

**CITY OF GLOUCESTER, MASSACHUSETTS**

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

**YEAR ENDED JUNE 30, 2014**

**CITY OF GLOUCESTER, MASSACHUSETTS  
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## 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 year ended June 30, 2014 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2013), 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.

### ***Auditors' 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.

***Auditors' Responsibility (Continued)***

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, 2014 (except for the Gloucester Contributory Retirement System, which is as of and for the year ended December 31, 2013), 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.

***Emphasis of Matter***

As described in Note 19 to the financial statements, the City has restated the 2013 Governmental Activities beginning net position and Nonmajor Governmental Funds fund balance for the correction of an error. This restatement is due to an understatement of loans receivable. Our opinion is unmodified with respect to this matter.

***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 4 through 13) and general fund budgetary comparison and certain pension and other postemployment benefits information (located on pages 69 through 73) 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 (additional information) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional 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 additional 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 May 6, 2015, 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  
May 6, 2015

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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, 2014.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$138,161,534 (net position). The City's governmental activities has an unrestricted net deficit of \$42,372,213 and its business-type activities unrestricted net position totaled \$12,626,726.
- The City's total net position decreased by \$4,319,298.
- At the end of the fiscal year, the general fund unassigned fund balance totaled \$6,160,494, or 6.0% of total general fund expenditures and transfers out.
- The City's total bonded debt increased by \$7,581,741 during the fiscal year. The City issued \$16,871,801 of MCWT bonds and \$3,255,000 of new debt during the year for water projects, Newell Stadium, a fire & pumper truck and various governmental projects.

**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.).

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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.

The government-wide financial statements can be found on pages 14-16 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 710 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 709 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental funds financial statements can be found on pages 17-20 of this report.

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**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 21-23 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.

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 24-25 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 26-67 of this report.

**Required Supplementary Information**

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 69-73.

**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 74-75.

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**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 \$138,161,534 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013*	2014	2013	2014	2013*
<b>Assets</b>						
Current assets	\$ 32,309,734	\$ 32,574,151	\$ 13,829,767	\$ 19,702,489	\$ 46,139,501	\$ 52,276,640
Noncurrent assets (excluding capital assets)	11,810,099	13,173,811	8,142,587	9,753,609	19,952,686	22,927,420
Capital assets (net)	81,267,350	79,152,875	205,708,850	195,421,505	286,976,200	274,574,380
Total assets	125,387,183	124,900,837	227,681,204	224,877,603	353,068,387	349,778,440
<b>Liabilities</b>						
Current liabilities (excluding debt)	5,432,479	5,451,141	1,470,067	1,147,662	6,902,546	6,598,803
Noncurrent liabilities (excluding debt)	52,536,166	45,879,045	2,246,368	1,922,690	54,782,534	47,801,735
Current debt	5,771,307	7,334,640	8,949,896	16,620,368	14,721,203	23,955,008
Noncurrent debt	32,959,460	34,993,741	103,214,342	93,948,321	136,173,802	128,942,062
Total liabilities	96,699,412	93,658,567	115,880,673	113,639,041	212,580,085	207,297,608
<b>Deferred Inflows of Resources</b>	2,326,768	-	-	-	2,326,768	-
<b>Net Position</b>						
Net investment in capital assets	50,775,626	46,050,972	99,173,805	92,884,895	149,949,431	138,935,867
Restricted	17,957,590	15,591,578	-	-	17,957,590	15,591,578
Unrestricted	(42,372,213)	(30,400,280)	12,626,726	18,353,667	(29,745,487)	(12,046,613)
Total net position	\$ 26,361,003	\$ 31,242,270	\$ 111,800,531	\$ 111,238,562	\$ 138,161,534	\$ 142,480,832

\*Reflects adjustment to account for long-term loans receivable. See Note 19 for further details.

The largest portion of the City's net position (\$149,949,431) 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 (\$17,957,590) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents a net deficit of \$29,745,487. Of this amount, \$12,626,726 may be used to support business-type activities and (\$42,372,213) represents an unrestricted net deficit in governmental activities.

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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.

