

CITY OF GLOUCESTER, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CITY OF GLOUCESTER, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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Independent Auditors' Report

Independent Auditors' Report

To the Honorable 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, as of and for the fiscal year ended June 30, 2013 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the City of Gloucester, Massachusetts' basic financial statements as listed in the table of contents. We did not audit the financial statements of the Gloucester Lyceum and Sawyer Free Library, Inc. (the Library), which is the sole discretely presented component unit and represents 100% of the assets, net position and revenues of the discretely presented component unit.

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 did not audit the financial statements of the Library, the sole discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts for the Library, is based on the report of the other auditor. 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 from material misstatement. The financial statements of the Library, the sole discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves 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, based on our audit and the report of the other auditor, 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 of Gloucester, Massachusetts, as of June 30, 2013 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2012), 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 5 through 15) and general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 69 through 74) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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.

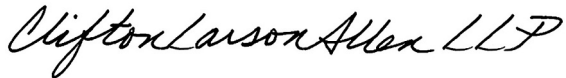
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gloucester, Massachusetts' basic financial statements. The nonmajor enterprise funds' combining statement of fund net position and combining statement of revenues, expenses and changes in fund net position supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2014 on our consideration of the City of Gloucester, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Gloucester, Massachusetts' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Boston, Massachusetts
March 20, 2014

Management's Discussion and Analysis

CITY OF GLOUCESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

As management of the City of Gloucester, Massachusetts (City), we offer readers of these financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2013.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$137,997,200 (net position). The City's governmental activities has an unrestricted net deficit of \$30,400,280 and its business-type activities unrestricted net position totaled \$18,353,667.
- The City's total net position decreased by \$6,649,280.
- At the end of the fiscal year, the general fund unassigned fund balance totaled \$7,412,492, or 7.5 percent of total general fund expenditures and transfers out.
- The City's total bonded debt increased by \$22,171,677 during the fiscal year. The City issued \$39,264,529 of new debt during the year for building improvements, road paving, equipment, MWPAT Title V, sewer projects, water projects, Talbot Rink projects and refundings of outstanding debt.

Overview of the Basic Financial Statements

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

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

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

Government-wide financial statements

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

The **statement of net position** presents information on all of the City's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference 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, earned but unused vacation leave, etc.).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the City's sewer, water, waterways and rink operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

The government-wide financial statements can be found on pages 17-19 of this report.

Fund financial statements

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

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 637 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other 636 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 20 - 23 of this report.

Proprietary funds

The City maintains one type of proprietary fund.

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 sewer, water, waterways and Talbot rink operations, for which sewer and water are considered to be major funds.

The basic proprietary funds financial statements can be found on pages 24-26 of this report.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

CITY OF GLOUCESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The fiduciary funds provide separate information for the City's pension trust fund. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary funds financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary funds financial statements can be found on pages 27-28 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-68 of this report.

Required Supplementary

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other postemployment benefits information, which can be found on pages 69-74.

Additional Information

In addition to the basic financial statements, accompanying notes and required supplementary information, this report also contains additional information. Presented in this information are the combining statement of fund net position and combining statement of revenues, expenses and changes in fund net position for the nonmajor enterprise funds (Waterways and Talbot Rink). The additional information can be located on page 75-77.

Government-Wide Financial Analysis

The following tables present current year data on the government-wide financial statements.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$137,997,200 at the close of the fiscal year and are summarized as follows:

CITY OF GLOUCESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
Assets						
Current assets.....	\$ 32,574,151	\$ 31,980,881	\$ 19,702,489	\$ 18,241,018	\$ 52,276,640	\$ 50,221,899
Noncurrent assets (excluding capital assets).....	8,690,179	10,172,429	9,753,609	11,501,357	18,443,788	21,673,786
Capital assets (net).....	79,152,875	73,918,602	195,421,505	178,031,564	274,574,380	251,950,166
Total assets.....	<u>120,417,205</u>	<u>116,071,912</u>	<u>224,877,603</u>	<u>207,773,939</u>	<u>345,294,808</u>	<u>323,845,851</u>
Liabilities						
Current liabilities (excluding debt).....	5,451,141	3,894,604	1,147,662	1,181,527	6,598,803	5,076,131
Noncurrent liabilities (excluding debt).....	45,879,045	35,610,961	1,922,690	1,478,909	47,801,735	37,089,870
Current debt.....	7,334,640	12,282,424	16,620,368	17,438,457	23,955,008	29,720,881
Noncurrent debt.....	34,993,741	30,964,886	93,948,321	76,347,603	128,942,062	107,312,489
Total liabilities.....	<u>93,658,567</u>	<u>82,752,875</u>	<u>113,639,041</u>	<u>96,446,496</u>	<u>207,297,608</u>	<u>179,199,371</u>
Net Position						
Net investment in capital assets.....	46,050,972	42,164,538	92,884,895	88,027,781	138,935,867	130,192,319
Restricted.....	11,107,946	14,598,432	-	-	11,107,946	14,598,432
Unrestricted.....	<u>(30,400,280)</u>	<u>(23,443,933)</u>	<u>18,353,667</u>	<u>23,299,662</u>	<u>(12,046,613)</u>	<u>(144,271)</u>
Total net position.....	<u>\$ 26,758,638</u>	<u>\$ 33,319,037</u>	<u>\$ 111,238,562</u>	<u>\$ 111,327,443</u>	<u>\$ 137,997,200</u>	<u>\$ 144,646,480</u>

The largest portion of the City's net position (\$138,935,867) reflects its net investment in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other and infrastructure) less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$11,107,946) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents a net deficit of \$12,046,613. Of this amount, \$18,353,667 may be used to support business-type activities and (\$30,400,280) represents an unrestricted net deficit in governmental activities.

At the end of the current fiscal year, the City reports positive balances in all three categories of net position for business-type activities. For governmental activities, positive balances are reported in each category except for unrestricted net position. Such resources have been consumed with the recognition of other postemployment benefit liabilities.

CITY OF GLOUCESTER, MASSACHUSETTS
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Changes in Net Position

For the fiscal year ended June 30, 2013, the City's total net position decreased by \$6,649,280 and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
<i>Program Revenues:</i>						
Charges for services.....	\$ 11,584,403	\$ 11,179,812	\$ 13,801,523	\$ 13,399,135	\$ 25,385,926	\$ 24,578,947
Operating grants and contributions.....	24,263,000	23,651,184	796,589	133,507	25,059,589	23,784,691
Capital grants and contributions.....	688,653	2,295,805	1,059,902	1,235,968	1,748,555	3,531,773
<i>General Revenues:</i>						
Real estate and personal property taxes.....	64,768,496	63,077,695	-	-	64,768,496	63,077,695
Motor vehicle and other excise taxes.....	3,552,136	3,479,764	-	-	3,552,136	3,479,764
Hotel/motel taxes.....	468,343	411,738	-	-	468,343	411,738
Penalties and interest on taxes.....	482,536	605,280	-	-	482,536	605,280
Payments in lieu of taxes.....	32,471	29,294	-	-	32,471	29,294
Community preservation surcharges.....	488,118	473,254	-	-	488,118	473,254
Grants and contributions not restricted to specific programs.....	3,398,980	3,400,000	-	-	3,398,980	3,400,000
Unrestricted investment income.....	92,508	78,204	-	-	92,508	78,204
Total revenues.....	109,819,644	108,682,030	15,658,014	14,768,610	125,477,658	123,450,640
Expenses						
General government.....	7,876,806	7,237,274	-	-	7,876,806	7,237,274
Public safety.....	23,611,041	21,639,656	-	-	23,611,041	21,639,656
Education.....	62,636,639	61,434,195	-	-	62,636,639	61,434,195
Public works.....	13,358,454	11,520,406	-	-	13,358,454	11,520,406
Health and human services.....	3,492,413	2,760,670	-	-	3,492,413	2,760,670
Culture and recreation.....	1,485,843	1,338,998	-	-	1,485,843	1,338,998
Community development.....	743,152	828,051	-	-	743,152	828,051
Debt service - interest.....	1,810,129	1,570,886	-	-	1,810,129	1,570,886
Sewer.....	-	-	9,870,450	9,627,430	9,870,450	9,627,430
Water.....	-	-	6,467,800	5,068,206	6,467,800	5,068,206
Nonmajor enterprise funds.....	-	-	774,211	635,331	774,211	635,331
Total expenses.....	115,014,477	108,330,136	17,112,461	15,330,967	132,126,938	123,661,103
Change in net position before transfers and special items	(5,194,833)	351,894	(1,454,447)	(562,357)	(6,649,280)	(210,463)
Transfers, net.....	(1,365,566)	(1,085,140)	1,365,566	1,085,140	-	-
Change in net position.....	(6,560,399)	(733,246)	(88,881)	522,783	(6,649,280)	(210,463)
Net position - beginning of year.....	33,319,037	34,052,283	111,327,443	110,804,660	144,646,480	144,856,943
Net position - end of year.....	\$ 26,758,638	\$ 33,319,037	\$ 111,238,562	\$ 111,327,443	\$ 137,997,200	\$ 144,646,480

Governmental activities decreased the City's net position by \$6,560,399. In the prior year, governmental activities decreased the City's net position by \$733,246. The key elements of this change are an increase of approximately \$2,445,000 in the use of reserves to fund the general fund budget, an increase of approximately \$1,045,000 in the City's annual other post-employment benefits cost, and a decrease of approximately \$1,604,000 in capital grants and contributions.

Business-type activities decreased the City's net position by \$88,881. In the prior year, business-type activities increased the City's net position by \$522,783. The key element of this change is the increase in water contractual operating costs of approximately \$280,000.

CITY OF GLOUCESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Fund Financial Statement Analysis

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

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$19,142,006, an increase of \$3,288,243 in comparison with the prior year. Approximately \$3,448,000 (net of the nonmajor governmental funds' temporary deficits) represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Restricted (\$12,925,357)
- Committed (\$860,215)
- Assigned (\$1,908,475)

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the general fund's unassigned fund balance totaled \$7,412,492, while total fund balance was \$10,280,321. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 7.5% of total general fund expenditures and transfers out, while total fund balance represents 10.5% of that same amount.

The balance of the City's general fund decreased by \$302,251 during fiscal year 2013. The key element of this change is a positive budget to actual variance totaling approximately \$5,451,000 (excluding encumbrances and continuing appropriations), offset by the use of reserves totaling approximately \$5,589,000 to fund the budget. The remainder of the change is related to basis of accounting differences (cash versus modified accrual), such as tax refunds payable, 60-day receipts and expenditures.

Proprietary funds

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

Unrestricted net position of the sewer and water enterprise funds at the end of the year amounted to \$16,235,921 and \$1,711,808, respectively. The sewer enterprise fund had a decrease in net position for the year of \$1,441,846, whereas the water enterprise fund had an increase in net position for the year of \$1,444,109. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

CITY OF GLOUCESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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General Fund Budgetary Highlights

The original general fund budget of \$90,970,673 was increased by \$3,870,237 (4.3%) during the year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Transfer to stabilization fund	\$ 616,075	Unassigned fund balance
School department expenses.....	614,118	Unassigned fund balance
Public works capital expenses.....	609,907	Unassigned fund balance and transfer from nonmajor governmental fund
Transfer to capital project stabilization fund.....	462,000	Unassigned fund balance
Public works department expenses.....	284,000	Unassigned fund balance
Fire department salaries and wages.....	283,000	Unassigned fund balance
Police department salaries and wages.....	98,616	Unassigned fund balance
Fire department expenses.....	95,000	Unassigned fund balance
Transfer to OPEB trust fund.....	80,000	Unassigned fund balance
Assessors department expenses.....	75,000	Unassigned fund balance and transfer from nonmajor governmental fund
Public works department salaries and wages.....	70,000	Unassigned fund balance
Personnel department expenses salaries and wages.....	60,404	Unassigned fund balance
MIS department capital expenses.....	58,000	Unassigned fund balance
Transfer to athletic revolving special revenue fund.....	57,000	Unassigned fund balance
Library department expenses.....	48,171	Unassigned fund balance
Veteran's department expenses.....	40,000	Unassigned fund balance
Legal department salaries and wages.....	33,210	Unassigned fund balance
Mayor's office expenses.....	30,000	Unassigned fund balance
Police department capital expenses.....	27,025	Unassigned fund balance
Tourism department expenses.....	27,000	Unassigned fund balance
Personnel department expenses.....	26,000	Unassigned fund balance
Health department expenses.....	23,898	Unassigned fund balance
Legal department expenses.....	21,714	Unassigned fund balance and transfer from nonmajor governmental fund
Treasurer/Collector department expenses.....	21,200	Unassigned fund balance and committed fund balance
Transfer to CDBG service special revenue fund.....	18,000	Unassigned fund balance
Transfer to transportation revolving special revenue fund.....	18,000	Unassigned fund balance
Assessors department salaries and wages.....	15,000	Unassigned fund balance
Council on aging department expenses.....	14,050	Unassigned fund balance
Community development salaries and wages.....	10,000	Transfer from nonmajor governmental fund
City clerk department expenses.....	9,250	Unassigned fund balance
Purchasing department expenses.....	8,100	Unassigned fund balance
Inspectional department expenses.....	5,446	Unassigned fund balance
Health department salaries and wages.....	2,478	Unassigned fund balance
Library salaries and wages.....	2,200	Unassigned fund balance
Council on aging salaries and wages.....	1,700	Unassigned fund balance
Tourism department salaries and wages.....	1,275	Unassigned fund balance
City clerk department salaries and wages.....	1,200	Unassigned fund balance
Licensing commission department salaries and wages.....	1,103	Unassigned fund balance
Licensing commission department expenses.....	1,097	Unassigned fund balance
Total increase.....	\$ <u>3,870,237</u>	

During the year, general fund revenues and other financing sources exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$3,543,000. Encumbrances and continuing appropriations total approximately \$1,908,000 at year-end.

