplishment. Since emerging from Receivership, the City has demonstrated that prudent fiscal management is embedded in the process of managing today's municipal government.

As non-school local aid continues to be below fiscal year 2001 highs (still down 4% in fiscal year 2009, unadjusted for inflation), 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 economic development and entrepreneurial activities. With the community's revitalization now fourteen year's strong, Chelsea's greatest asset, proximity to Boston, can be and is now being leveraged as part of a focus housing development 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 is poised to meet and exceed stated goals. 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. As, too, is the pressure to continually find more ways of raising revenues and controlling spending. 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 is continuing to utilize those savings to help relieve the pressures while solutions to yet another round of potential local aid cuts can be developed and implemented. The City was arguably out of a structural deficit despite the last round of cuts. However, pending local aid cuts will place the City another step back and prevent, at least on the short-term, the City from starting to rebuild those reserves and addressing areas where spending has been deferred or eliminated, including in important infrastructure areas.

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. 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. Merited pay raises are being negotiated fairly. Retirement and assessments are almost beyond the City's ability to control, with the former causing the greatest strife, as the historic underfunding of the City's pension system has the City now paying millions of dollars annually in catch-up payments in order to meet the full-funding requirement of all retirement systems by the year 2028. Stock market losses during the first half of fiscal year 2009 will place even greater pressure on the pension system, and, perhaps, the operating budget.

Ample reserves and strong policies on their use provide the likelihood that the City can maintain municipal services in the near future. A deepening and prolonged recession, though, can only be offset for so long. In general, the City believes that strong local management, supported, most importantly, by a responsible City Council, as well as economic development opportunities that still exists, even in a general economy in retreat, provides optimism at a time that pessimism is at an all-time high elsewhere. That optimism is constantly being rechecked, though, as the realities of the day give City officials many reasons to be concerned.

FUTURE OUTLOOK

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

Financially, the City is continuing to balance budgets and examine its financial strengths and weaknesses for years out. Central to the most critical challenges that lie ahead is managing revenue reductions in areas like local aid, building permits and slowing property tax growth. Fortunately, City development plans are still advancing projects, and City financial efforts are keeping projected structural deficits at manageable levels. The current financial plan takes into account likely "hits" to revenues, and projects a forecast which has the City able to negotiate through the current recession. Of course, no one knows how long or deep the recession will be. However, the same fiscal constraint that has served the City well for the last decade and a half provides evidence that the City has a track record of successfully addressing financial issues. Some deferment of core service issues must be addressed, like staffing levels, but that is not likely to happen any time soon. There will be targeted growth in at least one priority area, policing, but additional growth in other areas will have to wait. With this as a backdrop, and notwithstanding the various crises impacting all corners of the world, 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. For example, the success that has been enjoyed at Chelsea Commons creates tremendous expectations for the city's other shopping center: Mystic Mall. In the former, a Home Depot and numerous other national retailers and restaurants, is now complemented by the successful Parkside Commons, a 238-unit residential development. Similar to that mixed use development, City development officials hope that the soon-to-be-completed Market Basket will be the first of several significant developments at Mystic Mall. Development elsewhere promises to continue the City's amazing record of success, including a Cambria Suites to be developed in the City's highly successful Everett Avenue Urban Renewal District (EAURD).

Neighborhood enhancement is aided by economic development and promotes greater financial stability. The City has been most successful in resolving many neighborhood issues, most notably "residential/industrial" conflicts that retard the growth of neighborhoods. Just recently, another example embodying the City's planning, vision, action and achievement on the residential/industrial conflict agenda was realized. Having envisioned a residential neighborhood in the Gerrish Avenue area following a 1997 fire at Standard Box, the then most significant industrial presence in the neighborhood, the City was able to help move another major industrial user, Atlas Bedding, to a more appropriate industrial location. Several phases in the newly established "Box District" have taken place, with the next phase, the redevelopment of the Atlas Bedding factory, anticipated to begin this upcoming spring. 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. A new Police Chief, aided by a department expanded by 9 additional officers, continues to have an even greater impact on the accomplishment of the City's public safety officers.

Loyalty to the government philosophy continues to permeate City government. Technology has especially allowed residents and municipal officials to interact and collaborate. Throughout City Hall and out to the community and beyond, the City's efforts to remain open and engaging has resulted in the establishment of a better general understanding of government and an advancement of partnerships that address common agendas.

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, 2008, totaled \$43,867,534, of which \$35,575,000 relates to School Construction and \$4,630,000 relates to urban renewal, leaving a balance of \$3,662,534 related to CIP projects. The Commonwealth of Massachusetts reimburses the City for 95 percent of the principal and interest related to the School Construction bonds.

Since fiscal year 1997, the City had funded a portion (\$200,000 annually) of its CIP on a "pay-as-you-go" basis out of current revenues. In order to maintain this type of funding, even in difficult economic conditions, a Capital Stabilization Fund was established and, as of June 30, 2008, totals approximately \$903,000.

INDEPENDENT AUDIT

The City's financial records, books of accounts and financial transactions are audited each fiscal year by an independent firm of certified public accountants. The independent public accounting firm of Sullivan, Rogers & Company, LLC performed the City's annual audit for the fiscal year ended June 30, 2008. The independent auditors' report on the basic financial statements, for the fiscal year ended June 30, 2008, is included herein and contains an unqualified opinion.

CERTIFICATES, AFFILIATIONS AND AWARDS

For the tenth 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, 2007 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 2008 CAFR continues to meet the Certificate Program's requirements and, accordingly, we have submitted it to the GFOA to determine its eligibility for another Certificate of Achievement.

ACKNOWLEDGMENTS

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

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

Yes, not everything is perfect. We are sometimes reminded of this by local observers or discover it ourselves as we experience happenings or self-detected realizations. Admitting that perfection is still a ways off is no condemnation, as no community can claim to be without 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.

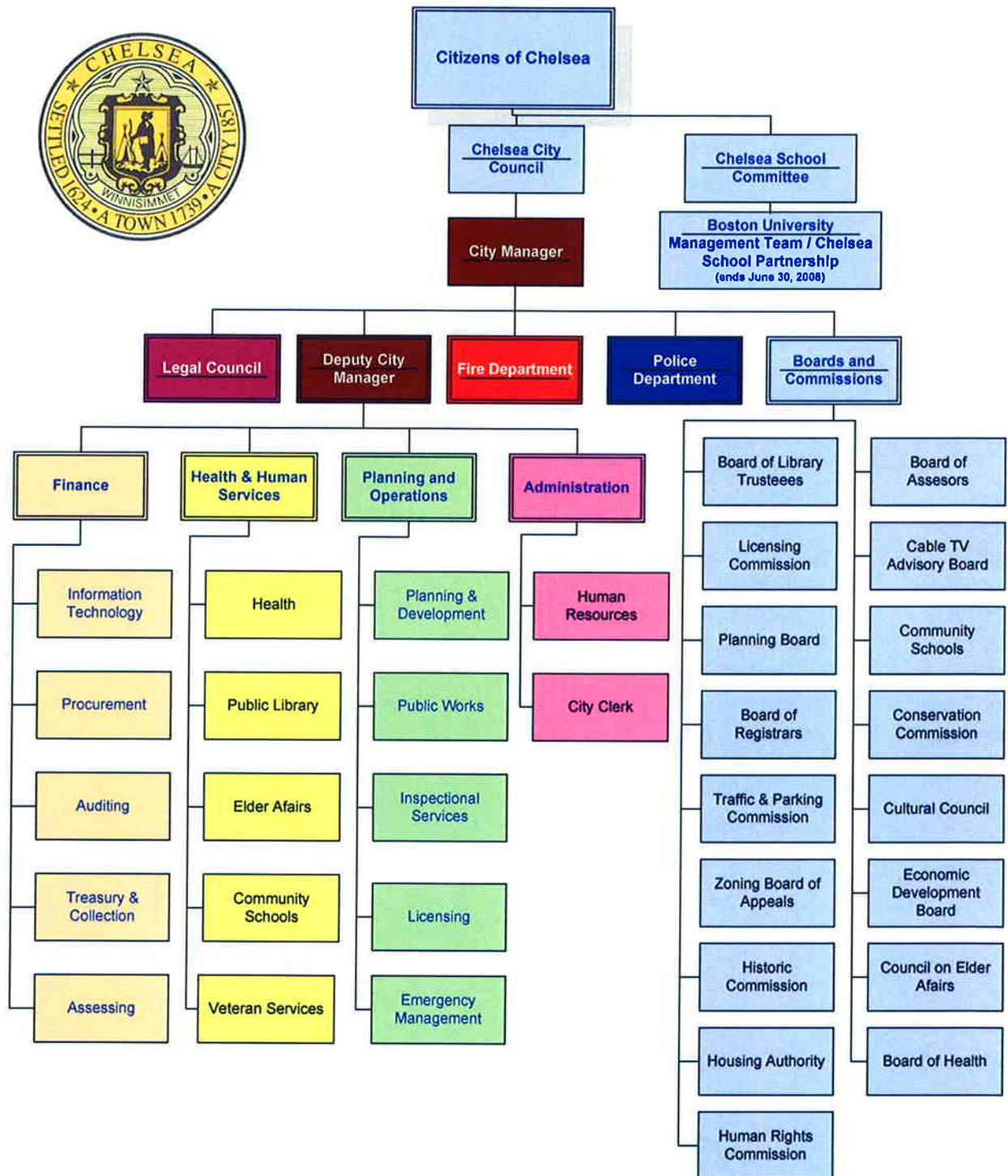
On behalf of all of us, including you, City Council, I am pleased to share with the public the City's Fiscal Year 2008 CAFR. Once again, municipal government is not only accurately and openly reporting on its operations, but also doing so in a manner which demonstrates why Chelsea City government is considered the success it is.

Very truly yours,



Jay Ash
City Manager

City of Chelsea Organization



Elected Officials - City Council

At Large	Leo Robinson
At Large	Roy A. Avellaneda
At Large	Roseann Bongiovanni
District One	Stanley Troisi, <i>President</i>
District Two	Mike McKonnen Tsegaye, <i>Vice-President</i>
District Three	Matthew R. Frank
District Four	Paula S. Barton
District Five	Brian B. Hatleberg
District Six	Marilyn Vega-Torres
District Seven	Deborah Washington
District Eight	Ron D. Morgese

Elected Officials - School Committee

At Large	Morrie Seigal
District One	Rosemarie Carlisle, <i>Vice Chairman</i>
District Two	Michael J. Caulfield, <i>Chairman</i>
District Three	Melinda M. Alvarado-Vega
District Four	Lucia H. Colón
District Five	Lisa Lineweaver, <i>Delegate to City Council</i>
District Six	James E. Dwyer
District Seven	Ramona Foster
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	Stanley Troisi, President Paul Casino, Administrator	
Executive	Jay Ash, City Manager Edward Keefe, 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 Clayman, Director	
M.I.S.	John Hyland, Acting Director	
Planning & Development	Edward Keefe, Executive Director	Planning, Economic Development, Housing
Police	Brian Kyes, Chief	Animal Control, Harbor Master
Public Works	Joseph Foti, Director	
Retirement Board	Joseph Siewko, Chairman	
School	Michael Caulfield, Chairperson Dr. Thomas Kingston, Superintendent	
Treasurer/Collector	Robert Boulrice, Director Treasurer/Collector	Central Billing and Research
Veteran Services	Francisco Toro, 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, 2007

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.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

Financial Section



Hybrid Vehicle

From Left to Right: City Councillors Brian Hatleberg and Mike McKonnen, Former Deputy City Manager Tom Durkin, City Councillors Roseann Bongiovanni and Paula Barton pose beside one of the new Hybrid vehicles utilized by the City's Parking Enforcement - saving both money for the City and the environment for our future.



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

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Burlington, Massachusetts 01803

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Chelsea, Massachusetts, as of and for the fiscal year ended June 30, 2008 (except for the Chelsea Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2007), 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, 2008 (except for the Chelsea Contributory Retirement System, which is as of December 31, 2007), 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 January 27, 2009 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 the general fund budgetary comparison information and certain pension information (located on pages 76 through 80) 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, T. & Co., LLC". The signature is written in a cursive, flowing style.

January 27, 2009

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, 2008.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$135,710,286 (net assets). Of this amount, \$15,335,681 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased \$15,875,750.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances totaling \$34,718,853, an increase of \$44,431 in comparison with the prior year. Approximately \$35,883,000 represents unreserved fund balance of the general fund, special revenue funds, debt service fund, nonmajor capital projects funds and permanent funds. The Urban Renewal II (major fund) fund deficit totaling \$9,888,130 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 \$10,678,938, or 9.2 percent of total general fund expenditures and transfers out.
- The City's total outstanding long-term debt principal decreased by \$6,234,184 during the fiscal year. The City issued \$1,866,950 in general obligation bonds and MWRA notes during the fiscal year.

Overview of the Basic Financial Statements

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

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

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

Government-wide financial statements

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

The **statement of net 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 21 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 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 83-92 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 funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements on pages 94-97 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 44-75 of this report.

Required Supplementary and Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the budget comparison for the general fund and certain pension information. Such information can be located on pages 76-80 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 \$135,710,286 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets.....	\$ 46,405,621	\$ 48,133,534	\$ 5,454,926	\$ 7,658,778	\$ 51,860,547	\$ 55,792,312
Noncurrent assets (excluding capital assets).....	38,094,221	35,107,729	-	-	38,094,221	35,107,729
Capital assets (net).....	122,977,054	129,698,274	16,146,309	13,968,401	139,123,363	143,666,675
Total assets.....	207,476,896	212,939,537	21,601,235	21,627,179	229,078,131	234,566,716
Liabilities						
Current liabilities (excluding debt).....	4,786,101	6,841,059	203,635	491,368	4,989,736	7,332,427
Noncurrent liabilities (excluding debt).....	21,784,441	2,967,817	147,416	-	21,931,857	2,967,817
Current debt.....	16,913,970	16,797,357	1,400,871	1,303,777	18,314,841	18,101,134
Noncurrent debt.....	36,953,564	43,124,534	11,177,847	11,454,768	48,131,411	54,579,302
Total liabilities.....	80,438,076	69,730,767	12,929,769	13,249,913	93,367,845	82,980,680
Net Assets						
Invested in capital assets (net of related debt).....	101,923,954	103,040,202	4,293,753	3,382,731	106,217,707	106,422,933
Restricted.....	14,156,898	12,836,617	-	-	14,156,898	12,836,617
Unrestricted.....	10,957,968	27,331,951	4,377,713	4,994,535	15,335,681	32,326,486
Total net assets.....	\$ 127,038,820	\$ 143,208,770	\$ 8,671,466	\$ 8,377,266	\$ 135,710,286	\$ 151,586,036

The largest portion of the City's net assets (78.3%) reflects its investment in capital assets (e.g., land, 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 (10.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (11.3% or \$15,335,681) may be used to meet the City's ongoing obligations to citizens and creditors. Of this amount, \$10,957,968 may be used to support governmental activities and \$4,377,713 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, 2008, the City's total net assets decreased by \$15,875,750, compared to an increase of \$4,472,508 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 7,763,480	\$ 8,659,510	\$ 11,791,807	\$ 11,219,309	\$ 19,555,287	\$ 19,878,819
Operating grants and contributions.....	72,252,579	67,520,030	69,906	86,085	72,322,485	67,606,115
Capital grants and contributions.....	580,592	3,786,207	236,779	41,358	817,371	3,827,565
<i>General Revenues:</i>						
Real estate and personal property taxes.....	31,050,378	29,579,552	-	-	31,050,378	29,579,552
Motor vehicle and other excise taxes.....	2,846,327	2,111,357	-	-	2,846,327	2,111,357
Tax and trash liens.....	473,363	535,440	-	-	473,363	535,440
Penalties and interest on taxes.....	273,865	301,942	-	-	273,865	301,942
Payments in lieu of taxes.....	1,792,342	1,185,030	-	-	1,792,342	1,185,030
Grants and contributions not restricted to specific programs.....	10,560,559	10,539,794	-	-	10,560,559	10,539,794
Unrestricted investment income.....	1,710,427	1,695,467	-	-	1,710,427	1,695,467
Total revenues.....	129,303,912	125,914,329	12,098,492	11,346,752	141,402,404	137,261,081
Expenses						
General government.....	6,821,344	4,800,810	-	-	6,821,344	4,800,810
Public safety.....	33,766,246	26,964,061	-	-	33,766,246	26,964,061
Education.....	89,459,187	75,539,107	-	-	89,459,187	75,539,107
Public works.....	6,296,006	5,738,727	-	-	6,296,006	5,738,727
Health and human services.....	4,523,823	4,170,478	-	-	4,523,823	4,170,478
Culture and recreation.....	1,150,914	728,672	-	-	1,150,914	728,672
Community development.....	1,833,093	1,760,889	-	-	1,833,093	1,760,889
Debt service - interest.....	3,162,519	3,460,180	-	-	3,162,519	3,460,180
Water and sewer.....	-	-	10,265,022	9,625,649	10,265,022	9,625,649
Total expenses.....	147,013,132	123,162,924	10,265,022	9,625,649	157,278,154	132,788,573
Change in net assets before transfers.....	(17,709,220)	2,751,405	1,833,470	1,721,103	(15,875,750)	4,472,508
Transfers, net.....	1,539,270	1,507,253	(1,539,270)	(1,507,253)	-	-
Change in net assets.....	(16,169,950)	4,258,658	294,200	213,850	(15,875,750)	4,472,508
Net assets - beginning of year.....	143,208,770	138,950,112	8,377,266	8,163,416	151,586,036	147,113,528
Net assets - end of year.....	\$ 127,038,820	\$ 143,208,770	\$ 8,671,466	\$ 8,377,266	\$ 135,710,286	\$ 151,586,036

Governmental activities decreased the City's net assets by \$16,169,950. In the prior year, governmental activities increased the City's net assets by \$4,258,658. The key elements of this change are as follows:

- The recognition of the net other post-employment benefit (OPEB) obligation of approximately \$18,000,000. Please see Note 17 (pages 72-74) and Note 22 (page 75) of this report.
- The decreases in capital grants and contributions of approximately \$3,200,000. This is primarily attributable to non-recurring community development grants received by the City in fiscal year 2007 in which the grant disbursements were capitalized as assets.