**Changes in Net Position**

For the fiscal year ended June 30, 2014, the City's total net position decreased by \$4,319,298 and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013*	2014	2013	2014	2013*
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services	\$ 11,100,836	\$ 11,584,403	\$ 13,959,304	\$ 13,801,523	\$ 25,060,140	\$ 25,385,926
Operating grants and contributions	23,897,526	24,263,000	313,063	796,589	24,210,589	25,059,589
Capital grants and contributions	1,850,835	688,653	778,444	1,059,902	2,629,279	1,748,555
<i>General Revenues:</i>						
Real estate and personal property taxes	67,590,493	64,768,496	-	-	67,590,493	64,768,496
Motor vehicle and other excise taxes	3,718,491	3,552,136	76,722	-	3,795,213	3,552,136
Hotel/motel taxes	473,882	468,343	-	-	473,882	468,343
Penalties and interest on taxes	574,470	482,536	-	-	574,470	482,536
Payments in lieu of taxes	41,905	32,471	-	-	41,905	32,471
Community preservation surcharges	509,048	488,118	-	-	509,048	488,118
Grants and contributions not restricted to specific programs	3,477,561	3,398,980	-	-	3,477,561	3,398,980
Unrestricted investment income	105,615	92,508	-	-	105,615	92,508
Gain on sale of assets	3,000	-	-	-	3,000	-
<b>Total revenues</b>	<b>113,343,662</b>	<b>109,819,644</b>	<b>15,127,533</b>	<b>15,658,014</b>	<b>128,471,195</b>	<b>125,477,658</b>
<b>Expenses</b>						
General government	8,157,467	7,876,806	-	-	8,157,467	7,876,806
Public safety	25,041,322	23,611,041	-	-	25,041,322	23,611,041
Education	62,749,205	62,636,639	-	-	62,749,205	62,636,639
Public works	13,847,127	13,358,454	-	-	13,847,127	13,358,454
Health and human services	3,109,978	3,492,413	-	-	3,109,978	3,492,413
Culture and recreation	1,470,795	1,485,843	-	-	1,470,795	1,485,843
Community development	433,472	743,152	-	-	433,472	743,152
Debt service - interest	1,928,689	1,810,129	-	-	1,928,689	1,810,129
Sewer	-	-	9,435,467	9,870,450	9,435,467	9,870,450
Water	-	-	5,804,537	6,467,800	5,804,537	6,467,800
Nonmajor enterprise funds	-	-	812,434	774,211	812,434	774,211
<b>Total expenses</b>	<b>116,738,055</b>	<b>115,014,477</b>	<b>16,052,438</b>	<b>17,112,461</b>	<b>132,790,493</b>	<b>132,126,938</b>
Change in net position before transfers and special items	(3,394,393)	(5,194,833)	(924,905)	(1,454,447)	(4,319,298)	(6,649,280)
Transfers, net	(1,486,874)	(1,365,566)	1,486,874	1,365,566	-	-
Change in net position	(4,881,267)	(6,560,399)	561,969	(88,881)	(4,319,298)	(6,649,280)
Net position - beginning of year (as restated)	31,242,270	37,802,669	111,238,562	111,327,443	142,480,832	149,130,112
Net position - end of year	\$ 26,361,003	\$ 31,242,270	\$ 111,800,531	\$ 111,238,562	\$ 138,161,534	\$ 142,480,832

\*Reflects adjustment to account for long-term loans receivable. See Note 19 for further details.

Governmental activities decreased the City's net position by \$4,881,267. In the prior year, governmental activities decreased the City's net position by \$6,560,399.

Business-type activities increased the City's net position by \$561,969. In the prior year, business-type activities decreased the City's net position by \$88,881.

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**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 \$24,289,866, a decrease of \$285,898 in comparison with the prior year. Approximately \$2,201,000 (net of the nonmajor governmental funds' temporary deficits) represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Restricted (\$18,708,289)
- Committed (\$1,991,952)
- Assigned (\$1,388,337)

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 \$6,160,494, while total fund balance was \$10,100,012. 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 6.0% of total general fund expenditures and transfers out, while total fund balance represents 9.8% of that same amount.

The balance of the City's general fund decreased by \$180,309 during fiscal year 2014. The key element of this change is a positive budget to actual variance totaling approximately \$5,220,000 (excluding encumbrances and continuing appropriations), offset by the use of reserves totaling approximately \$5,019,000 to fund the budget.