CITY OF GLOUCESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$274,574,380 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other and infrastructure. The total increase in the investment in capital assets for the current fiscal year totaled \$23,346,525, or 9.3% (a 2.1% increase for governmental activities and a 7.2% increase for business-type activities).

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

- Sewer projects construction in progress (\$8,992,551)
- Water projects construction in progress (\$11,211,709)
- Streets paving (\$674,775)
- Commercial street and Fort square construction in progress (\$526,239)
- CSO surface improvements construction in progress (\$746,051)
- Newell stadium construction in progress (\$2,632,000)
- ADA ramps and paving (\$469,200)
- City Hall restoration construction in progress (\$1,894,991)
- Fire ladder apparatus (\$317,700)
- Pumper fire truck (\$309,258)
- Ambulance purchase (\$227,481)

The following table summarizes the City's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
Land.....	\$ 19,201,783	\$ 19,201,783	\$ 4,512,584	\$ 4,512,584	\$ 23,714,367	\$ 23,714,367
Buildings.....	23,688,033	25,729,418	372,771	445,977	24,060,804	26,175,395
Improvements.....	5,824,985	5,554,599	1,531,506	697,272	7,356,491	6,251,871
Machinery and equipment.....	1,869,373	1,712,646	1,120,601	681,089	2,989,974	2,393,735
Vehicles.....	4,229,696	3,521,954	232,865	328,446	4,462,561	3,850,400
Other.....	516,615	540,331	203,189	266,956	719,804	807,287
Infrastructure.....	16,467,385	15,509,305	149,747,515	134,967,847	166,214,900	150,477,152
Construction in progress.....	7,355,005	2,148,566	37,700,474	35,409,082	45,055,479	37,557,648
Total capital assets.....	\$ 79,152,875	\$ 73,918,602	\$ 195,421,505	\$ 177,309,253	\$ 274,574,380	\$ 251,227,855

Additional information on the City's capital assets can be found in Note 5 on pages 46-51 of this report.

CITY OF GLOUCESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$140,251,283, which is backed by the full faith and credit of the City, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2013	2012	2013	2012	2013	2012
General obligation bonds.....	\$ 40,705,771	\$ 27,622,204	\$ 57,742,391	\$ 40,620,797	\$ 98,448,162	\$ 68,243,001
MWPAT notes.....	(709,908)	8,381,952	42,513,029	41,897,763	41,803,121	50,279,715
Total bonds and notes.....	<u>\$ 39,995,863</u>	<u>\$ 36,004,156</u>	<u>\$ 100,255,420</u>	<u>\$ 82,518,560</u>	<u>\$ 140,251,283</u>	<u>\$ 118,522,716</u>

The City's total bonded debt increased by \$22,171,677 (18.7%) during the current fiscal year. \$39,264,529 of new debt was issued during the year for building improvements, road paving, equipment, MWPAT Title V, sewer projects, water projects, Talbot Rink projects and refundings of outstanding debt.

The City received an AA rating from Standard & Poor's Ratings Services for its most recent issuance of long-term debt on January 30, 2014.

Additional information on the City's long-term debt can be found in Note 9 on pages 54-59 of this report.

Economic Factors and Next Year's Budget Rates

The fiscal year 2014 general fund operating budget of \$92.8 million represents a \$1.8 million or 2.0% increase from the fiscal year 2013 budget. This is primarily due to approximately \$1.8 million or 5.0% increase in education expenses, approximately \$482,000 or 12% increase in general government expenses, approximately \$260,000 or 3% increase in public works expenses, approximately \$2,000,000 or 35% decrease in state and county assessments due to the decrease in charter school sending tuition, approximately \$267,000 or 4.6% increase in pension benefits, approximately \$136,000 or 2.3% increase in employee benefits and approximately \$787,000 or 6.7% increase in public safety expenditures. The fiscal year 2014 operating budget includes approximately \$1,908,000 of appropriations carried forward from fiscal year 2013.

Property taxes for Massachusetts municipalities are limited to a levy growth of 2 ½% plus a factor for a new construction, unless voters at an election approve an increase for operating expenses or debt service for a specific project (Proposition 2 ½). The City calculated that the tax levy growth from fiscal year 2013 to fiscal year 2014, exclusive of debt service excluded from Proposition 2 ½ and a water and sewer debt shift, will be approximately \$816,000. The City is scheduled to receive \$10 million in state aid in fiscal year 2014, net of school construction grants. This amount is approximately \$500,000 or 4.8%, less than received in fiscal year 2013.

According to the U.S. Census Bureau, the median family income for the City in 2010 was \$60,506 compared with \$65,668 for the Commonwealth. The per capita income was \$34,337, compared with \$33,203 for the Commonwealth and \$26,059 for the nation.

CITY OF GLOUCESTER, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

The unemployment rate for the City of Gloucester is approximately 8.7 percent, which is a 0.1% decrease from a rate of 8.8 percent a year ago. This compares unfavorably to the state's average unemployment rate of 6.7 percent and unfavorable to the national average of 6.7 percent.

According to the City's Board of Assessors, the average fiscal year 2013 single family home in the City is valued at \$451,352; the average two-family home is valued at \$339,502; the average 2013 commercial and industrial property is valued at \$658,728 - all compared favorably with state and national property values.

Requests for Information

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

Basic Financial Statements

CITY OF GLOUCESTER, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Gloucester Lyceum and Sawyer Free Library, Inc.
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 14,648,300	\$ 3,747,181	\$ 18,395,481	\$ 382,147
Restricted cash and cash equivalents.....	9,157,972	7,882,815	17,040,787	-
Restricted investments.....	1,125,977	-	1,125,977	4,192,099
Receivables, net of allowance for uncollectible amounts:				
Real estate and personal property taxes.....	860,458	-	860,458	-
Tax and utility liens.....	2,323,435	336,999	2,660,434	-
Motor vehicle and other excise taxes.....	453,794	32,782	486,576	-
Community preservation surcharges.....	8,225	-	8,225	-
User charges.....	-	3,974,087	3,974,087	-
Special assessments.....	50,337	1,427,929	1,478,266	-
Departmental and other.....	1,445,690	23,895	1,469,585	-
Intergovernmental.....	2,419,083	2,276,801	4,695,884	-
Loans.....	80,880	-	80,880	-
Total current assets.....	<u>32,574,151</u>	<u>19,702,489</u>	<u>52,276,640</u>	<u>4,574,246</u>
Noncurrent assets:				
Receivables, net of allowance for uncollectible amounts:				
Real estate tax deferrals.....	175,718	-	175,718	-
Special assessments.....	3,638,498	7,914,312	11,552,810	-
Intergovernmental.....	3,564,495	1,839,297	5,403,792	-
Loans.....	869,247	-	869,247	-
Tax foreclosures.....	442,221	-	442,221	-
Capital assets not being depreciated.....	26,556,788	42,213,058	68,769,846	1,000
Capital assets, net of accumulated depreciation.....	<u>52,596,087</u>	<u>153,208,447</u>	<u>205,804,534</u>	<u>2,189,622</u>
Total noncurrent assets.....	<u>87,843,054</u>	<u>205,175,114</u>	<u>293,018,168</u>	<u>2,190,622</u>
Total assets.....	<u>120,417,205</u>	<u>224,877,603</u>	<u>345,294,808</u>	<u>6,764,868</u>
LIABILITIES				
Current liabilities:				
Warrants payable.....	620,626	201,712	822,338	-
Accrued payroll.....	1,815,561	8,716	1,824,277	-
Tax refunds payable.....	356,762	-	356,762	-
Other liabilities.....	1,790,461	17,079	1,807,540	76,353
Accrued interest.....	513,733	905,504	1,419,237	-
Workers' compensation claims.....	126,551	-	126,551	-
Landfill postclosure.....	37,166	-	37,166	-
Compensated absences.....	190,281	14,651	204,932	-
Short-term notes payable.....	2,332,518	9,870,159	12,202,677	-
Long-term bonds and notes payable.....	5,002,122	6,750,209	11,752,331	-
Total current liabilities.....	<u>12,785,781</u>	<u>17,768,030</u>	<u>30,553,811</u>	<u>76,353</u>
Noncurrent liabilities:				
Workers' compensation claims.....	617,868	-	617,868	-
Landfill postclosure.....	1,080,165	-	1,080,165	-
Compensated absences.....	1,712,532	131,866	1,844,398	-
Net OPEB obligation.....	42,468,480	1,790,824	44,259,304	-
Long-term bonds and notes payable.....	34,993,741	93,948,321	128,942,062	-
Total noncurrent liabilities.....	<u>80,872,786</u>	<u>95,871,011</u>	<u>176,743,797</u>	<u>-</u>
Total liabilities.....	<u>93,658,567</u>	<u>113,639,041</u>	<u>207,297,608</u>	<u>76,353</u>
NET POSITION				
Net investment in capital assets.....	46,050,972	92,884,895	138,935,867	-
Restricted for:				
Other postemployment benefits.....	99,139	-	99,139	-
Community development.....	533,680	-	533,680	-
Community preservation.....	1,197,217	-	1,197,217	-
Education.....	1,377,079	-	1,377,079	-
Public works.....	1,189,523	-	1,189,523	-
Loans.....	950,126	-	950,126	-
Permanent funds.....	1,052,717	-	1,052,717	-
Other specific purposes.....	4,708,465	-	4,708,465	3,965,311
Unrestricted.....	<u>(30,400,280)</u>	<u>18,353,667</u>	<u>(12,046,613)</u>	<u>2,723,204</u>
Total net position.....	<u>\$ 26,758,638</u>	<u>\$ 111,238,562</u>	<u>\$ 137,997,200</u>	<u>\$ 6,688,515</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government.....	\$ 7,876,806	\$ 1,396,875	\$ 1,910,896	\$ -	\$ (4,569,035)
Public safety.....	23,611,041	3,938,415	416,907	-	(19,255,719)
Education.....	62,636,639	1,258,229	19,390,065	13,878	(41,974,467)
Public works.....	13,358,454	4,427,430	142,705	674,775	(8,113,544)
Health and human services.....	3,492,413	409,567	911,752	-	(2,171,094)
Culture and recreation.....	1,485,843	-	27,463	-	(1,458,380)
Community development.....	743,152	153,887	882,739	-	293,474
Debt service - interest.....	1,810,129	-	580,473	-	(1,229,656)
Total governmental activities.....	115,014,477	11,584,403	24,263,000	688,653	(78,478,421)
Business-type activities:					
Sewer.....	9,870,450	6,515,275	422,762	-	(2,932,413)
Water.....	6,467,800	6,667,416	309,592	1,059,902	1,569,110
Nonmajor enterprise funds.....	774,211	618,832	64,235	-	(91,144)
Total business-type activities.....	17,112,461	13,801,523	796,589	1,059,902	(1,454,447)
Total primary government.....	\$ 132,126,938	\$ 25,385,926	\$ 25,059,589	\$ 1,748,555	\$ (79,932,868)
Component units:					
Gloucester Lyceum and Sawyer Free Library, Inc.....	\$ 1,225,353	\$ 33,347	\$ -	\$ 1,202,214	\$ 10,208

(Continued)

CITY OF GLOUCESTER, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net position:				
Net (expense)/revenue (from previous page).....	\$ (78,478,421)	\$ (1,454,447)	\$ (79,932,868)	\$ 10,208
<i>General revenues:</i>				
Real estate personal property taxes.....	64,768,496	-	64,768,496	-
Motor vehicle and other excise taxes.....	3,552,136	-	3,552,136	-
Hotel/motel taxes.....	468,343	-	468,343	-
Penalties and interest on taxes.....	482,536	-	482,536	-
Payments in lieu of taxes.....	32,471	-	32,471	-
Community preservation surcharges.....	488,118	-	488,118	-
Grants and contributions not restricted to specific programs.....	3,398,980	-	3,398,980	-
Unrestricted investment income.....	92,508	-	92,508	72,042
<i>Transfers, net</i>	(1,365,566)	1,365,566	-	-
Total general revenues and transfers.....	<u>71,918,022</u>	<u>1,365,566</u>	<u>73,283,588</u>	<u>72,042</u>
Change in net position.....	(6,560,399)	(88,881)	(6,649,280)	82,250
Net position - beginning of year.....	<u>33,319,037</u>	<u>111,327,443</u>	<u>144,646,480</u>	<u>6,606,265</u>
Net position - end of year.....	<u>\$ 26,758,638</u>	<u>\$ 111,238,562</u>	<u>\$ 137,997,200</u>	<u>\$ 6,688,515</u>

(Concluded)

