

CITY OF CENTRAL FALLS

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011
WITH INDEPENDENT AUDITORS' REPORT**

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REPORT OF INDEPENDENT AUDITORS

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YEAR ENDED JUNE 30, 2011

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FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

City of Central Falls
Central Falls, Rhode Island

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Central Falls, Rhode Island as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents to this report. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of the Central Falls School Department, which represents 25 percent and 78 percent, respectively, of the assets and revenues of the governmental activities, 100 percent of the assets and revenues of the School unrestricted fund and 84 percent of the assets of the agency funds. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Central Falls School Department is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Central Falls, Rhode Island, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Needham
Boston
Concord
Taunton

The accompanying financial statements have been prepared assuming that the City of Central Falls will continue as a going concern. On May 19, 2010 the City filed a Petition for Appointment of Receiver with the Rhode Island Superior Court (the State) citing fiscal insolvency due to revenue shortfalls, State budget cuts, and unaffordable collective bargaining agreements and pension obligations. On June 11, 2010, the Rhode Island General Assembly passed "An Act Relating to Cities and Towns-Providing Financial Stability" (the Act) which provides for State intervention in the finances of municipalities in fiscal distress. In response to the Act, the City negotiated a Consent Order with the State and withdrew its petition with the Court. On July 16, 2010, in accordance with the terms of the Act, the State's Director of the Department of Revenue appointed a Receiver with the authority to exercise any function or power of any municipal officer of the City. As described in Note 14, on August 1, 2011 the State Receiver filed for federal Chapter 9 bankruptcy protection for the City of Central Falls. The bankruptcy proceedings commenced and on September 22, 2011, the Bankruptcy Counsel for the State Receiver filed a plan of debt adjustment and disclosure statement with the court. Certain classes of claims related to retiree health insurance, retiree accidental disability, retiree pension and general creditors are impaired by this plan. A copy of this Plan of Adjustment may be obtained from the US Bankruptcy Court. Any gain that may result from measurement of liabilities as a result of the bankruptcy is not yet reasonably estimable. The five- year financial plan prepared in connection with the bankruptcy proceedings includes the City funding, beginning in fiscal 2013, its share of the local annual contribution to the School District which is required under the Education Equity and Property Tax Relief Act enacted by the General Assembly. The City's bankruptcy, receivership, the recurring operating deficits, deficit fund balance, unfunded pension liabilities and unfunded other post-employment benefits raise substantial doubt about its ability to continue as a going concern. The Receiver's plans regarding these matters also are described in Note 15 to the financial statements. These financial statements do not include any adjustments that might result from the outcome of this uncertainty or the pending bankruptcy proceeding.

As described in note 1, the Central Falls School District was previously reported as a component unit of the State of Rhode Island. Effective for fiscal year 2011, it was determined that the Central Falls School Department should be included as a Department of the City of Central Falls. The effect of this restatement is described in note 16.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of Funding Progress, and Budgetary Comparison Schedules on pages 3 through 10 and 55 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Central Falls, Rhode Island's basic financial statements. The Combining and Individual Fund Financial Statements 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 has 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.

Braver PC

Providence, Rhode Island
March 28, 2012

February 13, 2012

To the Citizens of the
City of Central Falls,
Rhode Island

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2011

This discussion and analysis of the City of Central Falls financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. This is the City's ninth (9th) year reporting in accordance with the provisions of GASB Statement No. 34. Please read this document in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

The auditor's report for 2011 expresses an unqualified (i.e. "clean") opinion on the financial statements of the City of Central Falls. The City's basic financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City.

The Government-Wide Statement of Net Assets indicates that the City's total net assets worsened for the fourth consecutive year to a negative \$27,309,406, reflecting a decrease of \$6,204,372 over FY2010.

The Government-Wide Statement of Activities indicates that the City's total general revenues of \$15,832,406 combined with additional program revenues of \$55,247,122 less program expenses of \$77,283,900 resulted in a decrease of \$6,204,372 in total net assets from a year ago.

The Governmental Fund Financial Statements indicate that the ending fund balance for the City's general fund was a deficit of \$485,015, reflecting an increase of \$1,564,057 to the FY2010 fund balance.

The Financial Statements

The financial statements presented herein include all the activities of the City of Central Falls using the integrated approach as prescribed by GASB Statement No. 34. Additionally, the City has implemented the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Implementation of this Statement resulted in various funds previously reported Other Special Revenue Funds to be consolidated into the City's General Fund.

The Government-Wide Financial Statements present the financial picture of the City of Central Falls from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the City of Central Falls as well as all liabilities (including long term debt). Additionally, certain eliminations have occurred as prescribed by the statement about interfund activity, payables and receivables.

The Fund Financial Statements include statements for each of the two categories of activities - governmental and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The fiduciary activities are reported in the City's trust and agency funds. Agency funds, unlike the City's pension trust funds, do not have a measurement focus and only require a balance sheet. Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

Overview of the Financial Statements

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the City of Central Falls as a whole and about its activities. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most companies in the private-sector. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are indicators of whether the City's financial health is improving or deteriorating.

GASB Statement No. 34 defines the accounting terms found in the Statement of Net Assets and the Statement of Activities as follows:

Governmental Activities

This category identifies the costs of City's various functions/programs in providing services to the public (i.e. general government, public safety, public works, etc.). The City's aggregate costs of providing these services are then offset by the state, federal and private grants, which provide additional funds that serve to reduce the City's costs of providing these same services.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the reporting entity as a whole. Although some funds are established by local ordinance, management often creates other funds to help control and manage certain revenues, grants and other sources of funds. These funds are generally earmarked for specific purposes and management must be able to demonstrate that it is meeting certain legal responsibilities often required by the provider.

Governmental Funds

Most of the City's services are reported on governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are greater or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements compared to those in the Government-Wide financial statements are explained in the reconciliation schedule following the Governmental Fund financial statements.

Proprietary Funds

Business-like activities, such as providing water or sewer services, to the general public are done so through enterprise funds, which are financed primarily by user charges. The City of Central Falls has no enterprise funds. Services of this type have historically been provided to Central Falls residents through regional boards and commissions located outside of the City.

At one time all account transaction activity pertaining to the City's workers compensation claims was recorded in an internal service fund. The City of Central Falls no longer has any internal service funds, since insurance coverage is now purchased annually from a private insurer and the City no longer self-insures.

Fiduciary Funds

The City of Central Falls is the trustee, or fiduciary, for certain funds held on behalf of the beneficiaries. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. These activities are excluded from the City's Government-Wide Financial Statements, because the City cannot use these assets to finance operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to Financial Statements

The notes provide additional information that is essential to a complete understanding of the data provided in the Government-Wide and Governmental Fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as, the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the general fund.

Government-Wide Financial Analysis

In this, the ninth (9th) year of implementation of the provisions of GASB Statement No. 34, the City continues to provide certain disclosures and compares them to prior year financial statements. In the sections that follow, a comparative analysis is provided between current year and prior year information.

As noted earlier, the total net assets for the City of Central Falls have decreased by \$6,204,372 over the prior year's balance. This decrease is first identified in the change in net assets as recorded in the Statement of Activities and then flows through the Statement of Net Assets. Program expenses by function, general revenues by major source, excess and/or deficiency of revenues over expenses and total assets are presented in the Statement of Activities and Changes in Net Assets.

Net assets for the City of Central Falls for the fiscal year ended June 30, 2011 were:

	Net Assets	
	Governmental Activities	
	<u>2011</u>	<u>2010</u> (as restated)
Current and other assets	\$ 16,612,701	\$ 10,235,214
Capital assets	<u>27,694,369</u>	<u>28,475,506</u>
Total Assets	<u>44,307,070</u>	<u>38,710,720</u>
Current liabilities	10,216,633	6,745,481
Long-term liabilities	<u>61,399,843</u>	<u>53,070,273</u>
Total Liabilities	<u>71,616,476</u>	<u>59,815,754</u>
Net Assets:	\$(27,309,406)	\$(21,105,034)
Invested in capital assets, net of debt	\$ 6,659,635	\$ 10,127,346
Restricted	7,224,954	7,175,387
Unrestricted	<u>(41,193,995)</u>	<u>(38,407,767)</u>
Total Net Assets	\$ (27,309,406)	\$ (21,105,034)

This year the City of Central Falls continues to report positive balances in two (2) areas of net assets. Invested in capital assets, net of related debt is \$6,659,635 and restricted net assets amount to \$7,224,954. The negative balance of \$41,193,995 in unrestricted net assets is mostly attributable to the City's net pension obligation of \$31,205,040 in the Police and Fire Private Pension Plan (John Hancock) and other post employment benefits (health insurance) for retired employees, \$6,696,919.

As indicated in the Statement of Activities, the total cost of governmental activities for the year ended June 30, 2011 was \$77,283,900. This amount was substantially offset, in that some of the costs (i.e. \$53,285,433) were paid by federal, state and private grants and entitlements.

Program and General Revenues

	<u>2011</u>	<u>2010, as restated</u>
Charges for services		
General government	\$ 863,361	\$ 1,422,603
Public safety	69,021	78,124
Public education	1,029,307	1,151,082
Public works	<u>0</u>	<u>0</u>
Total	<u>\$ 1,961,689</u>	<u>\$ 2,651,809</u>

Total revenue received for charges and services in 2011 was \$1,961,689, a decrease of \$690,120 as compared to the amount received in 2010, which was equal to \$2,651,809.

	<u>2011</u>	<u>2010</u> (as restated)
Operating Grants and Contributions		
General government	\$ 557,166	\$ 1,378,747
Public safety	498,056	550,414
Public works	0	8,420
Public education	51,315,605	54,474,340
Public recreation	<u>23,698</u>	<u>96,395</u>
Total	<u>\$52,394,525</u>	<u>\$ 56,508,316</u>

Total revenue received from Operating Grants and Contributions in 2011 was \$52,394,525 a decrease of \$4,113,791 as compared to the amount received in 2010, which was equal to \$56,508,316.

	<u>2011</u>	<u>2010</u>
Capital Grants and Contributions		
Capital outlays	\$ 2	\$ 222,144
Education	<u>890,906</u>	<u>0</u>
Total	<u>\$ 890,908</u>	<u>\$ 222,144</u>

Total revenue received from Capital Grants and Contributions in 2011 was \$890,908, an increase of \$668,764 as compared to the amount received in 2010, which was equal to \$222,144.

	<u>2011</u>	<u>2010</u> (as restated)
Total Program Revenues	<u>\$ 55,247,122</u>	<u>\$ 59,382,269</u>
General Revenues		
Property taxes	\$ 12,403,485	\$ 10,548,712
Grants and contributions (unrestricted)	2,395,363	3,822,314
Investment earnings	14,776	44,960
Loss on sale of assets	0	(143,920)
Miscellaneous	<u>1,018,782</u>	<u>891,741</u>
Total General Revenues	<u>\$ 15,832,406</u>	<u>\$ 15,163,807</u>

General revenues in 2011 were \$15,832,406, which reflects an increase of \$669,139, as compared to the amount received in 2010, \$15,163,267.

Total Government-Wide Revenues	<u>\$ 70,756,046</u>	<u>\$ 74,546,076</u>
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Total Government-Wide Revenues in 2011 were \$70,756,046, a decrease of \$3,790,030 as compared to the amount received in 2010, which was equal to \$74,546,076.

Statement of Activities

Program Expenses	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost Services 2010 (as restated)	Net Cost of Services 2010 (as restated)
General Government	\$ 4,542,417	\$ 3,121,890	\$ 3,263,095	\$ 461,745
Public Safety	6,347,094	5,780,017	7,211,017	6,582,479
Public Works	1,446,618	1,446,618	1,666,599	1,658,179
Public Education	54,464,561	1,228,743	56,250,099	624,677
Public Recreation	519,331	495,633	747,088	650,693
Contingency	89,842	89,842	181,675	181,675
Employee Benefits	3,610,465	3,610,465	3,597,259	3,597,259
Retirement	4,056,604	4,056,604	4,941,099	4,941,099
Capital Outlays	1,217,878	1,217,876	-	(222,144)
Debt Service Interest	989,090	989,090	1,040,628	1,040,628
Total Expenses	\$ 77,283,900	\$ 22,036,778	\$ 78,898,559	\$ 19,516,290

The City's total program expenses were \$77,283,900. With additional program revenues of \$55,247,122 in FY 2011, the City's net cost of services was \$22,036,778. When subtracted from the City's total general revenues of \$15,832,406, the City realizes an unfavorable Change in Net Assets of \$6,204,372. Last year in FY 2010 the City realized an unfavorable Change in Net Assets of \$4,352,483.

Transfers

Inter-fund transfers for the year ended June 30, 2011 totaled \$1,257,642 for the year.

Financial Analysis of the City's Funds – Governmental Fund Statements

Statement of Changes in Fund Balances – Governmental Funds

	<u>Fund Balance June 30, 2011</u>	<u>Fund Balance June 30, 2010 (as restated)</u>	<u>Increase (Decrease)</u>
General Fund	\$ (485,015)	\$ (2,049,072)	\$ 1,564,057
Channel One	(4,189)	127,351	(131,540)
School Fund	1,205,811	2,284,552	(1,078,741)
School Construction	3,249,496	3,900,008	(650,512)
Other Governmental	<u>3,039,319</u>	<u>3,797,095</u>	<u>(757,776)</u>
Total	\$7,005,422	\$ 8,059,934	\$(1,054,512)

The fund balance for the City of Central Falls general fund reflects a deficit of \$485,015, as of June 30, 2011. Increased revenues (and other sources) in addition to decreased expenditures (and other uses) amounted to \$1,564,057, a 423% increase over the prior year deficit fund balance of \$2,049,072.

General Fund Revenues	2011	2010	Variance	Percentage Change
General property taxes	\$12,080,003	\$10,356,688	\$1,723,315	16.6%
Interest and investment income	2,037	28,345	(26,308)	-92.8%
Intergovernmental	2,395,363	3,822,314	(1,426,951)	-37.3%
Fees / Non-tax income	721,385	776,008	(54,623)	-7.0%
Departmental revenue	169,844	638,195	(468,351)	-73.4%
Other revenues	175,329	221,429	(46,100)	-20.8%
Total	<u>\$15,543,961</u>	<u>\$15,842,979</u>	<u>(\$299,018)</u>	<u>-1.9%</u>

Analysis

The total increase in the City's general fund balance, \$1,564,057, under modified accrual was the result of the following:

Revenues from general property taxes increased by \$1,723,315 or 16.6%, as compared to the previous year. All other sources of revenues decreased, reflecting a total decrease of 1.9% or \$299,018. Interest and investment income decreased by \$26,308, reflecting a continuing decline in interest rates. Intergovernmental revenues received from the State of Rhode Island declined by \$1,426,951 or 37.3% as compared to last year, resulting from a continued decline in state aid. Local fees and non-tax income also declined by \$54,623 or 7.0%. Because the boarding up of abandoned properties program was put on hold, departmental revenues declined to \$169,844, reflecting a decrease of \$468,351 from FY2010. Other revenues indicate a reduction of \$46,100 (-20.8%) in total, due to non-payment of funds from the Central Falls Prison Authority. Costs for services rendered have not yet been paid, nor do we expect payment, from the facility.

Total expenditures for the general fund in FY2011 were \$15,205,752, reflecting a decrease in spending of \$3,228,845 or 17%, as compared to FY2010. As a matter of policy, the City's minimum fund balance is 5% of the general fund total operating budget.

The following table displays a comparison of revenues and expenditures "budget to actual" for the general fund, as reported on a budgetary basis and required by the City Charter.

General Fund Budgetary Comparison Schedule – June 30, 2011

	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenue Analysis				
Tax revenue	\$12,537,067	\$12,537,067	\$11,622,910	(\$914,157)
Fees/Non-tax revenue	897,100	897,100	723,296	(173,804)
State revenue	2,281,325	2,281,325	2,395,363	114,038
Departmental revenue	367,350	367,350	359,233	(8,117)
Other Income	721,920	721,920	175,329	(546,591)
Sub-Total	<u>\$16,804,762</u>	<u>\$16,804,762</u>	<u>\$15,276,131</u>	<u>(\$1,528,631)</u>
Expense Analysis				
General government	\$1,563,439	\$1,563,439	\$1,742,581	(\$179,142)
Public safety	5,840,615	5,840,615	5,771,759	68,856
Public works	1,209,859	1,209,859	1,178,985	30,874
Public education	224,515	224,515	210,592	13,923
Public recreation	305,827	305,827	162,244	143,583
Municipal debt service	2,440,883	2,440,883	2,203,829	237,054
Contingency	112,000	112,000	154,842	(42,842)
Employee benefits	3,832,968	3,832,968	3,610,465	222,503
Retirement	1,274,656	1,274,656	170,455	1,104,201
Major purchases	-	-	-	-
Sub-Total	<u>\$16,804,762</u>	<u>\$16,804,762</u>	<u>\$15,205,752</u>	<u>\$1,599,010</u>

Other Governmental Funds

Other governmental funds consist of:

<u>Fund Type</u>	<u>Total Net Assets</u>	<u>Note</u>
Non-spendable	\$ 269,672	Includes the amount of fund balance that cannot be spent Resources restricted for to specific purposes
Restricted	<u>2,769,647</u>	
Total	\$ 3,039,319	

It should be noted that the Central Falls School District was classified a component unit of the State of Rhode Island in 2010. Separately issued financial statements were prepared and may be obtained from the Rhode Island Department of Education. In 2011, the Central Falls School District is a component unit of the City of Central Falls. The governmental fund balance has been restated to reflect the inclusion of the School Department as a department of the City.