**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 \$12,208,833 and \$101,261, respectively. The sewer enterprise fund had a decrease in net position for the year of \$466,196, whereas the water enterprise fund had an increase in net position for the year of \$1,126,772. 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  
YEAR ENDED JUNE 30, 2014**

**General Fund Budgetary Highlights**

The original general fund budget of \$92,780,938 was increased by \$3,679,322 (4.0%) during the year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
DPW snow/ice removal	\$ 833,003	Stabilization fund/overlay surplus
Education expense	383,053	Unassigned fund balance
DPW public property maintenance	335,600	Unassigned fund balance
Fire department salaries	277,606	Unassigned fund balance
School department technology	270,850	Unassigned fund balance
Fire department overtime	250,000	Stabilization fund/unassigned fund balance
DPW general supplies	114,772	Unassigned fund balance
Police uniform overtime/wages	107,530	Unassigned fund balance
Economic development	100,000	Unassigned fund balance
Fund employer medicare match deficit	101,000	Overlay surplus
Public works department design expenses	100,000	Unassigned fund balance
Public works department- public safety building	100,000	Unassigned fund balance
City hall restoration project	100,000	Unassigned fund balance
OPEB trust funding	100,000	Unassigned fund balance
Paving projects through the City	90,000	Highway force account
Rent and utilities for west parish school swing space	70,000	Unassigned fund balance
Capital equipment purchase	60,000	Unassigned fund balance
Fire department equipment replacement	54,000	Unassigned fund balance
Additional community development needs	50,000	Unassigned fund balance
Contract settlement expense	36,500	Unassigned fund balance
Public property maintenance wages	28,920	Unassigned fund balance
Shingles vaccine	20,000	Unassigned fund balance
DPW expenses	15,000	Unassigned fund balance
Auditing expenses	15,000	Unassigned fund balance
Civil defense expenses	14,000	Unassigned fund balance
Police uniform capital expenses	13,795	Unassigned fund balance
Group insurance conversion costs	12,300	Unassigned fund balance
Unforeseen expenditures in Mayor's office	10,000	Unassigned fund balance
Police ammunition expense	6,250	Unassigned fund balance
Conservation agent wages	3,966	Unassigned fund balance
Temporary upgrade pay for executive officer	3,425	Unassigned fund balance
Drug enforcement task force expenses	2,752	Police uniform incentive account
<b>Total increase</b>	<b>\$ <u>3,679,322</u></b>	

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 \$3,832,000. Encumbrances and continuing appropriations total approximately \$1,388,000 at year-end.

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**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 \$286,976,200 (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 \$12,401,820, or 4.5%.

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

- Water projects (\$9,452,167)
- Sewer projects (\$4,662,858)
- Newell stadium (\$2,692,000)
- West Parish School (\$1,071,531)
- Harbor walk design services (\$905,495)
- Pumper fire truck (\$600,933)
- Streets paving (\$532,822)
- CSO surface improvements construction in progress (\$449,185)
- West Parish School feasibility study (\$443,910)

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>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 19,201,783	\$ 19,201,783	\$ 4,512,584	\$ 4,512,584	\$ 23,714,367	\$ 23,714,367
Buildings	21,661,411	23,688,033	347,536	372,771	22,008,947	24,060,804
Improvements	8,385,633	5,824,985	1,618,206	1,531,506	10,003,839	7,356,491
Machinery and equipment	2,173,596	1,869,373	1,099,868	1,120,601	3,273,464	2,989,974
Vehicles	4,548,757	4,229,696	248,649	232,865	4,797,406	4,462,561
Other	795,685	516,615	149,984	203,189	945,669	719,804
Infrastructure	17,951,543	16,467,385	146,074,907	149,747,515	164,026,450	166,214,900
Construction in progress	<u>6,548,942</u>	<u>7,355,005</u>	<u>51,657,116</u>	<u>37,700,474</u>	<u>58,206,058</u>	<u>45,055,479</u>
Total capital assets	<u>\$ 81,267,350</u>	<u>\$ 79,152,875</u>	<u>\$ 205,708,850</u>	<u>\$ 195,421,505</u>	<u>\$ 286,976,200</u>	<u>\$ 274,574,380</u>

Additional information on the City's capital assets can be found in Note 5 on pages 45-50 of this report.

