

CITY OF NEW HAVEN, CONNECTICUT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

CITY OF NEW HAVEN, CONNECTICUT

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

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FOR THE YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Board of
Aldermen of the City of New Haven
New Haven, Connecticut

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Haven, Connecticut, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of New Haven, Connecticut's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the New Haven Parking Authority and the New Haven Coliseum Authority, component units of the City, and the New Haven Water Pollution Control Authority, an enterprise fund, which represent 4.09 percent, 5.33 percent, and 3.31 percent, respectively, of the assets, net assets, and revenues of the City of New Haven, Connecticut. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the New Haven Parking Authority, the New Haven Coliseum Authority and the New Haven Water Pollution Control Authority, is based on the report of the other auditors.

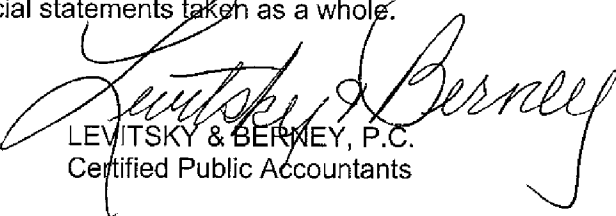
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the New Haven Parking Authority and the New Haven Water Pollution Control Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Haven, Connecticut as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2006, on our consideration of the City of New Haven, Connecticut's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New Haven, Connecticut's basic financial statements. The combining and individual non-major fund statements and schedules, and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


LEVITSKY & BERNEY, P.C.
Certified Public Accountants

January 23, 2006



CITY OF NEW HAVEN
DEPARTMENT OF FINANCE



John DeStefano Jr.
Mayor

Mark Pietrosimone
City Controller

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of New Haven's Management discussion and analysis for the fiscal year ending June 30, 2006 is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, identify any material deviations from the financial plan (the approved budget), and identify individual fund issues or concerns.

Government-Wide Financial Statements

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

The analysis of the City as a whole begins on Exhibit A and B of the following audit. The statement of net assets presents information on all of the City of New Haven's assets and liabilities, with the difference between the two reported as net assets. The statements reflect the accrual basis of accounting, which is similar to accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide financial statements report the City's assets and changes in them. The City's net assets, the difference between assets and liabilities are a way to monitor the City's financial health. Over time, increases and decreases in net assets does serve as an indicator of whether the financial position of the City of New Haven has changed.

In the statement of net assets and the statement of activities the City reports its activities:

Governmental Activities – The City of New Haven’s basic service are reported here, including education, public safety, public works, health and welfare, culture and recreation and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.

Business Type Activities – The business type activities of the City of New Haven consist of the Water Pollution Control Authority, Golf Course Enterprise Fund, Skating Rink Enterprise Fund, Radio Tower Enterprise Fund and the Transfer Station Enterprise Fund.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City of New Haven can be grouped into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Proprietary Funds: The City of New Haven has two different types of proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of New Haven uses enterprise funds to account for its Water pollution Control Authority, Golf Course, Skating Rink, Golf Course and Radio Tower funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of New Haven’s various functions. The City of New Haven uses internal service funds to account for Self-Insurance Liability, Medical Self-Insurance and Workers Compensation. Because these funds predominately benefit governmental rather than business-type activities, they have been included within the governmental activities in the government-wide financial statements.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of New Haven’s governmental or business type activities. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found later in the schedules of audited financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City of New Haven's combined net assets decreased from a year ago by \$19.2 million to \$444.7 million. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current And Other Assets	200,891,960	195,651,277	1,850,243	14,169,441	202,742,203	209,820,718
Capital Assets	984,228,743	882,558,219	2,137,835	126,428,211	986,366,578	1,008,986,430
Total Assets	1,185,120,703	1,078,209,496	3,988,078	140,597,652	1,189,108,781	1,218,807,148
Other Liabilities	163,642,828	146,374,484	368,711	262,301	164,011,539	146,636,785
Long-term debt outstanding	580,353,397	561,314,085	-	46,945,558	580,353,397	608,259,643
Total Liabilities	743,996,225	707,688,569	368,711	47,207,859	744,364,936	754,896,428
Net Assets:						
Invested in capital assets (net of Restricted)	475,295,189	392,890,484	2,137,835	79,659,170	477,433,024	472,549,654
Unrestricted	34,516,475	16,805,421	-	-	34,516,475	16,805,421
	(68,687,186)	(39,174,978)	1,481,532	13,730,623	(67,205,654)	(25,444,355)
Total net Assets	441,124,478	370,520,927	3,619,367	93,389,793	444,743,845	463,910,720

The change in governmental net assets is illustrated in the table on the following page:

Table 2
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	54,068,180	47,916,429	4,494,496	17,199,243	58,562,676	65,115,672
Operating Grants and Contributions	233,395,097	217,694,875	-	-	233,395,097	217,694,875
Capital Grants and Contributions	71,712,343	72,110,067	629,191	3,181,484	72,341,534	75,291,551
General Revenues:						
Property Taxes	170,130,655	151,508,587	-	-	170,130,655	151,508,587
Grants and Contributions not restricted to specific purposes	51,943,898	51,603,825	-	-	51,943,898	51,603,825
One Time Payments	-	6,000,000	-	-	-	6,000,000
Investment Earnings	3,642,522	2,075,304	46,204	189,515	3,688,726	2,264,819
Prior Period Adjustment	-	-	-	-	-	-
Transfers	27,242,000	7,310,000	(27,242,000)	(7,310,000)	-	-
Total Revenues	612,134,695	556,219,087	(22,072,109)	13,260,242	590,062,586	569,479,329
Expenses:						
Program Expense:						
General Government	37,857,972	33,331,449	-	-	37,857,972	33,331,449
Education	256,839,100	241,022,920	-	-	256,839,100	241,022,920
Public Safety	60,927,432	58,787,561	-	-	60,927,432	58,787,561
Public Works	24,219,150	24,064,622	-	-	24,219,150	24,064,622
Public Services	35,216,619	40,469,049	-	-	35,216,619	40,469,049
Employee Benefits and Insurance	73,886,275	68,942,717	-	-	73,886,275	68,942,717
Development	-	-	-	-	-	-
Health and Welfare	8,465,545	8,619,934	-	-	8,465,545	8,619,934
Culture and Recreation	-	-	-	-	-	-
Other	24,432,970	35,889,536	-	-	24,432,970	35,889,536
Interest on long-term Debt	19,686,081	23,593,036	-	-	19,686,081	23,593,036
Loss on Sale of WPCA Assets	-	-	63,729,855	-	63,729,855	-
WPCA	-	-	2,427,169	16,938,947	2,427,169	16,938,947
Other	-	-	1,541,293	1,047,428	1,541,293	1,047,428
Total Expenses	541,531,144	534,720,824	67,698,317	17,986,375	609,229,461	552,707,199
Increase in Net Assets	70,603,551	21,498,263	(89,770,426)	(4,726,133)	(19,166,875)	16,772,130
Net Assets 6/30/05	370,520,927	349,022,664	93,389,793	98,115,926	463,910,720	447,138,590
Net Assets 6/30/06	441,124,478	370,520,927	3,619,367	93,389,793	444,743,845	463,910,720

Financial Highlights

- The City finished the FY 06 General Fund budget (primary operating fund) with an operating surplus of \$44,281.
- The City revised its FY 06 budget and received approval from the Board of Aldermen on December 19, 2005.
- In January, 2007, the City's FY06 general fund budget was further amended at the end of the fiscal year from \$393,724,085 to \$397,887,819.
- The City continued to improve on its Tax Collection Rate from 98.39% in FY 05 to 98.50% in FY 06 (see tables in Tax Collection section of this report for an historical overview).
- The City's mill rate increased to 42.53 (per thousand) in FY06 as compared to a FY05 mill rate of 39.53 (per thousand) (see tables in Tax Collection section of this report for an historical overview).
- The City's FY06, total gross taxable grand list increased slightly to \$4,172,791,142 (2004 GL) as compared to FY 05 total gross taxable grand list of \$4,101,236,254 (2003GL). The City's assessment deferral program reduced the Real Estate portion of the Grand list by approximately \$35,140,174 reducing taxes collectible by \$1,494,537.

Grand List

The City's net Grand List is the net value of all property within the City of New Haven. The City's taxable Grand list history is displayed as follows:

<u>FY</u>	<u>TAXABLE GRAND LIST</u>	<u>EXEMPTIONS</u>	<u>NET GRAND LIST</u>
05-06	\$4,172,791,142	\$194,350,026	\$3,978,441,116
04-05	\$4,101,236,254	\$214,694,634	\$3,886,541,620
03-04	\$4,162,644,625	\$225,754,890	\$3,936,889,735
02-03	\$4,116,596,496	\$230,393,141	\$3,886,203,255
01-02	\$3,938,129,114	\$197,935,779	\$3,740,193,335
00-01	\$3,879,505,506	\$170,634,828	\$3,708,870,678
99-00	\$3,914,599,952	\$166,350,564	\$3,748,249,388
98-99	\$3,873,658,389	\$157,650,241	\$3,716,608,148

2004 Grand list

Real Estate Assessments of \$3,417,252,520 reflects a decrease of \$6,366,540 at the time of signing the Grand List 2004. By end of year, it was \$3,236,331,701. The reduction to the 2004 Grand List was expected due to pending court cases from the 2001 Grand List. The two most significant changes involved the property owned by PSEG Power Connecticut LLC, located at 5 Waterfront Street and the FBI building located at 26 Grove Street. The Personal Property assessment total of \$468,370,658 was actually an increase over the previous grand list year, however, due to exemptions the personal property component of the grand list ended at \$421,290,811. Motor Vehicle assessment increased to \$306,833,066 for the 2005 Grand list, up from \$281,853,241 with a net taxable amount of \$304,564,030.

Assessment deferrals for Grand List 2004 totaled \$35,140,174.