Business-type activities increased the City's net assets by \$294,200. In the prior year, business-type activities increased the City's net assets by \$213,850.

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 \$34,718,853, an increase of \$44,431 in comparison with the prior year. Approximately \$36,543,000 represents undesignated fund balance of the general fund, special revenue funds, debt service fund, nonmajor capital projects funds and permanent funds. The Urban Renewal II (major fund) fund deficit totaling \$9,888,130 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 (\$4,843,824)
- Loans (\$1,484,587)
- Perpetual permanent funds (\$22,392)
- Other specific purposes (\$1,134,323)
- Funding the fiscal year 2009 operating budget (\$578,495)

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 \$10,678,938, while total fund balance was \$16,101,257. 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 and transfers out. Undesignated fund balance represents 9.2% of total general fund expenditures and transfers out, while total fund balance represents 13.9% of that same amount.

The balance of the City's general fund increased \$3,244,807 during fiscal year 2008. The City's net increase in fund balance on a budgetary basis was approximately \$3,010,000. This was the result of a positive variance in revenue collections totaling approximately \$809,000 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 \$344,035 during the current fiscal year. This is attributable to investment income earned by the fund.

The fund balance of the debt service fund increased \$496,991 during the current fiscal year. This is attributable to unrealized gains on investments retained in the fund (see note 13).

The fund balance of the Urban Renewal II fund (capital project) decreased \$2,935,967 during the current fiscal year. This is attributable to expenditures incurred on the project before the issuance of long-term debt.

Proprietary funds

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

Unrestricted net assets of the water and sewer enterprise fund at the end of the year amounted to \$4,377,713. The water and sewer enterprise fund had an increase in net assets for the year of \$294,200. 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 \$114,273,329 was increased by \$630,792 (0.6%) during the fiscal year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Fire department.....	\$ 273,586	Undesignated fund balance
Streets and sidewalks.....	188,000	Undesignated fund balance
School department.....	81,302	Undesignated fund balance
Veterans' services.....	45,569	Undesignated fund balance
Police department.....	27,335	Undesignated fund balance
City Manager.....	10,000	Undesignated fund balance
Inspectional services.....	<u>5,000</u>	Undesignated fund balance
Total increase.....	<u>\$ 630,792</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 \$2,661,000.

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 \$139,123,363 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled 0.8% (a 0.8% decrease for governmental activities and a 1.6% increase for business-type activities).

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

- Continued improvements to water and sewer infrastructure (\$2,593,000)
- Clark Avenue school repairs (\$1,538,000)
- Continued reconstruction of roadways, sidewalks and drains (\$964,000)
- Disposals of various machinery and equipment (\$930,000)
- Construction as part of the urban renewal II project (\$376,000)
- Purchase of vehicles (\$300,000)
- Other land purchases as part of the urban renewal II project (\$225,000)
- Purchase of air cooled chillers (\$166,000)

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>	
	2008	2007	2008	2007	2008	2007
Land.....	\$ 5,897,285	\$ 5,672,285	\$ -	\$ -	\$ 5,897,285	\$ 5,672,285
Buildings and improvements.....	106,291,182	107,939,112	-	-	106,291,182	107,939,112
Machinery and equipment.....	3,441,990	3,830,835	-	-	3,441,990	3,830,835
Infrastructure.....	7,346,597	6,657,948	16,146,309	13,968,401	23,492,906	20,626,349
Total capital assets.....	\$ 122,977,054	\$ 124,100,180	\$ 16,146,309	\$ 13,968,401	\$ 139,123,363	\$ 138,068,581

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 \$56,446,252, 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>	
	2008	2007	2008	2007	2008	2007
General obligation bonds.....	\$ 43,867,534	\$ 49,921,891	\$ 11,684,463	\$ 12,113,106	\$ 55,551,997	\$ 62,034,997
MWRA notes.....	-	-	894,255	645,439	894,255	645,439
Total bonds and notes.....	\$ 43,867,534	\$ 49,921,891	\$ 12,578,718	\$ 12,758,545	\$ 56,446,252	\$ 62,680,436

The City's total bonded debt decreased \$6,234,184 (or 9.9%) during the fiscal year. The City issued \$1,866,950 in general obligation bonds and MWRA notes during the fiscal year.

The City received an AAA bond rating from Standard & Poor's for the general obligation bonds issued on December 6, 2007.

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 \$71,408,678. However, through various debt exclusions, the City's legal debt margin (capacity to borrow within the debt limit) totals \$66,466,144.

Additional information on the City's long-term debt can be found in Note 11 on pages 63-68 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 fourteen years have allowed the City to continue to balance budgets while hoping for better days ahead. Unfortunately, various crises resulting in a worldwide recession in fiscal year 2009 make it difficult to see any sunshine on the horizon.

Contributing to the gloom and doom for local budget writers is the impact of certain "budget busters" and their continued pressure, presently and likely into the future. Most egregious of those "budget busters" is health insurance spending. During the present decade, health insurance spending is up 11.9% or \$9.5 million. 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. Overall, each and every spending item remains under microscopic review. Overtime is being held in check, non-public safety positions are not expanding and regionalism and other potential cost-savings measures are being explored and implemented.

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, down 4% into fiscal year 2009, without adjusting for inflation. State budget troubles, even more significant than those found in most municipalities, have resulted in local aid cuts during the depths of the previous recession. The relatively short and modest period of recovery did little to allow the State to address structural budgetary issues. Now, with what appears to be a significant recessionary period upon the world in early fiscal year 2009, the State budget appears to be in serious trouble, with all accounts, including local aid, in jeopardy of substantial reductions. 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 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, *The Boston Globe* called the City's economic development agenda a model worthy of state emulation.

More than 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 still 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, while a sixth, housing, continues to demonstrate the City's vision for development and the communities attractiveness for investment. 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 2008. The Emerald Block is poised for an office or mixed-use redevelopment on the sites of former underperforming properties. A second hotel, a Cambria Suites, is preparing to break ground in late 2009. A 278-unit residential project has received initial approval for the Chelsea Residential Overlook Project area.

A decade-long, dormant Parkway Plaza, has been transformed into a very successful, mixed-use Chelsea Commons. In that Anchor Projects Area, retailing, restaurants and residential life have set a standard that Mystic Mall owners are being challenged to emulate. The mid-2009 opening of a new Market Basket, which will be New England's largest, food-only, supermarket, will be the first of several phases anticipated at the 25-acre site, adjacent to the EAURD, and part of the Everett Avenue Corridor that is now the City's most vibrant and visible commercial district.

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 several years ago. 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. The City's acquisition of a 3-acre parcel in the waterfront district, anticipated in fiscal year 2009, will establish a "toe-hold" along Marginal Street, while allowing the City to exercise its entrepreneurial nature to generate additional revenues to support the local budget.

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. More than 1,500 units made it to permitting stages by 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 expanding the City's revenues, had City officials excited about the elimination of a structural deficit in fiscal year 2009. However, a recession is likely to wipe away those gains and again challenge the City's fiscal abilities. In the meantime, reserves are aiding the City in addressing potential 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 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, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 26,388,678	\$ 1,665,454	\$ 28,054,132
Restricted cash and cash equivalents.....	1,956,111	726,162	2,682,273
Investments.....	7,224,025	-	7,224,025
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	1,340,157	-	1,340,157
Tax, trash and utility liens.....	1,051,785	476,337	1,528,122
Motor vehicle and other excise taxes.....	548,570	-	548,570
User charges.....	-	2,586,973	2,586,973
Trash.....	311,269	-	311,269
Departmental and other.....	642,390	-	642,390
Intergovernmental.....	6,786,641	-	6,786,641
Loans.....	142,266	-	142,266
Other assets.....	13,729	-	13,729
Total current assets.....	46,405,621	5,454,926	51,860,547
Noncurrent assets:			
Restricted cash and cash equivalents.....	221,190	-	221,190
Restricted investments.....	9,851,075	-	9,851,075
Receivables, net of allowance for uncollectible amounts:			
Intergovernmental.....	18,706,614	-	18,706,614
Loans.....	1,342,321	-	1,342,321
Tax foreclosures.....	197,220	-	197,220
Assets held for resale.....	7,775,801	-	7,775,801
Capital assets not being depreciated.....	5,897,285	-	5,897,285
Capital assets, net of accumulated depreciation.....	117,079,769	16,146,309	133,226,078
Total noncurrent assets.....	161,071,275	16,146,309	177,217,584
Total assets.....	207,476,896	21,601,235	229,078,131
LIABILITIES			
Current liabilities:			
Warrants payable.....	2,518,086	62,206	2,580,292
Accrued payroll.....	107,736	-	107,736
Tax refunds payable.....	212,856	-	212,856
Other liabilities.....	1,767	-	1,767
Abandoned property.....	101,324	-	101,324
Liabilities due depositors.....	-	9,145	9,145
Accrued interest.....	475,924	132,284	608,208
Accrued health claims payable.....	95,167	-	95,167
Capital lease obligations.....	43,418	-	43,418
Workers' compensation claims.....	289,823	-	289,823
Compensated absences.....	940,000	-	940,000
Short-term notes payable.....	10,000,000	-	10,000,000
Long-term bonds and notes payable.....	6,913,970	1,400,871	8,314,841
Total current liabilities.....	21,700,071	1,604,506	23,304,577
Noncurrent liabilities:			
Capital lease obligations.....	171,376	-	171,376
Workers' compensation claims.....	284,379	-	284,379
Net OPEB obligation.....	18,001,686	147,416	18,149,102
Compensated absences.....	3,327,000	-	3,327,000
Long-term bonds and notes payable.....	36,953,564	11,177,847	48,131,411
Total noncurrent liabilities.....	58,738,005	11,325,263	70,063,268
Total liabilities.....	80,438,076	12,929,769	93,367,845
NET ASSETS			
Invested in capital assets, net of related debt.....	101,923,954	4,293,753	106,217,707
Restricted for:			
Affordable housing.....	247,942	-	247,942
Loans.....	1,484,587	-	1,484,587
Debt service.....	9,927,538	-	9,927,538
Permanent funds:			
Expendable.....	100,886	-	100,886
Nonexpendable.....	22,392	-	22,392
Other specific purposes.....	2,373,553	-	2,373,553
Unrestricted.....	10,957,968	4,377,713	15,335,681
Total net assets.....	\$ 127,038,820	\$ 8,671,466	\$ 135,710,286

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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.....	\$ 6,821,344	\$ 817,055	\$ 549,955	\$ -	\$ (5,454,334)
Public safety.....	33,766,246	4,514,069	1,653,211	18,521	(27,580,445)
Education.....	89,459,187	946,988	65,731,704	2,943	(22,777,552)
Public works.....	6,296,006	1,210,082	20,774	286,835	(4,778,315)
Health and human services.....	4,523,823	80,333	892,489	-	(3,551,001)
Culture and recreation.....	1,150,914	27,357	47,974	-	(1,075,583)
Community development.....	1,833,093	167,596	259,543	272,293	(1,133,661)
Debt service - interest.....	3,162,519	-	3,096,929	-	(65,590)
Total governmental activities.....	147,013,132	7,763,480	72,252,579	580,592	(66,416,481)
Business-type activities:					
Water and sewer.....	10,265,022	11,791,807	69,906	236,779	1,833,470
Total primary government.....	\$ 157,278,154	\$ 19,555,287	\$ 72,322,485	\$ 817,371	\$ (64,583,011)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense)/revenue (from previous page)....	\$ (66,416,481)	\$ 1,833,470	\$ (64,583,011)
<i>General revenues:</i>			
Real estate and personal property taxes.....	31,050,378	-	31,050,378
Motor vehicle and other excise taxes.....	2,846,327	-	2,846,327
Tax and trash liens.....	473,363	-	473,363
Penalties and interest on taxes.....	273,865	-	273,865
Payments in lieu of taxes.....	1,792,342	-	1,792,342
Grants and contributions not restricted to specific programs.....	10,560,559	-	10,560,559
Unrestricted investment income.....	1,710,427	-	1,710,427
<i>Transfers, net</i>	1,539,270	(1,539,270)	-
Total general revenues and transfers.....	50,246,531	(1,539,270)	48,707,261
Change in net assets.....	(16,169,950)	294,200	(15,875,750)
Net assets - beginning of year.....	143,208,770	8,377,266	151,586,036
Net assets - end of year.....	\$ 127,038,820	\$ 8,671,466	\$ 135,710,286

**GOVERNMENTAL FUNDS
BALANCE SHEET**

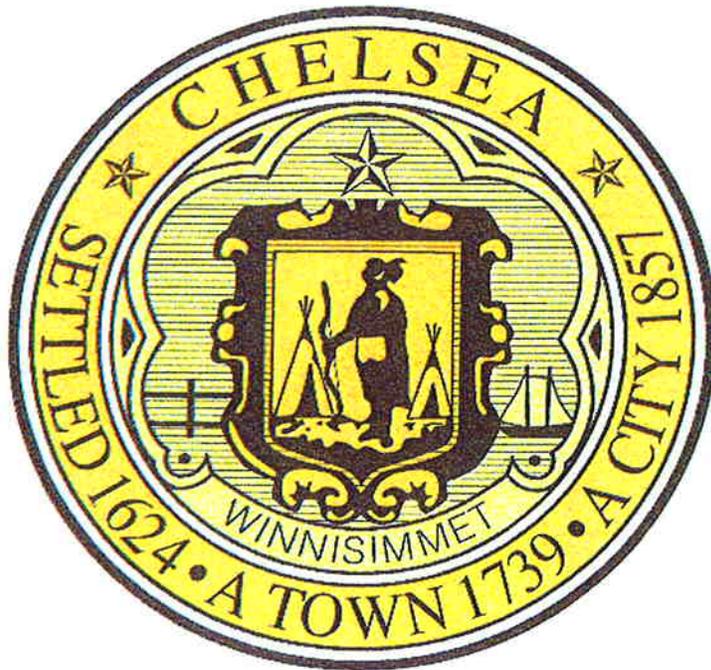
JUNE 30, 2008

ASSETS	General	Stabilization	Debt Service
Cash and cash equivalents.....	\$ 15,666,804	\$ 1,046,777	\$ -
Investments.....	1,562,336	3,899,261	-
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	1,340,157	-	-
Tax and trash liens.....	1,051,785	-	-
Motor vehicle and other excise taxes.....	548,570	-	-
Trash.....	311,269	-	-
Departmental and other.....	404,132	-	-
Intergovernmental.....	24,154,619	-	-
Loans.....	-	-	-
Due from other funds.....	688,605	-	-
Other assets.....	13,729	-	-
Tax foreclosures.....	197,220	-	-
Restricted assets:			
Cash and cash equivalents.....	-	-	221,190
Investments.....	-	-	9,706,348
TOTAL ASSETS.....	\$ 45,939,226	\$ 4,946,038	\$ 9,927,538
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 1,425,730	\$ -	\$ -
Accrued payroll.....	107,736	-	-
Tax refunds payable.....	212,856	-	-
Other liabilities.....	1,767	-	-
Abandoned property.....	98,976	-	-
Deferred revenue.....	27,742,912	-	-
Due to other funds.....	-	-	-
Accrued short-term interest.....	247,992	-	-
Short-term notes payable.....	-	-	-
TOTAL LIABILITIES.....	29,837,969	-	-
 FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	4,843,824	-	-
Loans.....	-	-	-
Perpetual permanent funds.....	-	-	-
Other specific purposes.....	-	-	-
Unreserved:			
Designated for subsequent year's expenditures.....	578,495	-	-
Undesignated, reported in:			
General fund.....	10,678,938	-	-
Special revenue funds.....	-	4,946,038	-
Debt service fund.....	-	-	9,927,538
Capital projects funds.....	-	-	-
Permanent funds.....	-	-	-
TOTAL FUND BALANCES.....	16,101,257	4,946,038	9,927,538
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 45,939,226	\$ 4,946,038	\$ 9,927,538

See notes to basic financial statements.