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013

ASSETS	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 14,648,300	\$ -	\$ 14,648,300
Receivables, net of allowance for uncollectible amounts:			
Real estate and personal property taxes.....	860,458	-	860,458
Real estate tax deferrals.....	175,718	-	175,718
Tax liens.....	2,299,499	23,936	2,323,435
Motor vehicle and other excise taxes.....	453,794	-	453,794
Community preservation surcharges.....	-	8,225	8,225
Special assessments.....	43,989	3,644,846	3,688,835
Departmental and other.....	1,368,846	76,845	1,445,691
Intergovernmental.....	4,894,829	1,088,749	5,983,578
Loans.....	-	950,126	950,126
Tax foreclosures.....	442,221	-	442,221
Restricted assets:			
Cash and cash equivalents.....	688	9,157,284	9,157,972
Investments.....	98,451	1,027,526	1,125,977
TOTAL ASSETS.....	\$ 25,286,793	\$ 15,977,537	\$ 41,264,330
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 593,395	\$ 27,231	\$ 620,626
Accrued payroll.....	1,709,643	105,917	1,815,560
Tax refunds payable.....	356,762	-	356,762
Other liabilities.....	1,767,409	23,052	1,790,461
Deferred revenue.....	9,834,844	4,627,134	14,461,978
Workers' compensation claims.....	744,419	-	744,419
Short-term notes payable.....	-	2,332,518	2,332,518
TOTAL LIABILITIES.....	15,006,472	7,115,852	22,122,324
FUND BALANCES:			
Restricted.....	99,139	12,826,218	12,925,357
Committed.....	860,215	-	860,215
Assigned.....	1,908,475	-	1,908,475
Unassigned.....	7,412,492	(3,964,533)	3,447,959
TOTAL FUND BALANCES.....	10,280,321	8,861,685	19,142,006
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 25,286,793	\$ 15,977,537	\$ 41,264,330

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Real estate and personal property taxes.....	\$ 64,079,952	\$ -	\$ 64,079,952
Motor vehicle and other excise taxes.....	3,395,678	-	3,395,678
Hotel/motel tax.....	468,343	-	468,343
Tax liens.....	523,655	-	523,655
Payments in lieu of taxes.....	32,471	-	32,471
Community preservation surcharges.....	-	483,373	483,373
Charges for services.....	1,919,163	1,054,940	2,974,103
Intergovernmental.....	20,869,170	7,547,838	28,417,008
Special assessments.....	14,292	505,062	519,354
Penalties and interest on taxes.....	481,027	1,509	482,536
Licenses and permits.....	1,469,954	-	1,469,954
Fines and forfeitures.....	593,931	-	593,931
Departmental and other.....	2,851,574	2,097,557	4,949,131
Contributions.....	-	1,649,316	1,649,316
Investment income.....	92,507	75,341	167,848
TOTAL REVENUES.....	96,791,717	13,414,936	110,206,653
EXPENDITURES			
Current:			
General government.....	4,149,099	3,795,893	7,944,992
Public safety.....	12,355,501	2,891,480	15,246,981
Education.....	36,572,073	4,932,458	41,504,531
Public works.....	9,590,182	4,173,129	13,763,311
Health and human services.....	981,359	1,287,100	2,268,459
Culture and recreation.....	823,473	9,811	833,284
Community development.....	-	1,194,147	1,194,147
Pension benefits.....	14,433,689	-	14,433,689
Employee benefits.....	6,387,215	-	6,387,215
Property and liability insurance.....	539,887	-	539,887
State and county charges.....	4,097,879	-	4,097,879
Debt service:			
Principal.....	4,840,003	130,000	4,970,003
Interest.....	1,696,783	66,550	1,763,333
TOTAL EXPENDITURES.....	96,467,143	18,480,568	114,947,711
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	324,574	(5,065,632)	(4,741,058)
OTHER FINANCING SOURCES (USES)			
Transfers in.....	848,000	147,635	995,635
Proceeds of bonds and notes.....	-	9,002,773	9,002,773
Premium from issuance of bonds and notes.....	314,398	9,891	324,289
Proceeds of refunding bonds.....	-	891,438	891,438
Premium from issuance of refunding bonds.....	-	111,170	111,170
Sale of capital assets.....	16,205	-	16,205
Transfers out.....	(1,805,428)	(555,774)	(2,361,202)
Payments to refunded bond escrow agent.....	-	(318,507)	(318,507)
Debt service - principal - current refunding.....	-	(632,500)	(632,500)
TOTAL OTHER FINANCING SOURCES (USES).....	(626,825)	8,656,126	8,029,301
NET CHANGE IN FUND BALANCES.....	(302,251)	3,590,494	3,288,243
FUND BALANCES AT BEGINNING OF YEAR.....	10,582,572	5,271,191	15,853,763
FUND BALANCES AT END OF YEAR.....	\$ 10,280,321	\$ 8,861,685	\$ 19,142,006

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total governmental fund balances (page 20).....	\$	19,142,006
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.....		79,152,875
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.....		14,461,978
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.....		(513,733)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds and notes payable.....		(39,995,863)
Landfill postclosure.....		(1,117,331)
Compensated absences.....		(1,902,813)
Net OPEB obligation.....		<u>(42,468,480)</u>
Net position of governmental activities (page 17).....	\$	<u><u>26,758,638</u></u>

The accompanying notes are an integral part of the 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds (page 21).....	\$	3,288,243
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>		
Capital outlays.....		9,396,426
Depreciation.....		(4,118,546)
<p>In the statement of activities, the effect on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed.....</p>		
		(43,607)
<p>Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>		
		(1,157,416)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>		
Bond proceeds.....		(9,002,773)
Proceeds of refunding bonds.....		(891,438)
Refunded bonds defeased.....		932,500
Bond maturities.....		4,970,004
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.....</p>		
		(4,816)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>		
Landfill closure.....		36,619
Compensated absences.....		39,918
Net OPEB obligation.....		(10,005,513)
Changes in net position of governmental activities (page 19).....	\$	(6,560,399)

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF FUND NET POSITION
 JUNE 30, 2013

Business-Type Activities - Enterprise Funds				
ASSETS	Sewer	Water	Nonmajor Enterprise Funds	Total
Current assets:				
Cash and cash equivalents.....	\$ 2,236,645	\$ 1,205,968	\$ 304,568	\$ 3,747,181
Restricted cash and cash equivalents.....	7,271,498	298,057	313,260	7,882,815
Receivables, net of allowance for uncollectible amounts:				
Utility liens.....	189,213	147,786	-	336,999
Excise taxes.....	-	-	32,782	32,782
User charges.....	1,944,628	2,029,459	-	3,974,087
Special assessments.....	1,427,929	-	-	1,427,929
Departmental and other.....	952	-	22,943	23,895
Intergovernmental.....	287,644	-	-	287,644
Total current assets.....	<u>13,358,509</u>	<u>3,681,270</u>	<u>673,553</u>	<u>17,713,332</u>
Noncurrent assets:				
Receivables, net of allowance for uncollectible amounts:				
Special assessments.....	7,914,312	-	-	7,914,312
Intergovernmental.....	3,828,454	-	-	3,828,454
Capital assets not being depreciated.....	24,325,956	17,321,881	565,221	42,213,058
Capital assets, net of accumulated depreciation.....	<u>112,504,378</u>	<u>38,044,305</u>	<u>2,659,764</u>	<u>153,208,447</u>
Total noncurrent assets.....	<u>148,573,100</u>	<u>55,366,186</u>	<u>3,224,985</u>	<u>207,164,271</u>
Total assets.....	<u>161,931,609</u>	<u>59,047,456</u>	<u>3,898,538</u>	<u>224,877,603</u>
LIABILITIES				
Current liabilities:				
Warrants payable.....	23,161	156,585	21,967	201,713
Accrued payroll.....	5,643	1,591	1,482	8,716
Other liabilities.....	677	15,307	1,094	17,078
Accrued interest.....	576,332	329,172	-	905,504
Compensated absences.....	2,443	9,663	2,545	14,651
Short-term notes payable.....	-	9,862,089	8,070	9,870,159
Long-term bonds and notes payable.....	4,653,033	2,052,606	44,570	6,750,209
Total current liabilities.....	<u>5,261,289</u>	<u>12,427,013</u>	<u>79,728</u>	<u>17,768,030</u>
Noncurrent liabilities:				
Compensated absences.....	21,991	86,968	22,907	131,866
Net OPEB obligation.....	749,634	842,984	198,206	1,790,824
Long-term bonds and notes payable.....	<u>65,207,910</u>	<u>27,792,051</u>	<u>948,360</u>	<u>93,948,321</u>
Total noncurrent liabilities.....	<u>65,979,535</u>	<u>28,722,003</u>	<u>1,169,473</u>	<u>95,871,011</u>
Total liabilities.....	<u>71,240,824</u>	<u>41,149,016</u>	<u>1,249,201</u>	<u>113,639,041</u>
FUND NET POSITION				
Net investment in capital assets.....	74,454,864	16,186,632	2,243,399	92,884,895
Unrestricted.....	<u>16,235,921</u>	<u>1,711,808</u>	<u>405,938</u>	<u>18,353,667</u>
Total net position.....	<u>\$ 90,690,785</u>	<u>\$ 17,898,440</u>	<u>\$ 2,649,337</u>	<u>\$ 111,238,562</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Nonmajor Enterprise Funds	Total
OPERATING REVENUES				
Charges for services.....	\$ 6,277,363	\$ 6,611,723	\$ 546,721	\$ 13,435,807
Boat excise taxes.....	-	-	72,111	72,111
Penalties and interest.....	237,912	55,692	-	293,604
Other.....	-	-	3,598	3,598
TOTAL OPERATING REVENUES.....	6,515,275	6,667,415	622,430	13,805,120
OPERATING EXPENSES				
Cost of service and administration.....	3,672,861	4,014,777	566,293	8,253,931
Repairs and maintenance.....	1,682,939	487,218	19,244	2,189,401
Depreciation.....	3,291,536	1,016,924	181,747	4,490,207
TOTAL OPERATING EXPENSES.....	8,647,336	5,518,919	767,284	14,933,539
OPERATING INCOME (LOSS).....	(2,132,061)	1,148,496	(144,854)	(1,128,419)
NONOPERATING REVENUES (EXPENSES)				
Premium from issuance of bonds and notes.....	-	55,214	10,637	65,851
Premium from issuance of refunding bonds.....	112,438	69,126	-	181,564
Intergovernmental.....	310,324	35,252	50,000	395,576
Settlement claims.....	-	150,000	-	150,000
Interest expense.....	(1,223,114)	(948,881)	(6,927)	(2,178,922)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(800,352)	(639,289)	53,710	(1,385,931)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....	(2,932,413)	509,207	(91,144)	(2,514,350)
Capital contributions.....	-	1,059,902	-	1,059,902
Transfers in.....	1,730,428	-	-	1,730,428
Transfers out.....	(239,861)	(125,000)	-	(364,861)
TOTAL CONTRIBUTIONS AND TRANSFERS.....	1,490,567	934,902	-	2,425,469
CHANGE IN NET POSITION.....	(1,441,846)	1,444,109	(91,144)	(88,881)
FUND NET POSITION AT BEGINNING OF YEAR.....	92,132,631	16,454,331	2,740,481	111,327,443
FUND NET POSITION AT END OF YEAR.....	\$ 90,690,785	\$ 17,898,440	\$ 2,649,337	\$ 111,238,562

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-Type Activities - Enterprise Funds			
	Sewer	Water	Nonmajor Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users.....	\$ 7,819,573	\$ 6,694,830	\$ 618,993	\$ 15,133,396
Payments to vendors.....	(4,611,033)	(3,418,659)	(298,892)	(8,328,584)
Payments to employees.....	(700,345)	(759,964)	(214,358)	(1,674,667)
NET CASH FROM OPERATING ACTIVITIES.....	<u>2,508,195</u>	<u>2,516,207</u>	<u>105,743</u>	<u>5,130,145</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Intergovernmental grants.....	-	35,252	50,000	85,252
Transfers in.....	1,730,428	-	-	1,730,428
Transfers out.....	(239,861)	(125,000)	-	(364,861)
Settlement claims.....	-	150,000	-	150,000
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>1,490,567</u>	<u>60,252</u>	<u>50,000</u>	<u>1,600,819</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the issuance of bonds and notes.....	29,609,560	19,816,792	1,792,930	51,219,282
Proceeds from the issuance of refunding bonds.....	2,692,012	2,471,550	-	5,163,562
Premium from issuance of bonds and notes.....	-	55,214	10,637	65,851
Premium from issuance of refunding bonds.....	335,716	308,223	-	643,939
Capital contributions.....	-	1,059,902	-	1,059,902
Acquisition and construction of capital assets.....	(9,843,088)	(11,616,005)	(421,055)	(21,880,148)
Principal payments on bonds and notes.....	(22,055,148)	(12,556,232)	(1,668,930)	(36,280,310)
Refunded bonds redeemed.....	(2,867,500)	(2,595,000)	-	(5,462,500)
Interest expense.....	(940,372)	(970,731)	(6,927)	(1,918,030)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(3,068,820)</u>	<u>(4,026,287)</u>	<u>(293,345)</u>	<u>(7,388,452)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	<u>929,942</u>	<u>(1,449,828)</u>	<u>(137,602)</u>	<u>(657,488)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$5,864,710, \$813,398 and \$63,206 reported as restricted in the sewer, water and Talbot Rink enterprise funds, respectively).....	<u>8,578,201</u>	<u>2,953,853</u>	<u>755,430</u>	<u>12,287,484</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$7,271,498, \$298,057, \$293,846 and \$19,414 reported as restricted in the sewer, water, waterways and Talbot Rink enterprise funds, respectively).....	<u>\$ 9,508,143</u>	<u>\$ 1,504,025</u>	<u>\$ 617,828</u>	<u>\$ 11,629,996</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss).....	\$ (2,132,061)	\$ 1,148,496	\$ (144,854)	\$ (1,128,419)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Changes in assets and liabilities not requiring current cash flows:				
Depreciation.....	3,291,536	1,016,924	181,747	4,490,207
Net OPEB obligation.....	186,029	202,518	56,694	445,241
Effect of changes in operating assets and liabilities:				
Utility liens.....	(5,157)	4,246	-	(911)
Excise taxes.....	-	-	503	503
User charges.....	(50,798)	23,169	-	(27,629)
Special assessments.....	1,360,151	-	-	1,360,151
Departmental and other.....	102	-	(3,940)	(3,838)
Warrants payable.....	(142,836)	114,647	15,840	(12,349)
Accrued payroll.....	3,322	(325)	1,482	4,479
Other liabilities.....	677	3,149	506	4,332
Compensated absences.....	(2,770)	3,383	(2,235)	(1,622)
Total adjustments.....	<u>4,640,256</u>	<u>1,367,711</u>	<u>250,597</u>	<u>6,258,564</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 2,508,195</u>	<u>\$ 2,516,207</u>	<u>\$ 105,743</u>	<u>\$ 5,130,145</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Intergovernmental debt subsidies (MWPAT).....	\$ 599,994	\$ -	\$ -	\$ 599,994

