

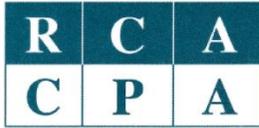
CITY OF GLOUCESTER, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2015

CITY OF GLOUCESTER, MASSACHUSETTS

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2015

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4-13
<u>BASIC FINANCIAL STATEMENTS:</u>	
Government-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Net Position	20
Statement of Net Position – Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
Statement of Fiduciary Net Position	24
Statement of Changes in Fiduciary Net Position	25
Notes to Basic Financial Statements	26-58
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>	
Schedule of the City's Proportionate Share of Net Pension Liability	60
Schedule of the City's Contributions to Pension Plan	60
Schedule of Commonwealth's Collective Share of Net Pension Liability Massachusetts Teacher's Retirement System	61
Schedule of Funding Progress – Other Postemployment Benefits	62
Schedule of Contribution Funding – Other Postemployment Benefits	62
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	63
Notes to Required Supplementary Information	64 -65



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Honorable Members of the City Council
City of Gloucester, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gloucester, Massachusetts, (the "City") as of and for the year ended June 30, 2015 which collectively comprise the City's basic financial statements as listed in the table of contents, (except for the Gloucester Contributory Retirement System, (the "System" or "Retirement System") which is as of December 31, 2014). We did not audit the financial statements of the Gloucester Lyceum and Sawyer Free Library, Inc. (the "Library"), which represents 100% of the assets, net position and revenues of the discretely presented component unit. The financial statements of the City as of June 30, 2014, were audited by other auditors whose report dated May 6, 2015, expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City, as of June 30, 2015, (except for the System which is as of December 31, 2014) and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Section IV, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — An Amendment of GASB Statement No. 27*. In connection with the adoption of this accounting standard, the previously reported total net position in the Statement of Net Position was restated. Also as discussed in Section IV, the 2014 basic financial statements were restated for the reclassifications of betterment activity, fiduciary funds, major funds and deferred mortgage loans.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedules of the City's proportionate share of net pension liability and contribution to pension plan, the Commonwealth's collective share of net pension liability to the Massachusetts Teachers' Retirement System, the funding progress and contribution funding for other postemployment benefits and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 have applied certain limited 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.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 24, 2016, on our consideration of the City of Gloucester, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts 01801
February 24, 2016

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the City, we offer readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the City and its component units for the fiscal year ended June 30, 2015.

Financial Highlights

- As disclosed in the Note IV to the financial statements, during fiscal year 2015, the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The implementation of this pronouncement required the restatement of certain beginning net position balances. These consisted of a reduction to Governmental activities net position by \$79.8 million, Business-type activities net position by \$8.3 million, the Water Enterprise Fund net position by \$4.0 million, the Sewer Enterprise fund net position by \$3.8 million, the Rink Enterprise Fund net position by \$0.2 million and Waterways Enterprise Fund Net Position by \$0.3 million.
- Also, as disclosed in Note IV, several other prior period adjustments related to the reclassification of the City's betterments between funds were made and may be reviewed in detail in this Note. Finally, the City reclassified its OPEB Trust Fund from a governmental fund to a fiduciary fund to reflect the City's vote to adopt chapter 32B section 20 of the Massachusetts general Laws.
- The assets and deferred outflows of resources exceeded the City's liabilities and deferred inflows at the close of the most recent fiscal year by almost \$53.9 million (*total net position*).
- The government's total net position increased by approximately \$4.1 million. This consisted of a increase in governmental activities' net position by approximately \$1.1 million combined with an increase in business - type activities' net position by over \$3.0 million (8.4% of business-type activities' net position).
- The City's Unassigned Fund Balance reported in the General Fund was approximately \$3.8 million (3.9% of General Fund expenditures). Total Fund Balance in the General Fund was approximately \$7.3 million (7.4% of General Fund expenditures).
- The City's total debt decreased by approximately \$11.4 million during the fiscal year. This was mainly the result of scheduled pay downs. Short-term notes increased by \$21.5 million to \$24.0 million as the City issued short-term notes in conjunction with various large construction projects currently underway.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The *statement of position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *statement of activities* presents information showing how the government's net position changed during

the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

The government-wide financial statements consist of three classifications; (1) those whose activities are principally supported by taxes and intergovernmental revenue (*governmental activities*); (2) those whose activities are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*), and (3) a *component unit*.

The governmental activities of the City include general government, public safety, highways and streets, sanitation, education, economic development, debt service, fringe benefits and culture and recreation. The business-type activities of the City are comprised completely of four enterprise funds; water, sewer, waterways and rink.

The Gloucester Lyceum and Sawyer Free Library is a legally separate entity presented discretely in this report because the City is financially accountable for and can impose its will on it.

Fund Financial Statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the following classifications:

- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation
- Committed—amounts constrained by a government using its highest level of decision-making authority
- Assigned—amounts a government intends to use for a particular purpose
- Unassigned—amounts that are not constrained at all will be reported in the general fund or in other major funds if negative

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 inflows and outflows of spendable resources*, as well as on *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.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing

so, readers may better understand the long-term impact of the government's near-term financing decisions.

The City maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, West Parish School Construction Fund and Capital Projects Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund and its enterprise fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget and is included in this report as required supplementary information.

Proprietary funds – The City maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, waterways and rink enterprise activities.

Changes in net position of the enterprise funds are summarized as follows:

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's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The System is a Pension Trust that is a legally separate entity reported as a fiduciary fund. Because the System services almost entirely the City, it is presented as if it were part of the primary government as a fiduciary fund due to the significance of its operations.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's proportionate share of net pension liability, contributions to pension plan, the Commonwealth's collective share of net pension liability to the Massachusetts Teachers' Retirement System, funding progress and contribution funding of the City's other postemployment benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and notes to this schedule.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$53.9 million at the close of the most recent fiscal year.

Condensed net position data is presented as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
<u>Assets</u>						
Current and other assets	\$ 42,561,099	\$ 44,119,833	\$ 23,436,989	\$ 21,972,354	\$ 65,998,088	\$ 66,092,187
Capital assets, net	102,053,470	81,267,350	209,943,987	205,708,850	311,997,457	286,976,200
Total assets	144,614,569	125,387,183	233,380,976	227,681,204	377,995,545	353,068,387
Deferred outflows of resources	139,408	-	14,466	-	153,874	-
<u>Liabilities</u>						
Long-term liabilities	172,378,254	91,139,825	118,448,960	112,425,469	290,827,214	203,565,294
Other liabilities	26,263,170	5,559,587	7,122,725	3,455,204	33,385,895	9,014,791
Total liabilities	198,641,424	96,699,412	125,571,685	115,880,673	324,213,109	212,580,085
Deferred inflows of resources	-	2,326,768	-	-	-	2,326,768
<u>Net Position</u>						
Net investment in capital assets	67,919,534	50,775,626	100,025,889	99,173,805	167,945,423	149,949,431
Restricted	14,703,484	17,957,590	-	-	14,703,484	17,957,590
Unrestricted	(136,510,465)	(42,372,213)	7,797,868	12,626,726	(128,712,597)	(29,745,487)
Total Net Position	\$ (53,887,447)	\$ 26,361,003	\$ 107,823,757	\$ 111,800,531	\$ 53,936,310	\$ 138,161,534

By far, the largest portion (approximately \$167.9 million) of the City's net position reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion, approximately \$14.7 million, of the City's net position represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position* is reported as a deficit of approximately \$128.7 million. A deficit of \$136.5 million is reported in governmental activities, which is offset by \$7.8 million in Business-type activities. The implementation of GASB 68 and related net pension liability of almost \$89.9 million and the recognition of other postemployment benefits of approximately \$59.8 million since the implementation of GASB 45 in 2009 are the primary contributors to this condition.

Condensed changes in net position are presented as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues						
Program revenues:						
Charges for services	\$ 11,474,889	\$ 11,112,823	\$ 13,284,388	\$ 13,959,304	\$ 24,759,277	\$ 25,072,127
Operating grants and	18,448,966	23,885,539	313,201	313,063	18,762,167	24,198,602
Capital grants and contributions	10,879,240	1,850,835	2,030,382	778,444	12,909,622	2,629,279
General revenues:						
Property taxes	73,802,313	67,590,493	-	-	73,802,313	67,590,493
Unrestricted grants and	3,572,975	3,477,561	-	-	3,572,975	3,477,561
Other	5,193,117	5,426,411	98,683	76,722	5,291,800	5,503,133
Total Revenues	123,371,500	113,343,662	15,726,654	15,127,533	139,098,154	128,471,195
Expenses						
General government	7,030,527	8,157,467	-	-	7,030,527	8,157,467
Public safety	26,236,458	25,041,322	-	-	26,236,458	25,041,322
Education	61,431,058	62,749,205	-	-	61,431,058	62,749,205
Public works	15,733,578	13,847,127	-	-	15,733,578	13,847,127
Health and human services	2,640,005	3,109,978	-	-	2,640,005	3,109,978
Culture and recreation	2,248,760	1,470,795	-	-	2,248,760	1,470,795
Community development	283,559	433,472	-	-	283,559	433,472
Debt service	1,079,444	1,928,689	-	-	1,079,444	1,928,689
Water	-	-	6,672,772	5,804,537	6,672,772	5,804,537
Sewer	-	-	10,773,921	9,435,467	10,773,921	9,435,467
Waterways	-	-	481,211	458,485	481,211	458,485
Rink	-	-	364,877	353,949	364,877	353,949
Total Expenses	116,683,389	116,738,055	18,292,781	16,052,438	134,976,170	132,790,493
Change in net position before	6,688,111	(3,394,393)	(2,566,127)	(924,905)	4,121,984	(4,319,298)
Transfers	(5,613,589)	(1,486,874)	5,613,589	1,486,874	-	-
Change in net position	1,074,522	(4,881,267)	3,047,462	561,969	4,121,984	(4,319,298)
Net position, beginning of year	26,361,003	31,242,270	111,800,531	111,238,562	138,161,534	142,480,832
Restate net pension liability	(79,852,025)	-	(8,284,727)	-	(88,136,752)	-
Restate fiduciary funds	(210,456)	-	-	-	(210,456)	-
Restate betterment receivables	(3,555,154)	-	3,555,154	-	-	-
Restate betterment equity	(1,303,016)	-	1,303,016	-	-	-
Restate betterment debt	4,204,081	-	(4,204,081)	-	-	-
Restate debt subsidies	(606,402)	-	606,402	-	-	-
Net position, beginning of year, as	(54,961,969)	31,242,270	104,776,295	111,238,562	49,814,326	142,480,832
Net position, end of year	<u>\$ (53,887,447)</u>	<u>\$ 26,361,003</u>	<u>\$ 107,823,757</u>	<u>\$ 111,800,531</u>	<u>\$ 53,936,310</u>	<u>\$ 138,161,534</u>

Governmental Activities – The governmental activities increased net position by approximately \$1.1 million.

Major revenue sources of governmental activities consist of revenue from:

(1) Operating grants which comprised approximately 15.0% of the total governmental activity revenues; this is \$5.4 million less than the prior year and relates almost entirely to a change in the method of reporting intergovernmental revenue related to a special funding situation of the City’s teachers’ pensions to conform with GASB 68, and

(2) Property taxes which represented 59.8% of total revenues an increase of \$6.2 million over the prior year; under Massachusetts General Laws, communities are allowed to assess taxes at 2 ½% of the prior year plus any new growth plus any exclusions authorized by the voters in excess of the statutory limit. During 2015, the voters authorized the City to assess taxes related to a portion of water and sewer debt (a debt shift) that was approximately \$4 million more than the prior year authorization therefore this when combined with the other items discussed met an increase that was expected from the prior year.

(3) Capital grants and contributions represented 8.9% of total revenues, an increase of \$9.2 million over the prior year. This was primarily a result of reimbursements received from the State for qualified construction costs of the West Parish Elementary School.

All other revenue sources approximated prior year amounts.

Major expense sources of governmental activities consist of expenses from:

(1) Education costs which represented the City’s largest expense category as education continues to be an area in which the City devotes substantial resources. Approximately 52.6% of total disbursements related to education; this represented an increase of approximately \$3.8 million over the prior year, which is consistent with the annual increases generally experienced by the City due to increases in school enrollment and the need to meet State mandated per pupil cost requirements. This increase was offset by a reduction of \$5.1 million (net overall reduction of \$1.3 million in education) due to the method of reporting pension expenses under a special funding situation regarding teacher’s pensions under GASB 68 (see corresponding revenue discussion above), and

(2) Public Works expenses represented 13.2% of total expenses, which were \$1.9 million greater than the prior year. This was due primarily to the historic winter snowfall experienced in fiscal 2015 and amounts far exceeding budget.

All other expenses were consistent with expectations.

Business-type Activities – Net position of the business-type activities increased by approximately \$3.1 million (8% of business-type activities’ net position) over the prior year balances. This was primarily a result of increases in capital grants of \$1.3 million and a reporting difference in the method of reporting debt service in the enterprise funds in the current period.