Urban Renewal II	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 8,774,504	\$ 25,488,085
-	1,762,428	7,224,025
-	-	1,340,157
-	-	1,051,785
-	-	548,570
-	-	311,269
-	238,258	642,390
-	1,338,636	25,493,255
-	1,484,587	1,484,587
-	-	688,605
-	-	13,729
-	-	197,220
115,600	1,840,511	2,177,301
-	144,727	9,851,075
<u>\$ 115,600</u>	<u>\$ 15,583,651</u>	<u>\$ 76,512,053</u>

\$ 3,730	\$ 1,088,626	\$ 2,518,086
-	-	107,736
-	-	212,856
-	-	1,767
-	-	98,976
-	174,270	27,917,182
-	688,605	688,605
-	-	247,992
10,000,000	-	10,000,000
<u>10,003,730</u>	<u>1,951,501</u>	<u>41,793,200</u>
-	-	4,843,824
-	1,484,587	1,484,587
-	22,392	22,392
-	2,373,553	2,373,553
-	-	578,495
-	-	10,678,938
-	8,524,737	13,470,775
-	-	9,927,538
(9,888,130)	1,125,995	(8,762,135)
-	100,886	100,886
<u>(9,888,130)</u>	<u>13,632,150</u>	<u>34,718,853</u>
<u>\$ 115,600</u>	<u>\$ 15,583,651</u>	<u>\$ 76,512,053</u>



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

JUNE 30, 2008

Total governmental fund balances (page 32).....	\$	34,718,853
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		130,752,855
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		27,917,182
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(227,932)
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...		(43,867,534)
Capital lease obligations.....		(214,794)
Net OPEB obligation.....		(18,001,686)
Compensated absences.....		(4,267,000)
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>228,876</u>
Net assets of governmental activities (page 28).....	\$	<u><u>127,038,820</u></u>

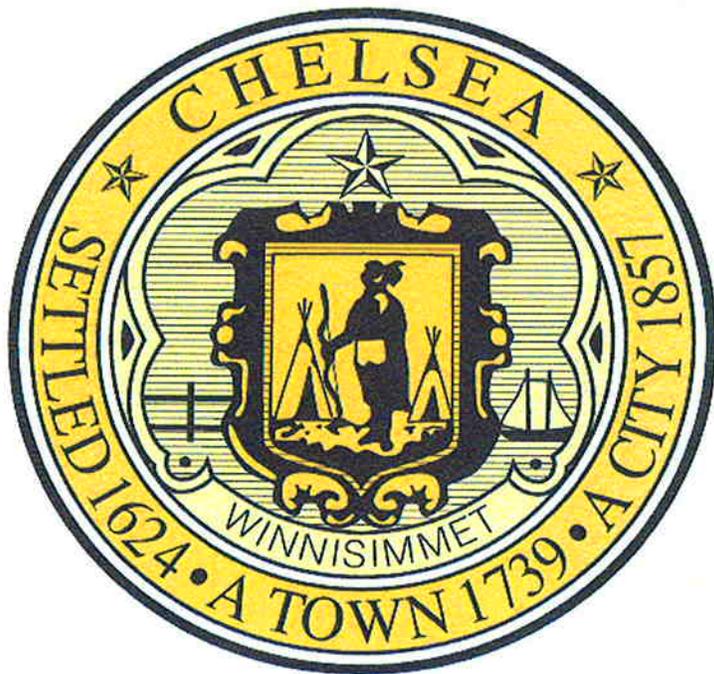
See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General	Stabilization	Debt Service
REVENUES			
Real estate and personal property taxes.....	\$ 30,782,138	\$ -	\$ -
Motor vehicle and other excise taxes.....	2,557,448	-	-
Tax and trash liens.....	382,714	-	-
Payments in lieu of taxes.....	1,792,342	-	-
Charges for services.....	-	-	-
Trash disposal.....	1,230,237	-	-
Intergovernmental.....	73,694,611	-	-
Penalties and interest on taxes.....	273,865	-	-
Licenses, permits and fees.....	2,107,219	-	-
Fines and forfeitures.....	1,792,603	-	-
Departmental.....	-	-	-
Contributions.....	-	-	-
Investment income.....	1,375,329	344,035	1,061,488
TOTAL REVENUES.....	115,988,506	344,035	1,061,488
EXPENDITURES			
Current:			
General government.....	3,134,449	-	-
Public safety.....	16,660,044	-	-
Education.....	59,486,385	-	-
Public works.....	4,999,339	-	-
Health and human services.....	731,893	-	-
Culture and recreation.....	388,377	-	-
Community development.....	-	-	-
Pension benefits.....	9,807,679	-	-
Employee benefits.....	6,209,239	-	-
Property and liability insurance.....	463,140	-	-
Claims and judgments.....	3,473	-	-
State and county charges.....	4,021,544	-	-
Debt service:			
Principal.....	6,797,357	-	-
Interest.....	3,181,787	-	-
TOTAL EXPENDITURES.....	115,884,706	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	103,800	344,035	1,061,488
OTHER FINANCING SOURCES (USES)			
Transfers in.....	2,897,989	-	-
Issuance of bonds and notes.....	-	-	-
Sale of capital assets.....	10,663	-	-
Capital leases.....	232,355	-	-
Transfers out.....	-	-	(564,497)
TOTAL OTHER FINANCING SOURCES (USES).....	3,141,007	-	(564,497)
NET CHANGE IN FUND BALANCES.....	3,244,807	344,035	496,991
FUND BALANCES AT BEGINNING OF YEAR.....	12,856,450	4,602,003	9,430,547
FUND BALANCES AT END OF YEAR.....	\$ 16,101,257	\$ 4,946,038	\$ 9,927,538

See notes to basic financial statements.

Urban Renewal II	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 30,782,138
-	-	2,557,448
-	-	382,714
-	-	1,792,342
-	2,296,533	2,296,533
-	-	1,230,237
-	12,804,825	86,499,436
-	-	273,865
-	38,811	2,146,030
-	-	1,792,603
-	287,836	287,836
-	1,083,262	1,083,262
-	162,197	2,943,049
-	16,673,464	134,067,493
-	493,688	3,628,137
-	2,520,561	19,180,605
-	11,663,388	71,149,773
-	375,013	5,374,352
-	841,947	1,573,840
-	152,799	541,176
2,935,967	1,695,503	4,631,470
-	-	9,807,679
-	-	6,209,239
-	-	463,140
-	-	3,473
-	-	4,021,544
-	-	6,797,357
-	-	3,181,787
2,935,967	17,742,899	136,563,572
(2,935,967)	(1,069,435)	(2,496,079)
-	-	2,897,989
-	743,000	743,000
-	-	10,663
-	-	232,355
-	(779,000)	(1,343,497)
-	(36,000)	2,540,510
(2,935,967)	(1,105,435)	44,431
(6,952,163)	14,737,585	34,674,422
\$ (9,888,130)	\$ 13,632,150	\$ 34,718,853



**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, 2008

Net change in fund balances - total governmental funds (page 36).....	\$	44,431
<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.....		6,162,349
Depreciation.....		(5,107,768)
<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>		
		(4,774,244)
<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.....		(743,000)
Bond maturities.....		6,797,357
Capital lease proceeds.....		(232,355)
Capital lease maturities.....		17,561
<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>		
		19,268
<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. These amounts represents the net changes:</p>		
Net OPEB obligation.....		(18,001,686)
Compensated absences.....		(1,231,000)
<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>879,137</u>
Changes in net assets of governmental activities (page 30).....	\$	<u><u>(16,169,950)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS

JUNE 30, 2008

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,665,454	\$ 900,593
Restricted cash and cash equivalents.....	726,162	-
Receivables, net of allowance for uncollectible amounts:		
User charges.....	2,586,973	-
Utility liens.....	476,337	-
Total current assets.....	<u>5,454,926</u>	<u>900,593</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation.....	16,146,309	-
Total assets.....	<u>21,601,235</u>	<u>900,593</u>
LIABILITIES		
Current liabilities:		
Warrants payable.....	62,206	-
Abandoned property.....	-	2,348
Liabilities due depositors.....	9,145	-
Accrued interest.....	132,284	-
Accrued health claims payable.....	-	95,167
Workers' compensation claims.....	-	289,823
Long-term bonds and notes payable.....	1,400,871	-
Total current liabilities.....	<u>1,604,506</u>	<u>387,338</u>
Noncurrent liabilities:		
Workers' compensation claims.....	-	284,379
Net OPEB obligation.....	147,416	-
Long-term bonds and notes payable.....	11,177,847	-
Total noncurrent liabilities.....	<u>11,325,263</u>	<u>284,379</u>
Total liabilities.....	<u>12,929,769</u>	<u>671,717</u>
FUND NET ASSETS		
Invested in capital assets, net of related debt.....	4,293,753	-
Unrestricted.....	4,377,713	228,876
Total net assets.....	<u>\$ 8,671,466</u>	<u>\$ 228,876</u>

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, 2008

	Business-Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	
OPERATING REVENUES		
Charges for services.....	\$ 11,791,807	\$ -
Employer contributions.....	-	1,022,875
Other.....	-	153,613
TOTAL OPERATING REVENUES.....	11,791,807	1,176,488
OPERATING EXPENSES		
Cost of service and administration.....	1,980,650	-
MWRA assessment.....	7,368,359	-
Repairs and maintenance.....	7,308	-
Depreciation.....	415,429	-
Employee benefits.....	-	297,580
TOTAL OPERATING EXPENSES.....	9,771,746	297,580
OPERATING INCOME (LOSS).....	2,020,061	878,908
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental.....	236,779	-
Investment income.....	69,906	15,451
Interest expense.....	(493,276)	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(186,591)	15,451
INCOME (LOSS) BEFORE TRANSFERS.....	1,833,470	894,359
TRANSFERS		
Transfers out.....	(1,539,270)	(15,222)
CHANGE IN FUND NET ASSETS.....	294,200	879,137
FUND NET ASSETS AT BEGINNING OF YEAR.....	8,377,266	(650,261)
FUND NET ASSETS AT END OF YEAR.....	\$ 8,671,466	\$ 228,876

See notes to basic financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Water and Sewer</u>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$ 11,892,672	\$ -
Receipts from interfund services provided.....	-	1,176,488
Payments to vendors.....	(9,066,072)	-
Payments to employees.....	(138,329)	-
Payments for interfund services used.....	-	(897,725)
	<u>2,688,271</u>	<u>278,763</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out.....	(1,539,270)	(15,222)
Intergovernmental revenue.....	236,779	-
	<u>(1,302,491)</u>	<u>(15,222)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the issuance of bonds and notes.....	1,123,950	-
Acquisition and construction of capital assets.....	(2,871,268)	-
Principal payments on bonds and notes.....	(1,303,777)	-
Interest expense.....	(507,578)	-
	<u>(3,558,673)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income.....	69,906	15,451
	<u>69,906</u>	<u>15,451</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(2,102,987)	278,992
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$2,172,875 reported as restricted in the Water and Sewer Enterprise Fund).....	4,494,603	621,601
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$726,162 reported as restricted in the Water and Sewer Enterprise Fund).....	\$ 2,391,616	\$ 900,593
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating income (loss).....	\$ 2,020,061	\$ 878,908
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation.....	415,429	-
Changes in assets and liabilities:		
User charges.....	280,361	-
Utility liens.....	(179,496)	-
Liabilities due depositors.....	4,500	-
Accrued health claims payable.....	-	43,903
Workers' compensation.....	-	(644,048)
Net OPEB obligation.....	147,416	-
Total adjustments.....	<u>668,210</u>	<u>(600,145)</u>
NET CASH FROM OPERATING ACTIVITIES.....	\$ 2,688,271	\$ 278,763

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

ASSETS	Pension Trust Fund (As of 12/31/07)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 72,424,372	\$ 533,088	\$ 660,685
Receivables, net of allowance for uncollectible amounts:			
Departmental and other.....	4,138,998	-	-
Total assets.....	76,563,370	533,088	660,685
LIABILITIES			
Warrants payable.....	9,384	1,984	4,318
Liabilities due depositors.....	-	-	656,367
Total liabilities.....	9,384	1,984	660,685
NET ASSETS			
Held in trust for pension benefits and other purposes...	\$ <u>76,553,986</u>	\$ <u>531,104</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, 2008

	<u>Pension Trust Fund (As of 12/31/07)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Employer.....	\$ 7,650,765	\$ -
Plan members.....	2,445,023	-
Private donations.....	-	101,402
	<u>10,095,788</u>	<u>101,402</u>
Total contributions.....		
Net investment income:		
Net appreciation/(depreciation) in fair value of investments.....	5,570,867	-
Interest.....	2,319,400	15,634
	<u>7,890,267</u>	<u>15,634</u>
Total investment income (loss).....		
Less investment expense.....	(365,934)	-
	<u>7,524,333</u>	<u>15,634</u>
Net investment income (loss).....		
Intergovernmental.....	229,168	-
Transfers from other systems.....	171,699	-
	<u>18,020,988</u>	<u>117,036</u>
TOTAL ADDITIONS.....		
DEDUCTIONS		
Administration.....	230,041	-
Retirement benefits and refunds.....	8,290,377	-
Transfers to other systems.....	235,290	-
Scholarships awarded.....	-	92,409
	<u>8,755,708</u>	<u>92,409</u>
TOTAL DEDUCTIONS.....		
CHANGE IN NET ASSETS.....	9,265,280	24,627
NET ASSETS AT BEGINNING OF YEAR.....	<u>67,288,706</u>	<u>506,477</u>
NET ASSETS AT END OF YEAR.....	<u>\$ 76,553,986</u>	<u>\$ 531,104</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 2008 Assessment
Northeast Metropolitan Regional Vocational School District	To provide vocational education services	100 Hemlock Road Wakefield, MA 01880	\$ 683,157

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 13).

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. Except for pooled funds, fair value is based on quotations from a national securities exchange.

Pooled Funds

The fair value of shares in managed investment pools is based on unit value reported by the funds.

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, 2008, 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 13).

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. Construction period interest is not capitalized on constructed capital assets.

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

Depreciable capital assets 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:

"Affordable housing" represents amounts restricted for a fund (established in accordance with MGL, Chapter 44, Section 53E 1/2) used to account for activities related to the creation and preservation of affordable housing for the benefit of low and moderate income households.

"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 13).

"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 2009 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 Benefits*Government-Wide and Fund Financial Statements

In addition to providing pension benefits, the City provides health and life insurance coverage for current and future retirees and their spouses as more fully described in Note 17.

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

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

*T. Total Column*Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY*A. Budgetary Information*

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

Increases to the annual budget subsequent to the approval of the annual budget require 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.

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 2008 approved budget for the general fund authorized \$114,273,329 in appropriations and other amounts to be raised. During fiscal year 2008, supplemental appropriations totaling \$630,792 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, 2008, the following fund deficits exist:

Fund	Amount	Funding Source
Urban Renewal II capital project (major fund).....	\$ 9,888,130	Issuance of long-term debt
Highway improvement special revenue.....	98,778	State grant
Workers' compensation internal service.....	79,570	Employer contributions

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2008, expenditures exceeded appropriations for snow and ice removal and veterans’ services. These over-expenditures will be funded by taxes during fiscal year 2009.

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, 2008, \$18,867,317 of the City’s bank balance of \$19,717,099 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Investments Summary

The City's investments at June 30, 2008 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.....	\$ 2,369,023	\$ -	\$ -	\$ 2,369,023
U.S. Agencies.....	13,596,149	-	5,365,763	8,230,386
Corporate bonds.....	1,101,940	-	854,778	247,162
Money market mutual funds.....	9,157,979	9,157,979	-	-
External investment pools.....	5,635,469	5,635,469	-	-
Total debt securities and investments.....	\$ <u>31,860,560</u>	\$ <u>14,793,448</u>	\$ <u>6,220,541</u>	\$ <u>10,846,571</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, 2008, 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 of MGL Chapter 44, which limits the credit risk of certain investments, except for those of certain permanent and private purpose trust funds. As of June 30, 2008, the credit quality ratings of the City's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *		
		AAA	AA	Unrated
Corporate bonds.....	\$ 1,101,940	\$ 848,375	\$ 253,565	\$ -
Money market mutual funds.....	9,157,979	-	-	9,157,979
External investment pools.....	5,635,469	-	-	5,635,469
Total.....	\$ <u>15,895,388</u>	\$ <u>848,375</u>	\$ <u>253,565</u>	\$ <u>14,793,448</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, 2008, 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, 2008, 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, 2007, \$351,468 of the System's bank balance of \$451,468 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Investments Summary

The System's investments of \$72,424,372 at December 31, 2007 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, 2007, 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, 2007, 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, 2007, 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, 2007, the System was not exposed to concentration of credit risk.