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2013

ASSETS	Pension Trust Fund (12/31/12)	Private Purpose Trust Funds	Agency Funds
Cash and cash equivalents.....	\$ 408,522	\$ 19,050	\$ 11,551
Investments (PRIT).....	72,765,908	-	-
Investments (Other).....	-	777,055	-
Receivables, net of allowance for uncollectible amounts:			
Departmental and other.....	7,175	-	-
Total assets.....	<u>73,181,605</u>	<u>796,105</u>	<u>11,551</u>
LIABILITIES			
Warrants payable.....	2,247	-	-
Liabilities due depositors.....	-	-	11,551
Total liabilities.....	<u>2,247</u>	<u>-</u>	<u>11,551</u>
NET POSITION			
Held in trust for pension benefits and other purposes.....	<u>\$ 73,179,358</u>	<u>\$ 796,105</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Pension Trust Fund (12/31/12)</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Contributions:		
Employer.....	\$ 6,793,146	\$ -
Plan members.....	2,239,538	-
Private donations.....	-	2,807
	<u>9,032,684</u>	<u>2,807</u>
Net investment income:		
Net appreciation in fair value of investments.....	6,676,326	-
Interest.....	2,139,637	34,360
	<u>8,815,963</u>	<u>34,360</u>
Total investment income.....	8,815,963	34,360
Less investment expense.....	<u>(356,913)</u>	<u>-</u>
Net investment income.....	<u>8,459,050</u>	<u>34,360</u>
Intergovernmental.....	<u>265,138</u>	<u>-</u>
Transfers from other systems.....	<u>492,895</u>	<u>-</u>
TOTAL ADDITIONS.....	<u>18,249,767</u>	<u>37,167</u>
DEDUCTIONS		
Administration.....	318,689	-
Retirement benefits and refunds.....	9,955,541	-
Transfers to other systems.....	415,549	-
Other.....	-	4,236
	<u>10,689,779</u>	<u>4,236</u>
TOTAL DEDUCTIONS.....	<u>10,689,779</u>	<u>4,236</u>
CHANGE IN NET POSITION.....	7,559,988	32,931
NET POSITION AT BEGINNING OF YEAR.....	<u>65,619,370</u>	<u>763,174</u>
NET POSITION AT END OF YEAR.....	<u>\$ 73,179,358</u>	<u>\$ 796,105</u>

The accompanying notes are an integral part of the financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The City of Gloucester, Massachusetts (City) is a municipal corporation that is governed by an elected City Council.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the City.

The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

Blended Component Unit

The City has included the Gloucester Contributory Retirement System (System) as a component unit (blended) in the reporting entity because of the significance of its operational and financial relationship with the City. Blended component units are entities that are legally separate from the City, but are so related that they are, in substance, the same as the City or entities providing services entirely or almost entirely for the benefit of the City.

The System was established to provide retirement benefits to City employees and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the City's Council and one member appointed by the System's four other Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary funds financial statements.

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 127 Eastern Avenue, Gloucester, Massachusetts 01931.

Discretely Presented Component Unit

Discretely presented component units are entities that are legally separate from the City, but the nature and/or significance of their relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The City has included the Gloucester Lyceum and Sawyer Free Library, Inc. (Library) as a discretely presented component unit. The Library is a non-profit corporation, established in 1830 pursuant to Chapter 180 of the Massachusetts General Laws, governed by a Board of Directors. The Library's primary operating support is City appropriations and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Complete financial statements of the Library, audited by another auditor, can be obtained directly from the Library by contacting the Director at 2 Dale Avenue, Gloucester, Massachusetts 01930.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The City participates in one joint venture with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

The City is indirectly liable for the North Shore Regional Vocational School District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The City's fiscal year 2013 assessment totaled \$958,354. Separate audited financial statements may be obtained by contacting the District at 30 Log Bridge Road, Middleton, Massachusetts 01949.

C. Implementation of New Accounting Principles

For the year ending June 30, 2013, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB Statement No. 63 identifies net position as the residual of all other elements presented in a statement of financial position, which amends the net asset reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements, by renaming net assets to net position and defining net position to incorporate the effects of deferred outflows and inflows.

The implementation of GASB Statement No.'s 60, 61 and 62 had no reporting impact for the City.

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government and its discretely presented component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees. Likewise, the primary government is reported separately from legally separate discretely presented component units for which the primary government is financially accountable.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCAL STATEMENTS
JUNE 30, 2013

Fund Financial Statements

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

Fiduciary funds are reported by fund type.

E. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a specific function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental funds financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60-days after the end of the fiscal year. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental fund is reported:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund.

The nonmajor governmental funds consist of special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

Proprietary funds financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *sewer* enterprise fund is used to account for the City's sewer activities.

The *water* enterprise fund is used to account for the City's water activities.

The nonmajor enterprise funds consist of the *waterways* enterprise fund, which is used to account for the City's harbor activities, and the *Talbot rink* enterprise fund, which is used to account for the City's skating rink activities.

Fiduciary funds financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government's programs.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in custodial capacity. Agency funds do not present the results of operations or have a measurement focus.

F. Deposits and Investments

Primary Government

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value. Fair value is based on quotations from a national securities and exchange except for pooled funds, alternative investments and real estate, for which fair value is determined as follows:

Pooled Funds

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

Alternative Investments

Alternative investments are recorded at fair value as determined in good faith by the general partners of the venture capital firms after consideration of pertinent information, including current financial position and operating results, price-earnings multiples and available market prices of similar companies' securities, the nature of securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated.

G. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and proprietary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate Taxes, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the City and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the City. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

Community Preservation Surcharges

Community preservation surcharges are levied annually at a rate of 1% of residents' real estate tax bills with exemptions for the first \$100,000 of residential property and property owned by qualified persons with low income and seniors with low or moderate income as defined by DOR guidelines. The surcharge is due with the real estate tax on a quarterly basis each August 1st, November 1st, February 1st, and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Overdue surcharges are included on the tax liens processed on delinquent real estate taxes. Surcharges are recorded as receivables in the fiscal year of the levy.

User Charges (Water and Sewer)

User fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed annually and are included as a lien on the property owner's tax bill. Water and sewer charges and liens are recorded as receivables upon issuance.

Special Assessments

Special assessments consist of sewer, street and Title V septic betterments and are recorded as receivables in the fiscal year accrued.

Loans

The City administers various loan programs related to HUD and Brownfield programs. Loans are recorded as receivables upon issuance.

Departmental and Other

Departmental and other receivables consist primarily of ambulance, parking, police details, waterways and committed interest (related to sewer betterments) receivables and are recorded as receivables when accrued.

Intergovernmental

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

H. Allowance for Uncollectible Amounts

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax liens
- User charges (water and sewer, including liens)
- Special assessments
- Loans

Intergovernmental receivables are considered 100% collectible.

I. Inventories

Government-Wide and Fund Financial Statements

Inventories of the governmental activities, governmental funds and proprietary funds are recorded as expenditures at the time of purchase. Such inventories consist primarily of supplies and are not material in total to the respective financial statements and therefore are not reported.

J. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

K. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which consist of land, construction in progress, buildings, improvements, machinery and equipment, vehicles, other and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

CITY OF GLOUCESTER, MASSACHUSETTS
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Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis (or an accelerated basis for certain Library component unit capital assets). The estimated useful lives of capital assets are as follows:

Capital Asset Type	Estimated Useful Life (in years)
Buildings.....	20-40
Improvements.....	20
Machinery and equipment....	5-20
Vehicles.....	2-20
Other.....	5-50
Infrastructure.....	20-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

L. Interfund Receivables and Payables

During the course of its operations, transactions occur between funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

M. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds.

Government-Wide Financial Statements

Transfers between governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

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Fund Financial Statements

Transfers between funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

N. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide financial statements (full accrual).

O. Net Position and Fund Balances

Government-Wide Financial Statements and Proprietary Funds Financial Statements (Net Position)

Net position are reported as restricted when amounts are restricted by outside parties for a specific future use.

Net position have been “restricted” for the following:

“Other postemployment benefits” represents amounts restricted for retirees’ benefits (see Note 11).

“Community development” represents amounts restricted for community development activities.

“Community preservation” represents amounts restricted for the purpose of acquiring land for conservation, recreational, and affordable housing projects.

“Education” represents amounts restricted for education activities.

“Public works” represents amounts restricted for public works activities.

“Loans” represents outstanding community development and Brownfield’s loans.

“Permanent funds” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Other specific purposes” represents restrictions placed on the City’s assets from outside parties and donor restrictions on the Library’s assets.

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

CITY OF GLOUCESTER, MASSACHUSETTS
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Committed – represents amounts that can be used only for specific purposes imposed by a formal action of City Council, which is the highest level of decision-making authority for the City. Committed amounts may be established, modified, or rescinded only through actions approved by City Council.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the City’s structure, only authorized assignments for non-contractual encumbrances can be made by individual department heads.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

P. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statements of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

Q. Investment Income

Investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income derived from the proprietary funds is voluntarily assigned to the general fund.

Investment income derived from fiduciary funds is retained in the respective funds.

R. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

CITY OF GLOUCESTER, MASSACHUSETTS
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Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations.

S. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits and as more fully described in Note 11, the City provides health insurance coverage for current and future retirees and their spouses.

T. Use of Estimates

Government-Wide and Fund Financial Statements

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

U. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the City is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

CITY OF GLOUCESTER, MASSACHUSETTS
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An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2013 approved budget for the general fund authorized approximately \$90,971,000 in appropriations. During fiscal year 2013, total appropriations were increased by approximately \$3,870,000.

The Auditor’s office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Fund Deficits

At June 30, 2013, the following fund deficits exist:

<u>Funds</u>	<u>Amount</u>	<u>Funding Source</u>
<u>Special Revenue Funds:</u>		
Fiscal year 13 state 911 support & incentive grant....	\$ 105,877	State grant
Fiscal year 12 state 911 support & incentive grant....	<u>12,711</u>	State grant or available funds
Total special revenue fund deficits.....	<u>118,588</u>	
<u>Capital:</u>		
Departmental equipment.....	1,392,968	Issuance of long-term debt
CSO surface improvement.....	1,087,137	Issuance of long-term debt
Fire department pumper & ladder truck	652,689	Issuance of long-term debt
Newell stadium improvements project	445,931	Issuance of long-term debt
Newell stadium project	190,500	Issuance of long-term debt
Nate ross field.....	35,079	Issuance of long-term debt
Board of health water pollution.....	26,769	Issuance of long-term debt
West parish school project.....	<u>14,872</u>	Issuance of long-term debt
Total capital governmental fund deficits.....	<u>3,845,945</u>	
Total governmental fund deficits.....	<u>\$ 3,964,533</u>	

NOTE 3 - DEPOSITS AND INVESTMENTS

City (excluding the Pension Trust Fund and Library)

The municipal finance laws of the Commonwealth authorize the City to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer’s investment pool – the Massachusetts Municipal Depository Trust (MMDT). The Treasurer also has expanded investment powers as it relates to certain trust funds (as defined by the Commonwealth), permanent funds and fiduciary funds.

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

CITY OF GLOUCESTER, MASSACHUSETTS
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A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent funds, private purpose trust funds and the pension trust fund are held separately from other City funds.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. The City does not have a policy for custodial credit risk of deposits. As of June 30, 2013, \$25,696,886 of the City's bank balance of \$37,236,640 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2013 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>	
		<u>Less Than 1</u>	<u>1 - 5</u>
<u>Debt Securities:</u>			
Corporate bonds.....	\$ 329,223	\$ 76,189	\$ 253,034
Money market mutual funds.....	24,296	24,296	-
Pooled fixed income securities.....	564,649	564,649	-
Certificates of deposit.....	237,809	25,000	212,809
MMDT.....	16,853	16,853	-
	<u>1,172,830</u>	<u>\$ 706,987</u>	<u>\$ 465,843</u>
<u>Other Investments:</u>			
Pooled equity mutual funds.....	591,252		
Pooled real estate investments.....	42,606		
Pooled alternative investments.....	137,493		
	<u>771,351</u>		
Total other investments.....	<u>771,351</u>		
Total investments.....	<u>\$ 1,944,181</u>		

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The City does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk of investments. As of June 30, 2013 the City's investments were exposed to custodial credit risk as follows:

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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Investment Type	Fair Value	Held by Counterparty's Trust or Agent
Corporate bonds.....	\$ 329,223	\$ 329,223
Money market mutual funds.....	23,608	23,608
Certificates of deposit.....	237,809	237,809
Pooled fixed income securities.....	521,987	521,987
Pooled equity mutual funds.....	535,464	535,464
Pooled real estate investments.....	42,606	42,606
Pooled alternative investments.....	137,493	137,493
Total.....	\$ 1,828,190	\$ 1,828,190

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The City does not have a policy for credit risk of debt securities. As of June 30, 2013, the credit quality ratings of the City's debt securities are as follows:

Investment Type	Fair Value	Quality Ratings *					
		AA1	AA2	A1	A2	BAA1	Unrated
Corporate bonds.....	\$ 329,223	\$ 78,518	\$ 26,003	\$ 36,235	\$ 139,206	\$ 49,261	\$ -
Money market mutual funds.....	24,296	-	-	-	-	-	24,296
Certificates of deposit.....	237,809	-	-	-	-	-	237,809
Pooled fixed income securities.....	564,649	-	-	-	-	-	564,649
MMDT.....	16,853	-	-	-	-	-	16,853
Total.....	\$ 1,172,830	\$ 78,518	\$ 26,003	\$ 36,235	\$ 139,206	\$ 49,261	\$ 843,607

* Per the rating scale of Standard and Poor's (a national credit rating organization)

Investments - Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City does not have a policy for concentration of credit risk. As of June 30, 2013, the City was not exposed to concentration of credit risk.