Fund-wide Financial Analysis of the Government’s Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City’s *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City’s financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the City’s governmental funds balance sheet reported a combined ending fund balance of approximately \$2.5 million, a decrease of approximately \$14.7 million from the prior year. A \$12.1 million decrease in the capital projects fund due to the timing of capital expenditures in the current year related to bond issuances and reimbursements from the State for eligible school construction costs made up a large part of this decrease. The remainder was a large budget deficit in public works due to the historical snowfall in the 2015 winter season of over \$2 million.

The City’s Unassigned Fund Balance reported in the General Fund was approximately \$3.8 million (3.8% of General Fund expenditures). Total Fund Balance in the General Fund was approximately \$7.2 million (7.4% of General Fund expenditures). The City reported a Restricted Fund Balance of \$0.3 million restricted for debt service in the General Fund and \$1.3 million in its Capital Projects Fund restricted for capital projects. In addition to the restricted amounts, approximately \$12.0 million in combined unassigned deficits were reported in the City’s West Parish School and Capital Projects Funds. The remainder of the fund balances are reported as part of Combined Nonmajor Fund Balances and are classified as either (1) restricted due to constraints placed externally by third-parties in the amount of approximately \$7.1 million, or (2) unassigned as they reflect negative balances due to the timing of grant receipts not accrued as revenue.

Proprietary funds – The City’s proprietary funds are made up of (1) the Water, Sewer, Waterways and Rink Enterprise Funds which provides the same type of information found in the government-wide financial statements under business-type activities, but in more detail.

As previously discussed, the total net position increased by approximately \$3.1 million and is summarized in the following funds:

Water	\$ 2,105,615
Sewer	1,109,736
Waterways	(109,176)
Rink	(58,713)
Total Change	<u><u>\$ 3,047,462</u></u>

Waterways and rink incurred deficits primarily due to depreciation costs that the City does not budget for and are positive on a cash basis; water and sewer increases were due to grants and favorable operating results.

Fiduciary Fund – The City’s fiduciary fund is comprised primarily of the City’s Retirement System whose net position is approximately \$87.7 million. These assets are used strictly to pay retiree pensions and annuities and may not be used for City operating purposes.

For the year ended December 31, 2014 the net position increased by approximately \$5.2 million due primarily to vibrant market conditions during that calendar year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not significant (less than 1% of overall budget).

Further detail of budget to actual comparisons may be reviewed as part of the Required Supplementary Information following the footnotes to this report.

Capital Asset and Debt Administration

Capital Assets – The City’s investment in capital assets for its governmental and business type activities as of June 30, 2015 amounts to approximately \$312.0 million (net of accumulated depreciation), an increase from the previous year’s balance of approximately \$25.0 million. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery, equipment, and software. The total increase is due primarily to construction on the West Parish School, various public work projects and sewer infrastructure amounting to about \$35.0 million offset by depreciation of about \$10.0 million.

Additional information on the City’s capital assets can be found in Note II subsection D.

Long-term Debt – At the end of the current fiscal year, the City had total debt outstanding of approximately \$136.4 million. The entire amount comprises debt backed by the full faith and credit of the government. The City’s total debt decreased by approximately \$11.4 million during the fiscal year and was primarily due to regular scheduled maturities.

Approximately \$3.5 million in principal and \$1.6 million in interest of the water and sewer funds was paid through taxation as authorized by the City’s voters.

The City’s most recent credit evaluation resulted in maintaining an “AA” rating – stable outlook from Standard and Poor’s Investment Services for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0 % of its total assessed valuation. The current debt limitation for the City is approximately \$266.3 million, which is significantly in excess of the City’s outstanding general obligation debt classified as inside the debt limit.

The City also holds a proportionate share of debt of other governmental units that provide services within the City’s boundaries. The debt service from such arrangements is assessed annually to the City.

Bond anticipation note payable balances outstanding at year-end amount to approximately \$24.0 million and relate to school construction costs and sewer infrastructure.

Additional information on the City’s short-term and long-term debt can be found in Note II under subsections F and G.

Economic Factors and Next Year's Budget and Rates

- Consistent with both State and National work force trends, the City's unemployment rates have continued to improve over the last 12 months. Rates are currently lower than pre-recession levels and the best they have been in 10 years.
- The City's real estate tax base is made up predominantly of residential taxes, which comprise nearly 88.4% of the City's real estate tax base. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the City's ability to increase taxes in any one year by more than two and one-half percent (2 ½%) of the previous year tax levy.
- Consistent with both State and National indices, the City's housing market has experienced a significant positive trend since the end of the recession in 2011. Growth in real estate has been robust and some major projects are ongoing.
- The City has responded well to the recent economic challenges. Reductions in local revenue, primarily interest income and other reductions in revenue have caused the City to aggressively seek other revenue producing initiatives in order to maintain appropriations in ways that preserve local service levels.

All of the above items were considered when the City developed its budget for fiscal year 2016. The budget was adopted in June of 2015 and the City's tax rate was certified in November, 2015.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Auditor, 9 Dale Avenue, Gloucester, Massachusetts 01930.

Complete stand-alone financial statements of the Library can be obtained from the Office of the Director of the Library, 9 Dale Avenue, Gloucester, Massachusetts 01930.

The System does not issue separate audited financial statements, however it does prepare a statutorily required annual financial report. This report may be obtained by contacting the System at 127 Eastern Avenue, Gloucester, Massachusetts 01930.

Basic Financial Statements

CITY OF GLOUCESTER, MASSACHUSETTS

**STATEMENT OF NET POSITION
JUNE 30, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Gloucester Lyceum and Sawyer Free Library, Inc.
Assets				
Cash and cash equivalents	\$ 22,818,497	\$ 6,370,035	\$ 29,188,532	\$ 391,537
Investments	845,188	-	845,188	6,346,180
Receivables, net:				
Property taxes	884,262	-	884,262	-
Tax liens and deferrals	2,308,429	-	2,308,429	-
User fees	-	4,249,205	4,249,205	-
Betterments	-	10,285,331	10,285,331	-
Departmental and other	2,277,726	56,696	2,334,422	-
Intergovernmental	7,051,771	2,475,722	9,527,493	-
Loans	5,933,005	-	5,933,005	-
Tax foreclosures	442,221	-	442,221	-
Capital assets not being depreciated	42,589,106	7,351,425	49,940,531	1,000
Capital assets, net of accumulated depreciation	59,464,364	202,592,562	262,056,926	2,769,808
Total Assets	144,614,569	233,380,976	377,995,545	9,508,525
Deferred Outflows of Resources				
Deferred pensions	139,408	14,466	153,874	-
Total Deferred Outflows of Resources	139,408	14,466	153,874	-
Liabilities				
Warrants and accounts payable	3,660,584	68,937	3,729,521	4,368
Accrued payroll and withholdings	2,281,786	914	2,282,700	-
Retainage payable	821,165	-	821,165	-
Tax refunds payable	148,099	-	148,099	-
Accrued interest	420,287	1,060,326	1,480,613	-
Other liabilities	881,249	42,548	923,797	-
Bond anticipation notes payable	18,050,000	5,950,000	24,000,000	-
Noncurrent liabilities:				
Due within one year	5,208,865	7,995,085	13,203,950	-
Due in more than one year	167,169,389	110,453,875	277,623,264	-
Total Liabilities	198,641,424	125,571,685	324,213,109	4,368
Deferred Inflows of Resources	-	-	-	-
Net Position				
Net investment in capital assets	67,919,534	100,025,889	167,945,423	2,770,808
Restricted for:				
Expendable permanent funds	1,408,157	-	1,408,157	-
Debt service	314,964	-	314,964	-
Community preservation	841,647	-	841,647	-
Federal and State grants	1,724,572	-	1,724,572	-
Loans	5,933,005	-	5,933,005	-
Capital outlay	1,325,385	-	1,325,385	-
Gift funds	1,057,330	-	1,057,330	-
Other specific purposes	2,098,424	-	2,098,424	3,350,549
Unrestricted	(136,510,465)	7,797,868	(128,712,597)	3,382,800
Total Net Position	\$ (53,887,447)	\$ 107,823,757	\$ 53,936,310	\$ 9,504,157

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 7,030,527	\$ 968,894	\$ 255,585	\$ -	\$ (5,806,048)		\$ (5,806,048)	
Public safety	26,236,458	5,077,913	1,297,046	409,169	(19,452,330)		(19,452,330)	
Education	61,431,058	1,326,587	14,301,305	8,717,682	(37,085,484)		(37,085,484)	
Public works	15,733,578	3,046,751	-	1,448,177	(11,238,650)		(11,238,650)	
Health and human services	2,640,005	463,970	720,913	-	(1,455,122)		(1,455,122)	
Culture and recreation	2,248,760	-	359,833	304,212	(1,584,715)		(1,584,715)	
Community development	283,559	590,774	764,453	-	1,071,668		1,071,668	
Interest expense	1,079,444	-	749,831	-	(329,613)		(329,613)	
Total governmental activities	116,683,389	11,474,889	18,448,966	10,879,240	(75,880,294)		(75,880,294)	
Business-type activities:								
Water	6,672,772	4,842,760	-	1,103,841		\$ (726,171)	(726,171)	
Sewer	10,773,921	7,862,112	313,201	926,541		(1,672,067)	(1,672,067)	
Waterways	481,211	273,352	-	-		(207,859)	(207,859)	
Rink	364,877	306,164	-	-		(58,713)	(58,713)	
Total business-type activities	18,292,781	13,284,388	313,201	2,030,382		(2,664,810)	(2,664,810)	
Total Primary Government	\$ 134,976,170	\$ 24,759,277	\$ 18,762,167	\$ 12,909,622	(75,880,294)	(2,664,810)	(78,545,104)	
Component Unit:								
Gloucester Lyceum and Sawyer Free Library, Inc.	\$ 1,305,732	\$ 16,446	\$ 1,759,659	\$ -				\$ 470,373
General Revenues:								
Property taxes					73,802,313		73,802,313	-
Motor vehicle and other excise					4,526,892	98,683	4,625,575	-
Grants and contributions not restricted to specific programs					3,572,975	-	3,572,975	-
Penalties and interest on taxes					579,891	-	579,891	-
Unrestricted investment income					84,034	-	84,034	164,493
Sale of property					2,300	-	2,300	-
Transfers (net)					(5,613,589)	5,613,589	-	-
Total general revenues					76,954,816	5,712,272	82,667,088	164,493
Change in Net Position					1,074,522	3,047,462	4,121,984	634,866
Net Position:								
Beginning of year, as restated (See Note IV)					(54,961,969)	104,776,295	49,814,326	8,869,291
End of year					\$ (53,887,447)	\$ 107,823,757	\$ 53,936,310	\$ 9,504,157

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	General Fund	West Parish School Construction	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 11,163,868	\$ 3,927,887	\$ 2,024,377	\$ 5,702,365	\$ 22,818,497
Investments	-	-	-	845,188	845,188
Receivables, net of allowance for uncollectibles:					
Property taxes	869,957	-	-	14,305	884,262
Tax liens and deferrals	2,308,429	-	-	-	2,308,429
Departmental and other	2,050,970	-	-	226,756	2,277,726
Intergovernmental	2,201,857	4,174,663	-	675,251	7,051,771
Loans	-	-	-	5,933,005	5,933,005
Tax foreclosures	442,221	-	-	-	442,221
Total Assets	19,037,302	8,102,550	2,024,377	13,396,870	42,561,099
Deferred Outflows of Resources	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 19,037,302	\$ 8,102,550	\$ 2,024,377	\$ 13,396,870	\$ 42,561,099
Liabilities					
Warrants and accounts payable	\$ 456,036	\$ 2,270,209	\$ 632,341	\$ 301,998	\$ 3,660,584
Accrued payroll and withholdings	2,091,258	-	-	190,528	2,281,786
Retainage payable	-	712,345	108,820	-	821,165
Tax refunds payable	148,099	-	-	-	148,099
Other liabilities	867,547	-	-	13,702	881,249
Workers compensation claims payable	468,215	-	-	-	468,215
Bond anticipation notes payable	-	15,000,000	3,050,000	-	18,050,000
Total Liabilities	4,031,155	17,982,554	3,791,161	506,228	26,311,098
Deferred Inflows of Resources					
Unavailable revenues - property taxes	3,178,386	-	-	14,305	3,192,691
Unavailable revenues - loans	-	-	-	5,933,005	5,933,005
Unavailable revenues - intergovernmental	2,146,988	-	-	-	2,146,988
Unavailable revenues - other	2,399,531	-	-	-	2,399,531
Total Deferred Inflows of Resources	7,724,905	-	-	5,947,310	13,672,215
Fund Balances					
Restricted	314,964	-	1,325,385	7,115,825	8,756,174
Assigned	3,163,485	-	-	-	3,163,485
Unassigned	3,802,793	(9,880,004)	(3,092,169)	(172,493)	(9,341,873)
Total Fund Balances	7,281,242	(9,880,004)	(1,766,784)	6,943,332	2,577,786
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 19,037,302	\$ 8,102,550	\$ 2,024,377	\$ 13,396,870	\$ 42,561,099