NOTE 4 – ACCOUNTS RECEIVABLE

At June 30, 2008, receivables for the individual major governmental funds and nonmajor governmental, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,407,042	\$ (66,885)	\$ 1,340,157
Tax and trash liens.....	1,051,785	-	1,051,785
Motor vehicle and other excise taxes.....	1,356,729	(808,159)	548,570
Trash.....	311,269	-	311,269
Departmental and other.....	6,397,918	(1,616,530)	4,781,388
Intergovernmental.....	25,493,255	-	25,493,255
Loans.....	1,484,587	-	1,484,587
	<u>\$ 37,502,585</u>	<u>\$ (2,491,574)</u>	<u>\$ 35,011,011</u>

At June 30, 2008, receivables for the water and sewer enterprise fund consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User charges.....	\$ 2,586,973	\$ -	\$ 2,586,973
Utility liens.....	476,337	-	476,337
	<u>\$ 3,063,310</u>	<u>\$ -</u>	<u>\$ 3,063,310</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:

	General Fund	Nonmajor Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 1,075,317	\$ -	\$ 1,075,317
Tax and trash liens.....	1,051,785	-	1,051,785
Motor vehicle and other excise taxes.....	548,570	-	548,570
Trash.....	311,269	-	311,269
Departmental and other.....	404,132	174,270	578,402
Intergovernmental (state school construction).....	24,154,619	-	24,154,619
Tax foreclosures.....	197,220	-	197,220
<u>Total.....</u>	<u>\$ 27,742,912</u>	<u>\$ 174,270</u>	<u>\$ 27,917,182</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 2008, \$7,492,223 of such assistance was received. \$29,926,084 will be received in future fiscal years. Of this amount, \$5,771,465 represents reimbursement of long-term interest costs, and \$24,154,619 represents reimbursement of approved construction costs. Accordingly, a \$24,154,619 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, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 5,672,285	\$ 225,000	\$ -	\$ 5,897,285
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	145,400,252	2,058,925	-	147,459,177
Machinery and equipment.....	10,846,500	737,179	(929,645)	10,654,034
Infrastructure.....	10,808,588	963,538	-	11,772,126
Total capital assets being depreciated.....	<u>167,055,340</u>	<u>3,759,642</u>	<u>(929,645)</u>	<u>169,885,337</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(37,461,140)	(3,706,855)	-	(41,167,995)
Machinery and equipment.....	(7,015,665)	(1,126,024)	929,645	(7,212,044)
Infrastructure.....	(4,150,640)	(274,889)	-	(4,425,529)
Total accumulated depreciation.....	<u>(48,627,445)</u>	<u>(5,107,768)</u>	<u>929,645</u>	<u>(52,805,568)</u>
Total capital assets being depreciated, net.....	<u>118,427,895</u>	<u>(1,348,126)</u>	<u>-</u>	<u>117,079,769</u>
Total governmental activities capital assets, net.....	<u>\$ 124,100,180</u>	<u>\$ (1,123,126)</u>	<u>\$ -</u>	<u>\$ 122,977,054</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
<u>Capital assets being depreciated:</u>				
Infrastructure.....	\$ 20,764,727	\$ 2,593,337	\$ -	\$ 23,358,064
<u>Less accumulated depreciation for:</u>				
Infrastructure.....	(6,796,326)	(415,429)	-	(7,211,755)
Total business-type activities capital assets, net.....	<u>\$ 13,968,401</u>	<u>\$ 2,177,908</u>	<u>\$ -</u>	<u>\$ 16,146,309</u>

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

Governmental Activities:

General government.....	\$	313,698
Public safety.....		551,991
Education.....		3,591,131
Public works.....		391,802
Health and human services.....		46,421
Culture and recreation.....		<u>212,725</u>
Total depreciation expense - governmental activities.....	\$	<u><u>5,107,768</u></u>

Business-Type Activities:

Water and sewer.....	\$	<u><u>415,429</u></u>
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NOTE 6 - INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

Invested in capital assets, net of related debt at June 30, 2008 is summarized as follows:

Governmental Activities

Capital assets.....	\$	175,782,622
Less accumulated depreciation.....		(52,805,568)
Less outstanding bonds and notes payable.....		(53,867,534)
Less outstanding capital leases.....		(214,794)
Add outstanding bonds and notes payable that is not capital related.....		7,775,801
Add unspent proceeds of capital related debt.....		1,098,808
Add grant receivable to fund capital debt.....		<u>24,154,619</u>
Invested in capital assets, net of related debt.....	\$	<u><u>101,923,954</u></u>

Business-Type Activities

Capital assets.....	\$	23,358,064
Less accumulated depreciation.....		(7,211,755)
Less outstanding bonds and notes payable.....		(12,578,718)
Add unspent proceeds of capital related debt.....		<u>726,162</u>
Invested in capital assets, net of related debt.....	\$	<u><u>4,293,753</u></u>

NOTE 7 - CAPITAL LEASES

The City has entered into a capital lease agreement for streetlights under which the streetlights will become property of the City when all terms of the lease agreement are met. The agreement also contains an early purchase option which would allow the City to purchase the streetlights before the end of the lease term.

The following schedule presents future minimum lease payments as of June 30, 2008:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2009.....	\$ 51,589
2010.....	51,589
2011.....	51,588
2012.....	51,618
2013.....	<u>30,064</u>
 Total minimum lease payments.....	 236,448
 Less: amounts representing interest.....	 <u>(21,654)</u>
 Present value of minimum lease payments.....	 \$ <u><u>214,794</u></u>

Streetlights and the related accumulated amortization under capital lease is as follows:

<u>Asset:</u>	<u>Governmental</u> <u>Activities</u>
Machinery and equipment.....	\$ 232,355
Less: accumulated amortization.....	<u>(23,236)</u>
 Total.....	 \$ <u><u>209,119</u></u>

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and payables between funds at June 30, 2008, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund.....	Nonmajor governmental funds (School Federal Grants).....	\$ 394,827 (1)
General Fund.....	Nonmajor governmental funds (Highway Improvement).....	<u>293,778 (2)</u>
		<u>\$ 688,605</u>

(1) Represents advance-funding of various school federal grants

(2) Represents advance-funding of a state grant

Interfund transfers for the fiscal year ended June 30, 2008, are summarized as follows:

<u>Transfers Out:</u>	<u>Transfers In:</u>
	<u>General Fund</u>
Debt Service Fund.....	\$ 564,497 (1)
Nonmajor Governmental Funds.....	779,000 (2)
Water and Sewer Enterprise Fund.....	1,539,270 (3)
Internal Service Fund.....	<u>15,222 (4)</u>
	<u>\$ 2,897,989</u>

- (1) Represents transfer of realized investment income
(2) Represents funding of the fiscal year 2008 operating budget (\$695,000) and transfer of indirect costs from various federal education grants (\$84,000)
(3) Represents transfer of indirect costs (\$1,469,364) and voluntary transfer of investment income (\$69,906)
(4) Represents voluntary transfer of investment income

NOTE 9 - 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, 2008, the outstanding principal amount of the Bonds totaled \$67,250,000. 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 10 - 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, 2008, are as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at 6/30/2007	Increases	Decreases	Balance at 6/30/2008
BAN	Urban Renewal II.....	12/27/06	12/27/07	5.50%	\$ 10,000,000	\$ -	\$ (10,000,000)	\$ -
BAN	Urban Renewal II.....	12/27/07	12/18/08	4.69%	-	10,000,000	-	10,000,000
Total.....					\$ 10,000,000	\$ 10,000,000	\$ (10,000,000)	\$ 10,000,000

Subsequent Event

On December 18, 2008, the City used available funds to retire \$556,000 of the Urban Renewal II BAN and issued a new Urban Renewal II BAN in the amount of \$9,444,000 at an interest rate of 3.25% that matures on July 15, 2009.

NOTE 11 - 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, 2008, \$2,795,000 of bonds outstanding from this advance refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2008, and the debt service requirements are as follows:

Bonds and Notes Payable – Governmental Funds

Project	Interest Rate	Outstanding at June 30, 2007	Additions	Reductions	Outstanding at June 30, 2008
School buildings refunding.....	3.65 - 5.13%	\$ 40,030,000	\$ -	\$ (5,735,000)	\$ 34,295,000
Urban renewal*.....	6.15 - 6.35%	4,990,000	-	(420,000)	4,570,000
Urban renewal.....	4.50 - 4.70%	70,000	-	(10,000)	60,000
Municipal purpose.....	4.50 - 4.70%	254,980	-	(89,990)	164,990
Municipal purpose.....	4.10 - 5.00%	479,228	-	(94,807)	384,421
School building remodeling.....	2.37 - 4.75%	1,360,000	-	(80,000)	1,280,000
Municipal purpose.....	3.00 - 4.00%	509,800	-	(65,600)	444,200
Municipal purpose refunding....	3.00 - 4.50%	990,783	-	(102,960)	887,823
Equipment.....	3.75 - 4.00%	232,000	-	(58,000)	174,000
Renovations.....	3.75 - 4.00%	236,700	-	(26,300)	210,400
Public safety.....	3.75 - 4.00%	70,400	-	(17,600)	52,800
Sidewalks.....	3.75 - 4.00%	45,000	-	(5,000)	40,000
Municipal purpose.....	3.50 - 4.00%	653,000	-	(92,100)	560,900
Municipal purpose.....	3.50 - 5.25%	-	743,000	-	743,000
Total.....		\$ 49,921,891	\$ 743,000	\$ (6,797,357)	\$ 43,867,534

* Federally taxable general obligation bonds

During fiscal year 2008, the City issued \$743,000 of general obligation bonds for various building repairs and equipment.

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>
2009.....	\$ 6,913,970	\$ 2,324,284	\$ 9,238,254
2010.....	6,820,792	1,945,076	8,765,868
2011.....	6,808,792	1,577,988	8,386,780
2012.....	6,639,009	1,215,176	7,854,185
2013.....	3,738,721	856,134	4,594,855
2014.....	1,829,033	670,236	2,499,269
2015.....	2,847,345	576,320	3,423,665
2016.....	6,054,745	429,767	6,484,512
2017.....	685,070	118,199	803,269
2018.....	592,557	81,594	674,151
2019.....	517,500	48,710	566,210
2020.....	90,000	18,070	108,070
2021.....	90,000	14,370	104,370
2022.....	80,000	10,920	90,920
2023.....	80,000	7,600	87,600
2024.....	80,000	3,800	83,800
Total.....	\$ 43,867,534	\$ 9,898,244	\$ 53,765,778

Bonds and Notes Payable - Enterprise Fund

Project	Interest Rate	Outstanding at June 30, 2007	Additions	Reductions	Outstanding at June 30, 2008
Sewer notes (MWRA).....	0.00%	\$ 42,284	\$ -	\$ (42,284)	\$ -
Sewer notes (MWRA).....	0.00%	378,327	-	(94,582)	283,745
Water notes (MWRA).....	0.00%	135,044	-	(19,292)	115,752
Water notes (MWRA).....	0.00%	89,784	-	(9,976)	79,808
Water notes (MWRA).....	0.00%	-	190,000	-	190,000
Sewer notes (MWRA).....	0.00%	-	224,950	-	224,950
Water and sewer bonds.....	4.50 - 4.70%	1,005,020	-	(65,010)	940,010
Water and sewer bonds.....	4.10 - 5.00%	1,220,769	-	(80,193)	1,140,576
Water and sewer bonds.....	4.80 - 5.20%	895,000	-	(65,000)	830,000
Water.....	2.37 - 4.75%	257,500	-	(17,500)	240,000
Sewer.....	2.37 - 4.75%	787,500	-	(47,500)	740,000
Water and sewer bonds.....	3.00 - 4.00%	1,545,200	-	(194,400)	1,350,800
Water and sewer refunding....	3.00 - 4.50%	1,944,217	-	(202,040)	1,742,177
Water - meters.....	3.75 - 4.00%	403,200	-	(44,800)	358,400
Sewer - Crescent Street.....	3.75 - 4.00%	860,200	-	(95,800)	764,400
Water - Crescent Street.....	3.75 - 4.00%	20,700	-	(2,300)	18,400
Sewer - meters.....	3.75 - 4.00%	676,800	-	(75,200)	601,600
Water and sewer bonds.....	3.50 - 4.00%	2,497,000	-	(247,900)	2,249,100
Water and sewer bonds.....	3.50 - 5.25%	-	709,000	-	709,000
Total.....		<u>\$ 12,758,545</u>	<u>\$ 1,123,950</u>	<u>\$ (1,303,777)</u>	<u>\$ 12,578,718</u>

During fiscal year 2008, the City issued \$709,000 of general obligation bonds for sewer infrastructure improvements and water records imaging.

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA typically consists of a grant and non-interest bearing loan (payable in five or ten equal annual installments). During fiscal year 2008, \$414,950 of MWRA note proceeds and \$184,050 of MWRA grant proceeds were received from the program. At June 30, 2008, the outstanding principal amount of these loans totaled \$894,255. 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:

Fiscal Year	Principal	Interest	Total
2009.....	\$ 1,400,871	\$ 472,096	\$ 1,872,967
2010.....	1,417,048	418,454	1,835,502
2011.....	1,414,047	371,320	1,785,367
2012.....	1,324,249	324,045	1,648,294
2013.....	1,314,537	274,255	1,588,792
2014.....	1,259,235	225,405	1,484,640
2015.....	1,236,631	176,533	1,413,164
2016.....	1,039,231	126,973	1,166,204
2017.....	798,931	88,471	887,402
2018.....	436,441	59,936	496,377
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.....	\$ 12,578,718	\$ 2,646,038	\$ 15,224,756

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, 2008, the City had the following authorized and unissued debt:

Purpose	Amount
Unfunded pension liability.....	\$ 47,000,000
Urban Renewal II.....	12,000,000
Funding of Capital Improvement Plan (CIP).....	4,342,746
High school extension.....	1,150,000
Refunding of previously issued debt.....	265,000
Total.....	\$ 64,757,746

Changes in Long-Term Liabilities

During the fiscal year ended June 30, 2008, the following changes occurred in long-term liabilities:

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 49,921,891	\$ 743,000	\$ (6,797,357)	\$ 43,867,534	\$ 6,913,970
Capital lease obligations.....	-	232,355	(17,561)	214,794	43,418
Workers' compensation claims.....	1,218,250	-	(644,048)	574,202	289,823
Net OPEB obligation.....	-	18,001,686	-	18,001,686	-
Compensated absences.....	3,036,000	1,924,196	(693,196)	4,267,000	940,000
Total.....	\$ 54,176,141	\$ 20,901,237	\$ (8,152,162)	\$ 66,925,216	\$ 8,187,211
Business-type Activities:					
Net OPEB obligation.....	\$ -	\$ 147,416	\$ -	\$ 147,416	\$ -
Bonds and notes payable.....	12,758,545	1,123,950	(1,303,777)	12,578,718	1,400,871
Total.....	\$ 12,758,545	\$ 1,271,366	\$ (1,303,777)	\$ 12,726,134	\$ 1,400,871

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, \$574,202 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 12 - STABILIZATION FUND

At June 30, 2008, \$4,946,038 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, \$3,891,606 can be used for general and/or capital purposes, \$903,141 for capital purposes, and \$151,291 for the Department of Planning and Development's ongoing and future operations, upon Council approval.

NOTE 13 - 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 14 – 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, 2008 totaled \$95,167. Changes in the reported liability since July 1, 2006, 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 2007.....	\$ 151,717	\$	1,121,935	\$	(1,222,388)	\$	51,264
Fiscal year 2008.....	51,264		615,698		(571,795)		95,167

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, 2008, totaled \$574,202. Changes in the reported liability since July 1, 2006, 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 2007.....	\$ 843,000	\$	723,088	\$	(347,838)	\$	1,218,250
Fiscal year 2008.....	1,218,250		(337,020)		(307,028)		574,202

NOTE 15 – PENSION PLAN

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

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

Plan Membership - At December 31, 2007, the System's membership consists of the following:

Active members.....	664
Inactive members.....	169
Disabled members.....	80
Retirees and beneficiaries currently receiving benefits...	<u>315</u>
Total.....	<u><u>1,228</u></u>

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

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

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2008, 2007, and 2006 were \$7,029,096, \$6,617,937, and \$6,121,184, respectively, which equaled 100% of required contributions for each fiscal year. 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 92%, respectively, of the total. At June 30, 2008, the City did not have a net pension obligation.

Funded Status and Funding Progress - The funded status of the plan at January 1, 2007, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/07	\$ 62,031,961	\$ 130,398,065	\$ 68,366,104	47.6%	\$ 26,951,807	253.7%

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

Annual Pension Cost – The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	January 1, 2007
Actuarial cost method:	Entry age normal
Amortization method:	Increasing payments 3.50% per year
Remaining amortization period:	18 years, 21 for Early Retirement Incentive. The period is closed.
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	8.25%
Projected salary increases:	4.75% to 8.00%
Cost of living adjustments:	3.00% of the first \$12,000 of retirement income

Legally Required Reserve Accounts – The balance in the System’s legally required reserves as of December 31, 2007 are as follows:

Description	Amount	Purpose
Annuity Savings Fund..	\$ 23,697,029	Active members' contribution balance
Annuity Reserve Fund..	5,948,120	Retired members' contribution account
Military Service Fund...	2,364	Military leave of absence contribution balance
Pension Reserve Fund...	37,108,466	Amounts appropriated to fund future retiremer
Pension Fund.....	<u>9,798,007</u>	Remaining net assets
Total.....	<u>\$ 76,553,986</u>	

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 2008 totaled approximately \$33,000.