Pension Trust Fund (The System)

The System has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee and provides regulatory oversight. PRIT is administered by the Pension Reserves Investment Management Board. The reported value of the pool is the same as the fair value of the System's position in pool shares.

CITY OF GLOUCESTER, MASSACHUSETTS
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Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System’s deposits may not be recovered. The System does not have a policy for custodial credit risk of deposits. As of December 31, 2012, the System was not exposed to custodial credit risk.

Investments Summary

The System’s investments consist entirely of PRIT and total \$72,765,908 at December 31, 2012.

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk of debt securities.

Investments - Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2012, the System’s investments were not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. PRIT is unrated by a national credit rating organization.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System’s investment in a single issuer. The System does not have a policy for concentration of credit risk. As of December 31, 2012, the System was not exposed to concentration of credit risk.

Library (Discretely Presented Component Unit)

The Library’s investments as of June 30, 2013 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value
Equity securities.....	\$ 8,513
Certificates of deposit and money market accounts.....	3,800,650
Equity mutual funds.....	244,033
Debt security mutual funds.....	95,138
Other mutual funds.....	43,765
Total investments.....	\$ 4,192,099

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 4 - ACCOUNTS RECEIVABLE

At June 30, 2013, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Real estate and personal property taxes....	\$ 1,127,376	\$ (266,918)	\$ 860,458
Real estate tax deferrals.....	175,718	-	175,718
Tax liens.....	2,323,435	-	2,323,435
Motor vehicle and other excise taxes.....	901,834	(448,040)	453,794
Community preservation surcharges.....	8,225	-	8,225
Special assessments.....	3,688,835	-	3,688,835
Departmental and other.....	2,000,443	(547,577)	1,452,866
Intergovernmental.....	5,983,578	-	5,983,578
Loans.....	950,126	-	950,126
	<u>\$ 17,159,570</u>	<u>\$ (1,262,535)</u>	<u>\$ 15,897,035</u>

At June 30, 2013, receivables for the enterprise funds consists of the following:

	<u>Gross Amount</u>	<u>Allowance for Uncollectibles</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Utility liens.....	\$ 336,999	\$ -	\$ 336,999
Boat excise taxes.....	252,161	(219,379)	32,782
User charges.....	3,974,087	-	3,974,087
Special assessments.....	9,342,241	-	9,342,241
Departmental and other.....	23,895	-	23,895
Intergovernmental.....	4,116,098	-	4,116,098
	<u>\$ 18,045,481</u>	<u>\$ (219,379)</u>	<u>\$ 17,826,102</u>

CITY OF GLOUCESTER, MASSACHUSETTS
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Governmental funds report *deferred revenue* in connection with receivables and other assets (tax foreclosures) for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the various components of *deferred revenue* reported in the governmental funds:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 538,889	\$ -	\$ 538,889
Real estate tax deferrals.....	175,718	-	175,718
Tax and utility liens.....	2,299,499	-	2,299,499
Motor vehicle and other excise taxes.....	453,794	-	453,794
Community preservation surcharges.....	-	14,662	14,662
Special assessments.....	-	3,662,346	3,662,346
Departmental and other.....	1,239,285	-	1,239,285
Intergovernmental (state school construction)...	3,983,865	-	3,983,865
Intergovernmental (other state and federal).....	701,573	-	701,573
Loans.....	-	950,126	950,126
Tax foreclosures.....	442,221	-	442,221
	<u>9,834,844</u>	<u>4,627,134</u>	<u>14,461,978</u>
Total.....	\$ <u>9,834,844</u>	\$ <u>4,627,134</u>	\$ <u>14,461,978</u>

The Commonwealth has approved school construction assistance to the City. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2013, approximately \$1,564,000 of such assistance was received. Approximately \$6,140,000 will be received in future fiscal years. Of this amount, approximately \$2,156,000 represents reimbursement of long-term interest costs, and approximately \$3,984,000 represents reimbursement of approved construction costs. Accordingly, a \$3,983,865 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental funds financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 19,201,783	\$ -	\$ -	\$ 19,201,783
Construction in progress.....	2,148,566	5,509,084	(302,645)	7,355,005
Total capital assets not being depreciated.....	<u>21,350,349</u>	<u>5,509,084</u>	<u>(302,645)</u>	<u>26,556,788</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	60,471,942	93,694	-	60,565,636
Improvements.....	8,780,500	673,651	-	9,454,151
Machinery and equipment.....	7,276,635	485,319	(25,000)	7,736,954
Vehicles.....	7,768,578	1,372,549	(704,272)	8,436,855
Other.....	1,173,251	61,081	-	1,234,332
Infrastructure.....	19,130,769	1,503,693	-	20,634,462
Total capital assets being depreciated.....	<u>104,601,675</u>	<u>4,189,987</u>	<u>(729,272)</u>	<u>108,062,390</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(34,742,524)	(2,135,079)	-	(36,877,603)
Improvements.....	(3,225,901)	(403,265)	-	(3,629,166)
Machinery and equipment.....	(5,563,989)	(328,592)	25,000	(5,867,581)
Vehicles.....	(4,246,624)	(621,200)	660,665	(4,207,159)
Other.....	(632,920)	(84,797)	-	(717,717)
Infrastructure.....	(3,621,464)	(545,613)	-	(4,167,077)
Total accumulated depreciation.....	<u>(52,033,422)</u>	<u>(4,118,546)</u>	<u>685,665</u>	<u>(55,466,303)</u>
Total capital assets being depreciated, net.....	<u>52,568,253</u>	<u>71,441</u>	<u>(43,607)</u>	<u>52,596,087</u>
Total governmental activities capital assets, net.....	<u>\$ 73,918,602</u>	<u>\$ 5,580,525</u>	<u>\$ (346,252)</u>	<u>\$ 79,152,875</u>

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	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Enterprise Fund:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 379,839	\$ -	\$ -	\$ 379,839
Construction in progress.....	20,558,287	8,992,551	(5,604,721)	23,946,117
Total capital assets not being depreciated.....	20,938,126	8,992,551	(5,604,721)	24,325,956
<u>Capital assets being depreciated:</u>				
Buildings.....	4,370,258	-	-	4,370,258
Improvements.....	52,702	-	-	52,702
Machinery and equipment.....	349,446	27,427	-	376,873
Vehicles.....	576,449	-	(20,942)	555,507
Other.....	255,862	-	-	255,862
Infrastructure.....	152,231,555	6,427,831	-	158,659,386
Total capital assets being depreciated.....	157,836,272	6,455,258	(20,942)	164,270,588
<u>Less accumulated depreciation for:</u>				
Buildings.....	(4,040,780)	(55,283)	-	(4,096,063)
Improvements.....	(30,689)	(2,546)	-	(33,235)
Machinery and equipment.....	(307,488)	(18,631)	-	(326,119)
Vehicles.....	(422,509)	(53,416)	20,942	(454,983)
Other.....	(52,431)	(48,172)	-	(100,603)
Infrastructure.....	(43,641,719)	(3,113,488)	-	(46,755,207)
Total accumulated depreciation.....	(48,495,616)	(3,291,536)	20,942	(51,766,210)
Total capital assets being depreciated, net.....	109,340,656	3,163,722	-	112,504,378
Total sewer capital assets, net.....	\$ 130,278,782	\$ 12,156,273	\$ (5,604,721)	\$ 136,830,334

CITY OF GLOUCESTER, MASSACHUSETTS
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	Beginning Balance	Increases	Decreases	Ending Balance
Water Enterprise Fund:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 3,594,263	\$ -	\$ -	\$ 3,594,263
Construction in progress.....	14,850,795	11,211,709	(12,334,886)	13,727,618
	18,445,058	11,211,709	(12,334,886)	17,321,881
<u>Capital assets being depreciated:</u>				
Buildings.....	160,023	-	-	160,023
Improvements.....	-	177,286	-	177,286
Machinery and equipment.....	1,157,437	177,044	-	1,334,481
Vehicles.....	458,774	-	-	458,774
Other.....	77,977	-	-	77,977
Infrastructure.....	36,933,077	12,384,852	-	49,317,929
	38,787,288	12,739,182	-	51,526,470
<u>Less accumulated depreciation for:</u>				
Buildings.....	(160,023)	-	-	(160,023)
Improvements.....	-	(4,432)	-	(4,432)
Machinery and equipment.....	(661,851)	(58,489)	-	(720,340)
Vehicles.....	(300,543)	(37,515)	-	(338,058)
Other.....	(14,452)	(15,595)	-	(30,047)
Infrastructure.....	(11,328,372)	(900,893)	-	(12,229,265)
	(12,465,241)	(1,016,924)	-	(13,482,165)
Total capital assets being depreciated, net.....	26,322,047	11,722,258	-	38,044,305
Total water capital assets, net.....	\$ 44,767,105	\$ 22,933,967	\$ (12,334,886)	\$ 55,366,186

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Waterways Nonmajor Enterprise Fund:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 538,482	\$ -	\$ -	\$ 538,482
Construction in progress.....	-	26,739	-	26,739
	<u>538,482</u>	<u>26,739</u>	<u>-</u>	<u>565,221</u>
<u>Capital assets being depreciated:</u>				
Improvements.....	1,297,714	-	-	1,297,714
Machinery and equipment.....	158,113	210,074	-	368,187
Vehicles.....	23,250	-	-	23,250
Infrastructure.....	931,694	-	-	931,694
	<u>2,410,771</u>	<u>210,074</u>	<u>-</u>	<u>2,620,845</u>
<u>Less accumulated depreciation for:</u>				
Improvements.....	(622,455)	(64,886)	-	(687,341)
Machinery and equipment.....	(132,095)	(18,468)	-	(150,563)
Vehicles.....	(6,975)	(4,650)	-	(11,625)
Infrastructure.....	(158,388)	(18,634)	-	(177,022)
	<u>(919,913)</u>	<u>(106,638)</u>	<u>-</u>	<u>(1,026,551)</u>
Total capital assets being depreciated, net.....	<u>1,490,858</u>	<u>103,436</u>	<u>-</u>	<u>1,594,294</u>
Total waterways nonmajor enterprise capital assets, net.....	<u>\$ 2,029,340</u>	<u>\$ 130,175</u>	<u>\$ -</u>	<u>\$ 2,159,515</u>

CITY OF GLOUCESTER, MASSACHUSETTS
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	Beginning Balance	Increases	Decreases	Ending Balance
Talbot Rink Nonmajor Enterprise Fund:				
<u>Capital assets not being depreciated:</u>				
Construction in progress.....	\$ 25,194	\$ -	\$ (25,194)	\$ -
<u>Capital assets being depreciated:</u>				
Buildings.....	125,460	-	-	125,460
Improvements.....	714,992	69,174	-	784,166
Machinery and equipment.....	125,164	140,262	-	265,426
Total capital assets being depreciated.....	965,616	209,436	-	1,175,052
<u>Less accumulated depreciation for:</u>				
Buildings.....	(8,961)	(17,923)	-	(26,884)
Improvements.....	(17,875)	(37,479)	-	(55,354)
Machinery and equipment.....	(7,637)	(19,707)	-	(27,344)
Total accumulated depreciation.....	(34,473)	(75,109)	-	(109,582)
Total capital assets being depreciated, net.....	931,143	134,327	-	1,065,470
Total talbot rink nonmajor enterprise capital assets, net.....	\$ 956,337	\$ 134,327	\$ (25,194)	\$ 1,065,470
Total business-type activities capital assets, net.....	\$ 178,031,564	\$ 35,354,742	\$ (17,964,801)	\$ 195,421,505
Component Unit:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,000	\$ -	\$ -	\$ 1,000
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	3,282,520	85,589	-	3,368,109
Equipment.....	223,549	21,514	-	245,063
Total capital assets being depreciated.....	3,506,069	107,103	-	3,613,172
<u>Less accumulated depreciation for:</u>				
Buildings, improvements and equipment.....	(1,353,584)	(69,966)	-	(1,423,550)
Total capital assets being depreciated, net.....	2,152,485	37,137	-	2,189,622
Total component unit capital assets, net.....	\$ 2,153,485	\$ 37,137	\$ -	\$ 2,190,622

CITY OF GLOUCESTER, MASSACHUSETTS
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$	172,097
Public safety.....		649,512
Education.....		2,263,981
Public works.....		914,191
Culture and recreation.....		107,035
Community development.....		11,730
		<u>4,118,546</u>