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**Long-Term Debt**

At the end of the current fiscal year, total bonded debt outstanding was \$147,833,024, 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>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
General obligation bonds	\$ 29,913,604	\$ 30,788,116	\$ 60,539,469	\$ 57,742,391	\$ 90,453,073	\$ 88,530,507
MCWT bonds and notes	<u>8,335,138</u>	<u>9,207,747</u>	<u>49,044,813</u>	<u>42,513,029</u>	<u>57,379,951</u>	<u>51,720,776</u>
Total bonds and notes	<u>\$ 38,248,742</u>	<u>\$ 39,995,863</u>	<u>\$ 109,584,282</u>	<u>\$ 100,255,420</u>	<u>\$ 147,833,024</u>	<u>\$ 140,251,283</u>

The City's total bonded debt increased by \$7,581,741 (5.4%) during the current fiscal year. \$16,871,801 of MCWT bonds and \$3,255,000 of new debt was issued during the year for water projects, Newell Stadium, a fire & pumper truck and various governmental projects.

The City received an AA/Stable rating from Standard & Poor's Ratings Services for its most recent issuance of long-term debt on February 5, 2015.

Additional information on the City's long-term debt can be found in Note 9 on pages 54-58 of this report.

***Economic Factors and Next Year's Budget Rates***

The fiscal year 2015 general fund operating budget of \$100.6 million represents a \$7.7 million or 8.3% increase from the fiscal year 2014 budget. This is primarily due to approximately \$3.3 million or 33.5% increase in debt service expenses, approximately \$2.5 million or 19.8% increase in public safety expenses, approximately \$1.3 million or 3.3% increase in education expenses, approximately \$473,000 or 5.0% increase in public works expenses, approximately \$248,000 or 4.1% increase in pension benefits. The fiscal year 2015 operating budget includes approximately \$1,643,000 of appropriations carried forward from fiscal year 2014.

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 2014 to fiscal year 2015, 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 \$10.3 million in state aid in fiscal year 2015, net of school construction grants. This amount is approximately \$79,000 or 1.0%, more than received in fiscal year 2014.

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.

The unemployment rate for the City of Gloucester is approximately 6.6 percent, which is a 2.1% decrease from a rate of 8.7 percent a year ago. This compares unfavorably to the state's average unemployment rate of 5.5 percent and unfavorable to the national average of 5.6 percent.