Pension Trust Funds

<u>Pension Fund</u>	<u>Total Net Assets</u>	<u>Note</u>
Police/Fire (1%)	\$ 131,403	Established in 1925 for employees hired prior to July 1972 Police and fire employees hired after July 1, 1972
John Hancock	<u>5,486,572</u>	
Total	\$ 5,617,975	

Total net assets of the City's pension trust funds amount to \$5,617,975 in 2011, a decrease of \$2,442,502 compared to FY2010, resulting from a decrease in investments. Although the City adopted a definitive funding plan in 2007, the City has not made contributions in two (2) years, which is significantly less than the actuary's required contribution (ARC). Thus, the City continued to sell assets in the John Hancock pension fund during FY2011 to meet current obligations and pay pension benefits to recipients. According to the City's most recent actuarial studies, the combined unfunded actuarial accrued liability (UAAL) for the pension fund and post-employment benefits is \$78.6 million, including \$46.6 million for the pension fund as of June 30, 2011 (\$13.0 million for police and fire retirees hired prior to July 1972 and \$33.6 million for police and fire retirees hired after July 1, 1972) and \$32.2 million for post-employment benefits as of July 1, 2009.

Debt Administration

At year end total long-term debt for the City of Central Falls was \$63 million. The breakdown is as follows:

	<u>2011</u>		<u>2010</u>	
			(as restated)	
City's net pension obligation (NPO)	\$ 31,205,040	49.3%	\$ 32,836,481	56.0%
Bonded indebtedness (for school purposes)	12,835,000	20.3%	13,740,000	23.5%
Bonded indebtedness (for municipal purposes)	7,985,000	12.6%	8,275,000	14.1%
Liability for compensated absences	3,206,081	5.1%	1,926,782	3.3%
Other municipal debt (including capital leases)	344,734	0.5%	356,053	0.6%
Other post employment benefits	6,696,919	10.6%	1,453,547	2.5%
Due to State	<u>1,073,131</u>	1.7%	-	0.0%
Total	\$ 63,345,905	98%	\$ 58,587,863	100%

As of September 1, 2011, the City's assigned Moody's general obligation bond rating was Caa1, and its assigned Standard & Poor's bond rating was C, which within the industry is deemed to be "junk bond" status. Accordingly, both Moody's and Standard & Poor's placed the City on 'negative' and 'developing' status, respectively, as a result of the City's financial challenges.

Capital Assets

The City of Central Falls has \$27,694,369 invested in capital assets, net of depreciation. Only capitalized assets with an original cost of \$5,000 or greater are included. The straight-line/unrecovered cost method was used to calculate annual depreciation.

Since July 1, 2001 infrastructure assets, such as sidewalks, water mains, drainage systems and road improvements, acquired by the City have been capitalized and reported within the financial statements. All pre-existing infrastructure assets (such as sidewalks, curbs, drainage systems and road improvements) have been added and began appearing in the City's financial statements for the period ending June 30, 2007.

Independent Audit

State statutes and the City Charter require an annual audit by independent certified public accountants. The accounting firm of Braver PC provided this service for the purpose of issuing basic financial statements and supplementary information for the year ended June 30, 2011. In addition to meeting the requirements set forth in state statutes, the audit is also designed to meet the requirements of the federal Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996 and related OMB Circular A-133. The auditors' reports related specifically to the single audit are contained in a separate document.

Receivership

On May 19, 2010 the City filed a Petition for Appointment of Receiver with the Rhode Island Superior Court citing fiscal insolvency due to revenue shortfalls and state budget cuts, along with unaffordable collective bargaining agreements and pension obligations. On the same day, a Superior Court judge appointed Jonathan Savage, Esq. as temporary receiver of the City with oversight over all of the City's assets, effects, property and business ("Judicial Receiver").

On June 11, 2010 the State General Assembly passed Chapter 24/27 of the Public Laws of 2010 entitled "An Act Relating to Cities and Towns -- Providing Financial Stability" and codified as R.I.G.L. § 45-9-1 *et seq.* (the "Act"), providing a mechanism for State intervention in the finances of municipalities in financial distress including, but not limited to, review of such finances and possible control by the state Department of Revenue. The Act applied retroactively to May 15, 2010. In response to the Act, the City and State negotiated a Consent Order which was filed with the state Superior Court on June 18, 2010. The City withdrew its Petition for Appointment of Receiver and, in accordance with the terms of the Act, entered into a transition period during which control of the City's finances would shift from the Temporary Receiver to a non-judicial state-appointed receiver.

On July 16, 2010, the state Director of Revenue appointed retired Superior Court Judge Mark Pfeiffer, Esq. as receiver of the City (the "State Receiver"). Under the provisions of the Act, the State Receiver has the authority to exercise any function or power of any municipal officer of the City and the power to file for bankruptcy.

Bankruptcy

On January 31, 2011, Governor Chafee announced the appointment of former Supreme Court Justice Robert G. Flanders, Jr. as the State appointed receiver for the City of Central Falls. Receiver Flanders filed for Chapter 9 Federal Bankruptcy protection on behalf of the City on August 1, 2011.

The City submitted a five-year fiscal plan as part of the plan of debt adjustment to the federal bankruptcy court on September 22, 2011. The Receiver also signed five (5) year contracts with the following three unions on November 23, 2011: RI Council 94, AFSME, AFL-CIO Local 1627; Local 1485 International Association of Fire Fighters AFL-CIO; and Fraternal Order of Police Lodge 2. The Receiver also signed a Settlement Agreement with the City's retirees and is seeking to bring the Central Falls School District including Local 1567 Rhode Island Federation of Teachers American Federation of Teachers AFL-CIO and the Rhode Island Council 94, AFSCME, AFL-CIO Local 1627 into the receivership and Chapter 9 federal bankruptcy proceedings.

Acknowledgements

The preparation of this report was made possible by the conscientious efforts provided by the entire Finance staff. I appreciate their hard work and dedication throughout this endeavor.

In closing, I would like to express my appreciation to The Receiver's Office and the employees of the City, specifically Gayle Corrigan, Chief of Staff and the Finance Department staff, for their collective support in conducting the financial affairs of the City of Central Falls.

Respectfully submitted,

Linda Dykeman CPA
Finance Director

Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 10,277,790
Due from federal and state governments	3,539,798
Accounts receivable, net	2,072,116
Other receivables, net	389,107
Prepaid expenses	231,684
Other assets	102,206
Capital assets (non-depreciable), net	814,770
Capital assets (net of depreciation), net	26,879,599
TOTAL ASSETS	<u>44,307,070</u>
LIABILITIES	
Accounts payable	6,347,613
Accrued interest payable	229,175
Accrued expenses	723,872
Unearned revenue	969,911
Current portion of long-term liabilities	1,946,062
Net pension obligation	31,205,040
Net OPEB obligation	6,696,919
Long-term liabilities (net)	23,497,884
TOTAL LIABILITIES	<u>71,616,476</u>
NET ASSETS	
Invested in capital assets, net of related debt	6,659,635
Restricted for other purposes	7,044,828
Restricted for permanent trusts	
Expendable	142,138
Non-expendable	37,988
Unrestricted	(41,193,995)
TOTAL NET ASSETS (DEFICIT)	<u>\$ (27,309,406)</u>

CITY OF CENTRAL FALLS

A - 2

**Statement of Activities
For the year ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 4,542,417	\$ 863,361	\$ 557,166		\$ (3,121,890)
Public safety	6,347,094	69,021	498,056		(5,780,017)
Public works	1,446,618		-		(1,446,618)
Public education	54,464,561	1,029,307	51,315,605	\$ 890,906	(1,228,743)
Public Recreation	519,331		23,698		(495,633)
Contingency	89,842				(89,842)
Employee benefits	3,610,465				(3,610,465)
Retirement	4,056,604				(4,056,604)
Capital outlays	1,217,878			\$ 2	(1,217,876)
Debt service interest	989,090				(989,090)
Totals	\$ 77,283,900	\$ 1,961,689	\$ 52,394,525	\$ 890,908	(22,036,778)
General revenues:					
Property taxes					12,403,485
Grants and contributions not restricted to specific programs					2,395,363
Investment earnings					14,776
Miscellaneous					1,018,782
					<u>15,832,406</u>
					(6,204,372)
					<u>(21,105,034)</u>
					<u>\$ (27,309,406)</u>

See Notes to Financial Statements

Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Channel One	School Unrestricted Fund	School Construction	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 1,183,800	\$ -	\$ 3,694,565	\$ 3,422,702	\$ 1,976,723	\$ 10,277,790
Due from federal and state governments	341,443	19,083	-		3,179,272	3,539,798
Accounts receivable, net	2,072,116					2,072,116
Other receivables, net	51,178	1,492	314,005		22,432	389,107
Prepaid expenses	-		-		231,684	231,684
Due from other funds	2,639,281	1,883,047	1,099,621		1,792,366	7,414,315
TOTAL ASSETS	\$ 6,287,818	1,903,622	5,108,191	3,422,702	\$ 7,202,477	\$ 23,924,810
LIABILITIES AND FUND BALANCES (DEFICITS)						
Liabilities:						
Accounts payable	\$ 1,363,895	\$ 29,882	\$ 3,796,411	\$ 173,206	\$ 984,219	\$ 6,347,613
Accrued expenses	613,715	4,188				617,903
Accrued compensated absences	-		105,969			105,969
Cash overdraft	-		-			-
Due to other funds	2,803,343	1,873,741	-		2,737,231	7,414,315
Unearned revenue	1,991,880				441,708	2,433,588
TOTAL LIABILITIES	6,772,833	1,907,811	3,902,380	173,206	4,163,158	16,919,388
FUND BALANCES (DEFICITS):						
Nonspendable	-				269,672	269,672
Restricted	-		1,205,811	3,249,496	2,769,647	7,224,954
Committed	608,034					608,034
Unassigned	(1,093,049)	(4,189)				(1,097,238)
TOTAL FUND BALANCES (DEFICITS)	(485,015)	(4,189)	1,205,811	3,249,496	3,039,319	7,005,422
TOTAL LIABILITIES AND FUND BALANCES (DEFICITS)	\$ 6,287,818	\$ 1,903,622	\$ 5,108,191	\$ 3,422,702	\$ 7,202,477	

Amounts reported for governmental activities in the statement of net assets differ because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	27,694,369
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(63,345,905)
Unearned revenues (net of an allowance for uncollectibles) are recorded in the funds, but are not deferred under the measurement focus employed in the Statement of Net Assets	1,463,677
Deferred bond issuance costs and other debt charges resulting from issuance of bonds. These charges have been included in the statement of net assets.	102,206
Accrued interest on long-term liabilities have been included in the governmental activities in the Statement of Net Assets	(229,175)
Net Assets of Governmental Activities (A-1)	\$ (27,309,406)

CITY OF CENTRAL FALLS

B - 2

**Statement of Revenues, Other Financing Sources, Expenditures,
Other Financing Uses and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011**

	General Fund	Channel One	School Unrestricted Fund	School Construction	Other Governmental Funds	Total Governmental Funds
REVENUES						
General property taxes	\$ 12,080,003					\$ 12,080,003
Interest and investment income	2,037	\$ 1	\$ 7,041		\$ 5,697	14,776
Intergovernmental	2,395,363	260,022	42,646,162		11,408,556	56,710,103
Fees/Non-tax income	721,385	35,803				757,188
Departmental revenue	169,844	5,350				175,194
Other revenues	175,329	111,826	32,734		698,893	1,018,782
Total Revenues	15,543,961	413,002	42,685,937	\$ -	12,113,146	70,756,046
EXPENDITURES						
Current:						
General government	2,815,712	544,542			288,363	3,648,617
Public safety	5,798,221				219,852	6,018,073
Public works	1,178,985					1,178,985
Public education	210,592		42,578,384		10,930,343	53,719,319
Public recreation	162,244				18,366	180,610
Contingency	154,842					154,842
Employee benefits	3,610,465					3,610,465
Retirement	170,455					170,455
Debt Service:						
Principal and interest	2,203,829			85,000		2,288,829
Capital:						
Capital and special appropriations	-		1,186,294	565,512	161,688	1,913,494
Total Expenditures	16,305,345	544,542	43,764,678	650,512	11,618,612	72,883,689
Excess of revenues over (under) expenditures before transfers	(761,384)	(131,540)	(1,078,741)	(650,512)	494,534	(2,127,643)
Other financing sources/uses						
Payments made by State for receivership costs	1,073,131				-	1,073,131
Transfers in	1,252,310				5,332	1,257,642
Transfers out	-				(1,257,642)	(1,257,642)
Net other sources/uses	2,325,441	-	-	-	(1,252,310)	1,073,131
Excess (deficiency) of revenues and other sources over expenditures and other financing uses	1,564,057	(131,540)	(1,078,741)	(650,512)	(757,776)	(1,054,512)
Fund balance - beginning of the year- restated	(2,049,072)	127,351	2,284,552	3,900,008	3,797,095	8,059,934
Fund balance (deficit) - end of the year	\$ (485,015)	\$ (4,189)	\$ 1,205,811	\$ 3,249,496	\$ 3,039,319	\$ 7,005,422

**Reconciliation of the Statement of Revenues, Other Financing Sources,
Expenditures, Other Financing Uses and Changes in Fund Balances
of Governmental Funds (B-2) to the Statement of Activities (A-2)
For the year ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds (B-2)	\$ (1,054,512)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and loss on disposals exceeded capital outlays in the current period.</p>	
	(781,137)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences.</p>	
	(4,758,042)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.</p>	
	323,482
<p>Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
	<u>65,837</u>
Change in Net Assets of Governmental Activities in the Statement of Activities (A-2)	<u><u>\$ (6,204,372)</u></u>

CITY OF CENTRAL FALLS

C - 1

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Pension Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 659,675	\$ 200,266
Investments:		
Equity securities	23,024	
Group annuity contracts	4,902,299	
Other receivables	32,977	2,027
Accrued interest receivable	-	
TOTAL ASSETS	<u>\$ 5,617,975</u>	<u>\$ 202,293</u>
LIABILITIES	<u>-</u>	<u>\$ 202,293</u>
NET ASSETS		
<i>Held in Trust for pension benefits</i>	<u>\$ 5,617,975</u>	

See Notes to Financial Statements

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2011

	<u>Pension Trust Funds</u>
ADDITIONS:	
Contributions	\$ 437,584
Investment income	248,248
Other income	502
DEDUCTIONS:	
Trust expenses	3,128,836
OTHER FINANCING SOURCES:	
Transfers out	-
CHANGE IN NET ASSETS	<u>(2,442,502)</u>
Net Assets - beginning	8,060,477
Net Assets - ending	<u><u>\$ 5,617,975</u></u>

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Central Falls was founded in 1895. The City is governed largely under the Home Rule Charter, which was revised on June 19, 2007. In some matters, including the issuance of short and long-term debt, the City is governed by the general laws of the State of Rhode Island. The City operated under a Mayor/City Council form of Government Revenue. Pursuant to Chapter 9 bankruptcy protection proceedings, a Receiver has been appointed for the City of Central Falls. The Receiver has the authority to exercise any function or power of any municipal officer of the City. The City provides the following services as authorized by its charter: Public Safety (police, fire, traffic safety, inspections, zoning and building) Public Works (recreation, sanitation, highway and streets, engineering and building maintenance) Public Recreation, Schools, and General Administrative Services.

The City complies with generally accepted accounting principles (GAAP). Generally accepted accounting principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

As a general rule the effect of Inter-fund activity has been eliminated from the government-wide financial statements.

Recently Issued Accounting Standards

The following new accounting pronouncements were implemented in the year ended June 30, 2011:

- ✓ GASB Statement No. 58 – Accounting and Financial Reporting for Chapter 9 Bankruptcies, effective for the Town's fiscal year ending June 30, 2011.
- ✓ GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, effective for the City's fiscal year ending June 30, 2011. The adoption of this Statement required the reclassification of fund balance reporting on the City's financial position for governmental funds.
- ✓ GASB Statement No. 59 –Financial Instruments Omnibus, effective for the City's fiscal year ending June 30, 2011. The adoption of this Statement did not have an impact on the City's fiscal 2011 financial statements.

The City will adopt the following new accounting pronouncements in future years:

- ✓ GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangement, effective for the City's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 61– The Financial Reporting entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, effective for the City's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the City's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the City's fiscal year ending June 30, 2013

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- ✓ GASB Statement No. 64 – Derivative Instruments : Application of Hedge Accounting Termination Provisions – amendment of GASB Statement No. 53, effective for the City's fiscal year ending June 30, 2012.

The impact of these pronouncements on the City's financial statements has not been determined.

Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 39. Under GASB Statement No. 39, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate entities that meet any one of the following three tests:

Test 1 - The primary government appoints the voting majority of the board of the potential component unit and

- is able to impose its will on the potential component unit and/or
- is in a relationship of financial benefit or burden with the potential component unit;

Test 2 - The potential component unit is fiscally dependent upon the primary government; or

Test 3 - The financial statements would be misleading if data from the potential component unit were not included.

The following entities were considered for classification as component units for fiscal year 2011:

- Central Falls Redevelopment Agency
- Central Falls School Department

Although these entities meet certain criteria of the tests previously listed, they are deemed not to have separate legal status apart from the City. As a result, the financial data of the above entities have been included as non-major and major special revenue funds within the City's financial statements.

The Central Falls School District was previously reported as a component unit of the State of Rhode Island. Effective for fiscal year 2011, it was determined that the Central Falls School Department should be included as a Department of the City of Central Falls. The effect of this restatement is described in note 16.

- Central Falls Housing Authority
- Central Falls Detention Facility Corporation

Since these entities do not meet any one of the above three tests, they have not been included in the financial reporting entity.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- (a) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- (b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes.

Capital Project Funds

Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanent Funds

The Permanent Funds account for assets held by the City pursuant to trust agreements. The principle portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Funds

Proprietary funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Fiduciary Funds (Not included in government wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes two agency funds. Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The agency funds are as follows:

- Unclaimed Estates
- School Funds

Pension Trust Funds

Pension trust funds are used to account for resources legally held in trust for the payment of pension benefits.

Major and Non-Major Funds

The funds are further classified as major or non-major as follows:

	<u>Fund</u>	<u>Brief Description</u>
Major:	General:	See above for description
	Capital:	School Construction
	Special Revenue:	School Unrestricted Channel One
	Proprietary Fund:	See above for description

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Major and Non-Major Funds (Continued)

Non-Major:

Special Revenue Funds:	School Non-Major, CDBG Revolving, CDBG 2007, CDBG 2009, CDBG 2010, UDAG Revolving Loan Fund, Home, ED, DEM LRG Grant, EDI Community Center, EEC Block Grant, Grant In Aid, Champlin Grant, RI Foundation, Recreation Summer Lunch Program, Community Activities, Community Policing, Police C.A.R.E., DARE Program, Animal Control, Police Special Accounts, PD Tech Grant, 2010 JAG Grant, JAG Grant, Kennedy Grants, Fire Prevention, Public Rescue, Capital School Reserve, Homeland Security, Rural Grants, Emergency Equipment Replacement, Recycling Account, Byrne Grant.
Capital Project Funds:	Property Development, Recreation Capital, Capital Reserve, Capital Lease, \$10 Million Muni Bond.
Permanent Funds:	Lysander Flag Memorial Fund, Historic Trust.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities both governmental and business-like activities are presented using the economic resources measurement focus as defined in item (b) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- (a) All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. The City considers property taxes as available if they are collected within 60 days after year end.
- (b) The proprietary fund and pension trust funds utilize "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.
- (c) Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds, agency funds, and private purpose trust funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided and operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal operation.

Budgets

Budgets were adopted in accordance with Home Rule Charter requirements. Annual appropriated budgets are adopted for the general fund. Generally annual appropriations lapse at fiscal yearend. Project-length financial plans are adopted for all capital projects funds.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent years.

Assets, Liabilities, and Fund Equity

Cash

Cash and cash equivalents are carried at cost. Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased. Substantially, all of the City's cash and cash equivalents are held in public deposit institutions, except for \$1,150 in unsecured petty cash.

Investments

The City invests in various types of investments, which are stated at fair value. There are no investments reported at amortized cost. State statutes authorize the City to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The allowance for uncollectible property taxes amounted to \$850,000 at June 30, 2011. Major receivable balances for the governmental activities include property taxes (84% of balance) and other receivables (16% of balance).

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property taxes and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Accounts Payable

Payable balances consist primarily of payables to vendors.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Property Taxes

The City is permitted by State Law to levy property taxes. The City's property taxes are levied on July 1 on assessed value of property as listed on the previous December 31. Taxpayers have an option to pay quarterly installments. Property taxes attach as an enforceable lien on real and personal property as of the date of assessment. Taxes assessed on motor vehicles and trailers represent an excise tax and do not constitute a lien. Uncollected property taxes are stated at the amounts originally assessed and do not include interest or penalties which may be assessed at the time of collection. The tax rate of the city is established by the City Council. Property tax revenues are recorded in accordance with the modified accrual basis of accounting. In May 2002, the City Council passed an ordinance authorizing the levy of a non-utilization penalty tax in accordance with RI General Laws Chapter 44-5.1.

Deferred Financing costs

Deferred financing costs incurred in connection with bonds payable are amortized on the straight-line basis over the terms of the related debt.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, long-lived assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of five years.

Infrastructure assets, (such as sidewalks, curbs, drainage systems, and road improvements) acquired by the City have been capitalized and reported within the financial statements.

Depreciation of all exhaustible capital assets is recorded, as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land	Not depreciated
Construction in progress	Not depreciated
Buildings and land improvements	20-45 years
Motor vehicles	5-6 years
Furniture & equipment	5-10 years
Infrastructure	20 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Unearned Revenues

Funds that are received in advance of being due or receivables which will be collected and included in revenues of future fiscal years are deferred. In the general fund, unearned revenues relate to property tax receivables which are assessed on December 31.

Interfund Transactions

Interfund activity within and among the funds of the City have been classified and reported as follows:

- Reciprocal interfund activities:
 - Interfund loans are reported as interfund receivables in the lending fund and interfund payables in borrower funds.
 - Interfund services are reported as revenues in the seller fund and as expenditures or expenses in the purchasing fund.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Transactions (Continued)

- Non-reciprocal interfund activities:
 - Interfund transfers are reported in governmental funds as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.
 - Interfund reimbursements are repayments from the fund responsible for particular expenditures or expenses to other funds that initially paid for them. Reimbursements are not displayed separately within the financial statements.

Inter-fund transfers totaled \$1,257,642 for the year, representing transfers to the general fund from Other Governmental Funds of \$1,252,310 and transfers between Other Governmental Funds of \$5,332.

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- (a) Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- (c) Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements

Governmental fund equity is classified as fund balance. In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balance is classified as non-spendable, restricted, committed, assigned or unassigned. These categories are defined below:

- Non-spendable Fund Balance – includes the amount of fund balance that cannot be spent because it is either (a) not in spendable form or (b) legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash.
- Restricted Fund Balance – includes amounts that are restricted to specific purposes. Fund balance is reported as restricted when constraints placed in the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

- **Committed Fund Balance** – includes amounts that can be used only for the specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Receiver currently has the highest level of decision-making authority.
- **Assigned Fund Balance** – includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The City does not presently have a spending policy that has delegated this authority.
- **Unassigned Fund Balance** – is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The unassigned fund balance may also include negative balances for any governmental funds if the expenditures exceed amounts restricted, committed, or assigned for specific purposes.

Compensated Absences

Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination of death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rates of pay. The amount recorded is the unused days earned at the current rate of pay. For governmental activities the general fund is used to record this liability if it is expected to be liquidated with expendable available resources.

Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this \$63,345,905 difference are as follows:

Bonds payable	\$ 20,820,000
Net pension benefit obligation	31,205,040
Net other post-employment benefit obligation (City)	2,315,861
Compensated absences (City)	1,812,174
Due to State	1,073,131
Claims payable	130,000
Capital lease payable (City)	122,151
Net other post-employment benefit obligation (School)	4,381,058
Compensated absences (School)	1,393,907
Capital lease payable (School)	<u>92,583</u>
Total	<u>\$ 63,345,905</u>

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense.” The details of this \$781,137 difference are as follows:

Capital outlays (net of disposals).....	\$ 1,881,910
Depreciation expense.....	<u>(2,663,047)</u>
Net adjustment	<u>\$ (781,137)</u>

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.” The details of this \$4,758,042 difference are as follows:

Debt increased.....	\$6,364,180
Principal repayments.....	<u>1,606,138</u>
Net adjustment	<u>\$4,758,042</u>

Another element of that reconciliation states that “Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$65,837 difference are as follows:

Change in accrued interest and bond issuance costs	<u>\$65,837</u>
--	-----------------

Another element of that reconciliation states that, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.” The details of this \$323,482 difference are as follows:

Deferred revenue - beginning.....	\$ (1,140,195)
Deferred revenue – ending.....	<u>1,463,677</u>
Net difference	<u>\$ 323,482</u>

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. BUDGETARY AND LEGAL COMPLIANCE

Budgets

All agencies of the City submit requests for appropriation to the City's finance director (currently to the Receiver). These requests include information on the past years, current year's estimates and requested appropriations for the next fiscal year. The City's Council (currently the Receiver) holds public hearings.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of funds are recorded in order to preserve that portion of the applicable appropriation, is employed in the General Fund Budget. Encumbrances do not constitute expenditures or liabilities.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2011, expenditures exceeded budget at the department level as follows:

<u>Department</u>	<u>Excess</u>
Personnel	\$ 2,843
Tax Assessor	\$ 8,054
Finance	\$ 77,426
City Property	\$ 126,109
Fire Department	\$ 171,605
Municipal Court	\$ 2,172
Highway	\$ 63,504
Contingency	\$ 42,842

Bonds and Notes Escrow System

The Rhode Island, General Assembly, when creating the Central Falls Review Commission, authorized an escrow system to receive and hold revenues to pay bonds, notes and related interest. At June 30, 2011, the fund had a balance of \$1,710. In accordance with state law, the Central Falls Review Commission was inactivated in October 2000, after the City met the statutory requirements of: (1) completing a period of three consecutive fiscal years in which no operating deficit had been incurred; and (2) the City's total debt no longer exceeded one hundred percent (100%) of the City's revenues from its own sources.

Maximum Aggregate Indebtedness

The City's legal debt limit as set forth by Rhode Island General Law 45-12-2 is limited to three percent of total assessed property value. As of June 30, 2011, the city was in compliance with this law.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

3. DEPOSITS AND INVESTMENTS

Deposits

Deposits are in various financial institutions and are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as "Cash" and includes \$1,150 of petty cash.

At June 30, 2011, the carrying amount of the City's deposits was \$11,137,731 and the bank balance was \$13,315,964, of which \$1,827,473 was covered by federal depository insurance. The City has entered into collateralization agreements with various financial institutions and as a result, \$9,310,194 of the uninsured balance at June 30, 2011 was collateralized by securities held by the financial institutions and/or third parties in the name of the City.

Investments

At June 30, 2011 the City's investments totaled \$4,925,323 (including those held in Fiduciary Funds) and consisted of the following:

	<u>Fair Value</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Rating</u>
Equity securities	\$23,024	n/a	n/a	n/a
Group annuity contracts	\$4,902,299	n/a	n/a	n/a

Interest Rate Risk

As noted above, the City's investments are held primarily in group annuity contracts and equity securities. These investments do not specify an interest rate rather the rate of return is dependent on operating results and economic conditions.

Concentration of Credit Risk

At June 30, 2011 the City had a diversified portfolio and was not deemed to be concentrated in any one investment category. Although the investments were held in group annuity contracts, equity securities and corporate bonds, these investments were in a wide range of companies and various industries enabling the City to minimize its risk.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of financial institution failure, the City's deposits and/or investments may not be returned. The City does not believe that it has a significant custodial credit risk as substantially all investments securities are registered and held in the name of the City. The City also ensures that all deposits be placed in financial institutions that are FDIC insured, and rated "well capitalized".

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

4. FIXED ASSETS

Activity for governmental activity capital assets is summarized below:

	June 30, 2010			Balances
	<u>As restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Governmental activity fixed assets:				
Land (not being depreciated)	\$ 670,850	\$ -	\$ -	\$ 670,850
Buildings and land improvements	39,062,395	565,512	-	39,627,907
Buildings and land improvements- School	4,343,353	-	-	4,343,353
Motor vehicles	3,273,944	9,163	30,000	3,253,107
Vehicles- School	187,345	-	-	187,345
Equipment	1,683,630	120,941	-	1,804,571
Furniture and equipment - School	1,321,579	1,186,294	-	2,507,873
Construction In Progress	-	-	-	-
Infrastructure	12,306,415	-	-	12,306,415
Total cost	<u>62,849,511</u>	<u>1,881,910</u>	<u>30,000</u>	<u>64,701,421</u>
Less: accumulated depreciation				
Buildings and land improvements	(17,404,848)	(1,799,975)	-	(19,204,823)
Buildings and land improvements- School	(1,370,684)	(210,821)	-	(1,581,505)
Motor vehicles	(2,662,910)	(191,784)	(30,000)	(2,824,694)
Vehicles - School	(187,346)	-	-	(187,346)
Equipment	(1,083,211)	(232,445)	-	(1,315,656)
Furniture and equipment - School	(833,261)	(124,071)	-	(957,332)
Infrastructure	(10,831,745)	(103,951)	-	(10,935,696)
Total accumulated depreciation	<u>(34,374,005)</u>	<u>(2,663,047)</u>	<u>(30,000)</u>	<u>(37,007,052)</u>
Net fixed assets	<u>\$ 28,475,506</u>	<u>\$ (781,137)</u>	<u>\$ -</u>	<u>\$ 27,694,369</u>

Infrastructure assets, (such as sidewalks, curbs, drainage systems, and road improvements) have been capitalized and reported within the financial statements.

Depreciation expense was charged to the following functions/programs of the City:

Governmental activities:	
General government.....	\$ 146,094
Public safety.....	329,021
Public works.....	267,633
Public education.....	1,581,578
Public recreation.....	338,721
Total.....	<u>\$2,663,047</u>

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

5. UNEARNED REVENUES

General Fund unearned revenues relate to revenue that is measurable but not available. General Fund unearned revenues are summarized as follows:

Property taxes receivable, net.....	\$2,072,116
Less: current year 60 day accrual	<u>(608,438)</u>
Total unearned tax revenue.....	<u>\$1,593,545</u>

General fund unearned revenue also includes \$526,254 of 2011 tax levy (fiscal 2012 revenue) collected during fiscal year ended June 30, 2011.

6. NOTES PAYABLE

On November 3, 2010 the City of Central Falls entered into \$1,500,000 of Tax Anticipation Notes (TAN) with an interest rate of 6.00%. These notes matured and were repaid on June 30, 2011.

<u>Balance</u> <u>7/1/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/2011</u>
<u>\$0</u>	<u>\$1,500,000</u>	<u>\$1,500,000</u>	<u>\$0</u>

7. LONG-TERM DEBT

General Obligation Bonds and Other Debt

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Schedule of long-term debt by purpose is as follows:

	<u>Amount</u>	<u>Percent</u>
General obligation bonds	\$ 6,670,000	11%
General obligation municipal bonds	7,985,000	13%
RIHEBC revenue bonds	6,165,000	10%
Capital Leases.....	214,734	0%
Claims	130,000	0%
Net pension obligation.....	31,205,040	49%
Other post-employment benefit.....	2,315,861	4%
Other post-employment benefits – school.....	4,381,058	7%
Due to State	1,073,131	2%
Compensated absence	1,812,174	3%
Compensated absences – school	1,393,907	2%
Total.....	<u>\$63,345,905</u>	<u>100%</u>

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

7. LONG-TERM DEBT (Continued)

General Obligation Bonds and Other Debt (Continued)

Schedule of long-term bond and lease requirements (excluding School):

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$1,563,747	\$1,092,882	\$2,656,629
2013	1,605,685	1,008,469	2,614,154
2014	1,662,719	920,722	2,583,441
2015	1,670,000	830,198	2,500,198
2016.....	1,725,000	737,179	2,462,179
2017-2021	8,035,000	2,114,415	10,149,415
2022-2026	3,245,000	660,371	3,905,371
2027-2028	1,435,000	60,234	1,495,324
Total	<u>\$20,942,151</u>	<u>\$7,424,559</u>	<u>\$28,366,710</u>

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Vehicles and equipment.....	\$1,135,410
Other assets	104,080
Less: accumulated depreciation	<u>(1,239,490)</u>
Total	<u>\$ 0</u>

The School Department entered into capital lease agreements for the acquisition of eight copiers. The copiers are reported as furniture and equipment in the statement of net assets at a cost of \$125,494.

Amortization of assets acquired under capital leases is included in depreciation expense for the year ended June 30, 2011.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

7. LONG-TERM DEBT (Continued)

Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011 were as follows:

<u>Year Ending June 30:</u>	<u>City</u>	<u>School</u>	<u>Total</u>
2012.....	\$44,855	\$38,220	\$83,075
2013.....	44,855	32,340	77,195
2014.....	44,855	32,340	77,195
2015.....	0	5,390	5,390
Total minimum lease payments.....	134,565	108,290	242,855
Less: amount representing interest.....	12,414	15,707	28,121
Present value of minimum lease payments	\$122,151	\$92,583	\$214,734

As of June 30, 2011 the School Department is committed to a lease for classroom space. The lease is considered an operating lease. Lease expenditures for the year ended June 30, 2011 for classroom space amounted to \$125,000.

The future minimum rental commitments under the operating lease are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Lease Payment Requirements</u>
2012	\$125,000

Due to State

Due to State represents amount due to the State of Rhode Island for receivership costs paid by the State. There is pending legislation which would allow the City to repay the State over a period of time for these costs.