Total depreciation expense - governmental activities... \$ 4,118,546

Business-Type Activities:

Sewer.....	\$	3,291,536
Water.....		1,016,924
Waterways.....		106,638
Talbot rink.....		75,109
		<u>4,490,207</u>

Total depreciation expense - business-type activities... \$ 4,490,207

Component Unit:

Library.....	\$	69,966
		<u>69,966</u>

NOTE 6 - INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

	Transfers In:			
Transfers Out:	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Total
General Fund.....	\$ -	\$ 75,000	\$ 1,730,428	\$ 1,805,428 (1)
Nonmajor Governmental Funds....	555,774	-	-	555,774 (2)
Sewer Enterprise Fund.....	167,226	72,635	-	239,861 (3)
Water Enterprise Fund.....	125,000	-	-	125,000 (4)
	<u>\$ 848,000</u>	<u>\$ 147,635</u>	<u>\$ 1,730,428</u>	<u>\$ 2,726,063</u>

(1) Represents transfers to the sewer enterprise fund for long-term debt service costs (\$1,730,428) and budgeted transfers to reduce for fees for athletic programs (\$57,000) and school transportation (\$18,000)

(2) Represents budgeted transfers from the septic betterment reserves fund (\$299,072) and numerous special revenue funds (\$256,702)

CITY OF GLOUCESTER, MASSACHUSETTS
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(3) Represents budgeted transfers to the general fund for indirect costs (\$125,000), debt service (\$42,226) and footbridge repair project of (\$72,635)

(4) Represents budgeted transfer to general fund for indirect costs (\$125,000)

NOTE 7 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise fund, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2013, is as follows:

Notes Payable - Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013
ILN*	MWPAT.....	Various dates	Interim loan	0.00%	\$ 1,207,154	\$ 378,637	\$ (1,535,703)	\$ 50,088
BAN	Fire station repair.....	9/16/11	9/14/12	1.50%	36,000	-	(36,000)	-
BAN	Remodeling school roofs.....	9/16/11	9/14/12	1.50%	1,659,000	-	(1,659,000)	-
BAN	Paving.....	9/16/11	9/14/12	1.50%	750,000	-	(750,000)	-
BAN	Newell stadium.....	9/16/11	9/14/12	1.50%	200,000	-	(200,000)	-
BAN	Recreational facility.....	9/16/11	9/14/12	1.50%	50,000	-	(50,000)	-
BAN	City hall remodeling.....	9/16/11	9/14/12	1.50%	200,000	-	(200,000)	-
BAN	Paving.....	6/29/12	9/14/12	1.00%	1,600,000	-	(1,600,000)	-
BAN	School telephone system.....	6/29/12	9/14/12	1.00%	137,000	-	(137,000)	-
BAN	Departmental equipment.....	6/29/12	9/14/12	1.00%	1,404,000	-	(1,404,000)	-
BAN	Fire station repair.....	9/14/12	2/8/13	0.60%	-	36,000	(36,000)	-
BAN	Remodeling school roofs.....	9/14/12	2/8/13	0.60%	-	1,659,000	(1,659,000)	-
BAN	Paving.....	9/14/12	2/8/13	0.60%	-	750,000	(750,000)	-
BAN	Newell stadium.....	9/14/12	2/8/13	0.60%	-	200,000	(200,000)	-
BAN	Recreational facility.....	9/14/12	2/8/13	0.60%	-	50,000	(50,000)	-
BAN	City hall remodeling.....	9/14/12	2/8/13	0.60%	-	200,000	(200,000)	-
BAN	Paving.....	9/14/12	2/8/13	0.60%	-	1,600,000	(1,600,000)	-
BAN	School telephone system.....	9/14/12	2/8/13	0.60%	-	137,000	(137,000)	-
BAN	Departmental equipment.....	9/14/12	2/8/13	0.60%	-	1,404,000	(1,404,000)	-
BAN	Paving.....	2/8/13	2/7/14	1.25%	-	1,600,000	(1,600,000)	-
BAN	Newell stadium.....	2/8/13	2/7/14	1.25%	-	863,000	-	863,000
BAN	West parish school.....	2/8/13	2/7/14	1.25%	-	202,500	-	202,500
BAN	Departmental equipment.....	2/8/13	2/7/14	1.25%	-	1,569,000	(1,569,000)	-
BAN	Departmental equipment.....	2/8/13	2/7/14	1.25%	-	1,000,000	-	1,000,000
BAN	Recreational facility.....	2/8/13	2/7/14	1.25%	-	50,000	(46,070)	3,930
BAN	Newell stadium.....	6/8/13	2/7/14	1.00%	-	213,000	-	213,000
	Total.....				\$ 7,243,154	\$ 11,912,137	\$ (16,822,773)	\$ 2,332,518

* Interim Loan Notes

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Subsequent event

On February 7, 2014, the City issued \$3,215,070 of general obligation bonds. These proceeds, plus \$457,785 of available funds, were used to retire BAN's outstanding at June 30, 2013. Accordingly, \$3,215,070 of BAN's have been reclassified to long-term debt at June 30, 2013.

On February 7, 2014, the City issued BANs in the amount of \$3,572,145, at an interest rate of 1.00% with a maturity date of February 6, 2015. This issuance renewed BAN's outstanding at June 30, 2013 for \$1,824,645 and new projects for \$1,747,500.

Notes Payable – Enterprise Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2012	Increases	Decreases	Balance at June 30, 2013
<u>Sewer Enterprise</u>								
BAN	CSO long term control plan.....	9/16/11	9/14/12	1.50%	\$ 750,000	\$ -	\$ (750,000)	\$ -
BAN	CSO long term control plan.....	6/29/12	9/14/12	1.00%	5,603,000	-	(5,603,000)	-
BAN	CSO long term control plan.....	9/14/12	2/8/13	0.60%	-	6,353,000	(6,353,000)	-
BAN	CSO long term control plan.....	2/8/13	2/7/14	1.25%	-	5,603,000	(5,603,000)	-
	Sub-total (sewer enterprise).....				6,353,000	11,956,000	(18,309,000)	-
<u>Water Enterprise</u>								
BAN	Water systems improvements.....	9/16/11	9/14/12	1.50%	567,500	-	(567,500)	-
BAN	WTP and distribution system.....	6/29/12	9/14/12	1.00%	863,000	-	(863,000)	-
BAN	Water systems improvements.....	6/29/12	9/14/12	1.00%	2,607,000	-	(2,607,000)	-
BAN	Water systems improvements.....	9/14/12	2/8/13	0.60%	-	3,174,500	(3,174,500)	-
BAN	WTP and distribution system.....	9/14/12	2/8/13	0.60%	-	615,094	(615,094)	-
BAN	Water systems improvements.....	2/8/13	2/7/14	1.25%	-	3,174,500	(2,594,000)	580,500
BAN	Water systems improvements.....	6/28/13	2/7/14	1.00%	-	2,000,000	-	2,000,000
ILN*	MWPAT.....	Various dates	Interim loan	0.00%	-	7,281,589	-	7,281,589
	Sub-total (water enterprise).....				4,037,500	16,245,683	(10,421,094)	9,862,089
<u>Talbot Rink Enterprise</u>								
BAN	Talbot rink improvements.....	9/16/11	9/14/12	1.50%	400,000	-	(400,000)	-
BAN	Remodeling rink roof.....	9/16/11	9/14/12	1.50%	477,000	-	(477,000)	-
BAN	Talbot rink improvements.....	9/14/12	2/8/13	0.60%	-	400,000	(400,000)	-
BAN	Talbot rink improvements.....	2/8/13	2/7/14	1.25%	-	400,000	(391,930)	8,070
	Sub-total (talbot rink enterprise).....				877,000	800,000	(1,668,930)	8,070
	Total enterprise funds.....				\$ 11,267,500	\$ 29,001,683	\$ (30,399,024)	\$ 9,870,159

* Interim Loan Notes

Subsequent event

On February 1, 2014, the City issued \$568,426 of MWPAT interim loan notes to retire BAN's outstanding at June 30, 2014.

On February 7, 2014, the City issued \$8,588,930 of general obligation bonds. These proceeds plus \$20,144 of available funds, was used to retire BAN's outstanding at June 30, 2013. Accordingly, \$8,588,930 of BAN's have been reclassified to long-term debt at June 30, 2013.

On February 7, 2014, the City issued BANs in the amount of \$2,000,000, at an interest rate of 1.00% with a maturity date of February 6, 2015. This issuance renewed BAN's outstanding at June 30, 2013.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 - LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2013:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion
Governmental Activities:					
Bonds and notes payable.....	\$ 36,004,156	\$ 9,894,211	\$ (5,902,504)	\$ 39,995,863	\$ 5,002,122
Net OPEB obligation.....	32,462,967	14,210,213	(4,204,700)	42,468,480	-
Workers' compensation claims....	332,003	648,708	(236,292)	744,419	126,551
Landfill closure.....	1,153,950	-	(36,619)	1,117,331	37,166
Compensated absences.....	1,942,731	-	(39,918)	1,902,813	190,281
Total.....	\$ 71,895,807	\$ 24,753,132	\$ (10,420,033)	\$ 86,228,906	\$ 5,356,120
Business-type Activities:					
Bonds and notes payable.....	\$ 82,518,560	\$ 29,370,318	\$ (11,633,458)	\$ 100,255,420	\$ 6,750,209
Unamortized bond premiums.....	-	462,375	(19,265)	443,110	-
Total bonds and notes payable....	82,518,560	29,832,693	(11,652,723)	100,698,530	6,750,209
Net OPEB obligation.....	1,345,583	620,437	(175,196)	1,790,824	-
Compensated absences.....	148,139	-	(1,622)	146,517	14,651
Total.....	\$ 84,012,282	\$ 30,453,130	\$ (11,829,541)	\$ 102,635,871	\$ 6,764,860

The governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 9 - LONG-TERM DEBT

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

Bonds and Notes Payable - Governmental Funds

Project	Maturity Date	Interest Rate	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
General obligation bonds - school.....	FY 13 - FY 33	3.00 - 5.00%	\$ 13,695,087	\$ 2,093,900	\$ (2,635,117)	\$ 13,153,870
General obligation bonds - other governmental..	FY 13 - FY 28	4.00 - 5.00%	12,243,980	5,964,070	(2,000,600)	16,207,450
Special assessment debt - sewer GOB.....	FY 13 - FY 26	3.50 - 5.00%	1,683,137	300,538	(556,879)	1,426,796
Special assessment debt - sewer MWPAT.....	FY 15 - FY 26	0.00 - 5.70%	3,981,352	-	(481,991)	3,499,361
MWPAT.....	FY 19 - FY 33	3.00 - 5.50%	4,400,600	1,535,703	(227,917)	5,708,386
Total governmental funds.....			\$ 36,004,156	\$ 9,894,211	\$ (5,902,504)	\$ 39,995,863

CITY OF GLOUCESTER, MASSACHUSETTS
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Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 5,002,122	\$ 1,180,991	\$ 6,183,113
2015.....	5,289,281	1,089,243	6,378,524
2016.....	5,120,732	875,154	5,995,886
2017.....	4,127,733	694,476	4,822,209
2018.....	2,798,799	566,592	3,365,391
2019.....	2,747,013	472,910	3,219,923
2020.....	2,455,721	381,023	2,836,744
2021.....	2,209,443	301,079	2,510,522
2022.....	1,837,562	238,512	2,076,074
2023.....	1,559,398	187,317	1,746,715
2024.....	1,490,563	146,802	1,637,365
2025.....	1,490,668	107,328	1,597,996
2026.....	1,235,773	71,308	1,307,081
2027.....	959,571	44,226	1,003,797
2028.....	683,628	20,281	703,909
2029.....	256,891	10,967	267,858
2030.....	256,891	8,530	265,421
2031.....	158,026	6,093	164,119
2032.....	158,026	3,656	161,682
2033.....	158,022	1,221	159,243
Total.....	\$ 39,995,863	\$ 6,407,709	\$ 46,403,572

During fiscal year 2013, the City issued \$7,467,070 of general obligation bonds for various capital projects, \$596,838 of current refunding bonds, \$294,600 of advance refunding bonds and \$1,535,703 in MWPAT bonds for the Title V Program.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Bonds and Notes Payable - Enterprise Funds

Sewer Enterprise

Project	Interest Rate	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Sewer projects (funded by sewer rates):					
General obligation bonds.....	2.63 - 5.70%	\$ 17,556,272	\$ 8,143,400	\$ (2,846,117)	\$ 22,853,555
MWPAT.....	2.00%	19,665,820	13,289,716	(940,593)	32,014,943
Total sewer debt funded by sewer rates		37,222,092	21,433,116	(3,786,710)	54,868,498
Sewer betterment projects (Gross):					
General obligation bonds.....	3.50 - 5.00%	6,732,545	1,202,150	(2,227,516)	5,707,179
MWPAT.....	0.00 - 5.70%	15,925,410	-	(1,927,962)	13,997,448
Sub-total.....		22,657,955	1,202,150	(4,155,478)	19,704,627
Less sewer betterment projects funded by the general fund:					
General obligation bonds.....	3.50 - 5.00%	(1,683,136)	(300,538)	556,879	(1,426,795)
MWPAT.....	0.00 - 5.70%	(3,981,352)	-	481,991	(3,499,362)
Sub-total.....		(5,664,488)	(300,538)	1,038,870	(4,926,157)
Total sewer debt funded by sewer betterments.....		16,993,467	901,613	(3,116,608)	14,778,470
Total sewer enterprise (net).....		\$ 54,215,559	\$ 22,334,729	\$ (6,903,318)	\$ 69,646,968

Debt service requirements for principal and interest for sewer enterprise fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 4,653,033	\$ 1,741,536	\$ 6,394,569
2015.....	4,883,926	1,817,249	6,701,175
2016.....	4,577,373	1,653,412	6,230,785
2017.....	4,539,633	1,505,745	6,045,378
2018.....	4,255,442	1,356,760	5,612,202
2019.....	4,314,845	1,225,688	5,540,533
2020.....	4,356,790	1,090,438	5,447,228
2021.....	4,338,028	954,815	5,292,843
2022.....	3,309,270	844,318	4,153,588
2023.....	3,304,259	758,707	4,062,966
2024.....	3,278,064	677,965	3,956,029
2025.....	3,170,098	599,181	3,769,279
2026.....	3,194,915	525,913	3,720,828
2027.....	2,996,463	453,103	3,449,566
2028.....	3,051,388	377,073	3,428,461
2029.....	3,078,146	301,435	3,379,581
2030.....	2,463,163	229,358	2,692,521
2031.....	2,516,661	162,754	2,679,415
2032.....	1,961,632	98,322	2,059,954
2033.....	1,123,839	39,096	1,162,935
2034.....	280,000	11,200	291,200
Total.....	\$ 69,646,968	\$ 16,424,068	\$ 86,071,036

CITY OF GLOUCESTER, MASSACHUSETTS
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During fiscal year 2013, the City issued \$13,289,716 in MWPAT bonds, \$6,354,000 of general obligation bonds, \$900,613 of current refunding bonds and \$1,790,400 of advance refunding bonds related to sewer projects.

