

CITY OF NEW HAVEN, CONNECTICUT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

CITY OF NEW HAVEN, CONNECTICUT

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2007

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LEVITSKY & BERNEY

A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS
100 BRADLEY ROAD • WOODBRIDGE, CONNECTICUT 06525-2394
203 389-5371 • FAX 203 389-4430

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, 2007, 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, which represent 3.92 percent, 4.84 percent, and 2.76 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 and the New Haven Coliseum Authority is based on the report of the other auditors.

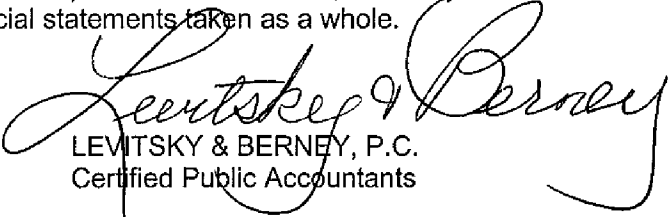
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the New Haven Parking Authority 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, 2007, and the respective changes in financial position and, cash flows, where applicable, 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 December 27, 2007, 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 3a through 3i 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

December 27, 2007



CITY OF NEW HAVEN
DEPARTMENT OF FINANCE



John DeStefano Jr.
Mayor

Mark Pietrosimone
City Controller

200 ORANGE STREET
NEW HAVEN, CONNECTICUT 06510
Tel. (203) 946-8300 - Fax. (203) 946-7244

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of New Haven, we offer readers of the City of New Haven's financial statements this narrative overview and analysis of the financial activities of the City of New Haven for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we furnished in our letter of transmittal.

Overview of Financial Statements

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 increased from a year ago by about \$106.6 million to \$551,338,114, but the total assets exceed total liabilities at the close of the most recent fiscal year by \$551 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	
	2007	2006	2007	206	2007	2006
Current And Other Assets	185,387,731	200,891,960	2,019,761	1,850,243	187,407,492	202,742,203
Capital Assets	1,085,151,799	984,228,743	2,045,833	2,137,835	1,087,197,632	986,366,578
Total Assets	1,270,539,530	1,185,120,703	4,065,594	3,988,078	1,274,605,124	1,189,108,781
Other Liabilities	142,500,435	163,642,828	229,745	368,711	142,730,180	164,011,539
Long-term debt outstanding	580,536,830	580,353,397	-	-	580,536,830	580,353,397
Total Liabilities	723,037,265	743,996,225	229,745	368,711	723,267,010	744,364,936
Net Assets:						
Invested in capital assets (net of	590,164,856	475,295,189	2,045,833	2,137,835	592,210,689	477,433,024
Restricted	27,821,177	34,516,475	-	-	27,821,177	34,516,475
Unrestricted	(70,483,768)	(68,687,186)	1,790,016	1,481,532	(68,693,752)	(67,205,654)
Total net Assets	547,502,265	441,124,478	3,835,849	3,619,367	551,338,114	444,743,845

As of the close of the current fiscal year the City of New Haven's governmental funds reported combined total net assets of \$547,502,265 million, an increase of \$106 million in comparison with the prior year.

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	
	2007	2006	2007	2006	2007	2006
	Revenues:					
Program Revenues:						
Charges for services	69,016,817	54,068,180	1,699,893	4,494,496	70,716,710	58,562,676
Operating Grants and Contributions	230,990,261	233,395,097	-	-	230,990,261	233,395,097
Capital Grants and Contributions	123,116,731	71,712,343	-	629,191	123,116,731	72,341,534
General Revenues:						
Property Taxes	179,455,921	170,130,655	-	-	179,455,921	170,130,655
Grants and Contributions not restricted to specific purposes	58,812,019	51,943,898	-	-	58,812,019	51,943,898
One Time Payments	-	-	-	-	-	-
Investment Earnings	4,925,231	3,642,522	6,432	46,204	4,931,663	3,688,726
Prior Period Adjustment	-	-	-	-	-	-
Transfers	110,000	27,242,000	(110,000)	(27,242,000)	-	-
Total Revenues	666,426,980	612,134,695	1,596,325	(22,072,109)	668,023,305	590,062,586
Expenses:						
Program Expense:						
General Government	32,110,858	37,857,972	-	-	32,110,858	37,857,972
Education	267,469,133	256,839,100	-	-	267,469,133	256,839,100
Public Safety	64,576,785	60,927,432	-	-	64,576,785	60,927,432
Public Works	25,542,135	24,219,150	-	-	25,542,135	24,219,150
Public Services	35,211,562	35,216,619	-	-	35,211,562	35,216,619
Employee Benefits and Insurance	82,174,588	73,886,275	-	-	82,174,588	73,886,275
Development	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-
Culture and Recreation	9,273,135	8,465,545	-	-	9,273,135	8,465,545
Other	23,549,651	24,432,970	-	-	23,549,651	24,432,970
Interest on long-term Debt	20,141,346	19,686,081	-	-	20,141,346	19,686,081
Loss on Sale of WPCA Assets	-	-	-	63,729,855	-	63,729,855
WPCA	-	-	-	2,427,169	-	2,427,169
Other	-	-	1,379,843	1,541,293	1,379,843	1,541,293
Total Expenses	560,049,193	541,531,144	1,379,843	67,698,317	561,429,036	609,229,461
Increase in Net Assets	106,377,787	70,603,551	216,482	(89,770,426)	106,594,269	(19,166,875)
Net Assets 6/30/06	441,124,478	370,520,927	3,619,367	93,389,793	444,743,845	463,910,720
Net Assets 6/30/07	547,502,265	441,124,478	3,835,849	3,619,367	551,338,114	444,743,845