NOTE 16 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$4,826,000 for the fiscal year ended June 30, 2008, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 17 - OTHER POST EMPLOYMENT BENEFITS

Plan Description - The City provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2007, the latest actuarial valuation, is as follows:

Active employees.....	968
Retired employees.....	228
Spouses of retired employees.....	<u>171</u>
Total.....	<u><u>1,367</u></u>

Funding Policy - The contribution requirements of Plan members and the City are established and may be amended by the City. The required health insurance contribution rates of Plan members and the City (including Medicare Part B) are 15-25% and 75-85%, respectively. The Plan members and City each contribute 50% towards a \$5,000 life insurance benefit. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the City.

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

	<u>Amount</u>
Annual required contribution.....	\$ 20,010,092
Interest on net OPEB obligation.....	-
Adjustment to annual required contribution.....	<u>-</u>
Annual OPEB cost.....	20,010,092
Contributions made.....	<u>(1,860,990)</u>
Increase in net OPEB obligation.....	18,149,102
Net OPEB obligation at beginning of year.....	<u>-</u>
Net OPEB obligation at end of year.....	<u><u>\$ 18,149,102</u></u>

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2008*	\$ 20,010,092	9.3%	\$ 18,149,102

* Transition year

Funded Status and Funding Progress - The funded status of the Plan at June 30, 2008, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
06/30/08	\$ -	\$ 184,805,511	\$ 184,805,511	0.0%	\$ 26,951,807	686%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

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

Valuation date:	July 1, 2007
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level dollar
Remaining amortization period:	30 years (open) as of July 1, 2007
Interest discount rate:	4.0%
Healthcare/Medical cost trend rate:	9.0% decreasing 1.0% for 3 years to an ultimate level of 5.0% per year

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

Governmental Activities:	
General government.....	\$ 1,710,224
Public safety.....	6,696,769
Education.....	9,522,862
Public works.....	759,844
Health and human services.....	670,964
Culture and recreation.....	257,195
Community development.....	<u>229,702</u>
Total AOPEBC - governmental activities.....	\$ <u>19,847,560</u>
Business-Type Activities:	
Water/Sewer.....	\$ <u>162,532</u>

NOTE 18 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$20,000,000 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 2009 through 2013.

NOTE 19 - SUBSEQUENT EVENTS

On December 22, 2008, the City transferred approximately \$1,484,000 from the general fund to the water/sewer enterprise fund. This transfer was required by the Massachusetts Department of Revenue (DOR) in order to raise water/sewer operating fund deficits on the cash basis of accounting as of June 30, 2008.

NOTE 20 - 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, 2008 cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2008.

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, 2008, 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 21 - PRIOR PERIOD RECLASSIFICATIONS

The beginning fund balances of the school facilities and nonmajor governmental funds have been restated from \$107,351 and \$14,630,234, respectively, to zero and \$14,737,585, respectively, to reflect the reclassification of the school facilities fund from a major fund to a nonmajor governmental fund.

NOTE 22 - IMPLEMENTATION OF GASB PRONOUNCEMENTS

The City implemented the following GASB pronouncements during fiscal year 2008:

- Statement #45, Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions. This pronouncement requires the recording of an OPEB liability that relates to the City's future liability for current and future retirees and their spouses for benefits other than pensions, such as health insurance. The statement is recorded prospectively in the first year of implementation. Details relating to the City's OPEB liability and its calculation are provided at Note 17.
- Statement #48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. The implementation of this Statement had no impact on the financial statements.
- Statement #50, Pension Disclosures. This Statement enhances pension disclosures in the notes to financial statements (see pages 69-71) and RSI (see page 79) by state and local government employers that provide pension benefits.

NOTE 23 - FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following 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 #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.
- Statement #52, Land and Other Real Estate Held as Investments by Endowments, 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 #53, Accounting and Financial Reporting for Derivative Instruments, 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 implementation dates.

Required Supplementary Information

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 31,094,201	\$ -	\$ 31,094,201
Motor vehicle and other excise taxes.....	-	2,175,000	-	2,175,000
Tax and trash liens.....	-	-	-	-
Payments in lieu of taxes.....	-	1,292,986	-	1,292,986
Trash disposal.....	-	1,378,585	-	1,378,585
Intergovernmental.....	-	69,106,521	-	69,106,521
Penalties and interest on taxes.....	-	160,000	-	160,000
Licenses, permits and fees.....	-	2,328,610	-	2,328,610
Fines and forfeitures.....	-	1,762,370	-	1,762,370
Investment income.....	-	1,500,000	-	1,500,000
TOTAL REVENUES.....	-	110,798,273	-	110,798,273
EXPENDITURES				
Current:				
General government.....	52,626	4,002,395	(494,289)	3,560,732
Public safety.....	42,052	16,402,386	835,177	17,279,615
Education.....	1,982,216	61,053,384	71,458	63,107,058
Public works.....	226,174	5,002,084	168,677	5,396,935
Health and human services.....	506	736,543	45,569	782,618
Culture and recreation.....	55	401,437	4,200	405,692
Pension benefits.....	-	5,004,704	-	5,004,704
Employee benefits.....	333,948	6,482,873	(21,021)	6,795,800
Property and liability insurance.....	-	528,506	16,531	545,037
Claims and judgments.....	-	25,000	4,490	29,490
State and county charges.....	-	4,600,721	-	4,600,721
Debt service:				
Principal.....	-	6,797,357	-	6,797,357
Interest.....	-	3,235,939	-	3,235,939
TOTAL EXPENDITURES.....	2,637,577	114,273,329	630,792	117,541,698
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(2,637,577)	(3,475,056)	(630,792)	(6,743,425)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	2,248,364	-	2,248,364
Sale of capital assets.....	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	-	2,248,364	-	2,248,364
NET CHANGE IN FUND BALANCE.....	(2,637,577)	(1,226,692)	(630,792)	(4,495,061)
FUND BALANCE AT BEGINNING OF YEAR.....	13,279,587	13,279,587	13,279,587	13,279,587
FUND BALANCE AT END OF YEAR.....	\$ 10,642,010	\$ 12,052,895	\$ 12,648,795	\$ 8,784,526

See notes to required supplementary information.

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
\$ 30,585,786	\$ -	\$ 30,585,786	(508,415)
2,557,448	-	2,557,448	382,448
382,714	-	382,714	382,714
1,792,342	-	1,792,342	499,356
1,230,237	-	1,230,237	(148,348)
68,868,237	-	68,868,237	(238,284)
273,865	-	273,865	113,865
2,107,219	-	2,107,219	(221,391)
1,792,603	-	1,792,603	30,233
2,017,174	-	2,017,174	517,174
<u>111,607,625</u>	<u>-</u>	<u>111,607,625</u>	<u>809,352</u>
3,134,449	204,503	3,338,952	221,780
16,660,044	73,498	16,733,542	546,073
59,486,385	3,619,808	63,106,193	865
4,766,984	442,231	5,209,215	187,720
731,893	4,557	736,450	46,168
388,377	205	388,582	17,110
4,981,305	-	4,981,305	23,399
6,209,239	471,717	6,680,956	114,844
463,140	1,750	464,890	80,147
3,473	25,555	29,028	462
4,021,544	-	4,021,544	579,177
6,797,357	-	6,797,357	-
3,212,562	-	3,212,562	23,377
<u>110,856,752</u>	<u>4,843,824</u>	<u>115,700,576</u>	<u>1,841,122</u>
<u>750,873</u>	<u>(4,843,824)</u>	<u>(4,092,951)</u>	<u>2,650,474</u>
2,248,364	-	2,248,364	-
10,663	-	10,663	10,663
<u>2,259,027</u>	<u>-</u>	<u>2,259,027</u>	<u>10,663</u>
3,009,900	(4,843,824)	(1,833,924)	2,661,137
<u>13,279,587</u>	<u>13,279,587</u>	<u>13,279,587</u>	<u>-</u>
<u>\$ 16,289,487</u>	<u>\$ 8,435,763</u>	<u>\$ 11,445,663</u>	<u>\$ 2,661,137</u>

PENSION PLAN SCHEDULES

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

SCHEDULES OF FUNDING PROGRESS (SYSTEM)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/07	\$ 62,031,961	\$ 130,398,065	\$ 68,366,104	47.6%	\$ 26,951,807	253.7%
01/01/05	50,307,347	114,625,947	64,318,600	43.9%	24,442,724	263.1%
01/01/03	40,964,402	105,624,172	64,659,770	38.8%	23,843,392	271.2%
01/01/01	39,748,307	88,940,495	49,192,188	44.7%	20,265,717	242.7%
01/01/99	39,899,336	84,532,145	44,632,809	47.2%	17,363,858	257.0%
01/01/97	31,509,000	67,398,000	35,889,000	46.8%	16,135,000	222.4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2002	\$ 5,492,735	100
2003	5,761,066	100
2004	6,150,836	100
2005	6,673,936	100
2006	7,230,596	100
2007	7,650,765	100

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

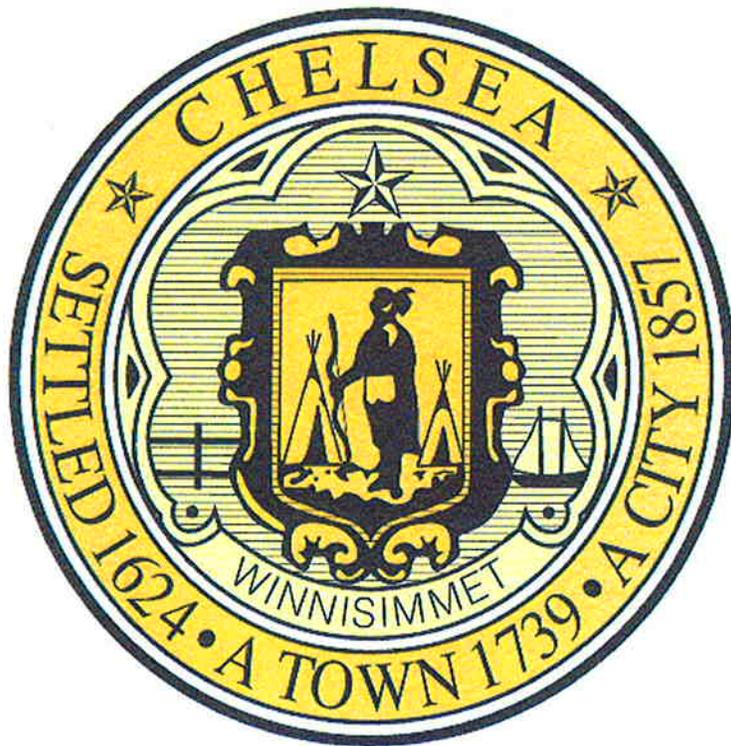
CITY SHARE OF SYSTEM ARC

Year Ended June 30	ARC	Percentage of ARC Contributed (%)	City ARC as a Percentage of System ARC (%)
2003	\$ 5,035,459	100	91.7%
2004	5,271,131	100	91.5%
2005	5,597,912	100	91.0%
2006	6,121,184	100	91.7%
2007	6,617,937	100	91.5%
2008	7,029,096	100	91.9%

NOTE A - BUDGETARY - GAAP RECONCILIATION

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2008, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 111,607,625	\$ 115,700,576	\$ 2,259,027
<u>Adjustments</u>			
Net change in recording 60-day receipts.....	55,748	-	-
Net change in recording tax refunds payable.....	148,384	-	-
To reclassify investment income related to other funds to transfers in.....	(649,625)	-	649,625
To record activity for MTRS on-behalf payments.....	4,826,374	4,826,374	-
Net change in recording short-term interest accrual.....	-	(30,775)	-
To record capital leases.....	-	232,355	232,355
To record encumbrances and continuing appropriations.....	-	(4,843,824)	-
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 115,988,506</u>	<u>\$ 115,884,706</u>	<u>\$ 3,141,007</u>



Combining and Individual Fund Statements and Schedules



Tree City

Young volunteers help to continue the City's claim to being a "Tree City, USA" four years running. These young people are planting a tree on Gillooly Road, one of the several dozen streets that received new trees in the Spring of 2008. In total, with the help of the previously established tree fund, the Department of Public Works added over 50 trees to Chelsea's vibrant neighborhoods between 2007 and 2008.

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 department's revolving funds

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

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

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

Capital Projects Funds

Capital projects funds are used to account for 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, 2008

Special Revenue Funds

ASSETS	Highway Improvement	Community Development	Affordable Housing	City Revolving	Receipts Reserved
Cash and cash equivalents.....	\$ -	\$ 1,206,093	\$ -	\$ 132,782	\$ 4,003,951
Investments.....	-	1,762,428	-	-	-
Receivables, net of allowance for uncollectible amounts:					
Departmental and other.....	-	-	-	238,258	-
Intergovernmental.....	195,000	-	-	-	-
Loans.....	-	1,484,587	-	-	-
Restricted assets:					
Cash and cash equivalents.....	-	630,810	103,215	-	-
Investments.....	-	-	144,727	-	-
TOTAL ASSETS.....	\$ 195,000	\$ 5,083,918	\$ 247,942	\$ 371,040	\$ 4,003,951
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ -	\$ 228,107	\$ -	\$ 7,029	\$ 144,999
Deferred revenue.....	-	-	-	174,270	-
Due to other funds.....	293,778	-	-	-	-
TOTAL LIABILITIES.....	293,778	228,107	-	181,299	144,999
FUND BALANCES:					
Reserved for:					
Loans.....	-	1,484,587	-	-	-
Perpetual permanent funds.....	-	-	-	-	-
Other specific purposes.....	-	-	-	-	-
Unreserved:					
Undesignated, reported in:					
Special revenue funds.....	(98,778)	3,371,224	247,942	189,741	3,858,952
Capital projects funds.....	-	-	-	-	-
Permanent funds.....	-	-	-	-	-
TOTAL FUND BALANCES.....	(98,778)	4,855,811	247,942	189,741	3,858,952
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 195,000	\$ 5,083,918	\$ 247,942	\$ 371,040	\$ 4,003,951

Special Revenue Funds

City Gifts	City State Grants	City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants
\$ 325,277	\$ 810,771	\$ 105,874	\$ 433,655	\$ 441,150	\$ 953,181	\$ 85,245
-	-	-	-	-	-	-
-	-	-	267,205	-	-	216,893
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 325,277</u>	<u>\$ 810,771</u>	<u>\$ 105,874</u>	<u>\$ 700,860</u>	<u>\$ 441,150</u>	<u>\$ 953,181</u>	<u>\$ 302,138</u>
\$ 34,561	\$ 59,324	\$ 23,577	\$ 166,580	\$ 19,774	\$ 4,667	\$ 190,679
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>34,561</u>	<u>59,324</u>	<u>23,577</u>	<u>166,580</u>	<u>19,774</u>	<u>4,667</u>	<u>190,679</u>
-	-	-	-	-	-	-
290,716	751,447	82,297	-	-	948,514	111,459
-	-	-	534,280	421,376	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>290,716</u>	<u>751,447</u>	<u>82,297</u>	<u>534,280</u>	<u>421,376</u>	<u>948,514</u>	<u>111,459</u>
<u>\$ 325,277</u>	<u>\$ 810,771</u>	<u>\$ 105,874</u>	<u>\$ 700,860</u>	<u>\$ 441,150</u>	<u>\$ 953,181</u>	<u>\$ 302,138</u>

(Continued)

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

JUNE 30, 2008

ASSETS	<i>Special Revenue Funds</i>		<i>Capital Projects Funds</i>	
	School Federal Grants	Sub-total	Urban Renewal	Other Capital
Cash and short-term investments.....	\$ -	\$ 8,497,979	\$ 114,171	\$ 162,354
Investments.....	-	1,762,428	-	-
Receivables, net of allowance for uncollectible amounts:				
Departmental and other.....	-	238,258	-	-
Intergovernmental.....	659,538	1,338,636	-	-
Loans.....	-	1,484,587	-	-
Restricted assets:				
Cash and short-term investments.....	-	734,025	-	983,208
Investments.....	-	144,727	-	-
TOTAL ASSETS.....	\$ 659,538	\$ 14,200,640	\$ 114,171	\$ 1,145,562
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Warrants payable.....	\$ 75,591	\$ 954,888	\$ -	\$ 133,738
Deferred revenue.....	-	174,270	-	-
Due to other funds.....	394,827	688,605	-	-
TOTAL LIABILITIES.....	470,418	1,817,763	-	133,738
 FUND BALANCES:				
Reserved for:				
Loans.....	-	1,484,587	-	-
Perpetual permanent funds.....	-	-	-	-
Other specific purposes.....	189,120	2,373,553	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds.....	-	8,524,737	-	-
Capital projects funds.....	-	-	114,171	1,011,824
Permanent funds.....	-	-	-	-
TOTAL FUND BALANCES.....	189,120	12,382,877	114,171	1,011,824
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 659,538	\$ 14,200,640	\$ 114,171	\$ 1,145,562