Water Enterprise

Project	Interest Rate	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Water projects - general obligation bonds....	2.63 - 5.00%	\$ 18,015,116	\$ 5,793,550	\$ (4,233,650)	\$ 19,575,016
Water projects - MWPAT.....	2.00%	10,287,885	249,109	(496,488)	10,040,506
Total water enterprise.....		\$ 28,303,001	\$ 6,042,659	\$ (4,730,138)	\$ 29,615,522

Debt service requirements for principal and interest for water enterprise fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 2,052,606	\$ 879,135	\$ 2,931,741
2015.....	2,015,281	906,918	2,922,199
2016.....	2,015,736	766,934	2,782,670
2017.....	2,032,858	700,461	2,733,319
2018.....	2,043,748	633,065	2,676,813
2019.....	2,055,862	564,852	2,620,714
2020.....	1,829,605	498,562	2,328,167
2021.....	1,819,382	439,682	2,259,064
2022.....	1,556,497	386,330	1,942,827
2023.....	1,508,053	338,493	1,846,546
2024.....	1,487,061	294,830	1,781,891
2025.....	1,500,318	251,286	1,751,604
2026.....	1,356,835	212,044	1,568,879
2027.....	1,094,177	179,190	1,273,367
2028.....	1,018,565	149,655	1,168,220
2029.....	1,043,143	122,596	1,165,739
2030.....	1,067,913	93,279	1,161,192
2031.....	1,087,882	63,852	1,151,734
2032.....	624,839	37,219	662,058
2033.....	225,161	15,031	240,192
2034.....	180,000	7,205	187,205
Total.....	\$ 29,615,522	\$ 7,540,619	\$ 37,156,141

During fiscal year 2013, the City issued \$249,109 in MWPAT bonds, \$3,322,000 of general obligation bonds, \$554,300 of current refunding bonds and \$1,917,250 of advance refunding bonds related to water projects.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
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Talbot Rink Nonmajor Enterprise

Project	Interest Rate	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Departmental equipment - zamboni.....	2.00-4.00%	\$ -	\$ 124,000	\$ -	\$ 124,000
Roof replacement.....	2.00-4.00%	-	477,000	-	477,000
Talbot rink.....	2.00-5.00%	-	391,930	-	391,930
Total talbot rink enterprise.....		\$ -	\$ 992,930	\$ -	\$ 992,930

Debt service requirements for principal and interest for Talbot rink nonmajor enterprise fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 44,570	\$ 22,784	\$ 67,354
2015.....	50,689	31,876	82,565
2016.....	53,759	30,686	84,445
2017.....	53,759	28,923	82,682
2018.....	48,759	27,085	75,844
2019.....	48,759	25,154	73,913
2020.....	48,759	23,053	71,812
2021.....	48,759	21,122	69,881
2022.....	53,759	19,509	73,268
2023.....	53,759	17,696	71,455
2024.....	43,759	16,033	59,792
2025.....	43,760	14,521	58,281
2026.....	43,760	13,208	56,968
2027.....	43,760	11,895	55,655
2028.....	43,760	10,382	54,142
2029.....	48,760	9,020	57,780
2030.....	48,760	7,307	56,067
2031.....	48,760	5,720	54,480
2032.....	48,760	4,007	52,767
2033.....	48,760	3,575	52,335
2034.....	25,000	1,006	26,006
Total.....	\$ 992,930	\$ 344,562	\$ 1,337,492

During fiscal year 2013, the City issued \$992,930 of general obligation bonds related to the purchase of a Zamboni and a new roof.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCAL STATEMENTS
JUNE 30, 2013

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2013, the City had the following authorized and unissued debt:

Purpose	Amount
Water projects.....	\$ 15,625,004
Sewer projects.....	8,569,812
Governmental projects.....	8,261,830
Talbot rink improvements/machinery....	406,000
Total.....	\$ 32,862,646

Advance/Current Refunding - January 2013

On January 30, 2013, the City issued \$6,055,000 in general obligation current and advanced refunding bonds to refund \$6,395,000 of previously issued and outstanding bonds with an average interest rate of approximately 4.3%. The average interest rate of the refunding bonds is approximately 3.9%.

The net proceeds of the current refunding transaction totaled approximately \$2,268,000 (after payment of approximately \$41,000 in bond issuance costs and premium of approximately \$256,000) were used to retire the outstanding bonds and the related accrued interest.

The net proceeds of the advanced refunding transaction totaled approximately \$4,424,000 (after payment of approximately \$78,000 in bond issuance costs and premium of approximately \$499,000) were used to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$4,200,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The reacquisition price exceeded the net carrying amount of the old debt by approximately \$258,000, which has been expensed in these financial statements.

As a result of this refunding, the City will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$668,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$598,000.

NOTE 10 - LANDFILL POST-CLOSURE CARE

State and federal laws and regulations required the City to close its old landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City had operated a solid waste landfill that ceased operations and was subsequently capped and funded via long-term debt in 2001. The City has reflected \$1,117,331 as the estimated landfill post-closure care liability at June 30, 2013. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

CITY OF GLOUCESTER, MASSACHUSETTS
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

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

The number of participants as of June 30, 2011, the latest actuarial valuation, is as follows:

Active employees.....	654
Retired employees and surviving spouses....	895
<hr/>	
Total.....	1,549
<hr/>	

Funding Policy - The contribution requirements of Plan members and the City are established and may be amended by the City. The required health insurance contribution rates of Plan members (excluding school department retirees that participate in the Commonwealth’s Group Insurance Commission (GIC)) and the City are 25% and 75%, respectively. The health insurance contribution rates of school department retirees (that participate in the GIC) and the City range between 10 – 15% and 85 – 90%, respectively. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the City.

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

	<u>Amount</u>
Annual required contribution.....	\$ 14,757,171
Interest on net OPEB obligation.....	1,137,298
Adjustment to annual required contribution.....	<u>(1,063,819)</u>
Annual OPEB cost.....	14,830,650
Contributions made.....	<u>(4,379,896)</u>
Increase in net OPEB obligation.....	10,450,754
Net OPEB obligation at beginning of year.....	<u>33,808,550</u>
Net OPEB obligation at end of year.....	<u>\$ 44,259,304</u>

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2011.....	\$ 13,791,187	33.2%	24,465,850
June 30, 2012.....	14,164,467	34.0%	33,808,550
June 30, 2013.....	14,830,650	29.5%	44,259,304

Funded Status and Funding Progress - The funded status of the Plan at June 30, 2011, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
06/30/11	\$ -	\$ 204,228,540	\$ 204,228,540	-	\$ 38,360,017	532.4%

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

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

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

Valuation date:	June 30, 2011
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level percentage of projected payroll
Remaining amortization period:	30 years (open)
Interest discount rate:	3.5%
Healthcare/Medical cost trend rate:	9.0% decreasing by 0.5% for 8 years to an ultimate level of 5.0% per year
Projected salary increases:	3.75%

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

Governmental Activities:

General government.....	\$ 905,871
Public safety.....	3,729,553
Education.....	7,984,892
Public works.....	1,070,094
Health and human services.....	297,943
Culture and recreation.....	201,268
Community development.....	<u>9,188</u>
Total AOPEBC - governmental activities.....	<u>14,198,810</u>

Business-Type Activities:

Sewer.....	263,993
Water.....	287,393
Waterways.....	43,642
Talbot Rink.....	<u>36,812</u>
Total AOPEBC - business-type activities.....	<u>631,840</u>
Total AOPEBC.....	<u><u>\$ 14,830,650</u></u>

CITY OF GLOUCESTER, MASSACHUSETTS
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 12 - RISK FINANCING

General

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 did not exceed insurance coverage for the past three fiscal years.

Health Insurance

The City participates in a premium-based health care plan for its active and retired employees.

Workers' Compensation

The City is self-insured for its workers' compensation activities. Claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type.

The estimated liability at June 30, 2013, totaled \$744,119. Changes in the reported liability since July 1, 2011 are as follows:

	<u>Balance at Beginning of Fiscal Year</u>		<u>Current Year Claims and Changes in Estimate</u>		<u>Claims Payments</u>		<u>Balance at Fiscal Year-end</u>
Fiscal year 2012....	\$ 231,150	\$	282,756	\$	(181,903)	\$	332,003
Fiscal year 2013.....	332,003		648,708		(236,292)		744,419

Unemployment Insurance

The City is self-insured for its unemployment compensation. The City's liability for unemployment claims is immaterial at June 30, 2013, and therefore is not reported.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 13 - FUND BALANCES

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	General	Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted:			
Other post employment benefits.....	\$ 99,139	\$ -	\$ 99,139
Affordable housing.....	-	245,690	245,690
School lunch.....	-	21,962	21,962
Capital - equipment.....	-	1,602,253	1,602,253
Septic betterment fund.....	-	1,314,522	1,314,522
Comcast fund.....	-	136,700	136,700
Cemetery perpetual care.....	-	820,769	820,769
Capital - high school gym.....	-	347,385	347,385
Capital - harbor improvements.....	-	171,102	171,102
Capital - Blackburn expansion.....	-	179,013	179,013
Capital - harborwalk grant.....	-	218,771	218,771
Kent circle.....	-	169,400	169,400
Federal asset forfeiture.....	-	388,559	388,559
Newell stadium donations.....	-	381,000	381,000
General government.....	-	923,188	923,188
Public safety.....	-	219,306	219,306
Education.....	-	1,377,079	1,377,079
Public works.....	-	1,189,523	1,189,523
Health and human services.....	-	229,021	229,021
Culture and recreation.....	-	65,076	65,076
Community development.....	-	23,362	23,362
Community preservation.....	-	1,197,217	1,197,217
Other.....	-	1,605,320	1,605,320
Sub-total - Restricted.....	<u>99,139</u>	<u>12,826,218</u>	<u>12,925,357</u>
Committed:			
Continuing appropriations.....	350,000	-	350,000
Other.....	510,215	-	510,215
Sub-total - Committed.....	<u>860,215</u>	<u>-</u>	<u>860,215</u>
Assigned:			
General government.....	198,051	-	198,051
Education.....	801,821	-	801,821
Public works.....	842,306	-	842,306
Other.....	66,297	-	66,297
Sub-total - Assigned.....	<u>1,908,475</u>	<u>-</u>	<u>1,908,475</u>
Unassigned.....	<u>7,412,492</u>	<u>(3,964,533)</u>	<u>3,447,959</u>
Total fund balances.....	<u>\$ 10,280,321</u>	<u>\$ 8,861,685</u>	<u>\$ 19,142,006</u>

CITY OF GLOUCESTER, MASSACHUSETTS
 NOTES TO THE FINANCAL STATEMENTS
 JUNE 30, 2013

NOTE 14 - STABILIZATION FUNDS

The City maintains a general stabilization fund, a capital stabilization fund, an ambulance stabilization fund and a port maintenance and improvement mitigation stabilization fund that were established under MGL Chapter 40, Section 5B. Appropriations in and out of these stabilization funds require two-thirds vote of City Council. Investment income is retained by the funds.

The balances of the general stabilization fund, capital stabilization fund, ambulance stabilization fund and port maintenance and improvement mitigation stabilization fund at June 30, 2013 total \$2,758,035, \$503,923, \$292 and \$6,000, respectively. The general stabilization fund balance is reported in the general fund as unassigned and the remaining stabilization funds are reported as committed fund balance in the general fund.

NOTE 15 - PENSION PLAN

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

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be authorized by the Gloucester Contributory Retirement System and are borne by the System. The System issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 127 Eastern Avenue, Gloucester, Massachusetts 01931.

Plan Membership - At December 31, 2012, the System's membership consists of the following:

Active members.....	505
Inactive members.....	68
Retirees and beneficiaries currently receiving benefits.....	443
 Total.....	 1,016

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

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

Annual Pension Cost - The City's contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$6,361,903, \$6,139,153, and \$5,884,564, respectively, which equaled its required contribution. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the City to contribute approximately 94% of the total. At June 30, 2013, the City did not have a net pension obligation.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Funded Status and Funding Progress - The funded status of the plan at January 1, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	67,318,567	152,051,654	84,733,087	44.3%	23,142,683	366.1%

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.