Financial Highlights

- The City finished the FY 07 General Fund budget (primary operating fund) with an operating surplus of \$1,698,873.
- The City revised its FY 07 budget through the submission of the January 2007 Monthly Report, which was approved by the Board of Aldermen on June 4, 2007.
- The budget was amended from \$415,696,905 to \$420,465,634.
- The City continued to improve on its Tax Collection Rate from 98.50% in FY 06 to 98.61% in FY 07.
- The City's mill rate increased to 44.85 (per thousand) in FY07 as compared to a FY06 mill rate of 42.53 (per thousand).
- The City's FY07, total gross taxable grand list increased to \$4,192,456,244 as compared to FY 06 total gross taxable grand list of \$4,172,791,142.

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.

The year ending audited Fund Balance for FY 07 is \$14,772,550, which reflects a 13.04% 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 \$39.5 million in general obligation bonds in February 07. To do so, the City's current financial health was reviewed by several rating agencies.

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 February 2007.

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%.

The City's bonds outstanding, as of June 30, 2007 totaled \$503,307,879 compared to June 30, 2006 total of \$490,896,510.

Bonds outstanding at year end	
June 30, 2005	\$525,278,746
June 30, 2004	\$500,848,442
June 30, 2003	\$428,682,276

The City retired \$40,728,447 in principal in FY 2007.

The City's current debt service requirements attribute 57% of its costs to the City's Board of Education (includes both School construction and non school construction capital cost) and 43% of its cost to other City capital expenses

FY 07 General Fund Budget

The Board of Aldermen originally approved the FY 07 City General Fund Budget on May 22, 2006 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 07 budget and received approval from the Board of Aldermen on June 4, 2007.

About 39% of the total budget is for the Board of Education. Of the City's entire \$420,465,634 general funded budget, \$166,071,530 is budgeted for the Board of Education and \$254,394,104 is non-Education related.

Beginning with the submission of the January 2007 Monthly Report, City Administrators projected several deficit areas in the general fund budget. In accordance with City Ordinance Section 2-389, "Action to eliminate a Projected Deficit", the monthly report contained a plan of action to avert the potential deficit areas as indicated by City Administrators and to balance the budget. The plan included a strict expenditure controls program, including a freeze on personnel hiring, stricter oversight over Police and Fire overtime spending, and pre-approval of all non personnel spending. In addition, initiatives were established on the revenue side of the budget. Sustain property tax collections program, initiation of a personal property tax audit program, increase the parking tag collection program and the sale of certain City assets.

Expenditure over runs was mostly expected in Police Overtime (approx. \$1.8 million), Fire Overtime (\$1.5 million), Public Works (\$1.7 million), Workers Compensation (\$1 million) and Education (\$1million).

Internal Service Funds:

The City's internal service funds are for Self-Insurance, Medical Self -Insurance and Worker's Compensation.

Self Insurance:

The City's self insurance fund has a negative fund balance of \$14,147,680. Of which, \$4.3 million is attributed to case reserves. Approximately \$9.8 million represents an under-funded liability for the City. The total negative fund balance is slightly higher than the previous year total which was reported as \$13,042,287.

Recognizing the need for additional financial resources into this account, the City increased its annual Public Liability appropriation from \$1.7 million in 2005 to \$2.5 million in 2006 and \$2.5 million in FY 2007, with longer term plans for subsequent years' appropriations to be budgeted at similar appropriation amounts as FY 06 and 07 or higher.

In addition, in order to further control or limit its liability, the City has initiated many risk related training programs over the last nine years for its' employees in the areas of Defensive Driver training, confined space, blood borne pathogen, lock out/tag out, hazardous communication, electricity, machine guarding, bucket trucks, truck and street sweeping and other training programs meeting general industry and construction standards. The City has also developed a collaborative relationship with the State's OSHA, by jointly developing safety programs and taking a proactive approach for the safety of its employees. The City also participates in the State and Federal sponsored training exercises for Homeland Security.

Since 1998, the City has purchased insurance for property loss and public officials' liability (including commercial excess insurance when applicable). This will prevent significant exposure for the City resulting from a catastrophic event or accident.

Medical Self -Insurance:

As a self insured entity, the City covers all associated costs for its employees medical insurance, Anthem Health Care Plans is the Third Party Administrator and the City uses the Anthem Health Care network. The Medical Self Insurance account ended with a slight deficit of \$43,215 for the year ending June 30, 2007. There was a 17% increase in total expenditures from \$64,230,292 spent in FY 06 to \$66,195,383 spent in FY 2007. Besides inflationary factors, the increase in cost is mainly due to an in utilization and to a lesser degree to an increase in cost per service. Annually, the City solicits proposals from Insurance Companies interested in providing excess "stop loss" medical benefit insurance, however, cost/benefit analysis have not yet demonstrated a benefit to the City. The City has been able to obtain this insurance for FY 2008, with a stop gap limit of \$1 million.

Worker's Compensation:

The Worker's Compensation account shows a deficit of \$2,477,663. Most of this deficit belongs to one claim, which the City's Office of the Corporation Counsel has initiated subrogation to recoup these costs for the City. FY07 expenses for this claim were \$391,319. The City also purchases excess "stop loss" workers compensation insurance to limit its liability.