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

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

JUNE 30, 2015

Total Governmental Fund Balances		\$ 2,577,786
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		102,053,470
Other long-term assets are unavailable to pay current-period expenditures		13,672,215
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds:		
Net difference between projected and actual earnings on pension plan investments		139,408
In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due.		(420,287)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:		
Bonds and notes payable	(29,789,421)	
Unamortized premiums on bonds	(370,831)	
Landfill closure	(460,000)	
Compensated absences	(2,498,668)	
Net pension liability	(81,445,160)	
Other postemployment benefits	<u>(57,345,959)</u>	
Net effect of reporting long-term liabilities		<u>(171,910,039)</u>
Net Position of Governmental Activities		<u>\$ (53,887,447)</u>

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund	West Parish School Construction	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 72,756,794	\$ -	\$ -	\$ 557,402	\$ 73,314,196
Intergovernmental	15,888,859	8,667,682	250,524	8,365,599	33,172,664
Motor vehicle and other excises	4,389,505	-	-	-	4,389,505
Licenses and permits	1,799,191	-	-	-	1,799,191
Charges for services	-	-	-	3,462,273	3,462,273
Penalties and interest on taxes	579,891	-	-	-	579,891
Fines and forfeitures	359,724	-	-	-	359,724
Departmental and other revenue	5,260,898	-	52,251	-	5,313,149
Investment income	68,464	-	-	15,570	84,034
Contributions and donations	-	-	-	490,332	490,332
Total Revenues	101,103,326	8,667,682	302,775	12,891,176	122,964,959
Expenditures:					
Current:					
General government	4,622,772	-	640,538	352,041	5,615,351
Public safety	15,063,044	-	166,680	2,921,755	18,151,479
Education	39,175,616	17,191,600	540,111	5,801,250	62,708,577
Public works	11,786,973	-	2,431,520	1,207,433	15,425,926
Health and human services	971,211	-	333,643	649,226	1,954,080
Culture and recreation	889,633	-	60,453	848,254	1,798,340
Community development	-	-	-	913,842	913,842
Pension benefits and fringe benefits	18,390,910	-	-	-	18,390,910
State and county assessments	2,101,304	-	-	-	2,101,304
Debt service:					
Principal	4,582,222	-	-	-	4,582,222
Interest	1,065,665	-	-	-	1,065,665
Total Expenditures	98,649,350	17,191,600	4,172,945	12,693,801	132,707,696
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,453,976	(8,523,918)	(3,870,170)	197,375	(9,742,737)
Other Financing Sources (Uses):					
Issuance of bonds and notes	-	-	164,880	-	164,880
Issuance of refunding bonds	822,470	-	-	-	822,470
Premiums from bonds and notes	380,340	-	-	-	380,340
Payments to refunding bond escrow agent	(698,396)	-	-	-	(698,396)
Sale of assets	-	-	-	2,300	2,300
Transfers in	199,658	-	134,513	124,593	458,764
Transfers out	(5,766,364)	-	-	(305,989)	(6,072,353)
Total Other Financing Sources (Uses)	(5,062,292)	-	299,393	(179,096)	(4,941,995)
Net Change in Fund Balances	(2,608,316)	(8,523,918)	(3,570,777)	18,279	(14,684,732)
FUND BALANCES - Beginning of year, as restated (See Note IV)	9,889,558	(1,356,086)	1,803,993	6,925,053	17,262,518
FUND BALANCES - End of year	\$ 7,281,242	\$ (9,880,004)	\$ (1,766,784)	\$ 6,943,332	\$ 2,577,786

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances - Total Governmental Fund Balances		\$ (14,684,732)
<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. The net amounts are reflected here as reconciling items:</p>		
Capital outlays	25,555,132	
Depreciation expense	<u>(4,769,012)</u>	
Net effect of reporting capital assets		20,786,120
<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 financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:</p>		
Issuances of general obligation bonds and notes	(164,880)	
Issuances of refunding bonds	(822,470)	
Payments to refunding bond escrow agent	698,396	
Premiums from bonds and notes	(380,340)	
Amortization of premiums on bonds and notes payable	9,509	
Gain on refunding	(38,028)	
Repayments of debt	<u>4,582,222</u>	
Net effect of reporting long-term debt		3,884,409
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue.</p>		
		404,241
<p>In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.</p>		
		14,740
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:</p>		
Landfill closure	20,000	
Compensated absences	(260,662)	
Pension benefits	(1,453,727)	
Other postemployment benefits	<u>(7,635,867)</u>	
Net effect of reporting long-term liabilities		<u>(9,330,256)</u>
Change in Net Position of Governmental Activities		<u>\$ 1,074,522</u>

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2015

Assets	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Waterways	Rink	
Current assets:					
Cash and cash equivalents	\$ 1,879,618	\$ 3,881,745	\$ 374,759	\$ 233,913	\$ 6,370,035
Receivables (net):					
User charges	1,664,924	2,561,825	22,456	-	4,249,205
Betterments	-	519,201	-	-	519,201
Excise taxes	-	-	56,696	-	56,696
Intergovernmental	435,452	405,897	-	-	841,349
Total current assets	3,979,994	7,368,668	453,911	233,913	12,036,486
Noncurrent assets:					
Receivables (net):					
Betterments	-	9,766,130	-	-	9,766,130
Intergovernmental	-	1,634,373	-	-	1,634,373
Nondepreciable capital assets	4,951,378	1,861,565	538,482	-	7,351,425
Capital assets (net of depreciation)	62,034,013	138,166,664	1,456,078	935,807	202,592,562
Total noncurrent assets	66,985,391	151,428,732	1,994,560	935,807	221,344,490
Total Assets	70,965,385	158,797,400	2,448,471	1,169,720	233,380,976
Deferred Outflows of Resources					
Deferred pensions	6,903	6,598	616	349	14,466
Total Deferred Outflows of Resources	6,903	6,598	616	349	14,466
Liabilities					
Current liabilities:					
Warrants and accounts payable	49,304	14,530	4,985	118	68,937
Accrued payroll and withholdings	-	-	914	-	914
Accrued interest	485,651	574,675	-	-	1,060,326
Other liabilities	21,115	19,155	162	2,116	42,548
Bond anticipation notes payable	5,100,000	850,000	-	-	5,950,000
Compensated absences	10,674	2,126	3,504	81	16,385
Bonds and notes payable	2,740,684	5,184,256	-	53,760	7,978,700
Total current liabilities	8,407,428	6,644,742	9,565	56,075	15,117,810
Noncurrent liabilities:					
Compensated absences	96,064	19,132	31,538	725	147,459
Bonds and notes payable	40,117,923	58,442,836	-	843,910	99,404,669
Other postemployment benefits	1,141,162	1,027,075	200,080	83,412	2,451,729
Net pension liability	4,032,756	3,854,452	359,583	203,227	8,450,018
Total noncurrent liabilities	45,387,905	63,343,495	591,201	1,131,274	110,453,875
Total Liabilities	53,795,333	69,988,237	600,766	1,187,349	125,571,685
Deferred Inflows of Resources					
	-	-	-	-	-
Net Position					
Net investment in capital assets	19,645,510	78,267,544	1,994,560	118,275	100,025,889
Unrestricted	(2,468,555)	10,548,217	(146,239)	(135,555)	7,797,868
Total Net Position	<u>\$ 17,176,955</u>	<u>\$ 88,815,761</u>	<u>\$ 1,848,321</u>	<u>\$ (17,280)</u>	<u>\$ 107,823,757</u>

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FISCAL YEAR ENDED JUNE 30, 2015

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Waterways	Rink	
Operating Revenues:					
Charges for services	\$ 4,842,760	\$ 7,862,112	\$ 273,352	\$ 306,164	\$ 13,284,388
Boat excise taxes	-	-	98,683	-	98,683
Total Operating Revenues	4,842,760	7,862,112	372,035	306,164	13,383,071
Operating Expenses:					
Operating costs	4,317,294	5,483,418	354,510	259,830	10,415,052
Depreciation	1,443,693	3,626,266	126,701	86,833	5,283,493
Total Operating Expenses	5,760,987	9,109,684	481,211	346,663	15,698,545
Operating Income (Loss)	(918,227)	(1,247,572)	(109,176)	(40,499)	(2,315,474)
Nonoperating Revenues (Expenses):					
Intergovernmental	-	313,201	-	-	313,201
Betterments	-	516,373	-	-	516,373
Interest expense	(911,785)	(1,664,237)	-	(18,214)	(2,594,236)
Total Nonoperating Revenues (Expenses)	(911,785)	(834,663)	-	(18,214)	(1,764,662)
Income (Loss) Before Capital Contributions and Transfers	(1,830,012)	(2,082,235)	(109,176)	(58,713)	(4,080,136)
Capital contributions	1,103,841	410,168	-	-	1,514,009
Transfers in	2,831,786	2,781,803	-	-	5,613,589
Total Capital Contributions and Transfers	3,935,627	3,191,971	-	-	7,127,598
Change in Net Position	2,105,615	1,109,736	(109,176)	(58,713)	3,047,462
Total Net Position - Beginning of the Year, as restated (See Note IV)	15,071,340	87,706,025	1,957,497	41,433	104,776,295
Total Net Position - End of the Year	\$ 17,176,955	\$ 88,815,761	\$ 1,848,321	\$ (17,280)	\$ 107,823,757

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FISCAL YEAR ENDED JUNE 30, 2015

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Waterways	Rink	
Cash Flows from Operating Activities:					
Receipts from users	\$ 4,844,174	\$ 7,604,523	\$ 354,139	\$ 306,164	\$ 13,109,000
Payments to employees	(1,051,397)	(948,925)	(185,828)	(133,213)	(2,319,363)
Payments to vendors	(3,122,026)	(4,404,158)	(253,718)	(103,637)	(7,883,539)
Net Cash Provided by (Used in) Operating Activities	670,751	2,251,440	(85,407)	69,314	2,906,098
Cash Flows from Noncapital Financing Activities:					
Intergovernmental operating grants	-	313,201	-	-	313,201
Transfers in	2,831,786	2,781,803	-	-	5,613,589
Net Cash Provided by (Used in) Noncapital Financing Activities	2,831,786	3,095,004	-	-	5,926,790
Cash Flows from Capital and Related Financing Activities:					
Proceeds from capital grants	1,103,841	501,429	-	-	1,605,270
Proceeds from betterments	-	1,816,196	-	-	1,816,196
Proceeds from the issuance of bonds and notes	21,536,349	850,000	-	-	22,386,349
Premiums from the issuance of bonds and notes	162,558	86,732	-	-	249,290
Acquisition and construction of capital assets	(4,480,904)	(4,999,857)	(31,756)	(6,113)	(9,518,630)
Principal payments on bonds and notes	(20,094,350)	(5,189,681)	-	(50,690)	(25,334,721)
Interest payments on bonds and notes	(872,733)	(2,062,764)	-	(18,214)	(2,953,711)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(2,645,239)	(8,997,945)	(31,756)	(75,017)	(11,749,957)
Net Change in Cash and Cash Equivalents	857,298	(3,651,501)	(117,163)	(5,703)	(2,917,069)
Cash and Cash Equivalents:					
Beginning of the year, as restated	1,022,320	7,533,246	491,922	239,616	9,287,104
End of the year	\$ 1,879,618	\$ 3,881,745	\$ 374,759	\$ 233,913	\$ 6,370,035
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating Income (Loss)	\$ (918,227)	\$ (1,247,572)	\$ (109,176)	\$ (40,499)	\$ (2,315,474)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	1,443,693	3,626,266	126,701	86,833	5,283,493
Changes in assets, deferred outflows, liabilities, and deferred inflows:					
Receivables	1,414	(257,589)	(17,896)	-	(274,071)
Deferred outflows	(6,903)	(6,598)	(616)	(349)	(14,466)
Accounts payable and accrued expenses	(104,651)	(103,937)	1,920	(759)	(207,427)
Other liabilities	13,450	19,155	(120,311)	2,116	(85,590)
Accrued employee benefit liabilities	241,975	221,715	33,971	21,972	519,633
Net Cash Provided by (Used in) Operating Activities	\$ 670,751	\$ 2,251,440	\$ (85,407)	\$ 69,314	\$ 2,906,098
Noncash capital and related financing activities:					
Amortization of bond premium	\$ 35,690	\$ 22,219	\$ -	\$ -	\$ 57,909
Debt subsidies from MCWT	-	714,509	-	-	714,509