(CONTINUED)

CITY OF CENTRAL FALLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

7. LONG-TERM DEBT (Continued)

General long-term debt consists of the long-term liabilities that are not recorded as fund liabilities. Amounts are as follows:

	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Outstanding June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2011</u>	<u>Current Portion</u>
General obligation bonds	7/15/1999	5/15/2020	\$ 12,000,000	5.0%-6.25%	\$ 7,250,000		\$ 580,000	\$ 6,670,000	\$ 610,000
General obligation refunding bonds	8/15/2003	11/15/2010	4,595,000	0.95%-3.35%	275,000		275,000	-	-
General obligation municipal bonds	10/1/2007	7/15/2027	8,700,000	4.0%-5.5%	8,275,000		290,000	7,985,000	305,000
RIHEBC revenue bonds	8/15/2007	4/1/2027	1,300,000	4.25%-5.00%	1,215,000		50,000	1,165,000	50,000
RIHEBC revenue bonds	6/29/2010	4/1/2020	750,000	5.39%	750,000			750,000	85,000
RIHEBC revenue bonds	6/30/2010	4/1/2020	4,250,000	6.00%	4,250,000			4,250,000	475,000
Capital leases	4/29/2006	4/29/2011	10,182	8.25%	2,000		2,000	-	-
Capital leases	4/10/2009	7/5/2013	201,501	5.00%	159,053		36,902	122,151	38,747
Capital leases - school	8/1/2009	8/21/2014	215,815	10.4-10.6%	136,037		43,454	92,583	30,129
Total bonds and leases					22,312,090	-	1,277,356	21,034,734	1,593,876
Claims payable					195,000		65,000	130,000	65,000
Accrued compensated absences					1,926,782		114,608	1,812,174	181,217
Accrued compensated absences-school					1,543,081		149,174	1,393,907	105,969
Net pension obligation					27,318,891	3,886,149		31,205,040	
Due to State						1,073,131		1,073,131	
Other Post-Employment benefits - school					3,838,472	542,586		4,381,058	
Other Post-Employment Benefits					1,453,547	862,314		2,315,861	
Total long-term debt					\$ 58,587,863	\$ 6,364,180	\$ 1,606,138	\$ 63,345,905	\$ 1,946,062

Total interest paid on general long-term debt for the year ended June 30, 2011 was approximately \$890,000.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

8. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2011 were as follows:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 2,639,281	\$ 2,803,343
Channel One	1,883,047	1,873,741
School Fund	1,099,621	-
Other Governmental Funds	1,792,366	2,737,231
	<u>\$ 7,414,315</u>	<u>\$ 7,414,315</u>

9. FUND BALANCES (DEFICITS)

As stated in Note 1, Fund Balance may be classified as one of five categories: Nonspendable, Restricted, Committed, Assigned, or Unassigned.

At June 30, 2011 **Nonspendable Fund Balance** consisted of the following:

Prepaid Expenditures	\$	231,684
Trust.....		<u>37,988</u>
Total Nonspendable fund balance		<u>\$ 269,672</u>

At June 30, 2011 **Restricted Fund Balance** consisted of the following:

School fund	\$1,205,811
School Construction.....	3,248,496
School non-major funds.....	650,037
Community Block Development Grant.....	658,944
Revolving Loan Fund.....	148,204
Home.....	59,016
ED.....	395,696
Grant In Aid.....	56,368
Champlin Grant.....	95
Community Policing.....	3
Police C.A.R.E.....	9,706
DARE Program.....	3
Police Special Accounts.....	56,610
Fire Prevention.....	7,011
Public Rescue.....	218,976
Rural Grants.....	49
Emergency Equipment Replacement.....	144,400
Recycling	24
Property Development.....	160,019
Recreation Capital.....	881
Capital Reserve.....	2,902
Capital Lease.....	96,553
Historic Trust.....	45,392
Lysander Flag Memorial Fund.....	58,758
Total restricted fund balances.....	<u>\$ 7,224,954</u>

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

9. FUND BALANCES (DEFICITS) – (Continued)

At June 30, 2011 **Committed Fund Balance** consisted of the following:

Committed for sixty day property tax collections	
Budgeted in subsequent fiscal year	<u>\$608,034</u>
Total Committed fund balance	<u>\$ 608,034</u>

10. EMPLOYEE RETIREMENT SYSTEMS

The City participates in the following retirement plans.

- (a) Municipal Employees' Retirement System of Rhode Island (City), an agent multiple-employer Public Employee Retirement System (PERS), which covers substantially all of the City's employees except police officers, firefighters, and all School Department employees.
- (b) *Police and Fire Private Pension Plan (John Hancock)*
- (c) *City Police and Fire Pension Fund (1%)*
- (d) *Employees' Retirement System of the State of Rhode Island (ERS) (School)* a cost sharing multiple employer plan which covers all certified school personnel.
- (e) *Municipal Employees' Retirement System of Rhode Island (School)*

The City provides retirement benefits for police officers and firefighters through its participation in two single-employer defined pension plans, which are reported as pension trust funds. As noted in Note 14, subsequent to June 30, 2011 the City filed for bankruptcy, canceling these two plans and negotiated substantial reductions in pension benefits for active employees, retirees, widows and alternate payees. Eligibility for retirement and disability benefits were significantly changed and new rules were implemented for determining continued eligibility for disability pension payments.

(a) ***Municipal Employees' Retirement System of Rhode Island (City)***

Plan Description

The City's defined benefit pension plan, Municipal Employee's Retirement System of the State of Rhode Island (MERS), provides retirement and disability benefits, annual cost-of-living adjustments, death and disability benefits to plan members and beneficiaries. MERS is an agent multiple-employer Public Employee Retirement System that acts as a common investment agent for participants. The Municipal Employee's Retirement System of the State of Rhode Island issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Rhode Island Employee Retirement Board, 50 Service Avenue, Warwick, RI 02886, or by accessing their website at www.ersri.org.

Funding Policy

MERS members are required to contribute 6.0% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 8.38% of annual covered payroll. The contribution requirements of plan members and the City are established annually and may be amended by State Statute.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT SYSTEMS – (Continued)

(a) Municipal Employees' Retirement System of Rhode Island (City) – (Continued)

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the General Municipal Employee's Pension Plan with a valuation date of June 30, 2010, which is the most recent report available from the State who administers this plan, as revised to reflect pension reform legislation enacted on November 18, 2011.

Actuarial Value of Assets	\$5,176,066
Actuarial Accrued Liability	\$6,906,941
Unfunded (excess) actuarial accrued Liability	\$1,730,875
Funded Ratio	75%
Annual Covered Payroll	\$2,361,819
UAAL (excess) as percentage of payroll	73%

Annual Pension Cost

For 2011, the City's annual pension cost of \$176,784 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal cost method with frozen initial liability. Significant actuarial assumptions included (a) a net investment return of 8.25 percent compounded annually, (b) projected salary increases at an annual service related component plus a 3% inflation component compounded annually, (c) 3 percent per year cost-of-living adjustments, (d) mortality rates based on the 1994 Uninsured Pensioner Mortality Table and (e) a retirement age of 60 or completion of service requirements, if later. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. MERS unfunded actuarial accrued liability is being amortized over a closed amortization period of 30 years. As of June 30, 2011 there were 18 years remaining.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$176,784	100%	\$0
6/30/10	\$206,631	100%	\$0
6/30/09	\$183,695	100%	\$0

Subsequent to June 30, 2011, the State of Rhode Island passed legislation under the Pension Reform Security Act (Act) of 2011. The legislation made changes to the current pension plan provisions noted above and such changes will be effective July 1, 2012.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT SYSTEMS (Continued)

(b) Police and Fire Private Pension Plan (John Hancock)

Plan Description

All full-time non-civilian police and fire employees are eligible and must participate in the private pension plan administered by John Hancock Financial Services, Inc., if hired after July 1, 1972. All civilian police and fire employees are covered by the MERS, noted above. The pension plan provides pension benefits, as well as disability and death benefits. A member may retire after accumulating 20 years of service with the City. Benefits vest after 5 years of service. Employees with 20 years of service are entitled to pension payments equal to 50% of their final base salary for life. They can accrue an additional 2% per year for up to 5 years and then 1% per year thereafter, not to exceed 65% for 30 years of service. The final salary is the salary of the employee during the final year of full-time employment inclusive of base wages, longevity and holiday pay. After retirement, the benefit increases by the same percentage as the salary of an active participant of the same rank.

As of June 30, 2010, employee membership data related to the pension plans is as follows:

Active membership	76
Retirees and beneficiaries	79

Pension provisions include disability and death benefits. Upon the death of a retired police officer or firefighter, 67½ percent of the benefits being paid will continue to their dependent spouse and/or children under age 18.

Funding Policy

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal cost method. Employees of the City are required to contribute 7% of their gross earnings to the pension plan. For the year ended June 30, 2011, employee contributions was \$267,129. The City is required to contribute at an actuarially determined rate; the current rate is 99% of annual covered payroll.

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the Police and Fire Private Pension Plan with a valuation date of June 30, 2010, which was the most recent report available from the plan, until changes made as a result of bankruptcy proceedings described in note 14.

Actuarial Value of Assets	\$ 6,516,889
Actuarial Accrued Liability	\$40,109,123
Unfunded (excess) actuarial accrued Liability	\$33,592,234
Funded Ratio	16.2%
Annual Covered Payroll	\$ 3,289,330
UAAL (excess) as percentage of payroll	1,021%

The City provides retirement benefits for police officers and firefighters through its participation in two single-employer defined pension plans, which are reported as pension trust funds. As noted in Note 14, subsequent to June 30, 2011 the City filed for bankruptcy, canceling these two plans and negotiated substantial reductions in pension benefits for active employees, retirees, widows and alternate payees. Eligibility for retirement and disability benefits were significantly changed and new rules were implemented for determining continued eligibility for disability pension payments.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT PLAN (Continued)

(b) Police and Fire Private Pension Plan (John Hancock) – (Continued)

Annual Pension Cost and Net Pension Obligation

For 2011, the City's annual required contribution was \$2,573,298 for the Police and Fire Pension Plan and actual employer and net pension obligation contributions were \$0. The annual required contribution includes \$727,181 of normal cost, \$185,086 of interest and \$1,661,031 of amortization of unfunded actuarial accrued liability. The required contribution was determined as part of the July 1, 2010 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions included (a) a net investment return of 7.75 percent compounded annually (b) projected salary increases of 3 percent compounded annually, (c) 2.5 percent per year cost-of-living adjustments, (d) mortality rates based on the RP-2000 mortality table projected to 2006 using scale AA with 10-year setback for disableds and (e) retirement after the earlier of age 55 and 10 years of service or age 50 and 20 years of service. Unfunded actuarial accrued liability is being amortized using the weighted average method over a 30 year period assuming a 3 percent per year increase. As of June 30, 2011, there were 22 years remaining.

The City's annual pension cost and net pension obligation for the year ended June 30, 2011 was as follows:

Annual required contribution	\$ 2,573,298
Interest on net pension obligation	1,876,393
Adjustment to annual required contribution.....	<u>(1,653,578)</u>
Annual pension cost.....	2,796,113
Contributions made	<u>(0)</u>
Increase in net pension obligation.....	2,796,113
Net pension obligation, June 30, 2010.....	<u>27,007,639</u>
Net pension obligation, June 30, 2011.....	<u>\$29,803,752</u>

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/11	\$2,796,113	0.00%	\$29,803,752
6/30/10	\$2,796,113	0.00%	\$27,007,639
6/30/09	\$2,694,855	0.00%	\$24,211,526

(c) City Police and Fire Pension Fund (1%)

All police officers and firefighters of the City hired prior to 1972 who have not elected to participate in the City's Police and Fire Pension Fund are covered by a private pension plan which is a cost-sharing single employer plan. Certain retired municipal employees and former employees with vested benefits are also covered by the plan.

Plan Description

The City Police and Fire Pension Fund was established by the Public Laws of Rhode Island, 1925, and was effective for all police and firefighters hired prior to July, 1972.

As of June 30, 2011, employee membership data related to the pension plan is as follows:

Active membership	0
Retirees and beneficiaries	57

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

10. **EMPLOYEE RETIREMENT PLAN (Continued)**

(c) City Police and Fire Pension Fund (1%) (Continued)

Plan Description (Continued)

The pension plan provides pension benefits, as well as disability and death benefits. A police officer is eligible for retirement at age 65, while a firefighter may retire after accumulating 20 years of service with the City. Benefits vest after 5 years of service. Employees eligible for retirement benefits are entitled to pension payments equal to 50% of their final base salary for life. They can accrue an additional 2% per year for the next 5 years and then 1% per year for the next five years thereafter, not to exceed 65% for 30 years of service. The final salary is the salary of the employee during the final year of full-time employment inclusive of base wages, longevity and holiday pay. After retirement, the benefit increases by the same percentage as the salary of an active participant of the same rank.

Funding Policy

Periodic employer contributions to the pension plan for fiscal year ended June 30, 2011 were determined on an actuarial basis using the entry age normal cost method. The normal cost is funded on a current basis. The Rhode Island 1925 law established the employee's contribution at 1% of their annual salary. The City is required to contribute at an actuarially determined rate. Total contributions made during fiscal year 2011 amounted to \$170,455 of which \$170,455 was contributed by the City and \$0 by employees.

Funded Status of Plan

The required supplementary information which follows the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Listed below are the details of the funding progress of the City Police and Fire Pension Fund (1%) with a valuation date of July 1, 2010, which is the most recent report available from the State who administers this plan.

Actuarial Value of Assets	\$ 1,251,926
Actuarial Accrued Liability	\$14,218,372
Unfunded (excess) actuarial accrued Liability	\$12,966,446
Funded Ratio	8.8%
Annual Covered Payroll	\$0
UAAL (excess) as percentage of payroll	N/A

Annual Pension Cost and Net Pension Obligation

For 2011, the City's annual pension cost was \$1,260,491 for the City Police and Fire Pension Plan and actual contributions were \$170,455. The required contribution was determined as part of the July 1, 2010 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions included (a) a net investment return of 7.5 percent compounded annually, (b) 2.5 percent per year cost-of-living adjustments, (c) mortality rates based on the mortality rates based on the RP-2000 mortality table projected to 2006 using scale AA with 10-year setback for disabled and (e) a retirement age of 65 for police officers and age of 60 for firefighters. Unfunded actuarial accrued liability is being amortized over a 15 year period assuming 3% per year increase.

As noted in Note 14, subsequent to June 30, 2011 the City filed for bankruptcy, canceling these two plans and negotiated substantial reductions in pension benefits for active employees, retirees, widows and alternate payees. Eligibility for retirement and disability benefits were significantly changed and new rules were implemented for determining continued eligibility for disability pension payments

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT PLAN (Continued)

(c) City Police and Fire Pension Fund (1%) – (Continued)

Annual Pension Cost and Net Pension Obligation (Continued)

The City's annual pension cost and net pension obligation for the year ended June 30, 2011 was as follows:

Annual required contribution	\$1,265,866
Interest on net pension obligation	23,331
Adjustment to annual required contribution.....	<u>(28,706)</u>
Annual pension cost.....	1,260,491
Contributions made	<u>(170,455)</u>
Increase (decrease) in net pension obligation	1,090,036
Net pension obligation, June 30, 2010	<u>311,252</u>
Net pension obligation, June 30, 2011	<u>\$ 1,401,288</u>

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	\$1,260,491	13.5%	\$ 1,401,288
6/30/10	\$1,260,491	100.0%	\$ 311,252
6/30/09	\$1,260,313	100.8%	\$ 311,079

(d) Employees' Retirement System of the State of Rhode Island (School)

All Central Falls School District's certified school personnel participate in the Employees' Retirement System of the State of Rhode Island (ERS), a cost-sharing multiple-employer defined benefit plan administered by the State of Rhode Island. The payroll for employees covered by ERS for the year ended June 30, 2011 was \$23,757,102, which consisted of \$2,168,757 for employees charged to federal programs and \$21,588,345 for all other employees.

The State of Rhode Island's Employees' Retirement System issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained from the administrative offices of the State of Rhode Island Retirement Board, 50 Service Avenue, Warwick, RI 02886

Plan Description

The following eligibility and benefit provisions are established by Rhode Island General Laws, Title 16, Chapter 16-16. All Central Falls School District certified school personnel are eligible to participate in the System if they are certified by the Board of Regents, engaged in teaching as principal occupation and are regularly employed on at least a half time basis. Superintendents, principals, business agents and other administrators participate as teachers. Employees are vested in their retirement benefits upon completion of 10 years of service.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT PLAN (Continued)

(d) Employees' Retirement System of the State of Rhode Island (School) (Continued)

Retirement Eligibility:

(i) Grandfathered Schedule A members – members with at least 10 years of contributory service at June 30, 2005 and eligible for retirement at September 30, 2009 – are eligible to retire on or after age 60 if they have credit for 10 years of service, or at any age if they have credit for 28 years of service.