**CITY OF GLOUCESTER, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

According to the City's Board of Assessors, the average fiscal year 2014 single family home in the City is valued at \$471,289; the average two-family home is valued at \$342,098; the average 2014 commercial and industrial property is valued at \$677,498 - 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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
STATEMENT OF NET POSITION  
YEAR ENDED JUNE 30, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Gloucester Lyceum and Sawyer Free Library, Inc.
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 15,639,489	\$ 2,692,374	\$ 18,331,863	\$ 408,863
Restricted Cash and Cash Equivalents	7,672,034	5,291,845	12,963,879	-
Restricted Investments	1,231,406	-	1,231,406	5,607,854
Receivables, Net of Allowance for Uncollectible Amounts:				
Real Estate and Personal Property Taxes	820,041	-	820,041	-
Tax and Utility Liens	1,962,436	210,754	2,173,190	-
Motor Vehicle and Other Excise Taxes	279,901	25,304	305,205	-
Community Preservation Surcharges	7,917	-	7,917	-
User Charges	-	3,759,820	3,759,820	-
Special Assessments	45,737	1,423,811	1,469,548	-
Departmental and Other	1,718,732	35,952	1,754,684	-
Intergovernmental	2,572,041	389,907	2,961,948	-
Loans	360,000	-	360,000	-
Total Current Assets	<u>32,309,734</u>	<u>13,829,767</u>	<u>46,139,501</u>	<u>6,016,717</u>
Noncurrent Assets:				
Receivables, Net of Allowance for Uncollectible Amounts:				
Real Estate Tax Deferrals	223,954	-	223,954	-
Special Assessments	3,549,447	6,606,057	10,155,504	-
Intergovernmental	2,440,599	1,536,530	3,977,129	-
Loans	5,153,878	-	5,153,878	-
Tax Foreclosures	442,221	-	442,221	-
Capital Assets Not Being Depreciated	25,750,725	56,169,700	81,920,425	1,000
Capital Assets, Net of Accumulated Depreciation	55,516,625	149,539,150	205,055,775	2,861,234
Total Noncurrent Assets	<u>93,077,449</u>	<u>213,851,437</u>	<u>306,928,886</u>	<u>2,862,234</u>
Total Assets	<u>125,387,183</u>	<u>227,681,204</u>	<u>353,068,387</u>	<u>8,878,951</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Warrants Payable	1,845,788	265,671	2,111,459	-
Accrued Payroll	2,204,563	11,605	2,216,168	-
Tax Refunds Payable	185,256	-	185,256	-
Other Liabilities	406,928	128,138	535,066	9,660
Accrued Interest	435,027	1,049,790	1,484,817	-
Workers' Compensation Claims	111,116	-	111,116	-
Landfill Postclosure	20,000	-	20,000	-
Compensated Absences	223,801	14,863	238,664	-
Short-Term Notes Payable	482,025	2,000,000	2,482,025	-
Long-Term Bonds and Notes Payable	5,289,282	6,949,896	12,239,178	-
Total Current Liabilities	<u>11,203,786</u>	<u>10,419,963</u>	<u>21,623,749</u>	<u>9,660</u>
Noncurrent liabilities:				
Workers' Compensation Claims	351,869	-	351,869	-
Landfill Postclosure	460,000	-	460,000	-
Compensated Absences	2,014,205	133,771	2,147,976	-
Net OPEB Obligation	49,710,092	2,112,597	51,822,689	-
Long-Term Bonds and Notes Payable	32,959,460	103,214,342	136,173,802	-
Total Noncurrent Liabilities	<u>85,495,626</u>	<u>105,460,710</u>	<u>190,956,336</u>	<u>-</u>
Total Liabilities	<u>96,699,412</u>	<u>115,880,673</u>	<u>212,580,085</u>	<u>9,660</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Taxes received in advance	2,326,768	-	2,326,768	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	50,775,626	99,173,805	149,949,431	-
Restricted for:				
Debt Service	348,773	-	348,773	-
Other Postemployment Benefits	210,456	-	210,456	-
Community Preservation	1,324,545	-	1,324,545	-
Education	2,854,443	-	2,854,443	-
Public Works	1,436,257	-	1,436,257	-
Loans	5,513,878	-	5,513,878	-
Permanent Funds	1,151,089	-	1,151,089	-
Other Specific Purposes	5,118,149	-	5,118,149	3,972,861
Unrestricted	(42,372,213)	12,626,726	(29,745,487)	4,896,430
Total Net Position	<u>\$ 26,361,003</u>	<u>\$ 111,800,531</u>	<u>\$ 138,161,534</u>	<u>\$ 8,869,291</u>

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Primary Government:</b>					
Governmental Activities:					
General Government	\$ 8,157,467	\$ 1,554,393	\$ 1,549,813	\$ -	\$ (5,053,261)
Public Safety	25,041,322	4,581,632	292,525	-	(20,167,165)
Education	62,749,205	1,097,475	19,599,381	1,321,900	(40,730,449)
Public Works	13,847,127	3,424,833	27,537	528,935	(9,865,822)
Health and Human Services	3,109,978	454,490	931,658	-	(1,723,830)
Culture and Recreation	1,470,795	-	28,435	-	(1,442,360)
Community Development	433,472	-	815,506	-	382,034
Debt Service - Interest	1,928,689	-	640,684	-	(1,288,005)
Total Governmental Activities	<u>116,738,055</u>	<u>11,112,823</u>	<u>23,885,539</u>	<u>1,850,835</u>	<u>(79,888,858)</u>
Business-Type Activities:					
Sewer	9,435,467	7,101,126	282,091	-	(2,052,250)
Water	5,804,537	6,273,948	3,917	778,444	1,251,772
Nonmajor Enterprise Funds	812,434	584,230	27,055	-	(201,149)
Total Business-Type Activities	<u>16,052,438</u>	<u>13,959,304</u>	<u>313,063</u>	<u>778,444</u>	<u>(1,001,627)</u>
Total Primary Government	<u>\$ 132,790,493</u>	<u>\$ 25,072,127</u>	<u>\$ 24,198,602</u>	<u>\$ 2,629,279</u>	<u>\$ (80,890,485)</u>
<b>Component Units:</b>					
Gloucester Lyceum and Sawyer Free Library, Inc.	<u>\$ 1,258,680</u>	<u>\$ 28,328</u>	<u>\$ -</u>	<u>\$ 3,203,117</u>	<u>\$ 1,972,765</u>