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Gloucester Contributory Retirement (as of 12/31/14)	Other Postemployment Benefits Trust	Private Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	\$ 626,766	\$ 100,549	\$ 25,604	\$ 73,826
Investments	87,088,570	110,432	790,418	-
Receivables (net)	4,134	-	-	-
Prepaid expenses	875	-	-	-
Total Assets	87,720,345	210,981	816,022	73,826
Liabilities				
Warrants payable	2,265	-	-	-
Accrued payroll	-	-	-	1,278
Agency liabilities	-	-	-	72,548
Total Liabilities	2,265	-	-	73,826
Net Position				
Held in trust for pension benefits	87,718,080	-	-	-
Held in trust for other postemployment benefits	-	210,981	-	-
Held in trust for private purposes	-	-	816,022	-
Total Net Position	\$ 87,718,080	\$ 210,981	\$ 816,022	\$ -

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2015**

	Gloucester Contributory Retirement (as of 12/31/14)	Other Postemployment Benefits Trust	Private Purpose Trust Funds
Additions			
Contributions:			
Employee	\$ 3,061,825	\$ -	\$ -
Employer	7,331,948	-	-
Other	177,587	-	-
Total contributions	<u>10,571,360</u>	<u>-</u>	<u>-</u>
Investment income:			
Interest and dividends	2,361,683	525	4,495
Net appreciation in fair value of investments	4,204,432	-	-
Less - investment management fees	(449,053)	-	-
Net investment earnings	<u>6,117,062</u>	<u>525</u>	<u>4,495</u>
Other income	<u>27,902</u>	<u>-</u>	<u>-</u>
Total Additions	<u>16,716,324</u>	<u>525</u>	<u>4,495</u>
Deductions			
Benefits and Refunds to Plan Members:			
Benefit payments to retirees and survivors	10,511,474	-	-
Refunds to members	232,295	-	-
Transfers and reimbursements to other systems	366,336	-	-
Administrative Expenses:			
Payroll expenses of the System	207,353	-	-
Other administrative expenses	150,571	-	-
Health and human services	<u>-</u>	<u>-</u>	<u>12,150</u>
Total Deductions	<u>11,468,029</u>	<u>-</u>	<u>12,150</u>
CHANGE IN NET POSITION	5,248,295	525	(7,655)
NET POSITION AT BEGINNING OF YEAR, As Restated (See note IV)	<u>82,469,785</u>	<u>210,456</u>	<u>823,677</u>
NET POSITION AT END OF YEAR	<u>\$ 87,718,080</u>	<u>\$ 210,981</u>	<u>\$ 816,022</u>

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

I. Summary of Significant Accounting Policies

The accompanying basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local government entities. The following is a summary of the more significant policies and practices used by the City:

A. Reporting Entity

The City is located in Essex County, thirty-one miles northeast of Boston. It was first established as a Town in 1623 and incorporated as a City in 1873. An elected Mayor who serves a two-year term and a nine-member City Council, who are elected biennially, govern the City. The City provides governmental services for the territory within its boundaries, including police and fire protection, disposal of garbage and rubbish, public education in grades K-12, water and sewer services, street maintenance, parks and recreational facilities. The entities discussed below are included in the City's reporting entity because of the significance of their operations or financial relationships with the City.

Gloucester Contributory Retirement System – The System was established to provide retirement benefits to City employees, the Gloucester Housing Authority employees and their beneficiaries. While legally separate, the System provides services almost entirely to the City and is reported as a pension trust fund in the fiduciary fund financial statements.

Unaudited financial statements of the System as of December 31, 2014 were issued and are available at the Retirement Office, 127 Eastern Avenue, Gloucester, Massachusetts 01930.

Discretely Presented Component Unit – The Gloucester Lyceum and Sawyer Free Library, Inc. (the “Library”) is presented in a separate column to emphasize that it is legally separate from the City, but is included because the City is financially accountable for the organization and its exclusion would cause the City’s financial statements to be misleading or incomplete. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government. A description of the discretely presented component unit and its relationship with the City follows:

The Library is a non-profit corporation created by state statute in 1830. The Library’s primary operating support is City appropriations and it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Library is governed by a Board of Directors (the “Board”). The Board consists of at least nine, and no more than fifteen, Directors that are elected to three-year terms on a staggered basis at the annual meeting of the Library. The Mayor of the City of Gloucester serves as an ex-officio, non-voting member of the Board. Complete audited financial statements of the Library as of June 30, 2015 are available at the office of Gloucester Lyceum and Sawyer Free Library, Inc., 2 Dale Avenue, Gloucester, Massachusetts 01930.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges for support. Likewise the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets and deferred outflows, liabilities and deferred inflows, etc.) for all funds of that category or type (total governmental or total enterprise funds), and
- 2) The total assets and deferred outflows, liabilities and deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The City considers property tax revenues to be available if they are collected within 60 days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The government reports the following major Governmental Funds:

General Fund – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

West Parish School Construction Fund – is used to account for all financial resources relating to the City’s construction activities for the West Parish School.

Capital Projects Fund – is used to account for all financial resources relating to the City’s remaining capital construction activities and other capital purchases.

Nonmajor Governmental Funds – consist of other special revenue and permanent funds that are aggregated and presented in the Nonmajor Governmental Funds column on the Governmental Funds financial statements. The following describes the general use of these fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The Permanent Funds are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

Water Enterprise Fund – is used to account for the operations of the City’s water activities.

Sewer Enterprise Fund – is used to account for the operations of the City’s sewer activities.

Waterways Enterprise Fund – is used to account for the operations of the City’s harbor activities.

Rink Enterprise Fund – is used to account for the operations of the City’s ice rink activities.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and use the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity and cannot be used to support the governmental programs.

The government reports the following fiduciary funds:

Gloucester Contributory Retirement – is used to account for the activities of the System, which accumulates resources for pension benefits to retired City employees.

Other Postemployment Benefits Trust – is used to accumulate funds for future payments of other postemployment benefits for retirees, such as health and life insurance.

Private Purpose Trust Fund – is used to account for trust arrangements under which the principal and income benefit individuals, private organizations or other governments. This fund is primarily used for needy citizen benefit funds.

Agency Fund – is used to account for assets held in a purely custodial capacity. The City’s agency funds consist primarily of custodial maintenance activities.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Equity

Deposits and Investments – The City’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the City and its component units are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes at the rate of 14% per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy. Real estate taxes and water and sewer user fees are secured through a lien process within six months after the due date and are considered 100% collectible. Accordingly, an allowance for uncollectible balances for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible balances comprised of those outstanding amounts greater than five years old.

Loans receivables are principally comprised of funds advanced to developers under various grant and loan agreements. The City loans funds to owners of commercial and residential properties for the purpose of rehabilitating these properties. The City receives these funds from the U.S. Department of Housing and Urban Development (HUD) under Community Development Block Grant (CDBG) and Housing Investment Partnerships (HOME) programs, from Federal and State Brownfield grant programs and from loan repayments. These loans are repaid to the City under various terms and conditions stipulated by each mortgage agreement. The collected proceeds of these loans may be used for any eligible activity relevant to the community development program.

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Capital assets, which include land, land improvements, buildings and improvements, machinery and equipment, vehicles, software and infrastructure (e.g. roads, water and sewer mains, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated by the City on a straight-line-basis.

The estimated useful lives of capital assets being depreciated are as follows:

Buildings	20-40 years
Improvements	20 years
Machinery and equipment	5-20 years
Vehicles	2-20 years
Other	5-50 years
Infrastructure	20-50 years

Interfund Balances – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

Interfund Transfers – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the statement of activities as *transfers, net*.

Investment Income – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is voluntarily assigned to the general fund.

Compensated Absences – It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in Governmental Funds only if they have matured.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that is reported on the government-wide statement of net position which relate to outflows from changes in the net pension liability. The deferred pensions will be recognized in pension expense in future years as more fully described in Note III, subsection A.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from four sources: property taxes, loans, intergovernmental and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position – In the government-wide financial statements, net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the

principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net position has been *restricted for* the following:

Expendable permanent funds represent amounts held in trust whereby expenditures are subject to various trust agreements.

Debt service represents amounts restricted to fund a portion of the debt service on outstanding long-term debt obligations that will be amortized over the life of the bonds in accordance with state law.

Community preservation represents assets that are restricted by state law for the purposes of acquiring or developing open space and recreational facilities, historic resources and affordable housing.

Federal and State grants represent assets that have restrictions placed on them from federal and state granting agencies.

Loans represent the outstanding community development and brownfield loans.

Capital outlay represents assets that are restricted for the purposes of funding capital projects.

Gift funds represent assets that are restricted by donors for specific governmental programs and uses.

Other specific purposes represent assets that are restricted for numerous various minor specific governmental programs and uses.

Fund Equity – In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily to the extent in which the City is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned, and unassigned as described below:

Nonspendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid) or (b) legally or contractually required to be maintained intact such as the corpus of an endowment.

Restricted represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

Committed represents amounts that can only be used for specific purposes pursuant to formal action of the City Council through City Council Orders, which represent the most binding constraint that give rise to committed fund balance. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (through City Council Orders) it employed previously to commit those amounts.

Assigned represents amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has by ordinance authorized individual department heads to assign fund balance only for non-contractual encumbrances. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a *negative* unassigned fund balance amount.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the City's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The City has not established financial policies with respect to maintaining minimum fund balance amounts.

Stabilization Funds – The City maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the City Council. The balance of the fund totals \$1,945,188 at June 30, 2015 and is reported as unassigned fund balance in the General Fund.

The City also maintains a capital stabilization fund which may be used for any capital purpose upon a two-thirds vote of the City Council. The balance of the fund totals \$257,411 at June 30, 2015 and is reported as unassigned fund balance in the General Fund.

Encumbrances – The City's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity as assigned, and (2) classify encumbrances that result from an action of the City Council as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The City reports \$1,721,816 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

The following table reflects the City's fund equity categorizations:

	General Fund	West Parish School Construction	Capital Projects	Nonmajor Governmental Funds	Total
Restricted:					
School grants	\$ -	\$ -	\$ -	\$ 659,010	\$ 659,010
Public safety grants	-	-	-	637,977	637,977
Other City grants	-	-	-	427,585	427,585
School revolving	-	-	-	780,138	780,138
Town revolving	-	-	-	1,318,286	1,318,286
Capital outlay	-	-	1,325,385	-	1,325,385
Community preservation	-	-	-	827,342	827,342
Gift funds	-	-	-	1,057,330	1,057,330
Cemetery trust funds	-	-	-	909,777	909,777
Expendable trust funds	-	-	-	498,380	498,380
Debt service	314,964	-	-	-	314,964
Assigned:					
Purchase orders	1,721,816	-	-	-	1,721,816
Subsequent years' budget	1,441,669	-	-	-	1,441,669
Unassigned	3,802,793	(9,880,004)	(3,092,169)	(172,493)	(9,341,873)
	<u>\$ 7,281,242</u>	<u>\$ (9,880,004)</u>	<u>\$ (1,766,784)</u>	<u>\$ 6,943,332</u>	<u>\$ 2,577,786</u>

E. Excess of Expenditures Over Appropriations and Deficits

During fiscal year 2015, expenditures exceeded appropriations in the General Fund for snow and ice expenditures by \$2,621,014. This over-expenditure will be funded through available funds during fiscal year 2016.

The City incurred deficits of \$9,880,004 and \$3,092,169, in its West Parish School Construction and Capital Projects Major funds, respectively. The City also incurred individual fund deficits in various nonmajor governmental funds totaling \$172,493. These deficits will be funded through available revenues, grant funds or bond proceeds in future fiscal years.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. **Deposits and Investments**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents". The deposits and investments of trust funds are held separately from those of other funds. State laws and regulations require the City to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool (the Pool). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the City did not enter into any repurchase agreements.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (the MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the City's deposits was \$29,305,714 and the bank balance was \$29,481,409. Of the City's bank balance, \$20,277,712 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments - In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the City may not be able to recover the full amount of its principal investment and/or investment earnings. Of the City's investments, \$185,747 of corporate bonds, \$65,878 of money market mutual funds, \$39,270 of pooled alternative investments, \$155,035 of exchange traded funds and \$1,365,986 of mutual funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The City does not have a formal investment policy related to custodial credit risk. All of the City's investments are unrated.

Interest Rate Risk - The City does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The City does not place a limit on the amount that may be invested in any one issuer. The City has no investments with a single issuer that exceeds 5% of the City's total investments.

Credit Risk - The City has not adopted a formal policy related to credit risk.

At June 30, 2015 the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Time Until Maturity (Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Corporate fixed income securities	\$ 185,747	\$ 75,496	\$ 60,207	\$ 50,044
Certificates of deposit	3,812,404	3,539,064	248,534	24,806
State investment pool	16,919	16,919	-	-
Money market mutual funds	65,878	65,878	-	-
Total City investments with maturities	4,080,948	\$ 3,697,357	\$ 308,741	\$ 74,850

Other Investments:

Pooled alternative investments	39,270
Exchange traded funds	155,035
Mutual funds	1,365,986
Total City investments	\$ 5,641,239

The System

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System does not have a policy for custodial credit risk. At December 31, 2014, the System had bank deposits of \$200,369 exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System does not have a policy for custodial credit risk. At December 31, 2014, the System was not exposed to custodial credit risk on its investments.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: Investments – The System does not have a policy for concentration of credit risk. As of December 31, 2014, the System was not exposed to concentration of credit risk.