(ii) Schedule B members – members with less than 10 years of contributory service as of June 30, 2005 – and members hired on or after that date are eligible for retirement on or after age 65 if they have credit for 10 years of service, or on or after age 62 if they have credit for 29 years of service. In addition, a member who attains age 62 with at least 20 years of service credit may retire with an actuarially reduced retirement benefit. The reduction is based on the difference between 65 and the member's age of retirement.

(iii) Schedule A members who are not grandfathered i.e., members who had at least 10 years of creditable service at June 30, 2005 but who were not eligible to retire on September 30, 2009, will be eligible for retirement at an individually determined age. This age is the result of interpolating between the retirement age under the rules applicable to grandfathered employees in (i) above and the retirement age applicable to members hired after September 30, 2009 in (ii) above. The interpolation is based on service as of September 30, 2009 divided by projected service at the retirement age under (i) above.

Monthly Benefit:

The retirement benefit is a percentage of the member's monthly final average compensation (FAC). For members eligible to retire as of September 30, 2009, their FAC will be based on the highest three consecutive annual salaries. For members not eligible to retire as of September 30, 2009, their FAC will be based on the highest five consecutive years of salary. Monthly benefits are based on one-twelfth of this amount. The percentage is a function of the member's service as described below.

(i) For grandfathered Schedule A members (members with at least 10 years of contributory service at June 30, 2005 and eligible for retirement as September 30, 2009), benefits are based under this schedule (Schedule A):

<u>For Service In:</u>	<u>Years</u>	<u>Benefit Percentage Earned</u>
The first 10 years of service	1-10	1.7% per year
The next 10 years of service	11-20	1.9% per year
The next 14 years of service	21-34	3.0% per year
The next 1 year of service	35	2.0% per year

The maximum benefit is 80% of FAC.

(ii) For Schedule B members (members with less than 10 years of contributory service as of June 30, 2005) and for all future hires, benefits are based on the following schedule (Schedule B):

<u>For Service In:</u>	<u>Years</u>	<u>Benefit Percentage Earned</u>
The first 10 years of service	1-10	1.6% per year
The next 10 years of service	11-20	1.8% per year
The next 5 years of service	21-25	2.0% per year
The next 5 years of service	26-30	2.25% per year
The next 14 years of service	31-37	2.50% per year
The next 1 year of service	38	2.25% per year

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT PLAN (Continued)

(d) Employees' Retirement System of the State of Rhode Island (School)(Continued)

The maximum benefit is 75% of FAC.

(iii) For Schedule A members who are not grandfathered, i.e., members who had at least 10 years of creditable service at June 30, 2005 but who were not eligible to retire on September 30, 2009, benefits are based on Schedule A (under (i) above) for service through September 30, 2009 and on Schedule B (under (ii) above) for service after September 30, 2009. The maximum benefit is 80% of FAC.

Post-Retirement Benefit Increase:

(i) For members with at least 10 years of contributory service as of June 30, 2005 who are retired or eligible to retire as of September 30, 2009, and for all members receiving a disability retirement benefit on that date (Schedule A members): a 3.00% compound increase in their retirement benefit each year, beginning in January of the year in which the member reaches the third anniversary of retirement. This increase is not a function of actual increases in the cost of living.

(ii) For other members (Schedule B members) who retired or were eligible to retire as of June 30, 2010: a compound increase in their retirement benefit each year equal to the increase in the CPI, effective on each anniversary date beginning on the third anniversary of retirement. This increase is limited to 3.00%.

(iii) For other members (Schedule B members) who were not retired or were not eligible to retire as of June 30, 2010: a compound increase in their first \$35,000 of annual retirement benefit each year equal to the increase in the CPI, effective on each anniversary date beginning on the later of the member's third anniversary of retirement and the month following their 65th birthday. This increase is limited to 3.00%. Additionally, the \$35,000 annual COLA limit is applicable for benefits paid in 2010 and would be indexed annually to increase in the same manner as COLAs for Schedule B members (CPI for the year, not greater than 3.0%).

Funding Policy

Covered employees are required by State Statute to contribute 9.5% of their salary to the plan. The State and the School District are required to contribute an amount determined annually by the actuary and as provided by State Statute. The split between State and the School District is specified by State Statute. The contribution requirement for fiscal 2010-2011 is 19.01%. The Teachers' Plan cost is paid 60% by the School District and 40% by the State. However, the State will pay the total cost of the contribution deferrals which were .26%. This results in a contribution requirement for the School District of 11.25% and a contribution requirement for the State of 7.76%.

The State contribution for the cut-off year ended June 30, 2011 was \$1,675,255 which represented 7.06% of covered payroll. The payments made by the State to the Employees' Retirement System are considered on-behalf payments and are reported as revenues and expenditures in the financial statements. The School District's contribution requirement for the cut-off year ended June 30, 2011 was \$5,097,894 which consisted of \$2,840,969 from the School Department, and \$2,256,925 from employees. These contributions represented 11.96% and 9.5% of covered payroll respectively. The annual required contribution was determined as part of the June 30, 2008 actuarial valuation.

Subsequent to June 30, 2011, the State of Rhode Island passed legislation under the Pension Reform Security Act (Act) of 2011. The legislation made changes to the current pension plan provisions noted above and such changes will be effective July 1, 2012.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT PLAN (Continued)

(d) Employees' Retirement System of the State of Rhode Island (School) (Continued)

Funding Policy (Continued)

The School District does not have any investments or related party investments with the ERS. The School District contribution represented 2.38% of total contributions required of all participating entities.

Three-Year Trend Information

Fiscal Year	Annual Required Contribution	Percentage Contributed
2009	\$2,909,515	100%
2010	\$2,878,751	100%
2011	\$2,840,969	100%

(e)Municipal Employees' Retirement System of Rhode Island (School)

The Central Falls School Department participates in the Municipal Employees' Retirement System (MERS), an agent multiple employer defined benefit plan administered by the State of Rhode Island. All Central Falls School Department non-certified employees participate in the MERS.

The payroll for employees covered by the MERS for the year ended June 30, 2011 was \$4,453,885.

The Municipal Employee's Retirement System of the State of Rhode Island issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of Rhode Island Employee Retirement Board, 50 Service Avenue, Warwick, RI 02886, or by accessing their website at www.ersri.org.

Subsequent to June 30, 2011, the State of Rhode Island passed legislation under the Pension Reform Security Act (Act) of 2011. The legislation made changes to the current pension plan provisions noted below and such changes will be effective July 1, 2012.

Plan Description

The following eligibility and benefit provisions are established by Rhode Island General Laws. Title 45, Chapters 19, 19.1, 21, 21.1, 21.2 and 21.3 and may be amended by State Statute. The MERS generally provides retirement benefits equal to 2% of a member's final average compensation (FAC) multiplied by the number of years of service up to 37.5 years, up to a maximum benefit of 75% of FAC. Final average compensation is the average of the three highest consecutive years of earned salary exclusive of overtime, bonuses or severance pay. Such benefits are available to members at least age 58 with 10 years of service or after 30 years regardless of age. The plan also provides non service connected disability benefits after 5 years of service, service connected disability benefits with no minimum service requirement, survivors' benefits, and certain lump sum death benefits. Employees are vested in their retirement benefits on completion of 10 years of service. Members employed by municipalities who elect one of the optional COLA provisions receive an increase equal to 3% of the original retirement benefit each year, beginning January 1 following the member's retirement.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT PLAN (Continued)

(e)Municipal Employees' Retirement System of Rhode Island (School)(Continued)

Funding Policy

General employees are required by State Statute to contribute 6% of their annual earnings. The contribution rate is increased to 7% with the optional cost-of-living provision. The Central Falls School Department is required to contribute based on an actuarially determined amount and as provided by State Statute for each participating municipality. The School Department's rate for the year ended June 30, 2011 was 8.54% of covered payroll.

Annual Pension Cost

For 2011, the School Department's annual pension cost of \$380,362 for the MERS was equal to the School Department's annual required contribution.

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	\$389,692	100%	\$ -
2010	381,146	100%	-
2011	380,362	100%	-

The required contribution was determined as part of the June 30, 2008 actuarial valuation. The actuarial method used is the Entry Age Normal actuarial cost method. Under this method, the employer contribution rate is the sum of (i) the employer normal cost rate, and (ii) a rate that will amortize the unfunded actuarial accrued liability. Significant actuarial assumptions used in the June 30, 2008 valuation include the following:

- Investment return - 8.25% per year, compounded annually, composed of an assumed 3% inflation rate and a 5.25% net real rate of return.
- Projected salary increases - a service related component, plus a 4.5% wage inflation assumption (composed of a 3% price inflation assumption and a 1.5% additional general increase.)
- Cost of living adjustment - 3%, not compounded.

The actuarial value of assets is based on market value of assets with a five year phase-in of actual investment return in excess of (less than) expected investment income. The MERS' unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of payroll on a closed basis. The remaining amortization period at June 30, 2008 was 21 years.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. EMPLOYEE RETIREMENT PLAN (Continued)

(e)Municipal Employees' Retirement System of Rhode Island (School) (Continued)

Funded Status and Funding Progress

As of June 30, 2010, which is the most recent report available from the State who administers this plan, as revised to reflect pension reform legislation enacted on November 18, 2011 the plan was 92.6% funded. The actuarial accrued liability for benefits was \$12,940,017, and the actuarial value of assets was \$11,988,532, resulting in an unfunded actuarial accrued liability (UAAL) of \$951,485. The covered payroll (annual payroll of active employees covered by the plan) was \$4,795,139, and the ratio of the UAAL to the covered payroll was 19.87%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**11. POST RETIREMENT BENEFITS
(CITY)**

Plan Description

The City's Post-Employment Medical Benefit Plan is a single-employer defined benefit postretirement health insurance program. The City provides lifetime health care and life insurance benefits to substantially all retired employees and their spouses. Health care benefits were paid to 132 employees during fiscal year June 30, 2011. Current membership consists of 70 active employees, and 146 retirees, disabled and widows. These benefits are provided through two provider groups which are exclusively for retirees. Any changes to these provisions are subject to the City's approval. The plan does not issue a separate report.

Funding Policy

The City's funding policy provides for actuarially determined periodic contributions to the plans at rates that, increase gradually over time so that sufficient assets will be available to pay benefits when due. Municipal retirees are required to contribute 10% of the health care cost between ages 62 to 65, and 100% of the premium prior to age 62. Police Officers and Firefighters receive free coverage at retirement. Coverage reverts to COBRA for 36 months upon death of the member, or until the spouse reaches age 65, whichever occurs first. The annual OPEB cost was estimated from the June 30, 2010 actuarial valuation using the projected unit credit funding method. The actuarial assumptions included a 4.5% unfunded discount rate and the 2011 IRS Static Mortality Table and RP 2000 Disabled Mortality Table.

The City adopted GASB 45 prospectively during fiscal year ended June 30, 2009. The available trend information is presented below.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$2,088,438	58.7%	\$2,315,861
6/30/2010	\$2,029,301	71.6%	\$1,453,547
6/30/2009	\$1,963,061	71.0%	569,052

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

**11. POST RETIREMENT BENEFITS (Continued)
(CITY)**

The City's annual OPEB cost and net OPEB obligation for the year ended June 30, 2011 was as follows:

Annual required contribution	\$2,094,980
Interest on net OPEB obligation	39,559
Adjustment to annual required contribution	<u>(46,101)</u>
Annual OPEB cost (expense)	2,088,438
Contributions made	<u>(1,226,124)</u>
Increase in net OPEB obligation	862,314
Net OPEB obligation-beginning of year	<u>1,453,547</u>
Net OPEB obligation-end of year	<u>\$2,315,861</u>

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (1)	Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL) (2)-(1) (3)	AVA as a Percent of AAL (1)/(2) (4)	Covered Payroll (5)	UAAL as a Percent of Covered Payroll (3)/(5) (6)
06/30/10	0	\$32,011,503	\$32,011,503	0%	N/A	N/A
06/30/09	0	\$30,693,955	\$30,693,955	0%	N/A	N/A

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial 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 unfunded actuarial liability (UAAL) is amortized over a period of 30 years using the level percentage of pay over thirty years based on an open group. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

**11. POST RETIREMENT BENEFITS
(SCHOOL)**

Plan Description

The Central Falls School Department administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare benefits for eligible retirees through the School Department's group health insurance plan, which covers both active and retired members. Benefit provisions are established and amended by contract, through negotiations between the School Department and the respective unions. The Retiree Health Plan does not issue a publicly available financial report. As of June 30, 2011, participants included 475 active and 46 retirees.

Funding Policy

Contribution requirements are negotiated between the School Department and the respective unions. The School Department is required to contribute for all eligible retirees who were covered under the Rhode Island Council 94, AFSCME, AFL-CIO Local 1627 union contract or were employed as a noncertified administrator, less the amount of any cost share in effect at the time of retirement, 100% of the cost of healthcare benefits for the first year of retirement, 50% of the cost for the second year of retirement and 0% in the third year of retirement. The retiree is allowed to pay the entire premium for medical insurance coverage in the third year. The School Department is required to contribute, for all eligible retirees who were covered under the Local 1567 Rhode Island Federation of Teachers/American Federation of Teachers AFL-CIO union contract or were employed as a certified administrator less the amount of any cost share in effect at the time of retirement, as follows:

- For eligible employees retiring after August 31, 2005 and prior to September 1, 2008, the School Department will contribute 100% of the cost of healthcare benefits for the first five years of retirement and 50% of the cost for the next two years of retirement.
- For eligible employees retiring on or after September 1, 2008, that have at least 28 years of service in the School Department, the School Department will contribute 100% of the cost of the healthcare benefits for the first five years of retirement and 50% of the cost for the next three years of retirement.
- For eligible employees retiring on or after September 1, 2008, that have between 18 and 27 years of service in the School Department, the School Department will contribute 100% of the cost of the healthcare benefits for the first four years of retirement and 50% of the cost for the next two years of retirement.
- All eligible retirees may continue individual medical insurance coverage by paying the full cost of the medical insurance premiums in effect in each ensuing year until the age of sixty-five (65).

For the year ended June 30, 2011 the plan operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to plan members. For the fiscal year ended June 30, 2011, the School Department contributed \$522,965 to the plan.

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

11. POST RETIREMENT BENEFITS (Continued)
(SCHOOL)

Annual OPEB Cost and Net Pension Obligation

The School Department's annual other postemployment benefit (OPEB) cost (expense) for the plan is calculated based on the annual required contribution for the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs 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 School Department's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the School Department's net OPEB obligation:

Annual required contribution (ARC)	\$1,058,251
Interest on net OPEB obligation	136,650
Adjustment to annual required contribution	<u>(129,350)</u>
Annual OPEB cost (expense)	1,065,551
Contributions made	<u>522,965</u>
Increase in net OPEB obligation	542,586
Net OPEB obligation – beginning of year	<u>3,838,472</u>
Net OPEB obligation – end of year	<u>\$4,381,058</u>

The School Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2009, 2010 and 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$2,036,700	22.53%	\$3,207,680
June 30, 2010	1,018,972	38.10%	3,838,472
June 30, 2011	1,065,551	49.08%	4,381,058

Funded Status and Funding Progress

The funded status of the Central Falls School Department plan as of June 30, 2011, the most recent actuarial valuation was as follows:

Actuarial Accrued Liability (AAL)	\$11,861,739
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	<u>\$11,861,739</u>
Funded ratio (Actuarial Value of Plan Assets / AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$28,490,906
UAAL as a Percentage of Covered Payroll	41.6%

(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

**11. POST RETIREMENT BENEFITS (Continued)
(SCHOOL)**

Annual OPEB Cost and Net Pension Obligation (Continued)

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members. The actuarial assumptions and methods 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 annual required contribution for the fiscal year ended June 30, 2011 was determined as part of the June 30, 2009 actuarial valuation. The entry age actuarial cost method was used. The actuarial assumptions include a 3.566% (currently 3.75%) investment rate compounded annually (net of expenses); and an annual healthcare cost trend rate of 9% in 2009, grading to 3.75% in 2021. The unfunded actuarial accrued liability as of the June 30, 2009 is being amortized over a period of 30 years as a level (principal and interest combined) percent of payroll on an open basis.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City has been named, along with another municipality, in a claim involving a wrongful death. The plaintiff is seeking \$2.2 million. The City has also been named in a suit regarding the application of the tangible tax statute. The plaintiff is seeking \$300,000. The outcome of these lawsuits is not presently determinable, and accordingly have not been recorded in the accompanying financial statements.

The City is involved in various other pending suits. The outcome of these lawsuits is not presently determinable, although, in the opinion of the City's attorneys, the amount of actual or potential claims is not expected to have a material effect on the City's financial statements.

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The City has included the Central Falls School Department as a department of the City. This was challenged by the collective bargaining units and on March 23, 2012 the Bankruptcy Court proposed findings of facts and conclusions of law amongst which was the courts conclusion that the Central Falls School District is not part of the City of Central Falls. The Bankruptcy Court's recommendations shall be transferred to the U.S. District for the District of Rhode Island which will either approve or reject the Bankruptcy Court's recommendations. At this point no decision has been made by the City as to whether it will object to the Bankruptcy Court's recommendations.