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
STATEMENT OF ACTIVITIES (CONTINUED)  
YEAR ENDED JUNE 30, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Changes in Net Position:</b>				
Net (Expense)/Revenue (from Previous Page)	\$ (79,888,858)	\$ (1,001,627)	\$ (80,890,485)	\$ 1,972,765
<b>General Revenues:</b>				
Real Estate Personal Property Taxes	67,590,493	-	67,590,493	-
Motor Vehicle and Other Excise Taxes	3,718,491	76,722	3,795,213	-
Hotel/Motel Taxes	473,882	-	473,882	-
Penalties and Interest on Taxes	574,470	-	574,470	-
Payments in Lieu of Taxes	41,905	-	41,905	-
Community Preservation Surcharges	509,048	-	509,048	-
Grants and Contributions Not Restricted to Specific Programs	3,477,561	-	3,477,561	-
Unrestricted Investment Income	105,615	-	105,615	208,011
Gain on Sale of Assets	3,000	-	3,000	-
<b>Transfers, Net</b>	(1,486,874)	1,486,874	-	-
Total General Revenues and Transfers (Net)	<u>75,007,591</u>	<u>1,563,596</u>	<u>76,571,187</u>	<u>208,011</u>
<b>Change in Net Position</b>	(4,881,267)	561,969	(4,319,298)	2,180,776
Net Position - Beginning of Year (As Restated)	<u>31,242,270</u>	<u>111,238,562</u>	<u>142,480,832</u>	<u>6,688,515</u>
<b>Net Position - End of Year</b>	<u>\$ 26,361,003</u>	<u>\$ 111,800,531</u>	<u>\$ 138,161,534</u>	<u>\$ 8,869,291</u>

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 15,639,489	\$ -	\$ 15,639,489
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	820,041	-	820,041
Real Estate Tax Deferrals	223,954	-	223,954
Tax Liens	1,934,387	28,049	1,962,436
Motor Vehicle and Other Excise Taxes	279,901	-	279,901
Community Preservation Surcharges	-	7,917	7,917
Special Assessments	40,030	3,555,154	3,595,184
Departmental and Other	1,517,165	201,567	1,718,732
Intergovernmental	3,622,528	1,390,112	5,012,640
Loans	-	5,513,878	5,513,878
Tax Foreclosures	442,221	-	442,221
Restricted Assets:			
Cash and Cash Equivalents	100,639	7,571,395	7,672,034
Investments	109,817	1,121,589	1,231,406
	<u>\$ 24,730,172</u>	<u>\$ 19,389,661</u>	<u>\$ 44,119,833</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Warrants Payable	\$ 900,832	\$ 944,956	\$ 1,845,788
Accrued Payroll	2,050,092	154,471	2,204,563
Tax Refunds Payable	185,256	-	185,256
Other Liabilities	379,693	27,235	406,928
Workers' Compensation Claims	462,985	-	462,985
Short-Term Notes Payable	-	482,025	482,025
Total Liabilities	<u>3,978,858</u>	<u>1,608,687</u>	<u>5,587,545</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	8,324,534	3,591,120	11,915,654
Taxes received in advance	2,326,768	-	2,326,768
Total Deferred Inflows of Resources	<u>10,651,302</u>	<u>3,591,120</u>	<u>14,242,422</u>
<b>FUND BALANCES</b>			
Restricted	559,229	18,149,060	18,708,289
Committed	1,991,952	-	1,991,952
Assigned	1,388,337	-	1,388,337
Unassigned	6,160,494	(3,959,206)	2,201,288
Total Fund Balances	<u>10,100,012</u>	<u>14,189,854</u>	<u>24,289,866</u>
	<u>\$ 24,730,172</u>	<u>\$ 19,389,661</u>	<u>\$ 44,119,833</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 24,730,172</u>	<u>\$ 19,389,661</u>	<u>\$ 44,119,833</u>