Credit Risk: Investments – In the case of investments, there is the risk that in the event of an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. The System does not have a policy for credit risk of investments. The System’s investments in money market mutual funds and PRIT are unrated.

At December 31, 2014, the System had the following investments and maturities:

Investment Type	Fair Value	Time Until Maturity (Years)		
		Less Than 1	1-5	6-10
Money market mutual funds	\$ 325,081	\$ 325,081	\$ -	\$ -
Total System investments with maturities	325,081	\$ 325,081	\$ -	\$ -

Other Investments:

PRIT fund	<u>87,088,570</u>
Total System investments	<u>\$ 87,413,651</u>

Discretely Presented Component Unit – Library

At June 30, 2015 the Library had the following investments:

Investment Type	Fair Value
Fixed income	\$ 837,585
Government securities	366,710
Certificates of deposit	1,861,758
Money market funds	938,245
Exchange traded funds	174,435
Mutual funds	2,123,548
Equities	<u>43,899</u>
Total Library investments	<u>\$ 6,346,180</u>

B. Receivables

Receivables as of year-end for the City's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 1,005,085	\$ (135,128)	\$ 869,957
Tax liens and deferrals	2,308,429	-	2,308,429
Motor vehicle and other excise taxes	472,834	(55,546)	417,288
Community preservation surcharges	14,305	-	14,305
Special assessments	157,226	-	157,226
Ambulance fees	1,548,935	(320,575)	1,228,360
Other departmental	702,830	(227,978)	474,852
Loans	5,933,005	-	5,933,005
Intergovernmental	7,051,771	-	7,051,771
Total	<u>\$ 19,194,420</u>	<u>\$ (739,227)</u>	<u>\$ 18,455,193</u>

Receivables as of year-end for City's proprietary funds are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user charges	\$ 1,664,924	\$ -	\$ 1,664,924
Water intergovernmental	435,452	-	435,452
Sewer user charges	2,561,825	-	2,561,825
Sewer betterments	10,285,331	-	10,285,331
Sewer intergovernmental	2,040,270	-	2,040,270
Waterways boat excise	56,696	-	56,696
Waterways user charges	22,456	-	22,456
Total	<u>\$ 17,066,954</u>	<u>\$ -</u>	<u>\$ 17,066,954</u>

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of deferred inflows of resources in the governmental funds:

	General Fund	Other Governmental Funds	Total
Receivable and other asset type:			
Real estate and personal property taxes	\$ 869,957	\$ -	\$ 869,957
Tax liens and deferrals	2,308,429	-	2,308,429
Motor vehicle and other excise taxes	417,288	-	417,288
Community preservation surcharges	-	14,305	14,305
Special assessments	157,226	-	157,226
Ambulance fees	1,228,360	-	1,228,360
Other departmental	154,436	-	154,436
Loans	-	5,933,005	5,933,005
Intergovernmental	2,146,988	-	2,146,988
Tax foreclosures	442,221	-	442,221
Total	<u>\$ 7,724,905</u>	<u>\$ 5,947,310</u>	<u>\$ 13,672,215</u>

Sewer Betterments – Unapportioned sewer betterments totaling \$9,766,130 are included in the betterments receivable amount and represent amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances and taxation.

School Building Assistance Reimbursement – As of June 30, 2015, the City expects to receive the balance of grants from the Commonwealth of Massachusetts under various construction reimbursement regulations totaling approximately \$7.2 million applicable to approved school construction costs which includes both principal and interest. Approximately \$3.0 million of such costs are reimbursed to the City in equal installments over the life of the related bond issues and are subject to appropriation only by the State Legislature. Approximately \$2.1 million represents reimbursement for principal costs and the remainder represents interest costs. In addition, approximately \$4.2 million is due in a lump sum during fiscal year 2016 for approved construction costs. In the Governmental funds, a receivable of approximately \$6.3 million under the caption Intergovernmental has been recorded. This includes the reimbursable portion of the principal balance and the lump sum payout as of June 30, 2015.

MCWT Loan Subsidies – The City has entered into numerous loan agreements with the Massachusetts Clean Water Trust (“MCWT”). It is expected that the City will be subsidized by MCWT on a periodic basis for principal in the amount of \$2,040,270 and interest in the amount of \$905,140 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amount of \$2,040,270 is reported as an intergovernmental receivable in the sewer enterprise fund.

C. Interfund Receivables, Payables and Transfers

The composition of interfund transfers for the fiscal year ended June 30, 2015 is as follows:

Transfers Out	Transfers In					Total
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund	
General Fund	\$ -	\$ 134,513	\$ 18,262	\$ 2,831,786	\$ 2,781,803	\$ 5,766,364 (1)
Nonmajor Governmental Funds	199,658	-	106,331	-	-	305,989 (2)
Total	\$ 199,658	\$ 134,513	\$ 124,593	\$ 2,831,786	\$ 2,781,803	\$ 6,072,353

(1) Transfers to capital projects fund for various capital purposes, unbudgeted transfers to nonmajor governmental funds and transfers to water and sewer enterprise funds for debt service costs.

(2) Transfers to general fund to supplement operating budgets and unbudgeted transfers between nonmajor governmental funds.

D. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 19,201,783	\$ 17,200	\$ -	\$ 19,218,983
Construction in process	6,548,942	21,021,252	(4,200,071)	23,370,123
Total capital assets not being depreciated	<u>25,750,725</u>	<u>21,038,452</u>	<u>(4,200,071)</u>	<u>42,589,106</u>
Capital assets being depreciated:				
Buildings	60,674,406	3,272,961	-	63,947,367
Building improvements	12,508,663	1,138,149	-	13,646,812
Machinery and equipment	8,399,703	1,225,458	-	9,625,161
Vehicles	9,371,922	62,745	(360,244)	9,074,423
Other	1,623,555	218,513	-	1,842,068
Infrastructure	22,736,092	2,798,925	-	25,535,017
Total capital assets being depreciated	<u>115,314,341</u>	<u>8,716,751</u>	<u>(360,244)</u>	<u>123,670,848</u>
Less accumulated depreciation for:				
Buildings	(39,012,995)	(2,174,913)	-	(41,187,908)
Building improvements	(4,123,030)	(598,010)	-	(4,721,040)
Machinery and equipment	(6,226,107)	(479,879)	-	(6,705,986)
Vehicles	(4,823,165)	(690,635)	360,244	(5,153,556)
Other	(827,870)	(118,845)	-	(946,715)
Infrastructure	(4,784,549)	(706,730)	-	(5,491,279)
Total accumulated depreciation	<u>(59,797,716)</u>	<u>(4,769,012)</u>	<u>360,244</u>	<u>(64,206,484)</u>
Total capital assets being depreciated, net	<u>55,516,625</u>	<u>3,947,739</u>	<u>-</u>	<u>59,464,364</u>
Total governmental activities capital assets, net	<u>\$ 81,267,350</u>	<u>\$ 24,986,191</u>	<u>\$ (4,200,071)</u>	<u>\$ 102,053,470</u>
<i>Business-Type Activities - All:</i>				
Capital assets not being depreciated:				
Land	\$ 4,512,584	\$ -	\$ -	\$ 4,512,584
Construction in process	51,657,115	2,541,252	(51,359,526)	2,838,841
Total capital assets not being depreciated	<u>56,169,699</u>	<u>2,541,252</u>	<u>(51,359,526)</u>	<u>7,351,425</u>
Capital assets being depreciated:				
Buildings	4,655,741	-	-	4,655,741
Building improvements	2,518,023	-	-	2,518,023
Machinery and equipment	2,468,443	82,580	-	2,551,023
Vehicles	1,146,371	-	-	1,146,371
Other	344,327	-	-	344,327
Infrastructure	209,472,245	58,254,324	-	267,726,569
Total capital assets being depreciated	<u>220,605,150</u>	<u>58,336,904</u>	<u>-</u>	<u>278,942,054</u>
Less accumulated depreciation for:				
Buildings	(4,308,205)	(25,235)	-	(4,333,440)
Building improvements	(899,817)	(124,231)	-	(1,024,048)
Machinery and equipment	(1,368,574)	(155,349)	-	(1,523,923)
Vehicles	(897,722)	(86,508)	-	(984,230)
Other	(194,343)	(62,398)	-	(256,741)
Infrastructure	(63,397,338)	(4,829,772)	-	(68,227,110)
Total accumulated depreciation	<u>(71,065,999)</u>	<u>(5,283,493)</u>	<u>-</u>	<u>(76,349,492)</u>
Total capital assets being depreciated, net	<u>149,539,151</u>	<u>53,053,411</u>	<u>-</u>	<u>202,592,562</u>
Total business-type activities capital assets, net	<u>\$ 205,708,850</u>	<u>\$ 55,594,663</u>	<u>\$ (51,359,526)</u>	<u>\$ 209,943,987</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type Activities: Water</i>				
Capital assets not being depreciated:				
Land	\$ 3,594,263	\$ -	\$ -	\$ 3,594,263
Construction in process	23,179,785	1,322,897	(23,145,567)	1,357,115
Total capital assets not being depreciated	<u>26,774,048</u>	<u>1,322,897</u>	<u>(23,145,567)</u>	<u>4,951,378</u>
Capital assets being depreciated:				
Buildings	160,023	-	-	160,023
Building improvements	177,286	-	-	177,286
Machinery and equipment	1,388,426	28,340	-	1,416,766
Vehicles	516,162	-	-	516,162
Other	77,977	-	-	77,977
Infrastructure	49,507,723	26,275,234	-	75,782,957
Total capital assets being depreciated	<u>51,827,597</u>	<u>26,303,574</u>	<u>-</u>	<u>78,131,171</u>
Less accumulated depreciation for:				
Buildings	(160,023)	-	-	(160,023)
Building improvements	(13,296)	(8,864)	-	(22,160)
Machinery and equipment	(790,351)	(72,972)	-	(863,323)
Vehicles	(378,443)	(43,254)	-	(421,697)
Other	(45,081)	(13,651)	-	(58,732)
Infrastructure	(13,266,271)	(1,304,952)	-	(14,571,223)
Total accumulated depreciation	<u>(14,653,465)</u>	<u>(1,443,693)</u>	<u>-</u>	<u>(16,097,158)</u>
Total capital assets being depreciated, net	<u>37,174,132</u>	<u>24,859,881</u>	<u>-</u>	<u>62,034,013</u>
Total Water capital assets, net	<u>\$ 63,948,180</u>	<u>\$ 26,182,778</u>	<u>\$ (23,145,567)</u>	<u>\$ 66,985,391</u>
<i>Business-type Activities: Sewer</i>				
Capital assets not being depreciated:				
Land	\$ 379,839	\$ -	\$ -	\$ 379,839
Construction in process	28,432,938	1,218,355	(28,169,567)	1,481,726
Total capital assets not being depreciated	<u>28,812,777</u>	<u>1,218,355</u>	<u>(28,169,567)</u>	<u>1,861,565</u>
Capital assets being depreciated:				
Buildings	\$ 4,370,258	\$ -	\$ -	\$ 4,370,258
Building improvements	239,887	-	-	239,887
Machinery and equipment	411,267	37,798	-	449,065
Vehicles	606,959	-	-	606,959
Other	266,350	-	-	266,350
Infrastructure	159,015,114	31,913,271	-	190,928,385
Total capital assets being depreciated	<u>164,909,835</u>	<u>31,951,069</u>	<u>-</u>	<u>196,860,904</u>
Less accumulated depreciation for:				
Buildings	(4,103,375)	(7,312)	-	(4,110,687)
Building improvements	(39,257)	(10,702)	-	(49,959)
Machinery and equipment	(338,108)	(16,698)	-	(354,806)
Vehicles	(503,004)	(38,604)	-	(541,608)
Other	(149,262)	(48,747)	-	(198,009)
Infrastructure	(49,934,968)	(3,504,203)	-	(53,439,171)
Total accumulated depreciation	<u>(55,067,974)</u>	<u>(3,626,266)</u>	<u>-</u>	<u>(58,694,240)</u>
Total capital assets being depreciated, net	<u>109,841,861</u>	<u>28,324,803</u>	<u>-</u>	<u>138,166,664</u>
Total Sewer capital assets, net	<u>\$ 138,654,638</u>	<u>\$ 29,543,158</u>	<u>\$ (28,169,567)</u>	<u>\$ 140,028,229</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-type Activities: Waterways</u></i>				
Capital assets not being depreciated:				
Land	\$ 538,482	\$ -	\$ -	\$ 538,482
Construction in process	44,392	-	(44,392)	-
Total capital assets not being depreciated	<u>582,874</u>	<u>-</u>	<u>(44,392)</u>	<u>538,482</u>
Capital assets being depreciated:				
Building improvements	\$ 1,297,714	\$ -	\$ -	\$ 1,297,714
Machinery and equipment	386,047	10,329	-	396,376
Vehicles	23,250	-	-	23,250
Infrastructure	949,408	65,819	-	1,015,227
Total capital assets being depreciated	<u>2,656,419</u>	<u>76,148</u>	<u>-</u>	<u>2,732,567</u>
Less accumulated depreciation for:				
Building improvements	(752,227)	(64,508)	-	(816,735)
Machinery and equipment	(185,187)	(36,926)	-	(222,113)
Vehicles	(16,275)	(4,650)	-	(20,925)
Infrastructure	(196,099)	(20,617)	-	(216,716)
Total accumulated depreciation	<u>(1,149,788)</u>	<u>(126,701)</u>	<u>-</u>	<u>(1,276,489)</u>
Total capital assets being depreciated, net	<u>1,506,631</u>	<u>(50,553)</u>	<u>-</u>	<u>1,456,078</u>
Total Waterways capital assets, net	<u>\$ 2,089,505</u>	<u>\$ (50,553)</u>	<u>\$ (44,392)</u>	<u>\$ 1,994,560</u>