The City has entered into various agreements with an independent contractor for emergency property preservation services of abandoned and vacant properties within the City. Payment to this contractor is contingent upon the satisfaction of the City's liens against these properties. Should these liens become uncollectible, the services provided by the contractor may constitute a liability of the general fund. However, the City expects the liens to be ultimately collectible, and expects potential claims resulting from these agreements, if any, to be immaterial.

The School Department and Central Falls Teachers Union (Union) reached an impasse in their contract negotiations and on June 14, 2011 the School Department made a last, best, and final offer to the Union. The Union did not accept the last, best, and final offer and the School Department unilaterally implemented the offer effective as of September 1, 2011. The Union has filed an unfair labor charge against the School Department. As a result of the subsequent filing on August 1, 2011 of the federal Chapter 9 bankruptcy protection the unfair labor charge has been stayed. In addition, as a result of the federal Chapter 9 filing the State Receiver for the City of Central Falls removed the School Department's negotiating team and replaced it with a new team and ordered the contract be carried over as of September 1, 2011.

13. RISK MANAGEMENT

The City of Central Falls is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; and natural disasters. As a result, the City participates in a non-profit, public entity risk pool (Rhode Island Interlocal Risk Management Trust, Inc.) which provides coverage for property/liability claims. Upon joining the Trust, the City signed a participation agreement which outlines the rights and responsibilities of both the Trust and the City. The Trust provides this insurance coverage through a pooled, self-insurance mechanism which includes reinsurance purchased by the Trust to protect against large, catastrophic claims above the losses the Trust retains internally for payment from the pooled contributions of its Members. Under the participation agreement, the City is insured for a maximum of \$2,000,000 per occurrence. Settled claims resulting from these risks have not exceeded the Trust Coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage during the year ended June 30, 2011.

14. SUBSEQUENT EVENTS

On August 1, 2011 the State Receiver filed for federal Chapter 9 bankruptcy protection for the City of Central Falls. The bankruptcy proceedings commenced and on September 22, 2011, the Bankruptcy Counsel for the State Receiver filed a plan of debt adjustment and disclosure statement with the court. The five-year financial plan prepared in connection with the bankruptcy proceedings includes the City funding, beginning in fiscal 2013, its share of the local annual contribution to the School District which is required under the Education Equity and Property Tax Relief Act enacted by the General Assembly in 2010.

(CONTINUED)

CITY OF CENTRAL FALLS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

14. SUBSEQUENT EVENTS (Continued)

Subsequent to June 30, 2011 the City filed for bankruptcy, canceling the *Police and Fire Private Pension Plan (John Hancock)* and the *City Police and Fire Pension Fund (1%)* and negotiated substantial reductions in pension benefits for active employees, retirees, widows and alternate payees. Eligibility for retirement and disability benefits were significantly changed and new rules were implemented for determining continued eligibility for disability pension payments. The City, State and a majority of the retirees (91%) have reached a settlement which will resolve any challenges to the bankruptcy plan, contingent approval of an appropriation which will be disbursed over a period of five years for one time help to retirees to adjust to the lower restructured pension amount. The governor's budget recommends a \$2.6 million appropriation for this purpose. As of the latest valuation date of December 31, 2011, actuarial value of the assets is \$5,486,573, actuarial accrued liability is \$29,421,723 and unfunded actuarial accrued liability is \$23,938,150.

Subsequent to June 30, 2011 changes were made to the City Post-Employment Medical Benefit Plan. As a result of these changes, retirees will contribute 20% of stated premiums. In addition, the plan has been amended to no longer offer dental to retirees and retirees, beneficiaries and active employees are eligible for participation until age 65, where previously retirees had health benefits for life. As of the latest valuation date of December 31, 2011, which reflects these changes, actuarial value of the assets is \$0, actuarial accrued liability is \$10,355,452 and unfunded actuarial accrued liability is \$10,355,452.

15. GOING CONCERN

On May 19, 2010 the City filed a Petition for Appointment of Receiver with the Superior Court of the State of Rhode Island (the State) citing fiscal insolvency due to revenue shortfalls, state budget cuts, and unaffordable collective bargaining agreements and pension obligations. On June 11, 2010, the Rhode Island General Assembly passed "An Act Relating to Cities and Towns-Providing Financial Stability" (the Act) which provides for State intervention in the finances of municipalities in fiscal distress. In response to the Act, the City negotiated a Consent Order with the State and withdrew its petition with the Court. On July 16, 2010, in accordance the terms of the Act, the State's Director of the Department of Revenue appointed a Receiver with the authority to exercise any function or power of any municipal officer of the City. On December 14, 2010, the Receiver issued a report that, among other things, discusses the City's current financial situation and the existing structural problems that will result in projected future deficits in fiscal years 2012 through 2016, unless action is taken at the State and local level. The plan of action includes stabilizing the budget for fiscal year 2011 using a variety of methods and seeking an appropriation from the Rhode Island General Assembly to subsidize fiscal year 2012 while permanent solutions and reforms to the City's structural problems are developed and executed. On August 1, 2011 the State Receiver filed for federal Chapter 9 bankruptcy protection for the City of Central Falls. The bankruptcy proceedings commenced and on September 22, 2011, the Bankruptcy Counsel for the State Receiver filed a plan of debt adjustment and disclosure statement with the court. Certain classes of claims related to retiree health insurance, retiree accidental disability, retiree pension and general creditors are impaired by this plan. A copy of this Plan of Adjustment may be obtained from the US Bankruptcy Court. Any gain that may result from measurement of liabilities as a result of the bankruptcy is not yet reasonably estimable. The five- year financial plan prepared in connection with the bankruptcy proceedings includes the City funding, beginning in fiscal 2013, its share of the local annual contribution to the School District which is required under the Education Equity and Property Tax Relief Act enacted by the General Assembly. The City's bankruptcy, receivership, the recurring operating deficits, deficit fund balance, unfunded pension liabilities and unfunded other post-employment benefits raise substantial doubt about its ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty or the pending bankruptcy proceedings.

(CONTINUED)

CITY OF CENTRAL FALLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

16. RESTATEMENTS

As stated in Note 1, during the fiscal year ended June 30, 2011 the City implemented GASB Statement No. 54. Implementation of this Statement resulted in the consolidation of various funds into the City's General Fund (Fund basis). The funds being consolidated were previously reported with Other Special Revenue Funds. However, these Funds no longer meet the definition of Special Revenue Funds due to the fact that these funds did not have specific revenue sources that were either committed or restricted. As stated in Note 1, the Central Falls School Department has been included as a department of the City for fiscal year ended June 30, 2011.

The following represents the reclassification of governmental funds, which resulted from the implementation of GASB Statement No. 54 and inclusion of the Central Falls School Department.

General Fund balance at June 30, 2010, as originally stated	\$ (2,111,785)
GASB 54 Inclusion of fire equipment, police vehicle maintenance and zoning funds	62,713
General Fund balance at June 30, 2010, as restated	<u>\$ (2,049,072)</u>
Other Governmental fund balance at June 30, 2010, as originally stated	\$ 3,148,028
GASB 54 restatement of fire equipment, police vehicle maintenance and zoning funds	(62,713)
School non-major funds	711,780
Governmental Other Governmental Funds fund balances at June 30, 2010, as restated	<u>\$ 3,797,095</u>
School unrestricted fund balance at June 30, 2010, as originally stated	\$ -
Inclusion of school department as department of the City of Central Falls	2,284,552
School unrestricted fund balance at June 30, 2010, as restated	<u>\$ 2,284,552</u>
Total governmental fund balance at June 30, 2010, as originally stated	\$ 5,063,602
Inclusion of school department unrestricted and non-major funds	2,996,332
Governmental fund balance at June 30, 2010, as restated	<u>\$ 8,059,934</u>

Government wide net assets at June 30, 2010 have been restated due to the inclusion of the school department as a department of the City. The detail of the restatement and impact on net assets is as follows:

Government wide governmental activity net assets at June 30, 2010, as originally stated	\$ (22,044,762)
School Fixed Assets at June 30, 2010	3,460,986
School long term debt at June 30, 2010	(5,517,590)
School governmental fund balance at June 30, 2010	2,996,332
Government-wide net assets at June 30, 2010, as restated	<u>\$ (21,105,034)</u>

(CONCLUDED)

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CENTRAL FALLS*Schedule of Funding Progress (Unaudited)*

June 30, 2011

Schedule of funding progress for the Municipal Employees' Retirement System - City

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as percentage Of Covered Payroll ((a-b)/c)
6/30/2010*	\$ 5,176,066	\$ 6,906,941	\$ (1,730,875)	74.9%	\$ 2,361,819	(73%)
6/30/2009	\$ 5,212,157	\$ 6,656,557	\$ (1,444,400)	78.3%	\$ 2,446,693	(59%)
6/30/2008	\$ 4,950,358	\$ 6,406,664	\$ (1,456,306)	77.3%	\$ 2,683,177	(54.3%)

Schedule of funding progress for the Municipal Employees' Retirement System - School

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as percentage Of Covered Payroll ((a-b)/c)
6/30/2010*	\$ 11,988,532	\$ 15,981,979	\$ 3,993,447	75.0%	\$ 4,795,139	83.3%
6/30/2009	\$ 11,510,996	\$ 13,080,984	\$ 1,569,987	88.0%	\$ 4,686,321	33.5%
6/30/2008	\$ 10,993,164	\$ 12,116,303	\$ 1,123,139	90.7%	\$ 4,629,464	24.3%

Schedule of funding progress for the Police and Fire Private Pension Plan (John Hancock)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as percentage Of Covered Payroll ((a-b)/c)
7/1/2010	\$ 6,516,889	\$ 40,109,123	\$ (33,592,234)	16.2%	\$ 3,289,330	(1,021.25%)
7/1/2008	\$ 10,791,609	\$ 35,701,111	\$ (24,909,502)	30.2%	\$ 3,504,388	(710.81%)
7/1/2006	\$ 10,909,756	\$ 31,509,376	\$ (20,599,620)	34.6%	\$ 3,383,361	(608.85%)

*See Note 14 - Subsequent Events***Schedule of funding progress for the Police and Fire Pension Plan (1%)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as percentage Of Covered Payroll ((a-b)/c)
7/1/2010	\$ 1,251,926	\$ 14,218,372	\$ (12,966,446)	8.8%	\$ -	N/A
7/1/2008	\$ 1,210,773	\$ 15,038,189	\$ (13,827,416)	8.1%	\$ 57,393	(24,092.51%)
7/1/2006	\$ 1,146,741	\$ 15,738,443	\$ (14,591,702)	7.3%	\$ 56,506	(25,823.28%)

See Note 14 - Subsequent Events

*As revised 11/18/11 - the State of Rhode Island passed legislation under the Pension Reform Security Act (Act) of 2011 which made changes to current plan provisions. Such changes will be effective July 1, 2012.

CITY OF CENTRAL FALLS**Schedule of Funding Progress (Unaudited)****June 30, 2011****Schedule of funding progress for the Post-Employment Benefit Plan- City**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as percentage Of Covered Payroll ((a-b)/c)
6/30/2010	\$ -	\$ 32,011,503	\$ (32,011,503)	0%	N/A	N/A
6/30/2009	\$ -	\$ 30,693,955	\$ (30,693,955)	0%	N/A	N/A

* See Note 14 - Subsequent Events

Schedule of funding progress for the Post-Employment Benefit Plan- School

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Unfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as percentage Of Covered Payroll ((a-b)/c)
6/30/2011	\$ -	\$ 11,861,739	\$ 11,861,739	0%	\$ 28,490,906	41.6%
6/30/2009	\$ -	\$ 8,116,254	\$ 8,116,254	0%	\$ 28,150,119	28.8%
6/30/2007	\$ -	\$ 16,068,204	\$ 16,068,204	0%	\$ 28,416,203	56.5%

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Tax revenue				
Tax revenue (current year)	\$ 12,102,223	\$ 12,102,223	11,282,346	\$ (819,877)
Tax revenue (prior years)	434,844	434,844	797,657	362,813
Total tax revenue	12,537,067	12,537,067	12,080,003	(457,064)
Fees / Non-tax revenue				
Interest on taxes	200,000	200,000	218,651	18,651
City clerk fees	-	-	30	30
VIN check fees	1,500	1,500	1,800	300
Probate fees	8,500	8,500	8,163	(337)
Realty Stamps	100,000	100,000	51,692	(48,308)
Real Estate Recordings	85,000	85,000	64,142	(20,858)
Licenses	75,000	75,000	76,791	1,791
Marriage Licenses	1,000	1,000	904	(96)
Certificates	12,000	12,000	10,612	(1,388)
Reports/copying fees	2,500	2,500	2,961	461
Constable fees	-	-	43	43
Micellaneous	14,000	14,000	10,536	(3,464)
Fingerprinting	300	300	42	(258)
Fire code inspections	7,300	7,300	3,250	(4,050)
Other fire permits	2,000	2,000		(2,000)
Certificates of occupancy	4,000	4,000	5,977	1,977
Hazardous material permits	1,750	1,750	1,850	100
Building permits	60,000	60,000	36,209	(23,791)
Plumbing permits	18,000	18,000	18,743	743
Electrical permits	16,000	16,000	16,927	927
Traffic fines	200,000	200,000	153,286	(46,714)
District court	1,500	1,500	1,466	(34)
Library fines	250	250	3,844	3,594
Dog officer fines (Animal Control Fines)	2,500	2,500	1,983	(517)
Investment interest	50,000	50,000	1,911	(48,089)
RI Traffic Tribune	12,000	12,000	7,922	(4,078)
Municipal Court Fees	2,000	2,000		(2,000)
Administrative Fees	5,000	5,000	23,156	18,156
Code Enforcement Fees	15,000	15,000	405	(14,595)
Total fees/non tax revenue	897,100	897,100	723,296	(173,804)
State revenue				
Federal Revenue	-	-	11,840	11,840
MV Phase out	84,881	84,881	94,261	9,380
Distressed Comm. Aid	267,573	267,573	267,537	(36)
Miscellaneous state aid	-	-	119,023	119,023
Telephone tax	204,938	204,938	218,083	13,145
Hotel/Meal tax	82,663	82,663	90,607	7,944
Police/fire incentive	20,057	20,057		(20,057)
School Housing aid	1,600,055	1,600,055	1,594,012	(6,043)
Non Profit Organizations	19,158	19,158		(19,158)
Emergency Management	2,000	2,000		(2,000)
Total state revenue	2,281,325	2,281,325	2,395,363	114,038
Departmental revenue				
Scrap metal	3,000	3,000	707	(2,293)
Prop preservation revenue	60,000	60,000	120,125	60,125
Code Court Fees	5,000	5,000		(5,000)
Misc. departmental revenue	10,000	10,000	5,831	(4,169)
Public works	64,350	64,350	7,570	(56,780)
Rescue runs	225,000	225,000	225,000	-
Total departmental revenue	367,350	367,350	359,233	(8,117)

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other income				
Restitution	1,200	1,200	1,116	(84)
Lease/rental income	4,200	4,200	-	(4,200)
Athletic fees	-	-	570	570
Local revenue	13,514	13,514	13,514	-
Housing authority	56,974	56,974	65,831	8,857
Detention center	500,000	500,000	-	(500,000)
Misc. other revenue	45,032	45,032	94,298	49,266
Surplus sales	1,000	1,000	0	(1,000)
Special revenue	100,000	100,000	0	(100,000)
Total other income	721,920	721,920	175,329	(546,591)
Total revenues	16,804,762	16,804,762	15,733,224	(1,071,538)
GENERAL GOVERNMENT				
Mayor				
Salaries	63,965	63,965	62,612	1,353
Office Supplies	100	100	-	100
Other supplies	150	150	-	150
Non-capital equipment	500	500	-	500
Education & training	500	500	-	500
Total Mayor	65,215	65,215	62,612	2,603
City council				
Salaries	14,700	14,700	6,798	7,902
Camera operator	6,860	6,860	5,316	1,544
General (video)	500	500	-	500
Other Professional Services	-	-	3,740	(3,740)
Total city council	22,060	22,060	15,854	6,206
City clerk				
Salaries	123,373	123,373	120,015	3,358
Dues/subscriptions	520	520	50	470
Non-capital equipment	500	500	41	459
Other professional services	26,000	26,000	17,799	8,201
Meetings and Conference Fee	-	-	844	(844)
Total city clerk	150,393	150,393	138,749	11,644
Personnel				
Salaries	35,439	35,439	37,670	(2,231)
Personnel overtime	-	-	251	(251)
Non capital equipment	600	600	438	162
Other professional services	2,500	2,500	288	2,212
Education & training	200	200	-	200
Advertising	-	-	504	(504)
Supplies	-	-	106	(106)
Testing	4,000	4,000	6,325	(2,325)
Total personnel	42,739	42,739	45,582	(2,843)
Legal				
Salaries	90,756	90,756	58,643	32,113
Dues/subscriptions	900	900	0	900
Other professional services	125,000	125,000	146,580	(21,580)
Education & training	500	500	0	500
Expense account	300	300	0	300
Total legal	217,456	217,456	205,223	12,233