<i>Capital Projects Funds</i>	<i>Permanent Funds</i>			Total Nonmajor Governmental Funds
	Health and Human Services	Culture and Recreation	Sub-total	
Sub-total				
\$ 276,525	\$ -	\$ -	\$ -	\$ 8,774,504
-	-	-	-	1,762,428
-	-	-	-	238,258
-	-	-	-	1,338,636
-	-	-	-	1,484,587
983,208	12,745	110,533	123,278	1,840,511
-	-	-	-	144,727
<u>\$ 1,259,733</u>	<u>\$ 12,745</u>	<u>\$ 110,533</u>	<u>\$ 123,278</u>	<u>\$ 15,583,651</u>
\$ 133,738	\$ -	\$ -	\$ -	\$ 1,088,626
-	-	-	-	174,270
-	-	-	-	688,605
133,738	-	-	-	1,951,501
-	-	-	-	1,484,587
-	11,996	10,396	22,392	22,392
-	-	-	-	2,373,553
-	-	-	-	8,524,737
1,125,995	-	-	-	1,125,995
-	749	100,137	100,886	100,886
1,125,995	12,745	110,533	123,278	13,632,150
<u>\$ 1,259,733</u>	<u>\$ 12,745</u>	<u>\$ 110,533</u>	<u>\$ 123,278</u>	<u>\$ 15,583,651</u>

(Concluded)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<i>Special Revenue Funds</i>				
	Highway Improvement	Community Development	Affordable Housing	City Revolving	Receipts Reserved
REVENUES					
Charges for services.....	\$ -	\$ -	-	\$ 1,181,096	\$ 169,919
Intergovernmental	286,835	340,690	-	61,872	-
Licenses, permits and fees.....	-	-	-	-	38,811
Departmental.....	-	167,596	-	95,710	1,188
Contributions.....	-	-	-	-	-
Investment income.....	-	140,065	6,983	-	-
TOTAL REVENUES.....	286,835	648,351	6,983	1,338,678	209,918
EXPENDITURES					
Current:					
General government.....	-	-	-	-	45,103
Public safety.....	-	-	-	1,271,828	-
Education.....	-	-	-	-	-
Public works.....	311,670	-	-	-	-
Health and human services.....	-	-	-	28,345	-
Culture and recreation.....	-	-	-	64,470	-
Community development.....	-	1,559,485	-	-	-
TOTAL EXPENDITURES.....	311,670	1,559,485	-	1,364,643	45,103
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(24,835)	(911,134)	6,983	(25,965)	164,815
OTHER FINANCING SOURCES (USES)					
Issuance of bonds and notes.....	-	-	-	-	-
Transfers out.....	-	-	-	-	(145,000)
TOTAL OTHER FINANCING SOURCES (USES)....	-	-	-	-	(145,000)
NET CHANGE IN FUND BALANCES.....	(24,835)	(911,134)	6,983	(25,965)	19,815
FUND BALANCES AT BEGINNING OF YEAR.....	(73,943)	5,766,945	240,959	215,706	3,839,137
FUND BALANCES AT END OF YEAR.....	\$ (98,778)	\$ 4,855,811	247,942	\$ 189,741	\$ 3,858,952

Special Revenue Funds

City Gifts	City State Grants	City Federal Grants	School Lunch	School Revolving	School Gifts	School State Grants
\$ -	\$ -	\$ -	\$ 618,313	\$ 327,205	\$ -	\$ -
-	1,445,762	562,800	2,658,435	-	-	1,925,193
-	-	-	-	-	-	-
647,291	-	-	-	-	435,971	-
<u>647,291</u>	<u>1,445,762</u>	<u>562,800</u>	<u>3,276,748</u>	<u>327,205</u>	<u>435,971</u>	<u>1,925,193</u>
350,800	10,942	-	-	-	-	-
14,173	856,221	264,952	-	-	-	-
-	-	-	2,888,033	196,636	245,354	2,076,547
2,174	-	-	-	-	-	-
123,688	378,979	310,935	-	-	-	-
-	64,047	-	-	-	-	-
<u>490,835</u>	<u>1,310,189</u>	<u>575,887</u>	<u>2,888,033</u>	<u>196,636</u>	<u>245,354</u>	<u>2,076,547</u>
156,456	135,573	(13,087)	388,715	130,569	190,617	(151,354)
-	-	-	-	-	-	-
-	-	-	-	-	(3,935)	(40,852)
-	-	-	-	-	(3,935)	(40,852)
156,456	135,573	(13,087)	388,715	130,569	186,682	(192,206)
134,260	615,874	95,384	145,565	290,807	761,832	303,665
<u>\$ 290,716</u>	<u>\$ 751,447</u>	<u>\$ 82,297</u>	<u>\$ 534,280</u>	<u>\$ 421,376</u>	<u>\$ 948,514</u>	<u>\$ 111,459</u>

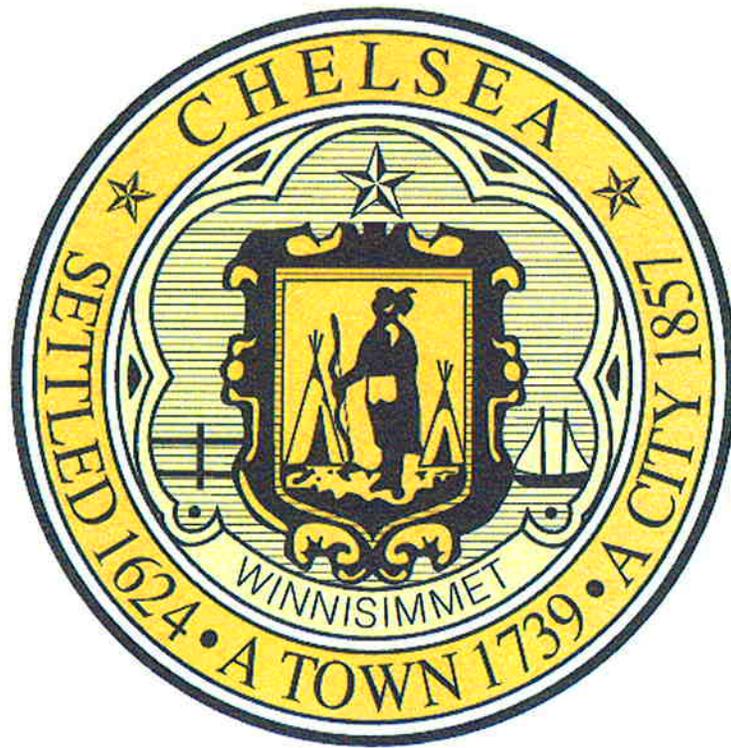
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NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<i>Special Revenue Funds</i>		<i>Capital Projects Funds</i>	
	School Federal Grants	Sub-total	Urban Renewal	Other Capital
REVENUES				
Charges for services.....	\$ -	\$ 2,296,533	\$ -	\$ -
Intergovernmental	5,523,238	12,804,825	-	-
Licenses, permits and fees.....	-	38,811	-	-
Departmental.....	-	264,494	23,342	-
Contributions.....	-	1,083,262	-	-
Investment income.....	-	147,048	11,819	-
TOTAL REVENUES.....	5,523,238	16,634,973	35,161	-
EXPENDITURES				
Current:				
General government.....	-	406,845	-	86,843
Public safety.....	-	2,407,174	-	113,387
Education.....	5,967,315	11,373,885	-	289,503
Public works.....	-	313,844	-	61,169
Health and human services.....	-	841,947	-	-
Culture and recreation.....	-	128,517	-	21,291
Community development.....	-	1,559,485	6,764	129,254
TOTAL EXPENDITURES.....	5,967,315	17,031,697	6,764	701,447
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(444,077)	(396,724)	28,397	(701,447)
OTHER FINANCING SOURCES (USES)				
Issuance of bonds and notes.....	-	-	-	743,000
Transfers out.....	(39,213)	(229,000)	(550,000)	-
TOTAL OTHER FINANCING SOURCES (USES).....	(39,213)	(229,000)	(550,000)	743,000
NET CHANGE IN FUND BALANCES.....	(483,290)	(625,724)	(521,603)	41,553
FUND BALANCES AT BEGINNING OF YEAR.....	672,410	13,008,601	635,774	970,271
FUND BALANCES AT END OF YEAR.....	\$ 189,120	\$ 12,382,877	\$ 114,171	\$ 1,011,824

Capital Projects Funds	Permanent Funds			Total Nonmajor Governmental Funds
	Health and Human Services	Culture and Recreation	Sub-total	
Sub-total				
\$ -	\$ -	\$ -	\$ -	\$ 2,296,533
-	-	-	-	12,804,825
-	-	-	-	38,811
23,342	-	-	-	287,836
-	-	-	-	1,083,262
11,819	-	3,330	3,330	162,197
<u>35,161</u>	<u>-</u>	<u>3,330</u>	<u>3,330</u>	<u>16,673,464</u>
86,843	-	-	-	493,688
113,387	-	-	-	2,520,561
289,503	-	-	-	11,663,388
61,169	-	-	-	375,013
-	-	-	-	841,947
21,291	-	2,991	2,991	152,799
136,018	-	-	-	1,695,503
<u>708,211</u>	<u>-</u>	<u>2,991</u>	<u>2,991</u>	<u>17,742,899</u>
<u>(673,050)</u>	<u>-</u>	<u>339</u>	<u>339</u>	<u>(1,069,435)</u>
743,000	-	-	-	743,000
(550,000)	-	-	-	(779,000)
<u>193,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,000)</u>
(480,050)	-	339	339	(1,105,435)
<u>1,606,045</u>	<u>12,745</u>	<u>110,194</u>	<u>122,939</u>	<u>14,737,585</u>
<u>\$ 1,125,995</u>	<u>\$ 12,745</u>	<u>\$ 110,533</u>	<u>\$ 123,278</u>	<u>\$ 13,632,150</u>

(Concluded)



Internal Service Funds

Narrative

Internal service funds are used to account for the financing of services provided by one department to other departments or governmental units. The risk financing activities related to 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, 2008

ASSETS	<u>Retirees' Health Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents.....	\$ 403,613	\$ 496,980	\$ 900,593
 LIABILITIES			
Current liabilities:			
Abandoned property.....	-	2,348	2,348
Accrued health claims payable.....	95,167	-	95,167
Workers' compensation claims.....	-	289,823	289,823
Total current liabilities.....	<u>95,167</u>	<u>292,171</u>	<u>387,338</u>
 Noncurrent liabilities:			
Workers' compensation claims.....	-	284,379	284,379
Total liabilities.....	<u>95,167</u>	<u>576,550</u>	<u>671,717</u>
 FUND NET ASSETS			
Unrestricted.....	<u>\$ 308,446</u>	<u>\$ (79,570)</u>	<u>\$ 228,876</u>

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Retirees' Health Insurance	Workers' Compensation	Total
OPERATING REVENUES			
Employer contributions.....	\$ 571,796	\$ 451,079	\$ 1,022,875
Other.....	153,613	-	153,613
TOTAL OPERATING REVENUES.....	725,409	451,079	1,176,488
OPERATING EXPENSES			
Employee benefits.....	615,699	(318,119)	297,580
OPERATING INCOME (LOSS).....	109,710	769,198	878,908
NONOPERATING REVENUES (EXPENSES)			
Investment income.....	15,222	229	15,451
INCOME (LOSS) BEFORE TRANSFERS.....	124,932	769,427	894,359
TRANSFERS			
Transfers out.....	(15,222)	-	(15,222)
CHANGE IN FUND NET ASSETS.....	109,710	769,427	879,137
FUND NET ASSETS AT BEGINNING OF YEAR.....	198,736	(848,997)	(650,261)
FUND NET ASSETS AT END OF YEAR.....	\$ 308,446	\$ (79,570)	\$ 228,876

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<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 interfund services provided.....	\$ 725,409	\$ 451,079	\$ 1,176,488
Payments for interfund services used.....	<u>(571,796)</u>	<u>(325,929)</u>	<u>(897,725)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>153,613</u>	<u>125,150</u>	<u>278,763</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out.....	<u>(15,222)</u>	<u>-</u>	<u>(15,222)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income.....	<u>15,222</u>	<u>229</u>	<u>15,451</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	153,613	125,379	278,992
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>250,000</u>	<u>371,601</u>	<u>621,601</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 403,613</u>	<u>\$ 496,980</u>	<u>\$ 900,593</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Operating income (loss).....	\$ 109,710	\$ 769,198	\$ 878,908
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Changes in assets and liabilities:			
Accrued health claims payable.....	43,903	-	43,903
Workers' compensation.....	<u>-</u>	<u>(644,048)</u>	<u>(644,048)</u>
Total adjustments.....	<u>43,903</u>	<u>(644,048)</u>	<u>(600,145)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 153,613</u>	<u>\$ 125,150</u>	<u>\$ 278,763</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, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS				
Cash and cash equivalents.....	\$ 493,861	\$ 699,522	\$ (532,698)	\$ 660,685
LIABILITIES				
Warrants payable.....	\$ 19,100	\$ 514,236	\$ (529,018)	\$ 4,318
Liabilities due depositors.....	474,761	714,598	(532,992)	656,367
Total liabilities.....	\$ 493,861	\$ 1,228,834	\$ (1,062,010)	\$ 660,685

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, 2008

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
REVENUES				
Real estate and personal property taxes.....	\$ 31,094,201	\$ 31,094,201	\$ 30,585,786	\$ (508,415)
Motor vehicle and other excise taxes.....	2,175,000	2,175,000	2,557,448	382,448
Tax and trash liens.....	-	-	382,714	382,714
Payments in lieu of taxes.....	1,292,986	1,292,986	1,792,342	499,356
Trash disposal.....	1,378,585	1,378,585	1,230,237	(148,348)
Intergovernmental.....	69,106,521	69,106,521	68,868,237	(238,284)
Penalties and interest on taxes.....	160,000	160,000	273,865	113,865
Licenses, permits and fees.....	2,328,610	2,328,610	2,107,219	(221,391)
Fines and forfeitures.....	1,762,370	1,762,370	1,792,603	30,233
Investment income.....	1,500,000	1,500,000	2,017,174	517,174
TOTAL REVENUES.....	110,798,273	110,798,273	111,607,625	809,352
EXPENDITURES				
GENERAL GOVERNMENT				
LEGISLATIVE				
Salaries.....	145,041	145,041	145,032	9
Expenses.....	65,108	65,108	64,858	250
TOTAL.....	210,149	210,149	209,890	259
EXECUTIVE OFFICE				
Salaries.....	278,720	280,720	251,906	28,814
Expenses.....	35,070	45,070	33,847	11,223
TOTAL.....	313,790	325,790	285,753	40,037
AUDITOR'S OFFICE				
Salaries.....	211,671	211,671	211,278	393
Expenses.....	8,313	8,313	7,388	925
TOTAL.....	219,984	219,984	218,666	1,318
TREASURER'S/COLLECTOR'S OFFICE				
Salaries.....	442,033	442,033	438,976	3,057
Expenses.....	294,357	324,285	290,587	33,698
TOTAL.....	736,390	766,318	729,563	36,755
ASSESSING				
Salaries.....	180,383	184,661	184,360	301
Expenses.....	73,557	73,557	51,185	22,372
TOTAL.....	253,940	258,218	235,545	22,673
PROCUREMENT				
Salaries.....	103,400	105,400	100,597	4,803
Expenses.....	3,076	3,076	3,057	19
TOTAL.....	106,476	108,476	103,654	4,822

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
CENTRAL BILLING				
Salaries.....	112,541	112,541	100,213	12,328
Expenses.....	71,100	71,100	67,226	3,874
TOTAL.....	183,641	183,641	167,439	16,202
LAW DEPARTMENT				
Salaries.....	158,876	158,876	148,489	10,387
Expenses.....	72,411	72,411	53,180	19,231
TOTAL.....	231,287	231,287	201,669	29,618
PERSONNEL DEPARTMENT				
Salaries.....	121,405	121,405	121,404	1
Expenses.....	34,997	51,397	43,727	7,670
TOTAL.....	156,402	172,802	165,131	7,671
INFORMATION SYSTEMS				
Salaries.....	215,930	215,930	187,000	28,930
Expenses.....	329,733	329,733	308,610	21,123
Capital.....	90,000	90,000	88,565	1,435
TOTAL.....	635,663	635,663	584,175	51,488
CITY CLERK				
Salaries.....	258,964	258,964	248,551	10,413
Expenses.....	50,439	50,439	50,028	411
TOTAL.....	309,403	309,403	298,579	10,824
OFFICE OF PLANNING AND DEVELOPMENT				
Salaries.....	45,487	45,487	45,487	-
Expenses.....	24,005	24,005	23,940	65
TOTAL.....	69,492	69,492	69,427	65
LICENSING				
Salaries.....	64,594	64,594	64,593	1
Expenses.....	4,914	4,914	4,868	46
TOTAL.....	69,508	69,508	69,461	47
SALARY RESERVE.....	558,895	-	-	-
TOTAL GENERAL GOVERNMENT.....	4,055,021	3,560,732	3,338,952	221,780
PUBLIC SAFETY				
POLICE DEPARTMENT				
Salaries.....	6,856,347	6,856,347	6,500,513	355,834
Expenses.....	544,188	571,523	567,919	3,604
Capital.....	112,000	112,000	112,000	-
TOTAL.....	7,512,535	7,539,870	7,180,432	359,438