<i><u>Business-type Activities: Rink</u></i>				
Capital assets being depreciated:				
Buildings	\$ 125,460	\$ -	\$ -	\$ 125,460
Building improvements	803,136	-	-	803,136
Machinery and equipment	282,703	6,113	-	288,816
Total capital assets being depreciated	<u>1,211,299</u>	<u>6,113</u>	<u>-</u>	<u>1,217,412</u>
Less accumulated depreciation for:				
Buildings	(44,807)	(17,923)	-	(62,730)
Building improvements	(95,037)	(40,157)	-	(135,194)
Machinery and equipment	(54,928)	(28,753)	-	(83,681)
Total accumulated depreciation	<u>(194,772)</u>	<u>(86,833)</u>	<u>-</u>	<u>(281,605)</u>
Total capital assets being depreciated, net	<u>1,016,527</u>	<u>(80,720)</u>	<u>-</u>	<u>935,807</u>
Total Rink capital assets, net	<u>\$ 1,016,527</u>	<u>\$ (80,720)</u>	<u>\$ -</u>	<u>\$ 935,807</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 240,973	Water	\$ 1,443,693
Public safety	722,228	Sewer	3,626,266
Education	2,362,404	Waterways	126,701
Public works	1,260,597	Rink	86,833
Health and human services	2,400		<u>\$ 5,283,493</u>
Culture and recreation	109,291		
Community development	71,119		
	<u>\$ 4,769,012</u>		

Discretely Presented Component Unit – Library

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Total capital assets not being depreciated	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Capital assets being depreciated:				
Building improvements	\$ 4,104,088	\$ 5,727	\$ -	\$ 4,109,815
Machinery and equipment	250,941	12,920	-	263,861
Total capital assets being depreciated	<u>4,355,029</u>	<u>18,647</u>	<u>-</u>	<u>4,373,676</u>
Less accumulated depreciation for:				
Buildings, improvements and equipment	(1,493,795)	(110,073)	-	(1,603,868)
Total accumulated depreciation	<u>(1,493,795)</u>	<u>(110,073)</u>	<u>-</u>	<u>(1,603,868)</u>
Total capital assets being depreciated, net	<u>2,861,234</u>	<u>(91,426)</u>	<u>-</u>	<u>2,769,808</u>
Total component unit capital assets, net	<u>\$ 2,862,234</u>	<u>\$ (91,426)</u>	<u>\$ -</u>	<u>\$ 2,770,808</u>

E. Temporary Debt

The City is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes (RANS or TANS).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the City and carry maturity dates that are limited by state law. Interest expenditures and expenses for temporary borrowings are accounted for in the general fund and enterprise funds, respectively.

BAN's outstanding at year end were issued for school construction and improvements (\$15,550,000), roads, drains and sidewalks (\$1,200,000), seawall construction (\$750,000), building repairs (\$550,000), water projects (\$5,100,000) and sewer projects (\$850,000).

Temporary notes outstanding at June 30, 2015, are payable as follows:

Type	Interest Rate	Maturity Date	July 1, 2014	Additions	Retirements	June 30, 2015
<i>Governmental Activities</i>						
MCWT	0.00%	Matured	\$ 164,880	\$ -	\$ (164,880)	\$ -
BAN	1.00%	Matured	317,145	-	(317,145)	-
BAN	1.00%	08/14/15	-	16,350,000	-	16,350,000
BAN	2.75%	08/14/15	-	1,700,000	-	1,700,000
Total Governmental Notes			482,025	18,050,000	(482,025)	18,050,000
<i>Business-type Activities</i>						
BAN	1.00%	Matured	2,000,000	-	(2,000,000)	-
BAN	1.00%	08/14/15	-	450,000	-	450,000
BAN	1.25%	02/05/16	-	2,000,000	-	2,000,000
BAN	2.75%	08/14/15	-	900,000	-	900,000
BAN	1.00%	02/05/16	-	2,600,000	-	2,600,000
Total Business-Type Notes			2,000,000	5,950,000	(2,000,000)	5,950,000
Total Notes Payable			\$ 2,482,025	\$24,000,000	\$ (2,482,025)	\$24,000,000

F. Long-Term Obligations

The City issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. Additionally, the City incurs various other long-term obligations relative to associated personnel costs.

On January 7, 2015, the City issued three bonds with the MCWT totaling \$9,866,524, \$4,482,909, and \$2,522,368, respectively, for various water system improvements. The bonds accrue interest at 2% per annum and will be paid over twenty years. \$16,079,070 of the proceeds were used to retire interim MCWT notes outstanding at June 30, 2014, which were reported as long-term debt at June 30, 2014, while the remaining \$792,731 was recorded as debt proceeds in during fiscal year 2016.

On January 7, 2015, the City also issued a non-interest bearing bond with the MCWT totaling \$164,880 for septic betterments.

On February 5, 2015, the City issued \$6,750,000 of general obligation bonds, of which \$3,255,000 was used to retire BANS outstanding at June 30, 2014 that were classified as long-term debt at June 30, 2014. The remaining \$3,495,000 was used in an advanced refunding transaction which is described below.

Advanced Refunding – On February 5, 2015, the City issued general obligation refunding bonds of \$3,495,000 with variable interest rates between 2.0% and 4.0%, to refund \$3,645,000 of general obligation bonds with variable interest rates between 3.0% and 5.0%. The refunded bonds had original maturity dates of September 15, 2025 and July 15, 2026, and are callable through July 15, 2026. The general obligation refunding bonds were issued with a net reoffering premium of \$398,036; and after issuance costs of \$73,596 the net proceeds totaled \$3,819,440. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities which were deposited into an irrevocable trust with an escrow agent to

provide debt service payment until the current refunded bonds are called. The advanced refunding met the requirements of an in-substance defeasance and the bonds were removed from the City's government-wide financial statements. As a result of the current refunding, the City reduced its total debt service requirements by \$366,730, which resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$330,933.

The following reflects the current year activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond and note indebtedness	* \$ 34,044,661	\$ 987,350	\$ (5,242,590)	\$ 29,789,421	\$ 4,802,927
Unamortized bond premium	-	380,340	(9,509)	370,831	19,017
Landfill closure	480,000	-	(20,000)	460,000	20,000
Compensated absences	2,238,006	484,463	(223,801)	2,498,668	249,867
Workers' compensation claims	462,985	363,375	(358,145)	468,215	117,054
Net pension liability	* 79,852,025	7,841,788	(6,248,653)	81,445,160	-
Other postemployment benefits	49,710,092	13,877,127	(6,241,260)	57,345,959	-
Total Governmental Activities	<u>\$ 166,787,769</u>	<u>\$ 23,934,443</u>	<u>\$ (18,343,958)</u>	<u>\$ 172,378,254</u>	<u>\$ 5,208,865</u>
<i>Business-Type Activities - Water:</i>					
Bond and note debt	\$ 43,641,985	\$ 2,535,446	\$ (3,830,280)	\$ 42,347,151	\$ 2,698,218
Unamortized bond premium	384,588	162,558	(35,690)	511,456	42,466
Compensated absences	96,652	19,751	(9,665)	106,738	10,674
Net pension liability	* 3,953,872	388,286	(309,402)	4,032,756	-
Other postemployment benefits	988,157	278,196	(125,191)	1,141,162	-
Total Water	<u>49,065,254</u>	<u>3,384,237</u>	<u>(4,310,228)</u>	<u>48,139,263</u>	<u>2,751,358</u>
<i>Business-Type Activities - Sewer:</i>					
Bond and note debt	* 69,198,017	929,815	(6,760,621)	63,367,211	5,158,421
Unamortized bond premium	195,368	86,732	(22,219)	259,881	25,835
Compensated absences	17,304	5,684	(1,730)	21,258	2,126
Net pension liability	* 3,779,055	371,119	(295,722)	3,854,452	-
Other postemployment benefits	884,711	258,848	(116,484)	1,027,075	-
Total Sewer	<u>74,074,455</u>	<u>1,652,198</u>	<u>(7,196,776)</u>	<u>68,529,877</u>	<u>5,186,382</u>
<i>Business-Type Activities - Waterways:</i>					
Compensated absences	33,640	4,766	(3,364)	35,042	3,504
Net pension liability	* 352,549	34,622	(27,588)	359,583	-
Other postemployment benefits	174,545	46,428	(20,893)	200,080	-
Total Waterways	<u>560,734</u>	<u>85,816</u>	<u>(51,845)</u>	<u>594,705</u>	<u>3,504</u>
<i>Business-Type Activities - Rink:</i>					
Bond and note debt	948,360	-	(50,690)	897,670	53,760
Compensated absences	1,038	-	(232)	806	81
Net pension liability	* 199,251	19,568	(15,592)	203,227	-
Other postemployment benefits	65,184	33,143	(14,915)	83,412	-
Total Rink	<u>1,213,833</u>	<u>52,711</u>	<u>(81,429)</u>	<u>1,185,115</u>	<u>53,841</u>
Total Business-Type Activities	<u>\$ 124,914,276</u>	<u>\$ 5,174,962</u>	<u>\$ (11,640,278)</u>	<u>\$ 118,448,960</u>	<u>\$ 7,995,085</u>

* As restated (See Note IV)

The governmental activities liabilities will be liquidated by the general fund. The business-type liabilities will be liquidated by the enterprise funds incurring the liability.

The following is a summary of outstanding long-term debt obligations as of June 30, 2015:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General Obligation Bonds	2.00 - 5.00%	\$ 19,791,640	\$ -	\$ (2,243,678)	\$ 17,547,962
Refunding Bonds	2.00 - 5.00%	8,919,101	822,470	(2,624,351)	7,117,220
MCWT notes	0%	5,333,920	164,880	(374,561)	5,124,239
Total Governmental Activities		* 34,044,661	987,350	(5,242,590)	29,789,421
Add: Unamortized bond premium		-	380,340	(9,509)	370,831
Total Governmental Activities, net		<u>\$ 34,044,661</u>	<u>\$ 1,367,690</u>	<u>\$ (5,252,099)</u>	<u>\$ 30,160,252</u>
<i>Business-Type Activities - Water:</i>					
General Obligation Bonds	2.00 - 5.00%	\$ 11,614,000	\$ -	\$ (2,589,000)	\$ 9,025,000
Refunding Bonds	2.00 - 5.00%	6,424,999	1,742,715	(714,249)	7,453,465
MCWT notes	0.00 - 2.00%	25,602,986	792,731	(527,031)	25,868,686
Total Water		43,641,985	2,535,446	(3,830,280)	42,347,151
Add: Unamortized bond premium		384,588	162,558	(35,690)	511,456
Total Water, net		<u>44,026,573</u>	<u>2,698,004</u>	<u>(3,865,970)</u>	<u>42,858,607</u>
<i>Business-Type Activities - Sewer:</i>					
General Obligation Bonds	2.00 - 5.00%	20,415,000	-	(2,260,632)	18,154,368
Refunding Bonds	2.00 - 5.00%	6,260,901	929,815	(916,401)	6,274,315
MCWT notes	0.00%	42,522,116	-	(3,583,588)	38,938,528
Total Sewer		* 69,198,017	929,815	(6,760,621)	63,367,211
Add: Unamortized bond premium		195,368	86,732	(22,219)	259,881
Total Sewer, net		<u>69,393,385</u>	<u>1,016,547</u>	<u>(6,782,840)</u>	<u>63,627,092</u>
<i>Business-Type Activities - Rink:</i>					
General Obligation Bonds	2.00 - 5.00%	948,360	-	(50,690)	897,670
Total Rink		<u>948,360</u>	<u>-</u>	<u>(50,690)</u>	<u>897,670</u>
Total Business-Type Activities, net		<u>\$ 114,368,318</u>	<u>\$ 3,714,551</u>	<u>\$ (10,699,500)</u>	<u>\$ 107,383,369</u>