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Tax assessor				
Salaries	79,741	79,741	77,757	1,984
Overtime	-	-	277	(277)
Longevity Pay	1,858	1,858	1,816	42
Dues/subscriptions	825	825	1,271	(446)
Advertising	820	820	-	820
Other professional services	14,575	14,575	24,902	(10,327)
Meetings & Conferences	150	150	-	150
Total tax assessor	97,969	97,969	106,023	(8,054)
Finance				
Salaries	184,489	184,489	190,935	(6,446)
Overtime	2,000	2,000	2,606	(606)
Longevity Pay	1,714	1,714	1,642	72
Postage	22,500	22,500	11,345	11,155
Dues/subscriptions	50	50	-	50
Non-capital equipment	1,000	1,000	729	271
Collection agency	7,500	7,500	3,423	4,077
Accounting/auditing	30,000	30,000	25,000	5,000
Other professional services	-	-	90,899	(90,899)
Education & training	-	-	100	(100)
Total finance	249,253	249,253	326,679	(77,426)
Board of canvassers				
Salaries	47,116	47,116	44,387	2,729
City sergeant	-	-	2,142	(2,142)
Election workers	15,200	15,200	14,400	800
Office supplies	200	200	232	(32)
Advertising	770	770	1,552	(782)
Total board of canvassers	63,286	63,286	62,713	573
City property				
Salaries	57,556	57,556	59,079	(1,523)
Overtime	-	-	265	(265)
Longevity	1,586	1,586	1,473	113
Clothing	400	400	300	100
Office supplies	14,000	14,000	8,827	5,173
Other supplies	3,000	3,000	1,299	1,701
Janitorial Supplies	3,000	3,000	1,529	1,471
Heating	10,500	10,500	11,698	(1,198)
Dues/Subscriptions	1,000	1,000	354	646
Non-capital equipment	1,000	1,000	2,884	(1,884)
Telephone (Other)	13,500	13,500	31,779	(18,279)
Telephone (Police)	14,000	14,000	11,839	2,161
Telephone (Fire)	14,000	14,000	8,602	5,398
Telephone (Highway)	14,000	14,000	2,331	11,669
Advertising	11,000	11,000	9,284	1,716
Electric-Other	48,000	48,000	106,665	(58,665)
Electric-Police	19,000	19,000	16,068	2,932
Electric-Fire	19,000	19,000	16,173	2,827
Electric-Highway	19,000	19,000	96,112	(77,112)
General R & M	5,000	5,000	3,314	1,686
Travel cost	100	100	-	100
Water	15,000	15,000	13,620	1,380
Consulting services	15,000	15,000	19,493	(4,493)
Contracts, R & M	25,000	25,000	24,500	500
General liability insurance	207,907	207,907	238,779	(30,872)
Workers compensation	106,519	106,519	82,035	24,484
Misc. city property	5,000	5,000	875	4,125
Total city property	643,068	643,068	769,177	(126,109)

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
City boards				
Pension board	675	675	675	-
Personnel board	675	675	619	56
Library board	675	675	450	225
Purchasing board	675	675	588	87
Appeals board	900	900	450	450
Recreation board	675	675	675	-
Planning board	1,125	1,125	621	504
Zoning board	1,750	1,750	1,500	250
Canvassers board	2,100	2,100	2,100	-
Housing authority board	2,750	2,750	2,291	459
Total city boards	12,000	12,000	9,969	2,031
Total general government	1,563,439	1,563,439	1,742,581	(179,142)
PUBLIC SAFETY				
Police department				
Salaries	2,096,942	2,096,942	2,046,276	50,666
Police trainee wages	8,640	8,640	0	8,640
Parking violations officer	13,069	13,069	0	13,069
Overtime	230,000	230,000	223,986	6,014
Holiday pay	102,241	102,241	108,466	(6,225)
Longevity pay	64,628	64,628	3,060	61,568
Clerk longevity pay	4,708	4,708	1,701	3,007
Dispatchers Longevity	7,094	7,094	6,840	254
Clothing/tool allowances	98,000	98,000	97,002	998
Office supplies	5,000	5,000	4,023	977
Other supplies	3,000	3,000	2,664	336
Heating fuel	12,000	12,000	9,753	2,247
Vehicle fuel	90,000	90,000	79,902	10,098
Detective supplies	6,000	6,000	1,526	4,474
Non-capital equipment	4,000	4,000	2,161	1,839
General R & M	18,000	18,000	13,720	4,280
Vehicle R & M	40,000	40,000	27,623	12,377
Other professional services	37,000	37,000	35,497	1,503
Finger printing	2,500	2,500	2,370	130
Education & training	10,000	10,000	8,760	1,240
College tuitions	30,000	30,000	45,340	(15,340)
State incentive	3,500	3,500	3,500	-
Special Investigations	25,000	25,000	18,552	6,448
Code Compliance	20,000	20,000	408	19,592
Total police department	2,931,322	2,931,322	2,743,130	188,192
Fire department				
Salaries	1,907,171	1,907,171	1,888,843	18,328
Fire trainee wages	2,400	2,400	-	2,400
Overtime	311,875	311,875	542,764	(230,889)
Holiday pay	80,058	80,058	68,925	11,133
Longevity pay	97,275	97,275	95,375	1,900
Out of rank pay	5,000	5,000	25,725	(20,725)
Rescue pay	14,560	14,560	14,690	(130)
Fire EMT - Cardiac	43,680	43,680	47,520	(3,840)
Mechanics pay	7,280	7,280	7,510	(230)
Clothing/tool allowance	62,450	62,450	8,936	53,514
Other supplies	25,000	25,000	24,978	22
Heating fuel	15,000	15,000	12,385	2,615
Vehicle fuel	8,000	8,000	24,856	(16,856)
Dues/subscriptions	-	-	126	(126)
Non-capital equipment	15,000	15,000	7,553	7,447
General R & M	7,000	7,000	5,022	1,978
Vehicle R & M	27,000	27,000	30,945	(3,945)
Other professional services	5,000	5,000	6,185	(1,185)
Education & training	3,000	3,000	1,943	1,057
State incentive	5,927	5,927	-	5,927
Total fire department	2,642,676	2,642,676	2,814,281	(171,605)

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011**

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Probate court				
Salaries	7,309	7,309	7,259	50
Total probate court	7,309	7,309	7,259	50
Municipal court				
Salaries	58,852	58,852	59,237	(385)
Overtime	-	-	1,929	(1,929)
Longevity Pay	1,464	1,464	1,928	(464)
Office supplies	1,500	1,500	855	645
Other Professional Services	4,600	4,600	4,639	(39)
Total municipal court	66,416	66,416	68,588	(2,172)
Animal control				
Salaries	14,200	14,200	-	14,200
Clothing/tool allowance	350	350	-	350
Non-capital equipment	800	800	-	800
Boarding of animals	6,000	6,000	725	5,275
Total animal control	21,350	21,350	725	20,625
Inspection officers				
Plumbing officer	4,323	4,323	4,323	-
License officer	4,323	4,323	4,323	-
Electrical inspector	4,323	4,323	4,323	-
Total inspection officers	12,969	12,969	12,969	-
Code Enforcement				
Salaries	141,016	141,016	117,338	23,678
Overtime	-	-	701	(701)
Longevity pay	2,457	2,457	2,821	(364)
Clothing	400	400	188	212
Other supplies	1,000	1,000	-	1,000
Dues & subscriptions	200	200	-	200
Non-capital equipment	1,000	1,000	-	1,000
Other Professional Services	1,500	1,500	3,075	(1,575)
Education & training	1,000	1,000	-	1,000
Property protection	10,000	10,000	684	9,316
Total code enforcement	158,573	158,573	124,807	33,766
Total public safety	5,840,615	5,840,615	5,771,759	68,856
PUBLIC WORKS				
Highway department				
Salaries	614,550	614,550	594,273	20,277
Overtime	20,000	20,000	37,464	(17,464)
Mechanical operators	-	-	3,120	(3,120)
Longevity pay	36,051	36,051	41,957	(5,906)
Specialty pay	520	520	540	(20)
Clothing/tool allowance	3,850	3,850	2,888	962
Other supplies	3,000	3,000	857	2,143
Heating fuel	7,500	7,500	7,500	-
Vehicle Fuel	38,000	38,000	47,705	(9,705)
Non-capital equipment	2,500	2,500	-	2,500
Winter road supplies	13,500	13,500	19,704	(6,204)
General R & M	7,500	7,500	1,818	5,682
Vehicle R & M	52,200	52,200	55,703	(3,503)
Road R & M	22,500	22,500	78,511	(56,011)
Education & training	500	500	132	368
Traffic Signal R & M	6,000	6,000	1,635	4,365
Misc. Highway	3,000	3,000	868	2,132
Total highway department	831,171	831,171	894,675	(63,504)

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Public works obligations				
Hydrants	126,616	126,616	29,788	96,828
Sewer/ NBC	22,065	22,065	15,975	6,090
Solid waste removal/disposal	145,000	145,000	130,960	14,040
Street lights	85,007	85,007	107,587	(22,580)
Total public works obligations	378,688	378,688	284,310	94,378
Total public works	1,209,859	1,209,859	1,178,985	30,874
PUBLIC EDUCATION				
Library				
Salaries	177,295	177,295	175,818	1,477
Overtime	-	-	215	(215)
Longevity	3,345	3,345	17,390	(14,045)
Office supplies	4,000	4,000	902	3,098
Other supplies	1,000	1,000	1,338	(338)
Heating fuel	10,500	10,500	7,863	2,637
Dues/subscriptions	2,375	2,375	530	1,845
Non-Capital Equipment	2,000	2,000	136	1,864
Books	6,000	6,000	1,227	4,773
Electric	7,000	7,000	2,903	4,097
Other professional services	10,000	10,000	2,270	7,730
Education & training	1,000	1,000	-	1,000
Total public education	224,515	224,515	210,592	13,923
PUBLIC RECREATION				
Recreation				
Salaries	51,549	51,549	53,961	(2,412)
Other supplies	5,000	5,000	3,665	1,335
General R & M	7,000	7,000	5,435	1,565
Other professional services	6,000	6,000	4,528	1,472
Public events & activities	1,000	1,000	-	1,000
Team subsidy	3,500	3,500	3,000	500
Misc. recreation	4,000	4,000	527	3,473
Total recreation	78,049	78,049	71,116	6,933
Celebrations				
Decorations	1,000	1,000	-	1,000
Veterans Council	1,000	1,000	-	1,000
Community activities	10,400	10,400	2,416	7,984
Sponsorships	200	200	-	200
Total celebrations	12,600	12,600	2,416	10,184
Planning				
Salaries	13,827	13,827	7,611	6,216
Total planning	13,827	13,827	7,611	6,216
CHANNEL ONE				
Salaries	160,851	160,851	0	160,851
RJH community center	40,500	40,500	81,101	(40,601)
Total Channel One	201,351	201,351	81,101	120,250
Total public recreation	305,827	305,827	162,244	143,583

CITY OF CENTRAL FALLS

D-2

GENERAL FUND

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
MUNICIPAL DEBT SERVICE				
Issuance Costs	-	-	7,625	(7,625)
Bond principal	1,450,350	1,450,350	1,182,709	267,641
Bond interest	921,602	921,602	879,381	42,221
Note interest	-	-	59,250	(59,250)
Paying agency fees	22,000	22,000	28,348	(6,348)
Lease purchase	46,931	46,931	46,516	415
Total municipal debt service	2,440,883	2,440,883	2,203,829	237,054
CONTINGENCY				
Legal contingencies	62,000	62,000	111,945	(49,945)
Contingent/salaries	-	-	-	-
General contingencies	50,000	50,000	42,897	7,103
Total contingency	112,000	112,000	154,842	(42,842)
EMPLOYEE BENEFITS				
Social security 6.2%	139,616	139,616	132,830	6,786
Medicare 1.45%	82,041	82,041	102,432	(20,391)
Municipal State pension	199,504	199,504	171,559	27,945
Compensated absences	160,000	160,000	287,124	(127,124)
Unemployment compensation	126,696	126,696	101,189	25,507
Medical insurance	2,940,111	2,940,111	2,703,610	236,501
Dental insurance	180,000	180,000	111,361	68,639
Public safety pension	-	-	-	-
Injuries/medical	5,000	5,000	360	4,640
Total employee benefits	3,832,968	3,832,968	3,610,465	222,503
RETIREMENT				
Police retirement	628,974	628,974	60,663	568,311
Fire retirement	645,682	645,682	109,792	535,890
Total retirement	1,274,656	1,274,656	170,455	1,104,201
Total expenditures	16,804,762	16,804,762	15,205,752	1,599,010
Other financing sources (use)				
Transfers from other funds			1,027,310	1,027,310
Transfers to other funds				
Total other financing sources (uses)	-	-	1,027,310	1,027,310
Excess of revenues and other sources over expenditures and other uses-budgetary basis	\$ -	\$ -	\$ 1,554,782	\$ 1,554,782

CITY OF CENTRAL FALLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

June 30, 2011

The difference between the amounts shown in the accompanying schedule D-2 relates to reclassifications made between revenues and expenditures as presented below.

	<u>General Fund</u>
Total budgetary revenues and transfers per schedule D-2	\$ 16,303,441
Reclassification of:	
Property tax revenue- sixty day rule	608,034
Prior years property tax revenue - sixty day rule	(150,941)
Payments made by State for receivership costs	1,073,131
Revenue from various other special revenue funds combined with General Fund per GASB 54 requirements	
Fire equipment	19,164
Police vehicle maintenance	15,552
Zoning	1,021
Total revenues and transfers per financial statements B-2	<u>\$ 17,869,402</u>
Total budgetary expenditures and transfers per schedule D-2	\$ 15,205,752
Reclassification of:	
Receivership costs	1,073,131
Expenses and transfers of various other special revenue funds combined with General Fund per GASB 54 requirements	
Fire equipment	26,462
Police vehicle maintenance	-
Zoning	-
Total expenditures and transfers per financial statements B-2	<u>\$ 16,305,345</u>

CITY OF CENTRAL FALLS

D-3

SCHOOL DEPARTMENT

**SCHEDULE OF REVENUES AND EXPENDITURES - SCHOOL BUDGET AND ACTUAL (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Appropriated fund balance	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ -
Medicaid	880,000	880,000	893,326	13,326
State aid	42,036,204	42,036,204	40,077,581	(1,958,623)
Federal Stimulus funds	1,013,065	1,013,065	-	(1,013,065)
Other revenue	36,800	36,800	39,775	2,975
Total revenues	<u>45,366,069</u>	<u>45,366,069</u>	<u>42,410,682</u>	<u>(2,955,387)</u>
Expenditures:				
Salaries	28,064,413	28,064,413	26,121,198	1,943,215
Employee benefits	10,413,316	10,413,316	9,276,920	1,136,396
Purchased services	5,417,015	5,417,015	5,063,919	353,096
Supplies and materials	1,190,325	1,190,325	1,150,564	39,761
Capital outlay	256,000	256,000	449,359	(193,359)
Other objects	25,000	25,000	27,463	(2,463)
	<u>\$ 45,366,069</u>	<u>\$ 45,366,069</u>	<u>\$ 42,089,423</u>	<u>\$ 3,276,646</u>
Excess of revenues over expenditures - budgetary basis	<u>-</u>	<u>-</u>	321,259	<u>321,259</u>
Adjustment of budgetary basis to GAAP basis:				
Use of fund balance			<u>(1,400,000)</u>	
Deficiency of revenues under expenditures - GAAP basis			<u>\$ (1,078,741)</u>	

NON-MAJOR GOVERNMENTAL FUNDS

CITY OF CENTRAL FALLS
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

E - 1

	School Non-Major Funds	CDBG Revolving	CDBG 2007	CDBG 2009	CDBG 2010	UDAG Revolving Loan Fund	Home	ED	DEM LRG GRANT
ASSETS									
Cash and cash equivalents	\$ -	\$ 609,520				\$ 148,204	\$ 59,016	\$ 395,696	
Due from federal and state governments	2,540,449		\$ 39,727	\$ 199,338	\$ 251,604				1,304
Accounts receivable	22,432								
Due from other funds	879,657	49,423	545	90,448	50,170				
Prepaid expenditures	231,684								
TOTAL ASSETS	3,674,222	658,943	40,272	289,786	301,774	148,204	59,016	395,696	1,304
LIABILITIES									
Accounts payable	813,223				40,000				1,304
Due to other funds	1,979,278		543	148,041	61,944				
Deferred revenue			39,728	141,745	199,830				
TOTAL LIABILITIES	2,792,501	-	40,271	289,786	301,774	-	-	-	1,304
FUND BALANCE									
Nonspendable	231,684								
Restricted	650,037	658,943	1	-		148,204	59,016	395,696	
TOTAL FUND BALANCE	\$ 881,721	\$ 658,943	\$ 1	\$ -	\$ -	\$ 148,204	\$ 59,016	\$ 395,696	\$ -