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
FIRE DEPARTMENT				
Salaries.....	6,313,984	7,054,158	7,054,158	-
Expenses.....	393,582	452,850	452,266	584
Capital.....	27,795	27,795	27,792	3
TOTAL.....	6,735,361	7,534,803	7,534,216	587
INSPECTIONAL SERVICES				
Salaries.....	577,623	577,623	552,212	25,411
Expenses.....	38,877	43,877	36,108	7,769
TOTAL.....	616,500	621,500	588,320	33,180
TRAFFIC AND PARKING				
Salaries.....	43,250	43,250	43,216	34
Expenses.....	650,579	650,579	579,218	71,361
TOTAL.....	693,829	693,829	622,434	71,395
EMERGENCY MANAGEMENT				
Salaries.....	862,829	866,229	789,508	76,721
Expenses.....	23,384	23,384	18,632	4,752
TOTAL.....	886,213	889,613	808,140	81,473
TOTAL PUBLIC SAFETY.....	16,444,438	17,279,615	16,733,542	546,073
EDUCATION				
Operational.....	62,351,581	62,423,039	62,423,036	3
Northeast Regional Vocational High School Assessment.....	684,019	684,019	683,157	862
TOTAL EDUCATION.....	63,035,600	63,107,058	63,106,193	865
PUBLIC WORKS				
ADMINISTRATION				
Salaries.....	206,179	206,179	189,978	16,201
Expenses.....	6,222	6,222	5,162	1,060
TOTAL.....	212,401	212,401	195,140	17,261
STREETS AND SIDEWALKS				
Salaries.....	644,128	644,128	530,474	113,654
Expenses.....	1,284,854	1,453,531	1,402,812	50,719
TOTAL.....	1,928,982	2,097,659	1,933,286	164,373
SOLID WASTE/RECYCLING				
Expenses.....	1,877,086	1,877,086	1,802,243	74,843

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
STRUCTURES AND GROUNDS				
Salaries.....	277,137	277,137	270,367	6,770
Expenses.....	831,392	831,392	806,845	24,547
TOTAL.....	1,108,529	1,108,529	1,077,212	31,317
SNOW AND ICE REMOVAL				
Salaries.....	25,000	25,000	29,912	(4,912)
Expenses.....	66,260	66,260	161,426	(95,166)
Capital.....	10,000	10,000	9,996	4
TOTAL.....	101,260	101,260	201,334	(100,074)
TOTAL PUBLIC WORKS.....	5,228,258	5,396,935	5,209,215	187,720
HEALTH AND HUMAN SERVICES				
ADMINISTRATION				
Salaries.....	142,613	142,613	142,013	600
Expenses.....	5,062	5,062	4,367	695
TOTAL.....	147,675	147,675	146,380	1,295
HEALTH DIVISION				
Salaries.....	67,641	67,641	51,983	15,658
Expenses.....	200	200	58	142
TOTAL.....	67,841	67,841	52,041	15,800
VETERAN'S SERVICE				
Salaries.....	46,311	46,311	42,956	3,355
Expenses.....	266,983	312,552	319,950	(7,398)
TOTAL.....	313,294	358,863	362,906	(4,043)
ELDER AFFAIRS				
Salaries.....	186,083	186,083	158,610	27,473
Expenses.....	22,156	22,156	16,513	5,643
TOTAL.....	208,239	208,239	175,123	33,116
TOTAL HEALTH AND HUMAN SERVICES.....	737,049	782,618	736,450	46,168
CULTURE AND RECREATION				
RECREATION AND CULTURAL AFFAIRS				
Salaries.....	78,098	78,098	72,175	5,923
Expenses.....	40,000	40,000	34,923	5,077
TOTAL.....	118,098	118,098	107,098	11,000
PUBLIC LIBRARY				
Salaries.....	255,395	259,595	253,728	5,867
Expenses.....	27,999	27,999	27,756	243
TOTAL.....	283,394	287,594	281,484	6,110
TOTAL CULTURE AND RECREATION.....	401,492	405,692	388,582	17,110

(Continued)

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
PENSION BENEFITS				
CONTRIBUTORY RETIREMENT SYSTEM				
Expenses.....	4,948,356	4,948,356	4,948,356	-
NON-CONTRIBUTORY PENSION BENEFITS				
Expenses.....	56,348	56,348	32,949	23,399
TOTAL PENSION BENEFITS.....	5,004,704	5,004,704	4,981,305	23,399
EMPLOYEE BENEFITS				
UNEMPLOYMENT COMPENSATION				
Expenses.....	52,000	52,000	41,831	10,169
HEALTH INSURANCE				
Expenses.....	6,052,901	6,031,880	6,004,959	26,921
WORKER'S COMPENSATION				
Expenses.....	370,000	370,000	370,000	-
PAYROLL TAXES				
Expenses.....	301,920	301,920	254,344	47,576
LIFE INSURANCE				
Expenses.....	40,000	40,000	9,822	30,178
TOTAL EMPLOYEE BENEFITS.....	6,816,821	6,795,800	6,680,956	114,844
PROPERTY AND LIABILITY INSURANCE				
Expenses.....	528,506	545,037	464,890	80,147
CLAIMS AND JUDGMENTS				
Expenses.....	25,000	29,490	29,028	462
STATE AND COUNTY CHARGES				
Expenses.....	4,600,721	4,600,721	4,021,544	579,177
DEBT SERVICE PRINCIPAL				
Expenses.....	6,797,357	6,797,357	6,797,357	-
DEBT SERVICE INTEREST				
Expenses.....	3,235,939	3,235,939	3,212,562	23,377
TOTAL EXPENDITURES.....	116,910,906	117,541,698	115,700,576	1,841,122
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES.....	(6,112,633)	(6,743,425)	(4,092,951)	2,650,474
OTHER FINANCING SOURCES (USES):				
Transfers in.....	2,248,364	2,248,364	2,248,364	-
Sale of capital assets.....	-	-	10,663	10,663
TOTAL OTHER FINANCING SOURCES (USES).....	2,248,364	2,248,364	2,259,027	10,663
NET CHANGE IN FUND BALANCE.....	(3,864,269)	(4,495,061)	(1,833,924)	2,661,137
BUDGETARY FUND BALANCE, Beginning of year.....	13,279,587	13,279,587	13,279,587	-
BUDGETARY FUND BALANCE, End of year.....	9,415,318	8,784,526	11,445,663	2,661,137

(Concluded)

Statistical Section



DCR Pool

Reservists stand behind a fountain element and along the waters of the new Vietnam Veteran's Memorial Pool, a successful effort on the part of City Officials, State Representatives, and the Massachusetts Department of Conservation and Recreation. Over 200 young people attended the opening day celebrations.

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 108 - 116)

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 117 - 120)

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

Debt Capacity (pages 121 - 126)

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 127 - 128)

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 129 - 134)

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

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

NET ASSETS BY COMPONENT
(ACCRUAL BASIS OF ACCOUNTING)

LAST SEVEN FISCAL YEARS (1)

	2002	2003	2004	2005	2006	2007	2008
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	\$ 101,923,954
Restricted.....	24,425,588	24,824,976	15,183,702	14,856,655	13,532,009	12,836,617	14,156,898
Unrestricted.....	27,453,878	24,631,799	28,500,604	24,393,261	22,882,562	27,331,951	10,957,968
Total governmental activities net assets.....	\$ 119,351,682	\$ 137,485,125	\$ 131,453,568	\$ 143,406,059	\$ 138,950,112	\$ 143,208,770	\$ 127,038,820
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	\$ 4,293,753
Restricted.....	-	957,423	-	-	-	-	-
Unrestricted.....	4,669,738	2,429,730	3,015,421	4,101,194	3,966,040	4,994,535	4,377,713
Total business-type activities net assets.....	\$ 6,489,335	\$ 6,754,891	\$ 7,549,813	\$ 7,547,132	\$ 8,163,416	\$ 8,377,266	\$ 8,671,466
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	\$ 106,217,707
Restricted.....	24,425,588	25,782,399	15,183,702	14,856,655	13,532,009	12,836,617	14,156,898
Unrestricted.....	32,123,616	27,061,529	31,516,025	28,494,455	26,848,602	32,326,486	15,335,681
Total primary government net assets.....	\$ 125,841,017	\$ 144,240,016	\$ 139,003,381	\$ 150,953,191	\$ 147,113,528	\$ 151,586,036	\$ 135,710,286

(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 SEVEN FISCAL YEARS (1)

	2002	2003	2004	2005	2006	2007	2008
Expenses							
General government (3).....	\$ 3,067,105	\$ 4,175,305	\$ 4,012,030	\$ 4,498,641	\$ 4,706,250	\$ 4,800,810	\$ 6,821,344
Public safety (3).....	16,083,570	20,788,760	20,951,948	23,411,640	25,120,329	26,964,061	33,766,246
Education (3).....	59,176,317	68,117,532	70,629,480	72,144,706	75,452,209	75,539,107	89,459,187
Public works (3).....	6,829,141	6,170,407	5,390,668	6,352,279	5,135,556	5,738,727	6,296,006
Health and human services (3).....	1,964,649	4,362,128	4,297,219	4,515,046	4,803,211	4,170,478	4,523,823
Culture and recreation (3).....	211,407	607,745	603,279	645,308	708,300	728,672	1,150,914
Community development.....	2,343,653	2,503,532	2,607,842	1,824,233	1,481,448	1,760,889	1,833,093
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	3,162,519
Total expenses.....	109,809,702	111,720,407	115,493,149	117,506,331	120,914,815	123,162,924	147,013,132
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	4,514,069
Public works.....	961,094	1,075,487	1,147,770	1,207,394	1,223,069	1,358,377	1,210,082
Other activities.....	1,828,150	1,939,778	2,186,801	2,315,573	2,174,234	2,302,399	2,039,329
Operating grants and contributions.....	59,855,934	70,132,050	60,350,646	63,868,631	63,410,195	67,520,030	72,252,579
Capital grants and contributions.....	184,878	438,833	400,045	17,262,055	1,021,324	3,786,207	580,592
Total program revenues.....	65,856,927	76,723,773	66,950,546	88,121,253	71,660,424	79,965,747	80,596,651
Net (expense)/revenue.....	(43,952,775)	(34,996,634)	(48,542,603)	(29,385,078)	(49,254,391)	(43,197,177)	(66,416,481)
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	31,050,378
Motor vehicle and other							
excise taxes.....	2,603,461	3,136,517	2,331,503	2,890,852	2,829,277	2,111,357	2,846,327
Tax and trash liens.....	179,670	636,587	321,130	440,194	442,603	535,440	473,363
Penalties and interest on taxes.....	371,265	272,770	661,775	331,215	380,239	301,942	273,865
Payments in lieu of taxes.....	1,124,092	1,641,658	1,132,798	609,949	1,195,899	1,185,030	1,792,342
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	10,560,559
Unrestricted investment income.....	784,289	821,315	413,762	525,769	1,245,853	1,695,467	1,710,427
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	1,539,270
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	50,246,531
Change in net assets.....	\$ (5,044,580)	\$ 4,956,188	\$ (12,184,405)	\$ 11,911,095	\$ (4,455,947)	\$ 4,258,658	\$ (16,169,950)

- (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 expenses, per GASBS 34 requirements
- (3) Beginning in fiscal year 2008, the City implemented GASBS 45

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

LAST SEVEN FISCAL YEARS (1)

	2002	2003	2004	2005	2006	2007	2008
Expenses							
Water and Sewer.....	\$ 6,716,508	\$ 8,364,159	\$ 9,365,460	\$ 9,085,256	\$ 9,460,948	\$ 9,625,649	\$ 10,265,022
Program Revenues							
Charges for services.....	8,640,017	9,304,762	11,137,737	10,365,205	10,967,624	11,219,309	11,791,807
Operating grants and contributions.....	144,536	36,892	14,132	14,844	54,722	86,085	69,906
Capital grants and contributions.....	241,692	302,313	-	14,176	410,608	41,358	236,779
Total program revenues.....	9,026,245	9,643,967	11,151,869	10,394,225	11,432,954	11,346,752	12,098,492
Net (expense)/revenue.....	2,309,737	1,279,808	1,786,409	1,308,969	1,972,006	1,721,103	1,833,470
General Revenues and Transfers							
Transfers, net.....	(1,121,892)	(1,014,252)	(991,487)	(1,270,254)	(1,355,722)	(1,507,253)	(1,539,270)
Change in net assets.....	\$ 1,187,845	\$ 265,556	\$ 794,922	\$ 38,715	\$ 616,284	\$ 213,850	\$ 294,200

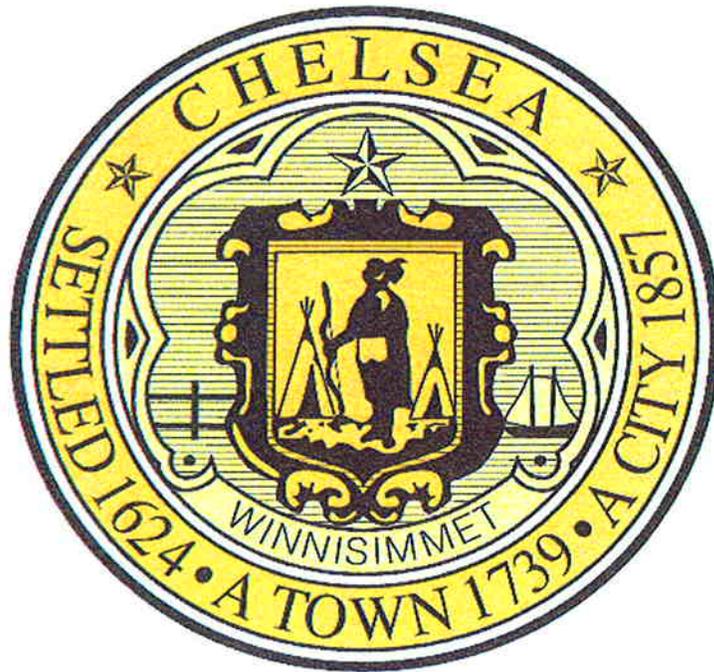
(1) Data is presented starting with the fiscal year that the City implemented GASBS 34

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

LAST SEVEN FISCAL YEARS (1)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total expenses.....	\$ 116,526,210	\$ 120,084,566	\$ 124,858,609	\$ 126,591,587	\$ 130,375,763	\$ 132,788,573	\$ 157,278,154
Total program revenues.....	74,883,172	86,367,740	78,102,415	98,515,478	83,093,378	91,312,499	92,695,143
Net (expense)/revenue.....	(41,643,038)	(33,716,826)	(46,756,194)	(28,076,109)	(47,282,385)	(41,476,074)	(64,583,011)
Total general revenues, transfers and other changes in net assets...	37,786,303	38,938,570	35,366,711	40,025,919	43,442,722	45,948,582	48,707,261
Change in net assets.....	\$ (3,856,735)	\$ 5,221,744	\$ (11,389,483)	\$ 11,949,810	\$ (3,839,663)	\$ 4,472,508	\$ (15,875,750)

(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

	1999	2000	2001	2002
General Fund				
Reserved.....	\$ 2,141,354	\$ 1,548,720	\$ 1,825,526	\$ 2,357,008
Unreserved.....	9,360,784	12,688,981	15,227,877	10,539,843
Total general fund.....	\$ 11,502,138	\$ 14,237,701	\$ 17,053,403	\$ 12,896,851
All Other Governmental Funds				
Reserved.....	\$ 2,005,036	\$ 2,406,969	\$ 4,415,666	\$ 5,737,054
Unreserved, reported in:				
Special revenue funds.....	7,361,995	9,330,984	10,580,027	7,924,095
Debt service funds.....	8,759,619	8,380,476	8,936,238	9,433,813
Capital projects funds.....	3,809,945	1,474,281	3,485,056	(6,635,417)
Permanent funds.....	286,847	416,902	493,365	86,900
Total all other governmental funds....	\$ 22,223,442	\$ 22,009,612	\$ 27,910,352	\$ 16,546,445

2003	2004	2005	2006	2007	2008
\$ 3,040,954	\$ 2,468,835	\$ 2,190,036	\$ 1,753,717	\$ 2,637,577	\$ 4,843,824
<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>11,257,433</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>	<u>\$ 16,101,257</u>
\$ 5,389,046	\$ 5,338,698	\$ 4,489,363	\$ 4,062,188	\$ 3,305,523	\$ 3,880,532
9,987,147	11,953,009	11,933,024	13,027,339	14,327,473	13,470,775
10,702,854	9,758,015	10,279,367	9,370,978	9,430,547	9,927,538
(10,252,232)	(9,122,271)	(1,274,477)	(1,246,189)	(5,346,118)	(8,762,135)
<u>86,480</u>	<u>86,989</u>	<u>87,925</u>	<u>98,843</u>	<u>100,547</u>	<u>100,886</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>	<u>\$ 18,617,596</u>