* As restated (See Note IV)

Payments on outstanding bond balances due in future years consist of the following:

Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net of Subsidy	Balance	Subsidy	Net of Subsidy	
<i>Governmental Activities</i>							
2016	\$ 4,802,927	\$ -	\$ 4,802,927	\$ 840,838	\$ (15,586)	\$ 825,252	\$ 5,628,179
2017	3,825,648	-	3,825,648	687,450	(12,565)	674,885	4,500,533
2018	2,592,952	-	2,592,952	578,809	(9,516)	569,293	3,162,245
2019	2,529,758	-	2,529,758	498,736	(6,480)	492,256	3,022,014
2020	2,211,752	-	2,211,752	419,477	(4,000)	415,477	2,627,229
2021-2025	8,833,287	-	8,833,287	1,219,257	(4,579)	1,214,678	10,047,965
2026-2030	4,037,799	-	4,037,799	266,523	-	266,523	4,304,322
2031-2035	955,298	-	955,298	39,017	-	39,017	994,315
Total	\$ 29,789,421	\$ -	\$ 29,789,421	\$ 4,550,107	\$ (52,726)	\$ 4,497,381	\$ 34,286,802
<i>Business-Type Activities: Water</i>							
2016	\$ 2,698,218	\$ -	\$ 2,698,218	\$ 1,093,044	\$ -	\$ 1,093,044	\$ 3,791,262
2017	2,730,172	-	2,730,172	1,008,916	-	1,008,916	3,739,088
2018	2,756,218	-	2,756,218	929,095	-	929,095	3,685,313
2019	2,783,815	-	2,783,815	849,200	-	849,200	3,633,015
2020	2,569,400	-	2,569,400	770,525	-	770,525	3,339,925
2021-2025	11,802,761	-	11,802,761	2,862,067	-	2,862,067	14,664,828
2026-2030	9,968,264	-	9,968,264	1,513,895	-	1,513,895	11,482,159
2031-2035	7,038,303	-	7,038,303	422,784	-	422,784	7,461,087
Total	\$ 42,347,151	\$ -	\$ 42,347,151	\$ 9,449,526	\$ -	\$ 9,449,526	\$ 51,796,677
<i>Business-Type Activities: Sewer</i>							
2016	\$ 5,158,421	\$ (405,897)	\$ 4,752,524	\$ 1,762,483	\$ (257,026)	\$ 1,505,457	\$ 6,257,981
2017	5,094,962	(416,597)	4,678,365	1,590,538	(209,648)	1,380,890	6,059,255
2018	4,709,532	(288,997)	4,420,535	1,416,642	(154,885)	1,261,757	5,682,292
2019	4,775,344	(299,313)	4,476,031	1,267,273	(120,324)	1,146,949	5,622,980
2020	4,812,982	(313,048)	4,499,934	1,114,933	(82,145)	1,032,788	5,532,722
2021-2025	18,107,327	(316,418)	17,790,909	3,834,542	(28,386)	3,806,156	21,597,065
2026-2030	14,826,513	-	14,826,513	1,886,064	-	1,886,064	16,712,577
2031-2034	5,882,130	-	5,882,130	311,410	-	311,410	6,193,540
Total	\$ 63,367,211	\$ (2,040,270)	\$ 61,326,941	\$ 13,183,885	\$ (852,414)	\$ 12,331,471	\$ 73,658,412
<i>Business-Type Activities: Rink</i>							
2016	\$ 53,760	\$ -	\$ 53,760	\$ 30,686	\$ -	\$ 30,686	\$ 84,446
2017	53,760	-	53,760	28,924	-	28,924	82,684
2018	48,760	-	48,760	27,085	-	27,085	75,845
2019	48,760	-	48,760	25,155	-	25,155	73,915
2020	48,760	-	48,760	23,053	-	23,053	71,813
2021-2025	243,796	-	243,796	88,884	-	88,884	332,680
2026-2030	228,797	-	228,797	51,814	-	51,814	280,611
2031-2035	171,277	-	171,277	13,083	-	13,083	184,360
Total	\$ 897,670	\$ -	\$ 897,670	\$ 288,684	\$ -	\$ 288,684	\$ 1,186,354
<i>Business-Type Activities: Total</i>							
2016	\$ 7,910,399	\$ (405,897)	\$ 7,504,502	\$ 2,886,213	\$ (257,026)	\$ 2,629,187	\$ 10,133,689
2017	7,878,894	(416,597)	7,462,297	2,628,378	(209,648)	2,418,730	9,881,027
2018	7,514,510	(288,997)	7,225,513	2,372,822	(154,885)	2,217,937	9,443,450
2019	7,607,919	(299,313)	7,308,606	2,141,628	(120,324)	2,021,304	9,329,910
2020	7,431,142	(313,048)	7,118,094	1,908,511	(82,145)	1,826,366	8,944,460
2021-2025	30,153,884	(316,418)	29,837,466	6,785,493	(28,386)	6,757,107	36,594,573
2026-2030	25,023,574	-	25,023,574	3,451,773	-	3,451,773	28,475,347
2031-2035	13,091,710	-	13,091,710	747,277	-	747,277	13,838,987
Total	\$ 106,612,032	\$ (2,040,270)	\$ 104,571,762	\$ 22,922,095	\$ (852,414)	\$ 22,069,681	\$ 126,641,443

MCWT Loan Subsidies – As previously noted in Note I. B., the City has entered into loan agreements with the MCWT. It is expected that the City will be subsidized by MCWT on a periodic basis for principal in the amount of \$2,040,270 and interest in the amount of \$905,140 until the maturity of these agreements.

The following represents authorized and unissued debt as of June 30, 2015:

<u>Project</u>	<u>Amount</u>
<i>Governmental:</i>	
West Parish elementary school	\$ 24,801,451
Roads, drains and sidewalks	1,624,476
Septic betterments	2,000,000
Other capital projects	4,272,555
<i>Business-type:</i>	
Water projects	383,055
Sewer projects	2,255,919
Rink equipment	6,000
Total Authorized and Unissued	<u>\$ 35,343,456</u>

III. Other Information

A. Retirement System

Pension Plan Description – The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan for the City and the Gloucester Housing Authority. The System was established under Chapter 32 of Massachusetts General Laws. The System is administered by the City and is included as part of the reporting entity as fiduciary fund. Unaudited financial statements for the year ended December 31, 2014 are available at the Retirement Office, 127 Eastern Avenue, Gloucester, Massachusetts.

Current membership in the System for all employers as of December 31, 2014 was as follows:

Active and inactive employees	581
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>454</u>
	<u>1,035</u>

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers’ Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year or five-year average annual rate of regular

compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

Contributions Requirements – The City has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The City contributed \$6,896,957 to the Retirement System in fiscal year 2015, which equaled the actuarially-determined contribution requirement for the fiscal year. The City's contributions as a percentage of covered payroll was approximately 24% in fiscal year 2015.

Net Pension Liability – At June 30, 2015, the City reported a liability of \$89,895,178 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2014. There were no material changes made in this update

to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The City's proportion of the net pension liability is based on a projection of the City's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The City's proportion was approximately 94.136% at December 31, 2014, which was consistent with the proportion measured at January 1, 2014.

Fiduciary Net Position – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the fiduciary fund financial statements. The Retirement System's full financial statements as of and for the year ended December 31, 2014 can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with GAAP and the standards and procedures established by PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The City recognized \$8,501,510 in pension expense in the statement of activities in fiscal year 2015.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 153,874	\$ —

The deferred outflows of resources and deferred inflows of resources are expected to be recognized as a credit in the City's pension expense as follows (dollar amounts are in thousands):

Year ended June 30,	
2016	\$ 38,468
2017	38,469
2018	38,468
2019	38,469

Actuarial Valuation – The measurement of the Retirement System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

Actuarial cost method:	Entry age normal
Amortization method:	Level dollar for the 2002 and 2003 ERIs and increasing amortization for the remaining unfunded liability such that the total appropriation increases 6.15% per year
Remaining amortization period:	Four years from July 1, 2014 for the 2002 and 2013 ERI liabilities and 20 years from July 1, 2014 for the remaining unfunded liability
Asset valuation method:	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the differences between the actual and expected return on an actuarial value basis, and is recognized over a four-year period, further adjusted, if necessary, to be within 10% of the market value.
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation
Inflation rate:	3.00% in 2014, 3.50% in 2015 and later
Projected salary increases:	4.00% for 2014 and 4.50% for 2015 and later
Cost of living adjustments:	3% on the first \$14,000 of retirement income

The investment rate of return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns and professional judgment. The market expectations analysis used a building-block approach, which included expected returns by asset class and the target asset allocation. The target allocation and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equities	43%	6.60% to 9.40%
Core fixed income	13%	2.20%
High-yield fixed income	10%	4.70%
Real estate	10%	4.40%
Commodities, hedge fund, GTAA, Risk parity	14%	3.90% to 4.40%
Private equity	10%	11.70%

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2014 actuarial valuation report was 7.75%, which was a reduction from the previous discount rate of 7.875%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as the City’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	<u>1% Decrease</u> <u>(6.75%)</u>	<u>Current</u> <u>Discount</u> <u>(7.75%)</u>	<u>1% Increase</u> <u>(8.75%)</u>
City’s proportionate share of the net pension liability	\$ 107,438,864	\$ 89,895,178	\$ 74,832,938

Massachusetts Teachers’ Retirement System – Teachers and certain administrative employees of the School Department participate in the Massachusetts Teachers’ Retirement System (“MTRS”), a cost-sharing multiple employer defined benefit pension plan. The MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. Like the System, MTRS was established under Chapter 32 of Massachusetts General Laws. The Commonwealth’s legislature has the authority to amend or modify the MTRS’s funding policies.

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2015, the Commonwealth contributed \$3,277,812 to the MTRS on behalf of the City. The City’s proportionate share of the collective MTRS net pension liability at this reporting date was 0.349678%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the City as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

The table below presents the City’s proportionate share of the following:

	Commonwealth Portion	Paid (or assumed) On Behalf of the City	City Portion
Net pension liability	\$ 55,586,097	\$ (55,586,097)	\$ —
Pension expense	3,861,833	(3,861,833)	—

The City has recognized intergovernmental revenue and pension expense of \$3,861,833 associated with this arrangement.

B. Other Postemployment Benefits (OPEB)

Plan Description – The City administers a single-employer defined benefit healthcare plan (the “Plan”) to provide health and life insurance benefits to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and City ordinance. All benefits are provided through the City’s self-funded insurance program described previously. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of 618 active employees and 924 retired employees for a total of 1,542.

Funding Policy – The contribution requirements of Plan members and the City are established and may be amended by the City, through negotiation with the City employee unions. Retirees (excluding school retirees that participate in the Commonwealth’s Group Insurance Commission (the GIC)) contribute 25% of the calculated contribution through pension benefit deductions. School retirees that participate in the GIC contribute between 10% - 15%. The remainder of the cost is funded by the City. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the City.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual OPEB cost is calculated based on the annual required contribution “ARC” of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years.

The following table reflects the activity regarding the City’s OPEB obligation:

Annual required contribution (ARC)	\$ 14,376,558
Interest on net OPEB obligation	1,813,794
Adjustment to ARC	<u>(1,696,609)</u>
Annual OPEB cost	14,493,743
Contributions made	<u>\$ (6,518,743)</u>
Increase in net OPEB obligation	7,975,000
Net OPEB obligation at beginning of year	<u>51,822,689</u>
Net OPEB obligation at end of year	<u>\$ 59,797,689</u>

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

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2013	\$ 14,830,650	30%	\$ 44,259,304
June 30, 2014	\$ 13,860,849	45%	\$ 51,822,689
June 30, 2015	\$ 14,493,743	45%	\$ 59,797,689

The AOPEBC at June 30, 2015 was charged to the following functional programs: General Government \$881,614; Public Safety \$3,817,320; Education \$7,612,021; Public Works \$1,075,061; Health and Human Services \$282,261; Culture and Recreation \$199,831; Community Development \$9,020; Water \$278,196; Sewer \$258,848; Waterways \$46,428 and Rink \$33,143.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2015, based on the most recent actuarial valuation performed as of June 30, 2013, was as follows (in millions):

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B – A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ -	\$203.0	\$203.0	0.0%	\$45.7	444%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations. The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

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

Valuation date:	June 30, 2013
Actuarial cost method	Projected Unit Credit
Amortization method	Payments increasing at 3.75% per year
Remaining amortization period:	20 years (open)
Interest discount rate:	3.5 percent
Inflation rate:	3.75 percent
Healthcare/Medical cost trend rate:	1.0% for 1 year, 6.5% for 8 years, 5.5% for 1 year to an ultimate level of 5.0% per year

C. Risk Financing

The City is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years. The City participates in a premium-based health care plan for its active and retired employees.