Additional information as of the latest actuarial valuation is as follows:

Valuation date:	January 1, 2012
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar for the 2002 and 2003 ERIs and increasing amortization for the remaining unfunded liability
Remaining amortization period:	As of January 1, 2012, 6 years on 2002 and 2003 ERI and 25 years for remaining unfunded liability; the period is closed
Asset valuation method:	4-year smoothing of investment returns greater (less) than expected
<u>Actuarial assumptions:</u>	
Investment rate of return:	7.875%
Projected salary increases:	3.00% in 2012, 3.50% in 2013, 4.00% in 2014 and 4.50% for 2015 and later
Cost of living adjustments:	3.00% of first \$14,000 of retirement income

Legally Required Reserve Accounts - The balance in the System's legally required reserves as of December 31, 2012 are as follows:

Description	Amount	Purpose
Annuity Savings Fund....	\$ 23,874,509	Active members' contribution balance
Annuity Reserve Fund....	9,260,657	Retired members' contribution account
Military Service Fund.....	17,147	Military leave of absence contribution balance
Pension Reserve Fund.....	38,666,698	Amounts appropriated to fund future retirement
Pension Fund.....	<u>1,360,347</u>	Remaining net assets
Total.....	<u>\$ 73,179,358</u>	

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCAL STATEMENTS
JUNE 30, 2013

Noncontributory Retirement Allowance - The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2013 totaled approximately \$24,000.

NOTE 16 - MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$8,603,321 for the fiscal year ended June 30, 2013, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

NOTE 17 - COMMITMENTS

The City has entered into, or is planning to enter into, contracts totaling approximately \$33,000,000 for various governmental, water, sewer and Talbot rink projects.

Other significant commitments include encumbrances and continuing appropriations outstanding for the general fund, which total \$1,908,475 at June 30, 2013.

NOTE 18 - CONTINGENCIES

Various legal actions and claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2013.

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2013, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 19 - FUTURE IMPLEMENTATION OF GASB PRONOUCEMENTS

The GASB has issued the following statements:

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will significantly impact the basic financial statements.
- Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

- Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is required to be implemented during fiscal year 2014. The implementation of this Statement will require a change to the title of the Statement of Fiduciary Net Assets to the Statement of Fiduciary Net Position, as well as expanded note disclosures and required supplementary information.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the City will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented during fiscal year 2014. Management does not believe the implementation of this Statement will impact the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

This information is an integral part of the accompanying financial statements.

Required Supplementary Information

CITY OF GLOUCESTER, MASSACHUSETTS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
(NON-GAAP BUDGETARY BASIS)
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real estate and personal property taxes.....	\$ -	\$ 64,615,636	\$ -	\$ 64,615,636
Motor vehicle and other excise taxes.....	-	3,200,000	-	3,200,000
Hotel/motel tax.....	-	400,000	-	400,000
Tax liens.....	-	-	-	-
Payments in lieu of taxes.....	-	20,000	-	20,000
Charges for services.....	-	1,762,500	-	1,762,500
Intergovernmental	-	12,501,878	-	12,501,878
Special assessments.....	-	1,500	-	1,500
Penalties and interest on taxes.....	-	452,600	-	452,600
Licenses and permits.....	-	1,166,100	-	1,166,100
Fines and forfeitures.....	-	530,000	-	530,000
Departmental.....	-	2,234,217	-	2,234,217
Investment income.....	-	50,000	-	50,000
TOTAL REVENUES.....	-	86,934,431	-	86,934,431
EXPENDITURES				
Current:				
General government.....	172,550	4,048,404	324,612	4,545,566
Public safety.....	87,610	11,663,493	558,485	12,309,588
Education.....	403,713	36,366,529	604,691	37,374,933
Public works.....	570,913	9,148,018	1,193,366	10,912,297
Health and human services.....	28,061	866,193	117,850	1,012,104
Culture and recreation.....	-	774,846	52,873	827,719
Pension benefits.....	-	5,832,872	-	5,832,872
Employee benefits.....	114,997	5,888,934	-	6,003,931
Property and liability insurance.....	-	553,868	-	553,868
State and county charges.....	-	5,726,495	-	5,726,495
Debt service:				
Principal.....	-	6,799,728	(150,000)	6,649,728
Interest.....	-	1,588,865	(82,715)	1,506,150
TOTAL EXPENDITURES.....	1,377,844	89,258,245	2,619,162	93,255,251
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(1,377,844)	(2,323,814)	(2,619,162)	(6,320,820)
OTHER FINANCING SOURCES (USES)				
Transfers in.....	-	3,586,241	109,300	3,695,541
Premium from issuance of bonds and notes.....	-	-	-	-
Sale of capital assets.....	-	-	-	-
Transfers out.....	-	(1,712,428)	(1,251,075)	(2,963,503)
TOTAL OTHER FINANCING SOURCES (USES).....	-	1,873,813	(1,141,775)	732,038
NET CHANGE IN FUND BALANCE.....	(1,377,844)	(450,001)	(3,760,937)	(5,588,782)
FUND BALANCE AT BEGINNING OF YEAR.....	7,531,785	7,531,785	7,531,785	7,531,785
FUND BALANCE AT END OF YEAR.....	\$ 6,153,941	\$ 7,081,784	\$ 3,770,848	\$ 1,943,003

See accompanying notes to required supplementary information.

	Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$	64,153,718	\$ -	\$ 64,153,718	\$ (461,918)
	3,395,678	-	3,395,678	195,678
	468,343	-	468,343	68,343
	523,655	-	523,655	523,655
	32,471	-	32,471	12,471
	1,882,093	-	1,882,093	119,593
	12,026,239	-	12,026,239	(475,639)
	14,292	-	14,292	12,792
	481,027	-	481,027	28,427
	1,469,954	-	1,469,954	303,854
	593,931	-	593,931	63,931
	2,851,574	-	2,851,574	617,357
	83,470	-	83,470	33,470
	<u>87,976,445</u>	<u>-</u>	<u>87,976,445</u>	<u>1,042,014</u>
	4,149,099	198,051	4,347,150	198,416
	12,094,646	57,785	12,152,431	157,157
	36,572,073	801,821	37,373,894	1,039
	9,590,182	842,306	10,432,488	479,809
	981,359	8,512	989,871	22,233
	823,473	-	823,473	4,246
	5,830,368	-	5,830,368	2,504
	5,974,799	-	5,974,799	29,132
	539,887	-	539,887	13,981
	4,097,879	-	4,097,879	1,628,616
	6,649,728	-	6,649,728	-
	1,506,150	-	1,506,150	-
	<u>88,809,643</u>	<u>1,908,475</u>	<u>90,718,118</u>	<u>2,537,133</u>
	<u>(833,198)</u>	<u>(1,908,475)</u>	<u>(2,741,673)</u>	<u>3,579,147</u>
	3,328,577	-	3,328,577	(366,964)
	314,398	-	314,398	314,398
	16,205	-	16,205	16,205
	(2,963,503)	-	(2,963,503)	-
	<u>695,677</u>	<u>-</u>	<u>695,677</u>	<u>(36,361)</u>
	(137,521)	(1,908,475)	(2,045,996)	3,542,786
	<u>7,531,785</u>	<u>-</u>	<u>7,531,785</u>	<u>-</u>
\$	<u>7,394,264</u>	<u>(1,908,475)</u>	<u>5,485,789</u>	<u>3,542,786</u>

PENSION PLAN SCHEDULES

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

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 67,318,567	\$ 152,051,654	\$ 84,733,087	44.3%	\$ 23,142,683	366.1%
01/01/10	65,139,502	138,859,148	73,719,646	46.9%	23,227,715	317.4%
01/01/08	71,938,829	128,811,115	56,872,286	55.8%	22,787,184	249.6%
01/01/06	58,165,000	117,403,000	59,238,000	49.5%	20,903,000	283.4%
01/01/04	52,051,000	105,752,000	53,701,000	49.2%	20,532,000	261.5%
01/01/03	46,649,000	99,649,000	53,000,000	46.8%	20,985,000	252.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2007	\$ 5,560,462	100
2008	5,808,066	100
2009	6,067,057	100
2010	6,292,539	100
2011	6,543,097	100
2012	6,793,146	100

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

CITY SHARE OF SYSTEM ARC

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	City ARC as a Percentage of System ARC (%)
2008	\$ 5,254,216	100	94.5%
2009	5,495,974	100	94.6%
2010	5,705,314	100	94.0%
2011	5,884,564	100	93.5%
2012	6,139,153	100	93.8%
2013	6,361,903	100	93.7%

OTHER POSTEMPLOYMENT BENEFITS SCHEDULE

The following schedule provides information related to the City’s other postemployment benefits plan:

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
06/30/11	\$ -	\$ 204,228,540	\$ 204,228,540	-	\$ 38,360,017	532%
06/30/09	-	220,755,787	220,755,787	-	47,216,775	468%
01/01/08	-	147,790,883	147,790,883	-	47,234,000	313%

The significant change to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress from 01/01/08 to 06/30/09 is the increase in the trend on medical and prescription drug costs.

CITY OF GLOUCESTER, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

NOTE A - BUDGETARY - GAAP RECONCILIATION

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2013, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual.....	\$ 87,976,445	\$ 90,718,118	\$ 695,677	\$ 5,485,789
<u>Adjustments and Reclassifications</u>				
To record 60-day receipts.....	(69,263)	-	-	321,569
To record tax refunds payable.....	(4,503)	-	-	(162,071)
Net change in recording departmental receivable.....	35,070	-	-	103,590
To record MTRS on-behalf payments.....	8,603,321	8,603,321	-	-
To record MWPAT interest subsidy.....	239,610	239,610	-	-
To record workers' compensation claims.....	-	412,416	-	(744,419)
To record encumbrances and continuing appropriations.....	-	(1,908,475)	-	1,908,475
To reclassify sewer betterment principal.....	-	(1,504,569)	(1,504,569)	-
To reclassify sewer betterment interest.....	-	(354,133)	(354,133)	-
Stabilization fund to the general fund for GAAP purposes.....	9,396	-	-	2,758,035
Capital stabilization funds to the general fund for GAAP purposes.....	2,519	260,855	456,200	510,214
OPEB fund to the general fund for GAAP purposes.....	(878)	-	80,000	99,139
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances.....	<u>\$ 96,791,717</u>	<u>\$ 96,467,143</u>	<u>\$ (626,825)</u>	<u>\$ 10,280,321</u>

Additional Information

NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF FUND NET POSITION
JUNE 30, 2013

ASSETS	<u>Waterways</u>	<u>Talbot Rink</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents.....	\$ 110,056	\$ 194,512	\$ 304,568
Restricted cash and cash equivalents.....	293,846	19,414	313,260
Receivables, net of allowance for uncollectible amounts:			
Excise taxes.....	32,782	-	32,782
Departmental and other.....	22,943	-	22,943
Total current assets.....	459,627	213,926	673,553
Noncurrent assets:			
Capital assets not being depreciated.....	565,221	-	565,221
Capital assets, net of accumulated depreciation.....	1,594,294	1,065,470	2,659,764
Total noncurrent assets.....	2,159,515	1,065,470	3,224,985
Total assets.....	2,619,142	1,279,396	3,898,538
LIABILITIES			
Current liabilities:			
Warrants payable.....	21,830	137	21,967
Accrued payroll.....	-	1,482	1,482
Other liabilities.....	1,030	64	1,094
Compensated absences.....	2,445	100	2,545
Short-term notes payable.....	-	8,070	8,070
Long-term bonds and notes payable.....	-	44,570	44,570
Total current liabilities.....	25,305	54,423	79,728
Noncurrent liabilities:			
Compensated absences.....	22,004	903	22,907
Net OPEB obligation.....	150,317	47,889	198,206
Long-term bonds and notes payable.....	-	948,360	948,360
Total noncurrent liabilities.....	172,321	997,152	1,169,473
Total liabilities.....	197,626	1,051,575	1,249,201
FUND NET POSITION			
Net investment in capital assets.....	2,159,515	83,884	2,243,399
Unrestricted.....	262,001	143,937	405,938
Total net position.....	\$ 2,421,516	\$ 227,821	\$ 2,649,337

CITY OF GLOUCESTER, MASSACHUSETTS
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Waterways	Talbot Rink	Total
OPERATING REVENUES			
Charges for services.....	\$ 228,361	\$ 318,360	\$ 546,721
Boat excise taxes.....	72,111	-	72,111
Other.....	3,598	-	3,598
TOTAL OPERATING REVENUES.....	304,070	318,360	622,430
OPERATING EXPENSES			
Cost of service and administration.....	308,094	258,199	566,293
Repairs and maintenance.....	19,244	-	19,244
Depreciation.....	106,638	75,109	181,747
TOTAL OPERATING EXPENSES.....	433,976	333,308	767,284
OPERATING INCOME (LOSS).....	(129,906)	(14,948)	(144,854)
NONOPERATING REVENUES (EXPENSES)			
Premium from issuance of bonds and notes.....	-	10,637	10,637
Intergovernmental.....	50,000	-	50,000
Interest expense.....	-	(6,927)	(6,927)
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	50,000	3,710	53,710
CHANGE IN NET POSITION.....	(79,906)	(11,238)	(91,144)
FUND NET POSITION AT BEGINNING OF YEAR.....	2,501,422	239,059	2,740,481
FUND NET POSITION AT END OF YEAR.....	\$ 2,421,516	\$ 227,821	\$ 2,649,337