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

LAST TEN FISCAL YEARS

	1999	2000	2001	2002	2003
REVENUES					
Real estate and personal property taxes.....	\$ 19,645,555	\$ 19,464,358	\$ 23,686,270	\$ 21,728,833	\$ 22,669,580
Motor vehicle and other excise taxes.....	1,422,042	2,307,286	1,905,700	2,170,362	3,251,518
Tax and trash liens.....	-	-	-	457,252	489,714
Payments in lieu of taxes.....	1,141,671	1,591,474	1,633,877	1,124,092	1,641,658
Charges for services.....	2,233,497	2,226,214	2,274,573	1,815,325	1,846,231
Trash disposal.....	-	-	-	866,277	907,205
Intergovernmental.....	65,099,855	68,747,661	76,188,575	74,378,281	78,901,636
Penalties and interest on taxes.....	546,923	414,379	1,520,929	371,265	272,770
Licenses, permits and fees.....	697,589	1,056,159	830,130	813,695	1,240,984
Fines and forfeitures.....	1,247,149	1,319,264	1,483,634	1,764,984	1,578,661
Departmental.....	-	-	-	72,016	645,318
Contributions.....	1,152,490	703,828	558,389	109,778	181,635
Investment income.....	1,171,362	1,848,589	3,154,945	2,105,219	2,884,896
Other.....	517,785	575,848	678,915	467,020	-
TOTAL REVENUES.....	94,875,918	100,255,060	113,915,937	108,244,399	116,511,806
EXPENDITURES					
Current:					
General government.....	2,078,627	2,397,043	2,601,668	2,996,976	3,280,440
Public safety.....	11,934,337	12,519,520	14,087,993	15,882,936	15,200,487
Education (1).....	44,933,711	48,704,754	51,468,402	67,437,206	59,553,050
Public works.....	4,004,265	3,940,400	4,341,867	7,601,737	6,380,387
Health and human services.....	1,234,793	1,318,863	1,438,230	1,908,806	2,017,643
Culture and recreation.....	364,813	381,304	455,534	444,751	425,978
Community development.....	1,441,518	1,480,392	1,660,953	2,332,017	2,351,070
Pension benefits (1).....	4,571,444	7,007,754	7,276,889	5,303,065	7,897,955
Employee benefits (1).....	5,284,037	4,997,082	6,039,105	6,919,831	7,401,070
Property and liability insurance.....	197,233	183,357	217,579	305,040	369,692
Claims and judgments.....	11,303	6,831	22,421	9,699	18,377
State and county charges.....	1,713,285	1,718,175	1,807,938	1,775,003	2,208,706
Capital outlay.....	12,056,873	3,054,115	4,943,097	-	-
Debt service:					
Principal.....	6,179,482	6,479,805	6,528,849	6,650,866	6,871,706
Interest.....	5,201,709	5,570,738	5,137,019	5,155,747	4,700,550
TOTAL EXPENDITURES.....	101,207,430	99,760,133	108,027,544	124,723,680	118,677,111
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(6,331,512)	494,927	5,888,393	(16,479,281)	(2,165,305)
OTHER FINANCING SOURCES (USES)					
Transfers in.....	-	5,062,020	10,169,470	10,022,247	4,467,548
Proceeds of bonds and notes.....	9,821,569	-	1,454,000	-	-
Premium from issuance of bonds and notes.....	5,459,994	-	-	-	760,544
Proceeds of refunding bonds.....	-	-	-	-	16,660,000
Premium from issuance of refunding bonds.....	-	-	-	-	1,510,874
Sale of capital assets.....	-	1,098,686	224,370	-	30,995
Capital leases.....	-	-	-	-	-
Transfers out.....	(4,525,560)	(4,133,900)	(9,019,791)	(8,890,143)	(3,451,011)
Payments to refunding bond escrow agent.....	-	-	-	-	(18,050,214)
TOTAL OTHER FINANCING SOURCES (USES).....	10,756,003	2,026,806	2,828,049	1,132,104	1,928,736
NET CHANGE IN FUND BALANCES.....	\$ 4,424,491	\$ 2,521,733	\$ 8,716,442	\$ (15,347,177)	\$ (236,569)

DEBT SERVICE EXPENDITURES AS A PERCENTAGE OF NONCAPITAL EXPENDITURES.....	12.77%	12.46%	11.32%	10.59%	10.15%
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(1) Beginning in fiscal year 2007, the City began reporting the School Department's share of pension and employee benefit costs as Education expenditures

	2004	2005	2006	2007	2008
\$	24,656,790	\$ 25,996,104	\$ 27,786,205	\$ 28,944,381	\$ 30,782,138
	2,431,353	2,933,506	2,737,502	2,332,484	2,557,448
	899,262	338,515	505,964	366,997	382,714
	1,132,798	609,949	1,195,899	1,185,030	1,792,342
	1,641,003	2,123,881	2,409,626	2,491,044	2,296,533
	1,034,814	1,120,391	1,230,498	1,270,801	1,230,237
	76,383,765	90,513,250	81,556,455	84,823,330	86,499,436
	661,775	331,215	380,239	301,942	273,865
	1,457,471	1,623,212	1,634,239	2,283,402	2,146,030
	1,417,772	1,509,779	1,578,152	1,534,903	1,792,603
	751,036	633,612	1,167,669	642,619	287,836
	133,509	331,998	664,958	690,561	1,083,262
	216,136	1,810,607	1,091,025	2,521,329	2,943,049
	-	-	-	-	-
	112,817,484	129,876,019	123,938,431	129,388,823	134,067,493
	3,242,967	3,260,371	3,050,989	3,428,427	3,628,137
	14,945,125	18,612,071	17,858,180	18,157,315	19,180,605
	57,742,946	58,334,323	59,939,592	67,868,326	71,149,773
	4,997,207	6,214,350	4,535,429	5,112,018	5,374,352
	1,999,958	2,072,138	1,916,395	1,643,909	1,573,840
	389,739	432,059	480,202	460,047	541,176
	3,088,565	2,024,964	5,348,708	6,784,769	4,631,470
	8,357,720	9,203,469	9,991,344	9,001,662	9,807,679
	8,801,256	9,222,562	10,672,888	5,839,623	6,209,239
	457,240	473,443	426,165	558,328	463,140
	15,835	20,498	9,210	21,180	3,473
	2,552,188	2,883,357	2,977,746	3,310,117	4,021,544
	-	-	-	-	-
	6,751,706	6,911,246	6,970,284	6,857,391	6,797,357
	4,607,567	4,136,328	3,549,065	3,497,188	3,181,787
	117,950,019	123,801,179	127,726,197	132,540,300	136,563,572
	(5,132,535)	6,074,840	(3,787,766)	(3,151,477)	(2,496,079)
	4,526,909	5,636,392	2,416,211	3,959,770	2,897,989
	1,600,000	641,000	691,000	653,000	743,000
	1,706	28,516	12,185	29,287	-
	-	1,007,661	-	-	-
	-	18,978	-	-	-
	2,400,696	25,000	297,780	250,000	10,663
	-	-	-	-	232,355
	(3,529,273)	(4,354,515)	(1,048,061)	(2,440,246)	(1,343,497)
	-	(1,001,620)	-	-	-
	5,000,038	2,001,412	2,369,115	2,451,811	2,540,510
\$	(132,497)	\$ 8,076,252	\$ (1,418,651)	\$ (699,666)	\$ 44,431
	9.83%	9.20%	8.58%	8.29%	7.65%

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				
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%
2008	1,734,194,631	614,984,682	70,899,900	2,420,079,213	12.85	2,856,347,100	84.73%

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. Fiscal year 2008 data is an estimate and has not been finalized 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>
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
2008	9.95	20.76	20.76	12.85

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	2008			1999		
	Amount of Tax	Rank	Percentage of Total Tax Levy	Amount of Tax	Rank	Percentage of Total Tax Levy
Urban Group Properties	\$ 878,148	1	2.82%	\$ -	-	-
Nstar Services	813,979	2	2.62%	-	-	-
Anthony Simboli	799,684	3	2.57%	538,268	2	2.78%
Griffin Way LLC	632,219	4	2.03%	-	-	-
Demoulas Super Markets Inc.	405,823	5	1.31%	-	-	-
FR Chelsea Commons LLC	342,650	6	1.10%	-	-	-
New England Produce Center	314,194	7	1.01%	285,412	8	1.48%
Catamount Petroleum L.P.	313,881	8	1.01%	328,224	5	1.70%
Admiral Hill Associates Inc.	296,148	9	0.95%	-	-	-
Tobin Mark Et Al General Partners	217,621	10	0.70%	-	-	-
Boston Edison	-	-	-	667,887	1	3.45%
Chelsea Development Associates	-	-	-	521,164	3	2.70%
Mystic Mall Limited Partnership	-	-	-	369,912	4	1.91%
Stanton Black	-	-	-	300,290	6	1.55%
Patrick J. Glynn	-	-	-	298,911	7	1.55%
Bell Atlantic	-	-	-	258,850	9	1.34%
Boston Gas	-	-	-	226,092	10	1.17%
Total	\$ 5,014,347		16.13%	\$ 3,795,010		19.63%

Source: Assessing Department

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year	Net Tax Levy	Collected within the Fiscal Year of the Levy			Total Collections to Date	
		Current Tax Collections	Percent of Net Levy Collected	Actual Subsequent Collections	Total Tax Collections	Total Collections as a % of Net Levy
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%	87,245	28,672,108	97.05%
2008	31,094,201	30,159,309	96.99%	-	30,159,309	96.99%

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			
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
2008	43,867,534	-	11,684,463	894,255	56,446,252	5.35%	1,609

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		
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
2008	43,867,534	-	43,867,534	9,927,538	33,939,996	1.19%	968

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

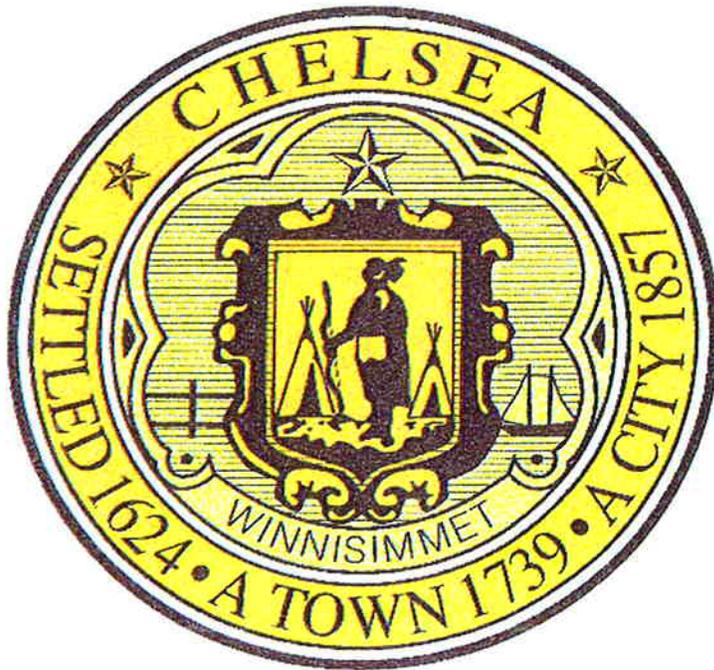
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

JUNE 30, 2008

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Massachusetts Water Resource Authority.....	\$ 5,613,026,000	1.50%	\$ 84,167,027
City direct debt.....			<u>56,446,252</u>
Total direct and overlapping debt.....			<u><u>\$ 140,613,279</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 2008

Fiscal year 2008 equalized valuation.....	\$ <u>2,856,347,100</u>
Normal debt limit (2 1/2% of equalized valuation).....	<u>71,408,678</u>
Debt applicable to limit:	
Total bonded debt.....	43,867,534
Less: General obligation bonds exempted by authority of state legislature.....	<u>(38,925,000)</u>
Total net debt applicable to limit.....	<u>4,942,534</u>
Legal debt margin.....	\$ <u>66,466,144</u>

	Fiscal Year		
	1999	2000	2001
Normal debt limit.....	\$ 20,977,218	\$ 25,961,683	\$ 25,961,683
Total net debt applicable to limit.....	<u>16,513,446</u>	<u>4,029,088</u>	<u>5,049,360</u>
Legal debt margin.....	<u>\$ 4,463,772</u>	<u>\$ 21,932,595</u>	<u>\$ 20,912,323</u>
Total net debt applicable to the limit as a percentage of normal debt limit.....	78.72%	15.52%	19.45%

Fiscal Year						
2002	2003	2004	2005	2006	2007	2008
\$ 34,685,213	\$ 34,685,213	\$ 55,164,970	\$ 55,164,970	66,052,890	\$ 66,052,890	\$ 71,408,678
<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>4,942,534</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>	<u>\$ 66,466,144</u>
12.98%	11.26%	6.20%	5.80%	7.05%	7.32%	6.92%

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN CALENDAR YEARS

<u>Year</u>	<u>Population (1)</u>	<u>Median Family Income (1) (4)</u>	<u>Unemployment Rate (%) (2)</u>
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%
2007	35,080	30,061	6.4%

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)

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

PRINCIPAL EMPLOYERS

CURRENT YEAR AND TEN YEARS AGO (1)

Employer	2008			1998		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
City of Chelsea	1,255	1	9.45%	1,239	2	9.93%
MITC	1,100	2	8.28%	1,600	1	12.82%
MWRA	564	3	4.25%	-	-	-
Kayem Foods	389	4	2.93%	400	5	3.20%
Market Basket	300	5	2.26%	-	-	-
Massachusetts General Hospital	246	6	1.85%	200	8	1.60%
Paul Revere Transportation	208	7	1.57%	500	4	4.01%
Signature Breads	202	8	1.52%	250	6	2.00%
Metropolitan Credit Union	151	9	1.14%	140	10	1.12%
Stop & Shop	120	10	0.90%	-	-	-
Town & Country	-	-	-	500	3	4.01%
Gulf Oil Company	-	-	-	225	7	1.80%
Eagle Air Freight	-	-	-	150	9	1.20%
Total	4,535		34.15%	5,204		41.69%

Source: Department of Planning and Development

(1) 1999 data (i.e., nine years ago) is not available, therefore the City is presenting 1998 data

EMPLOYEES BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Full-Time Equivalent Employees as of June 30									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government.....	53	55	71	71	51	50	52	52	54	55
Public safety.....	186	187	193	197	199	186	197	200	212	215
Education (1).....	910	910	938	970	937	864	879	879	871	901
Public works	31	31	30	30	28	27	26	25	25	25
Health and human services.....	41	40	54	47	49	40	36	39	37	37
Culture and recreation.....	1	1	3	8	8	8	9	8	8	8
Community development.....	14	14	13	13	13	10	10	10	10	9
Water and sewer.....	5	5	4	4	4	4	5	5	5	5
Total.....	1,241	1,243	1,305	1,339	1,287	1,188	1,212	1,217	1,222	1,255

Source: Various departments

(1) Data is not available for fiscal years 1999 and 2006. Fiscal year 2000 data is being used for fiscal year 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			
	1999	2000	2001	2002
Public safety				
Police				
Offenses committed.....	8,406	7,816	7,693	8,245
Crime-related incidents.....	3,664	3,662	3,731	4,320
Non-crime related incidents.....	1,370	1,579	1,438	1,395
Arrests (on view).....	2,029	1,788	1,594	1,538
Arrests (based on incident/warrants).....	308	315	290	319
Summons arrests.....	2	1	3	4
Total arrests.....	2,339	2,104	1,887	1,861
Juvenile arrests.....	144	128	105	162
Hearings.....	210	169	241	471
Summons.....	41	64	60	163
Restraint orders.....	430	413	399	450
Citations.....	2,745	2,687	4,119	6,932
Fire				
Fires extinguished (1) (2).....	408	377	234	243
Education				
Public school enrollment.....	5,836	5,759	5,848	5,876
Culture and recreation				
Library volumes in collection.....	78,420	81,963	79,258	80,933
Library volumes borrowed.....	74,183	67,328	61,604	60,601
Water				
Average daily consumption (1) (million gallons/day).....	3.285	3.165	3.410	3.441
Peak daily consumption (1) (2) (million gallons/day).....	3.920	4.450	3.880	5.220
Sewer				
Average daily sewage treatment (1) (million gallons/day).....	4.410	4.700	4.570	3.900

Source: Various departments

(1) Data is on a calendar year basis

(2) Data is not available for 2008

Fiscal Year					
2003	2004	2005	2006	2007	2008
7,724	6,909	6,784	7,460	7,632	8,795
4,200	3,752	3,586	3,552	3,543	3,878
1,614	1,364	1,377	1,676	1,707	1,636
1,369	1,239	1,427	1,664	1,577	1,713
413	377	277	343	408	388
1	-	-	5	10	6
1,783	1,616	1,704	2,012	1,995	2,107
144	149	143	162	137	124
552	411	457	532	533	559
209	154	240	259	340	383
437	389	406	393	373	367
4,864	4,048	4,786	4,610	3,561	6,966
240	253	181	268	326	N/A
5,805	5,785	5,873	5,500	5,571	5,603
76,585	74,568	73,635	74,928	76,633	77,103
53,072	47,904	44,766	45,164	49,459	53,136
3,543	3,418	3,285	2,999	3,010	2,750
4,870	4,500	4,170	3,634	4,400	N/A
3,990	4,040	4,110	4,440	4,030	4,350

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function/Program	Fiscal Year				
	1999	2000	2001	2002	2003
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.....	1,662	1,664	1,668	1,671	1,675
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				
<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
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
1,677	1,680	1,683	1,708	1,805
46	46	46	47	47
1	1	1	1	1
61	61	61	61	61
41	41	41	41	41