Workers' Compensation – The City is self-insured for their workers' compensation activities. Workers' compensation claims are administered by a third-party and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2015, the amount of the liability for workers' compensation claims totaled \$468,215.

Changes in the reported liability since July 1, 2013:

	Balance at Beginning of Year	Claims and Changes in Estimates	Claims Payments	Balance at End of Year	Current Portion
Fiscal Year 2015	\$ 462,985	\$ 363,375	\$(358,145)	\$ 468,215	\$ 117,054
Fiscal Year 2014	744,419	19,526	(300,960)	462,985	111,116

D. Commitments

The City has entered into, or is planning to enter into, contracts totaling approximately \$50,000,000 to complete various governmental, water, sewer and rink capital projects.

E. Contingencies

The City is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters in these situations cannot be reasonably estimated. Although the amount of liability, if any, in these situations at June 30, 2015, cannot be ascertained, management believes that the resulting liability, if any, should not materially affect the basic financial statements of the City at June 30, 2015. Other amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. 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 is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The City does not believe it has failed to comply with any of these agreements.

F. Landfill Post-Closure Care

The City's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the City to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring, \$460,000, has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of GASB pronouncements

Current Year Implementations –

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2013 and impact the financial reports of the pension systems that communities participate in and not the financial statements of the communities themselves.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of GASB 68 became effective for the City in fiscal year 2015 and had a material effect on its financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of GASB 69 became effective for the City in fiscal 2015 and did not have a material effect on its financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of GASB 70 became effective for the City in fiscal year 2015 and did not have a material effect on its financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of GASB 71 is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government's beginning net pension liability. The provisions of GASB 71 became effective for the City in fiscal year 2015 and had a material effect on its financial statements.

Future Implementations –

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The City is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year 2017). The City is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The City is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The City is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016). The City is currently evaluating whether adoption will have a material impact on the financial statements.

IV. Prior Period Restatements

A prior period adjustment was made to decrease the City's beginning net position to reflect the net pension liability with the implementation of GASB 68. The City reclassified betterment receivables, equity, debt and debt subsidies from the General Fund to the Sewer Enterprise Fund. The City decreased the ending fund balance of the Nonmajor Governmental Funds by deferred the beginning balance of community development loans. Finally, the City reclassified the beginning fund balances of the General Fund, Other Postemployment Benefits Trust, West Parish School Construction Fund, Capital Projects Fund, Nonmajor Governmental Funds, Waterways Enterprise Fund, Rink Enterprise Fund and Nonmajor Enterprise Funds.

A summary of the restatements are as follows:

	Governmental Activities	Business-type Activities
Prior year as presented	\$ 26,361,003	\$ 111,800,531
Reclassify fiduciary fund	(210,456)	-
Reclassify betterment receivables	(3,555,154)	3,555,154
Reclassify betterment equity	(1,303,016)	1,303,016
Reclassify betterment debt	4,204,081	(4,204,081)
Reclassify debt subsidies	(606,402)	606,402
Record net pension liability	<u>(79,852,025)</u>	<u>(8,284,727)</u>
As restated	<u>\$ (54,961,969)</u>	<u>\$ 104,776,295</u>

	Water	Sewer	Nonmajor Enterprise	Waterways	Rink
Prior year as presented	\$ 19,025,212	\$ 90,224,589	\$ 2,550,730	\$ -	\$ -
Reclassify betterment receivables	-	3,555,154	-	-	-
Reclassify betterment equity	-	1,303,016	-	-	-
Reclassify betterment debt	-	(4,204,081)	-	-	-
Reclassify debt subsidies	-	606,402	-	-	-
Record net pension liability	(3,953,872)	(3,779,055)	-	(352,549)	(199,251)
Reclassify major funds	-	-	<u>(2,550,730)</u>	<u>2,310,046</u>	<u>240,684</u>
As restated	<u>\$ 15,071,340</u>	<u>\$ 87,706,025</u>	<u>\$ -</u>	<u>\$ 1,957,497</u>	<u>\$ 41,433</u>

	General Fund	West Parish School Construction	Capital Projects	Nonmajor Governmental	Other Postemployment Benefits Trust
Prior year as presented	\$ 10,100,014	\$ -	\$ -	\$ 14,189,854	\$ -
Reclassify fiduciary fund	(210,456)	-	-	-	210,456
Reclassify betterment equity	-	-	-	(1,303,016)	-
Defer loans receivable	-	-	-	(5,513,878)	-
Reclassify major funds	-	<u>(1,356,086)</u>	<u>1,803,993</u>	<u>(447,907)</u>	<u>-</u>
As restated	<u>\$ 9,889,558</u>	<u>\$ (1,356,086)</u>	<u>\$ 1,803,993</u>	<u>\$ 6,925,053</u>	<u>\$ 210,456</u>

Required Supplementary Information

CITY OF GLOUCESTER, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2015

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(dollar amounts are in thousands)

	Year Ended December 31, 2014
City's proportion of the net pension liability (asset)	94.136%
City's proportionate share of the net pension liability (asset)	\$ 89,895
City's covered-employee payroll	\$ 28,746
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	312.72%
Plan fiduciary net position as a percentage of the total pension liability	47.9%

SCHEDULE OF THE CITY'S CONTRIBUTIONS TO PENSION PLAN
(dollar amounts are in thousands)

	Year Ended December 31, 2014
Actuarially determined contribution	\$ 6,897
Contributions in relation to the actuarially determined contribution	<u>6,925</u>
Contribution deficiency (excess)	<u><u>\$ (28)</u></u>
City's covered-employee payroll	\$ 28,746
Contributions as a percentage of covered-employee payroll	24.1%

N/A - Information not currently available

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

CITY OF GLOUCESTER, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2015

SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHER'S RETIREMENT SYSTEM
(dollar amounts are in thousands)

	Year Ended June 30, 2014
Commonwealth's proportion of the collective net pension liability (asset)	100.0%
City's proportion of the collective net pension liability (asset)	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 937,379

Contributions to MTRS are the responsibility of the Commonwealth of Massachusetts.

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

CITY OF GLOUCESTER, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2015

SCHEDULE OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets <i>(a)</i>	Actuarial Accrued Liability (AAL) <i>(b)</i>	Unfunded AAL (UAAL) <i>(b-a)</i>	Funded Ratio <i>(a/b)</i>	Covered Payroll <i>(c)</i>	UAAL as a Percentage of Covered Payroll <i>((b-a)/c)</i>
6/30/2013	\$ -	\$ 203,031,629	203,031,629	0%	\$ 45,737,844	443.9%
6/30/2011	-	204,228,540	204,228,540	0%	38,360,017	532.4%
6/30/2009	-	220,755,787	220,755,787	0%	47,216,775	467.5%

SCHEDULE OF CONTRIBUTION FUNDING

Other Postemployment Benefits

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2015	\$ 14,493,743	\$ 6,518,743	45.0%
2014	13,860,849	6,297,464	45.4%
2013	14,830,650	4,379,896	29.5%
2012	14,164,467	4,821,767	34.0%
2011	13,791,187	4,574,904	33.2%
2010	12,683,069	4,782,465	37.7%

See accompanying independent auditors' report.

CITY OF GLOUCESTER, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
REVENUES						
Real estate and personal property taxes, net	\$ 72,878,977	\$ 72,878,977	\$ 72,930,168	\$ -	\$ 72,930,168	\$ 51,191
Intergovernmental	11,819,055	11,819,055	12,027,026	-	12,027,026	207,971
Motor vehicle and other excises	4,255,000	4,255,000	4,389,505	-	4,389,505	134,505
License and permits	1,330,100	1,330,100	1,799,191	-	1,799,191	469,091
Departmental and other revenue	4,934,231	4,934,231	5,363,308	-	5,363,308	429,077
Penalties and interest on taxes	502,600	502,600	579,891	-	579,891	77,291
Fines and forfeitures	398,000	398,000	359,724	-	359,724	(38,276)
Investment income	80,000	80,000	77,850	-	77,850	(2,150)
Total Revenues	<u>96,197,963</u>	<u>96,197,963</u>	<u>97,526,663</u>	<u>-</u>	<u>97,526,663</u>	<u>1,328,700</u>
EXPENDITURES						
General government	5,210,335	5,288,737	4,908,667	241,215	5,149,882	138,855
Public safety	14,981,798	15,234,804	15,063,044	17,227	15,080,271	154,533
Education	40,058,588	40,171,523	38,963,556	955,808	39,919,364	252,159
Public works	10,484,265	10,261,701	12,057,903	435,883	12,493,786	(2,232,085)
Health and human services	1,036,337	1,048,312	971,211	30,197	1,001,408	46,904
Culture and recreation	898,525	898,525	889,633	-	889,633	8,892
Pension and fringe benefits	14,043,274	14,582,773	14,523,849	41,486	14,565,335	17,438
State and county tax assessments	2,046,339	2,101,339	2,101,304	-	2,101,304	35
Debt service	13,323,738	13,292,738	13,291,505	-	13,291,505	1,233
Total Expenditures	<u>102,083,199</u>	<u>102,880,452</u>	<u>102,770,672</u>	<u>\$ 1,721,816</u>	<u>104,492,488</u>	<u>(1,612,036)</u>
OTHER FINANCING SOURCES (USES)						
Premiums on bonds and notes	-	-	251,190	-	251,190	251,190
Transfers in	2,911,801	3,085,301	3,085,301	-	3,085,301	-
Transfers out	(120,000)	(120,000)	(120,000)	-	(120,000)	-
Total Other Financing Sources (Uses)	<u>2,791,801</u>	<u>2,965,301</u>	<u>3,216,491</u>	<u>-</u>	<u>3,216,491</u>	<u>251,190</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE						
	<u>(3,093,435)</u>	<u>(3,717,188)</u>	<u>\$ (2,027,518)</u>	<u>-</u>	<u>\$ (3,749,334)</u>	<u>\$ 3,191,926</u>
Other budget items:						
Undesignated surplus (free cash)	1,450,000	1,818,435				
Overlay surplus	-	255,318				
Prior year encumbrances and carryovers	1,643,435	1,643,435				
Net budget	<u>\$ -</u>	<u>\$ -</u>				

See accompanying notes to financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and the Enterprise Fund. Financial orders are initiated by department heads, recommended by the Mayor and the Budget and Finance Committee and approved by the City Council. Expenditures may not legally exceed appropriations at the department level, or in the categories of personnel, non-personnel expenses and capital outlay. Department heads may transfer, without City Council approval, appropriation balances from one account to another within their department budget within the categories of personnel and non-personnel. The City Council and the department head however must approve any transfer of unencumbered appropriation balances to and from capital outlay accounts and between departments or agencies. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance.

The City adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2015, City Council approved various supplemental budgetary appropriations which resulted in a net increase of approximately \$800,000 from the original voted budget. These were primarily for employee fringe benefits (approximately \$500,000) and public safety (approximately \$300,000).

The City Auditor has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted by City Council. Budgetary control is exercised through the City’s accounting system.

Budgetary-to-GAAP Reconciliation – The City’s general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2015, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 97,526,663
On-behalf pension subsidy	\$ 3,861,833	\$ -	3,861,833
Revenue recognition - departmental	(102,410)	-	(102,410)
Revenue recognition - property taxes	(309,774)	-	(309,774)
Revenue recognition - interest income	(15,832)	-	(15,832)
Allowance for doubtful accounts	136,400	-	136,400
Interest earned on stabilization funds	-	6,446	6,446
Revenues on a GAAP basis	<u>\$ 3,570,217</u>	<u>\$ 6,446</u>	<u>\$ 101,103,326</u>

	Basis of Accounting Differences	Fund Perspective Differences	Total
Expenditures on a budgetary basis			\$ 102,770,672
On-behalf pension payment	\$ 3,861,833	\$ -	3,861,833
Expenditure recognition	(265,702)	-	(265,702)
Stabilization expenditures	-	212,060	212,060
Indirect costs recorded as reimbursements	(341,148)	-	(341,148)
Refunding transaction	253,224	-	253,224
Debt activity	(7,841,589)	-	(7,841,589)
Expenditures on a GAAP basis	<u>\$ (4,333,382)</u>	<u>\$ 212,060</u>	<u>\$ 98,649,350</u>
Net other financing sources on a budgetary basis			\$ 3,216,491
Indirect costs recorded as reimbursements	\$ (341,148)	\$ -	(341,148)
Stabilization transfers	-	(73,500)	(73,500)
Refunding transaction	253,224	-	253,224
Debt activity	(7,841,589)	-	(7,841,589)
Transfers recognition - Betterments	(252,000)	-	(252,000)
Transfers recognition - Other	(23,770)	-	(23,770)
Net other financing sources on a GAAP basis	<u>(8,205,283)</u>	<u>(73,500)</u>	<u>(5,062,292)</u>

Excess of Expenditures Over Appropriations – During fiscal year 2015, expenditures exceeded appropriations in the General Fund for snow and ice expenditures by \$2,621,014. This over-expenditure will be funded through available funds during fiscal year 2016.