CITY OF CENTRAL FALLS
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2011

	School Non-Major Funds	CDBG Revolving	CDBG 2007	CDBG 2009	CDBG 2010	UDAG Revolving Loan Fund	Home	ED	DEM LRG GRANT
Revenues:									
Interest and investment income	\$ -	\$ 1,457				\$ 375	\$ 151	\$ 1,024	
Licenses, fees, permits and fines									
Intergovernmental	10,589,656			\$ 106,249	\$ 101,943				1,304
Other	510,628					3,000			
Total revenues	11,100,284	1,457	-	106,249	101,943	3,375	151	1,024	1,304
Expenditures:									
General government				106,249	101,943	944		9,960	1,304
Public safety									
Recreation									
Public Education	10,930,343								
Capital outlays									
Total expenditures & capital outlays	10,930,343	-	-	106,249	101,943	944	-	9,960	1,304
Excess of revenue over (under) expenditures before transfers	169,941	1,457	-	-	-	2,431	151	(8,936)	-
Other financing sources (uses):									
Proceeds from sale of assets									
Proceeds from capital leases									
Proceeds from bonds									
Transfers in									
Transfers out									
Net other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses	169,941	1,457	-	-	-	2,431	151	(8,936)	-
Fund balance, beginning of the year-restated	711,780	657,486	1	-	-	145,773	58,865	404,632	-
Fund balance, end of the year	\$ 881,721	\$ 658,943	\$ 1	\$ -	\$ -	\$ 148,204	\$ 59,016	\$ 395,696	\$ -

(CONTINUED)

CITY OF CENTRAL FALLS

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011**

	EDI Community Center	EEC Block Grant	Grant In Aid	Champlin Grant	RI Foundation	Recreation Summer Lunch Program	Community Activities	Community Policing
ASSETS								
Cash and cash equivalents			\$ 4,610	\$ 31,027	\$ 104			\$ 1,109
Due from federal and state governments	2,390	\$ 2,211						
Accounts receivable								
Due from other funds			93,837		5,850			
Prepaid expenditures								
TOTAL ASSETS	\$ 2,390	2,211	98,447	31,027	5,954	\$ -	-	1,109
LIABILITIES								
Accounts payable	1,955	488						
Due to other funds	435	1,723	40,143	23,182				1,106
Deferred revenue			1,936	7,750	5,954			
TOTAL LIABILITIES	2,390	2,211	42,079	30,932	5,954	-	-	1,106
FUND BALANCE								
Nonspendable			56,368	95				3
Restricted								
TOTAL FUND BALANCE	\$ -	\$ -	\$ 56,368	\$ 95	\$ -	\$ -	\$ -	\$ 3

CITY OF CENTRAL FALLS

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2011**

	EDI Community Center	EEC Block Grant	Grant In Aid	Champlin Grant	RI Foundation	Recreation Summer Lunch Program	Community Activities	Community Policing
Revenues:								
Interest and investment income			\$ 2	\$ 95			\$ 5	\$ 3
Licenses, fees, permits and fines								
Intergovernmental	\$ 4,990	5,946	76,712			\$ 23,698		
Other								
Total revenues	4,990	5,946	76,714	95	-	23,698	5	3
Expenditures:								
General government		5,946	50,830					
Public safety								
Recreation						18,366		
Public Education								
Capital outlays	4,990							
Total expenditures & capital outlays	4,990	5,946	50,830	-	-	18,366	-	-
Excess of revenue over (under) expenditures before transfers	-	-	25,884	95	-	5,332	5	3
Other financing sources (uses):								
Proceeds from sale of assets								
Proceeds from capital leases								
Proceeds from bonds								
Transfers in								
Transfers out						(5,332)	(5)	
Net other financing sources (uses)	-	-	-	-	-	(5,332)	(5)	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	25,884	95	-	-	-	3
Fund balance, beginning of the year-restated	-	-	30,484	-	-	-	-	-
Fund balance, end of the year	\$ -	\$ -	\$ 56,368	\$ 95	\$ -	\$ -	\$ -	\$ 3

(CONTINUED)

CITY OF CENTRAL FALLS

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011**

	Police C.A.R.E.	DARE Program	Animal Control	Police Special Accounts	PD Tech Grant	2010 JAG Grant	JAG Grant	Kennedy Grants
ASSETS								
Cash and cash equivalents	\$ 44,241	\$ 1,170		\$ 131,100				
Due from federal and state governments	3,614			1,300	\$ 70,313	\$ 22,703	\$ 2,383	
Accounts receivable								
Due from other funds	15,407			11,385	28,552	15,795		\$ 253
Prepaid expenditures								
TOTAL ASSETS	63,262	1,170	-	143,785	98,865	38,498	\$ 2,383	253
LIABILITIES								
Accounts payable	550			37,872	58,970	14,061		
Due to other funds	53,006	1,167		49,303	17,750	15,795	2,383	
Deferred revenue					22,145	8,642		253
TOTAL LIABILITIES	53,556	1,167	-	87,175	98,865	38,498	2,383	253
FUND BALANCE								
Nonspendable								
Restricted	9,706	3	-	56,610	-	-	-	-
TOTAL FUND BALANCE	\$ 9,706	\$ 3	\$ -	\$ 56,610	\$ -	\$ -	\$ -	\$ -

CITY OF CENTRAL FALLS

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2011**

	Police C.A.R.E.	DARE Program	Animal Control	Police Special Accounts	PD Tech Grant	2010 JAG Grant	JAG Grant	Kennedy Grants
Revenues:								
Interest and investment income	\$ 95	\$ 3	\$ 4	\$ 365				
Licenses, fees, permits and fines	26,330							
Intergovernmental	24,918			24,945	\$ 76,720	\$ 29,856	\$ 20,307	
Other				369				
Total revenues	51,343	3	4	25,679	76,720	29,856	20,307	\$ -
Expenditures:								
General government								
Public safety	56,421			17,355	76,720	29,856	20,307	
Recreation								
Public Education				4,465				
Capital outlays								
Total expenditures & capital outlays	56,421	-	-	21,820	76,720	29,856	20,307	-
Excess of revenue over (under) expenditures before transfers	(5,078)	3	4	3,859	-	-	-	-
Other financing sources (uses):								
Proceeds from sale of assets								
Proceeds from capital leases								
Proceeds from bonds								
Transfers in								
Transfers out				(4)				
Net other financing sources (uses)	-	-	(4)	-	-	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses	(5,078)	3	-	3,859	-	-	-	-
Fund balance, beginning of the year-restated	14,784	-	-	52,751	-	-	-	-
Fund balance, end of the year	\$ 9,706	\$ 3	\$ -	\$ 56,610	\$ -	\$ -	\$ -	\$ -

(CONTINUED)

CITY OF CENTRAL FALLS

**Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011**

	Fire Prevention	Public Rescue	Capital School Reserve	Homeland Security	Rural Grants	Emergency Equipment Replacement	Recycling Account	Property Development
ASSETS								
Cash and cash equivalents	\$ 23,366	\$ 367,016					\$ 11,158	
Due from federal and state governments		3,690		\$ 38,246				
Accounts receivable								
Due from other funds	1,298	89,489			\$ 49	180,224		\$ 161,179
Prepaid expenditures								
TOTAL ASSETS	24,664	460,195	-	38,246	49	180,224	11,158	161,179
LIABILITIES								
Accounts payable	3,529	3,628						
Due to other funds	14,124	237,591		38,246		35,824	828	
Deferred revenue							10,306	1,160
TOTAL LIABILITIES	17,653	241,219	-	38,246	-	35,824	11,134	1,160
FUND BALANCE								
Nonspendable								
Restricted	7,011	218,976	-	-	49	144,400	24	160,019
TOTAL FUND BALANCE	\$ 7,011	\$ 218,976	\$ -	\$ -	\$ 49	\$ 144,400	\$ 24	\$ 160,019

CITY OF CENTRAL FALLS

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2011**

	Fire Prevention	Public Rescue	Capital School Reserve	Homeland Security	Rural Grants	Emergency Equipment Replacement	Recycling Account	Property Development
Revenues:								
Interest and investment income	\$ 57	\$ 39	\$ 872			\$ 159	\$ 6	
Licenses, fees, permits and fines	8,080							
Intergovernmental		169,077		\$ 117,205	\$ 2			
Other		141,906						
Total revenues	8,137	311,022	872	117,205	2	159	6	\$ -
Expenditures:								
General government								
Public safety	4,974	14,219						
Recreation								
Public Education								
Capital outlays				117,205				
Total expenditures & capital outlays	4,974	14,219	-	117,205	-	-	-	-
Excess of revenue over (under) expenditures before transfers	3,163	296,803	872	-	2	159	6	-
Other financing sources (uses):								
Proceeds from sale of assets								
Proceeds from capital leases								
Proceeds from bonds								
Transfers in								
Transfers out		(225,000)	(528,996)					
Net other financing sources (uses)	-	(225,000)	(528,996)	-	-	-	-	-
Excess of revenues and other sources over (under) expenditures and other uses	3,163	71,803	(528,124)	-	2	159	6	-
Fund balance, beginning of the year-restated	3,848	147,173	528,124	-	47	144,241	18	160,019
Fund balance, end of the year	\$ 7,011	\$ 218,976	\$ -	\$ -	\$ 49	\$ 144,400	\$ 24	\$ 160,019

CITY OF CENTRAL FALLS

Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2011

	Recreation Capital	Capital Reserve	Capital Lease	Byrne Grant	\$10 Million Muni Bond	Historic Trust	Lysander Flag Memorial Fund	GRAND TOTALS
ASSETS								
Cash and cash equivalents	\$ 9,209					\$ 38,196	\$ 101,981	\$ 1,976,723
Due from federal and state governments								3,179,272
Accounts receivable								22,432
Due from other funds		\$ 2,902	\$ 96,553			19,300	50	1,792,366
Prepaid expenditures								231,684
TOTAL ASSETS	9,209	2,902	96,553	\$ -	-	57,496	102,031	7,202,477
LIABILITIES								
Accounts payable	2,587					6,052		984,219
Due to other funds	5,741					6,052	3,026	2,737,231
Deferred revenue							2,259	441,708
TOTAL LIABILITIES	8,328	-	-	-	-	12,104	5,285	4,163,158
FUND BALANCE								
Nonspendable							37,988	269,672
Restricted	881	2,902	96,553			45,392	58,758	2,769,647
TOTAL FUND BALANCE	\$ 881	\$ 2,902	\$ 96,553	\$ -	\$ -	\$ 45,392	\$ 96,746	\$ 3,039,319

CITY OF CENTRAL FALLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the year ended June 30, 2011

	Recreation Capital	Capital Reserve	Capital Lease \$600,000	Byrne Grant	\$10 Million Muni Bond	Historic Trust	Lysander Flag Memorial Fund	GRAND TOTALS
Revenues:								
Interest and investment income	\$ 5		\$ 6		\$ 738	\$ 105	\$ 131	\$ 5,697
Licenses, fees, permits and fines								34,410
Intergovernmental				\$ 35,028				11,408,556
Other	300					8,255	25	664,483
Total revenues	305	\$ -	6	35,028	738	8,360	156	12,113,146
Expenditures:								
General government	5,135					6,052	-	288,363
Public safety								219,852
Recreation								18,366
Public Education								10,930,343
Capital outlays				35,028				161,688
Total expenditures & capital outlays	5,135	-	-	35,028	-	6,052	-	11,618,612
Excess of revenue over (under) expenditures before transfers	(4,830)	-	6	-	738	2,308	156	494,534
Other financing sources (uses):								
Proceeds from sale of assets								-
Proceeds from capital leases								-
Proceeds from bonds								-
Transfers in	5,332							5,332
Transfers out					(498,305)			(1,257,642)
Net other financing sources (uses)	5,332	-	-	-	(498,305)	-	-	(1,252,310)
Excess of revenues and other sources over (under) expenditures and other uses	502	-	6	-	(497,567)	2,308	156	(757,776)
Fund balance, beginning of the year-restated	379	2,902	96,547	-	497,567	43,084	96,590	3,797,095
Fund balance, end of the year	\$ 881	\$ 2,902	\$ 96,553	\$ -	\$ -	\$ 45,392	\$ 96,746	\$ 3,039,319

PENSION TRUST FUNDS

**Combining Statement of Net Assets
Pension Trusts
June 30, 2011**

	<u>Fire Pension Fund 1%</u>	<u>Police Pension Fund 1%</u>	<u>Police & Fire Pension Fund (John Hancock)</u>	<u>Totals</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 115,197	\$ 544,478	\$ 659,675
Investments			4,925,323	4,925,323
Other receivables	16,206		16,771	32,977
Accrued interest receivable		-		-
Total Assets	<u>16,206</u>	<u>115,197</u>	<u>5,486,572</u>	<u>5,617,975</u>
LIABILITIES				
	-	-	-	-
NET ASSETS				
Held in Trust for pension benefits	<u>\$ 16,206</u>	<u>\$ 115,197</u>	<u>\$ 5,486,572</u>	<u>\$ 5,617,975</u>

CITY OF CENTRAL FALLS

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**Combining Statement of Changes in Net Assets
Pension Trusts
For the year ended June 30, 2011**

	<u>Fire Pension Fund 1%</u>	<u>Police Pension Fund 1%</u>	<u>Police & Fire Pension Fund (John Hancock)</u>	<u>Totals</u>
ADDITIONS:				
Contributions	\$ 109,792	\$ 60,663	\$ 267,129	\$ 437,584
Investment income	3,818	1,451	242,979	248,248
Other income			502	502
DEDUCTIONS:				
Trust expenses	688,768	610,150	1,829,918	3,128,836
OTHER FINANCING SOURCES				
Transfers out			-	-
CHANGE IN NET ASSETS	<u>(575,158)</u>	<u>(548,036)</u>	<u>(1,319,308)</u>	<u>(2,442,502)</u>
Net assets - beginning	<u>591,364</u>	<u>663,233</u>	<u>6,805,880</u>	<u>8,060,477</u>
Net assets - ending	<u>\$ 16,206</u>	<u>\$ 115,197</u>	<u>\$ 5,486,572</u>	<u>\$ 5,617,975</u>

AGENCY FUNDS

Statement of Changes in Assets and Liabilities
Agency Funds
For the year ended June 30, 2011

	Beginning Balance	Additions	Deductions	Ending Balance
<u>Unclaimed Estates</u>				
ASSET				
Cash	\$ 32,220	\$ 99	\$ 12	\$ 32,307
LIABILITY				
Deposits Held in Custody for Others	\$ 32,220	\$ 137	\$ 50	\$ 32,307
<u>School funds</u>				
ASSET				
Cash	\$ 153,626	\$ 253,225	\$ 238,892	\$ 167,959
Other receivables	-	2,027	-	2,027
	<u>\$ 153,626</u>	<u>\$ 255,252</u>	<u>\$ 238,892</u>	<u>\$ 169,986</u>
LIABILITIES				
Deposits Held in Custody for Others	\$ 153,626	\$ 255,252	\$ 238,892	\$ 169,986
Total Liabilities	<u>\$ 153,626</u>	<u>\$ 255,252</u>	<u>\$ 238,892</u>	<u>\$ 169,986</u>
<u>Totals</u>				
ASSET				
Cash	\$ 185,846	\$ 253,324	\$ 238,904	\$ 200,266
Other receivables	-	2,027	-	2,027
TOTAL ASSETS	<u>\$ 185,846</u>	<u>\$ 255,351</u>	<u>\$ 238,904</u>	<u>\$ 202,293</u>
LIABILITIES				
Deposits Held in Custody for Others	185,846	255,389	238,942	202,293
TOTAL LIABILITIES	<u>\$ 185,846</u>	<u>\$ 255,389</u>	<u>\$ 238,942</u>	<u>\$ 202,293</u>

CITY OF CENTRAL FALLS

**SCHEDULE OF PROPERTY TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2011**

<u>Assessment of</u>	<u>Balance Uncollected July 1, 2010</u>	<u>2010 Assessment</u>	<u>Additions & Adjustments</u>	<u>Abatements</u>	<u>Amount to be Collected</u>	<u>Current Year Collections</u>	<u>Balance June 30, 2011</u>
2010		\$ 12,612,856	\$ 8,440	\$ (43,730)	\$ 12,577,566	\$11,282,139	\$ 1,295,427
2009	\$ 455,039			(33,889)	421,150	281,053	140,097
2008	171,672			(1,856)	169,816	37,030	132,786
2007	153,548				153,548	10,336	143,212
2006	90,482			(43)	90,439	5,480	84,959
2005	72,448				72,448	2,683	69,765
2004	67,095				67,095	1,041	66,054
2003	67,560				67,560	909	66,651
2002	71,349				71,349	497	70,852
2001	78,770				78,770	205	78,565
2000	63,173				63,173	100	63,073
1999	84,547				84,547	42	84,505
1998	109,156				109,156	27	109,129
1997	105,192				105,192	107	105,085
1996	115,413				115,413	267	115,146
1995 and prior	297,172				297,172	362	296,810
	2,002,616	\$ 12,612,856	\$ 8,440	\$ (79,518)	\$ 14,544,394	\$ 11,622,278	2,922,116
Less: allowance for uncollectible accounts	(711,480)						(850,000)
	<u>\$ 1,291,136</u>						<u>\$ 2,072,116</u>

Schedule of property valuation assessed as of December 31, 2009:

Real estate	\$ 10,563,669
Motor vehicles	1,871,185
Tangibles	956,825
Less: exemptions	(778,823)
	<u>\$ 12,612,856</u>