Fund Balance, Ratings and City Debt

A positive fund balance would allow the City to meet unexpected expenditure demands or revenue declines if the current City budget was unable to meet such demands without suddenly having a mid-year tax increase.

An excellent example of the benefits of a positive fund balance occurred in FY03. During the FY03, the State of Connecticut implemented a mid-year revenue reduction to all Cities and towns resulting in the City losing \$4.4 million in budgeted revenue. That year, City officials requested and subsequently received approval from the Board of Aldermen to use \$3,721,029 of the Fund Balance to eliminate the operating deficit. Through the use of the Fund Balance, the City was able to meet its budgetary demands without a supplemental form of increased taxes.

The year ending audited Fund Balance for FY 06 is \$13,023,677, which reflects a .34% increase over the previous year.

Rating Agencies look to fund balance as a barometer of fiscal health for the City. These rating agencies rate the risk for investors willing to buy debt issued for the purpose of financing the City's capital projects. The higher ratings translate into lower interest costs on capital borrowings. The City sold \$49.5 million in general obligation bonds in February 06. To do so, the City's current financial health was reviewed by several rating agencies. At that time, the City maintained its ratings (as illustrated below) but Moody's Investor Services and Fitch Investor Services attached negative outlooks to those ratings citing the additional pressures on the City's fiscal management, City's reliance on one time revenue and reduced financial flexibility in the short term future.

In November, 2006 the City conducted a refinancing of some current bond obligations. Again, the City's financial health was reviewed by the various rating agencies. The rating review was successful as the three current ratings were maintained, and, the all three ratings agencies placed stable outlooks on the City's debt.

The ratings are as follows:

Moody's Investment Services	A3 rating, issued and maintained since 1999
Standard and Poor's	A- rating, issued and maintained since 2001
Fitch Investors Services	A- rating, issued and maintained since 2001

Ratings issued in November 2006.

The rating agencies have attributed their maintaining of these ratings to the City's strong financial management, property tax collection rates, strong cost cutting procedures, stable economic base that is bolstered by higher education, health care, pharmaceuticals and a growing biotechnology industry. However, each rating agency does show concern over the City's reliance on State Aid, below average wealth and income indicators, non-growth of the City's tax base and high debt burden.

In November 2006, the City refinanced \$69,750,000 in bonds maturing in the years 2014 through 2021. Based on that sale, the interest rates and prices obtained, the City will achieve a net present value debt services savings of \$2,021,635.56 on an aggregate principal amount of \$70,130,000 of previously issued General Obligation Bonds of the City, or 2.8829%.

City Of New Haven Fund Balance History:

<u>Fiscal Year</u>	<u>Fund Balance</u>
93-94	3,282,867
94-95	6,554,209
95-96	11,610,049
96-97	14,078,135
97-98	15,874,656
98-99	17,985,630
99-00	17,332,501
00-01	20,332,114
01-02	17,658,226
02-03*	12,503,197
03-04	12,948,501
04-05	12,979,396
05-06	13,023,677

*mid year State Budgeted Revenue cuts necessitated the use of fund balance to balance FY 02-03 operating budget.

FY 06 General Fund Budget

The Board of Aldermen originally approved the FY 06 City General Fund Budget on May 23, 2005 in compliance with City Charter requirements. The Connecticut State Legislature had not yet completed the State's budget. After the State budget process was completed, certain State Revenue items listed in the City's recently adopted budget needed to be changed. The City revised its FY 06 budget and received approval from the Board of Aldermen on December 19, 2005. In January, 2007, the budget was further amended so that the final budget amount now equals \$397, 887,819.

About 40% of the total budget is for the Board of Education. Of the City's entire \$397,887,819 general funded budget, \$159,391,085 is budgeted for the Board of Education and \$238,496,734 is non-Education related.

Beginning in October 2005, City Administrators projected several deficit areas in the general fund budget. At the time expenditure controls were set in place to control spending in an effort to offset projected over expenditures. In January 2006, those controls were further tightened. In December 2005, City administrators began to report these problem areas in published monthly reports, as required by City Charter. Expenditure over runs were mostly expected in the labor contractually obligated and Civilian wellness areas of Police Overtime (approx. \$925,000), Fire Overtime (\$300,000), Health Benefits (\$1,100,000), Workers Compensation (\$500,000) and Public Works-Waste disposal (\$1,000,000). On the revenue side, higher than budget projections were realized in tax collections, about \$2,300,000; investment income, about \$1,600,000; real estate conveyance tax, about \$1,300,000 and building permit revenue, about \$2,200,000. The additional revenue recognized by the City was sufficient enough to offset the above listed expenditure over runs and a projected revenue shortfall in parking tags (\$3,700,000) so that the City balanced the fiscal year 2006 with a slight surplus of \$44,000, despite exceeding the expenditure side of the City's budget by over \$3 million.

The annual debt service obligation for the general fund in FY 06 was reduced by \$11,805,505 due to the proceeds generated by the asset sale of the City's New Haven Water Pollution Control Authority.