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2014**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Real Estate and Personal Property Taxes	\$ 67,154,339	\$ -	\$ 67,154,339
Motor Vehicle and Other Excise Taxes	3,892,384	-	3,892,384
Hotel/Motel Tax	473,882	-	473,882
Tax Liens	781,652	-	781,652
Payments in Lieu of Taxes	41,905	-	41,905
Community Preservation Surcharges	-	506,303	506,303
Charges for Services	2,134,029	1,051,626	3,185,655
Intergovernmental	21,115,588	8,000,974	29,116,562
Special Assessments	4,141	438,361	442,502
Penalties and Interest on Taxes	572,797	1,672	574,469
Licenses and Permits	1,486,456	-	1,486,456
Fines and Forfeitures	635,315	-	635,315
Departmental and Other	3,266,822	2,116,100	5,382,922
Contributions	-	439,650	439,650
Investment Income	105,613	108,080	213,693
Total Revenues	<u>101,664,923</u>	<u>12,662,766</u>	<u>114,327,689</u>
<b>EXPENDITURES</b>			
Current:			
General Government	4,339,220	1,255,335	5,594,555
Public Safety	13,505,584	2,201,228	15,706,812
Education	38,700,846	7,477,787	46,178,633
Public Works	10,907,817	2,610,514	13,518,331
Health and Human Services	988,858	1,199,288	2,188,146
Culture and Recreation	823,058	28,477	851,535
Community Development	-	679,525	679,525
Pension Benefits	14,765,083	-	14,765,083
Employee Benefits	6,770,897	-	6,770,897
Property and Liability Insurance	574,623	-	574,623
State and County Charges	3,073,226	-	3,073,226
Debt Service:			
Principal	4,847,121	155,000	5,002,121
Interest	1,948,938	58,456	2,007,394
Total Expenditures	<u>101,245,271</u>	<u>15,665,610</u>	<u>116,910,881</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>419,652</u>	<u>(3,002,844)</u>	<u>(2,583,192)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	895,247	267,752	1,162,999
Proceeds of Bonds and Notes	-	3,255,000	3,255,000
Premium from Issuance of Bonds and Notes	526,168	-	526,168
Sale of Capital Assets	3,000	-	3,000
Transfers out	(2,024,376)	(625,497)	(2,649,873)
Total Other Financing Sources (Uses)	<u>(599,961)</u>	<u>2,897,255</u>	<u>2,297,294</u>
<b>NET CHANGE IN FUND BALANCES</b>	(180,309)	(105,589)	(285,898)
Fund Balances - Beginning of Year (As Restated)	<u>10,280,321</u>	<u>14,295,443</u>	<u>24,575,764</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 10,100,012</u>	<u>\$ 14,189,854</u>	<u>\$ 24,289,866</u>

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

Total Governmental Fund Balances (page 17)	\$ 24,289,866
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	81,267,350
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.	11,915,654
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.	(435,027)
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	(38,248,742)
Landfill Postclosure	(480,000)
Compensated Absences	(2,238,006)
Net OPEB Obligation	<u>(49,710,092)</u>
Net Position of Governmental Activities (page 14)	<u>\$ 26,361,003</u>

*See accompanying Notes to 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  
YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances - Total Governmental Funds (page 18) \$ (285,898)

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.

Capital Outlays	6,534,653
Depreciation	(4,420,178)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows of resources 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. (1,596,195)

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.

Bond Proceeds	(3,255,000)
Bond Maturities	5,002,121

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.. 78,704

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:

Landfill Closure	637,331
Compensated Absences	(335,193)
Net OPEB obligation	<u>(7,241,612)</u>

Changes in Net Position of Governmental Activities (page 16) \$ (4,881,267)

**CITY OF GLOUCESTER, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF FUND NET POSITION  
 JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds			Total
	Sewer	Water	Nonmajor Enterprise Funds	
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 1,875,308	\$ 404,563	\$ 412,503	\$ 2,692,374
Restricted Cash and Cash Equivalents	4,355,053	617,757	319,035	5,291,845
Receivables, Net of Allowance for Uncollectible Amounts:				
Excise Taxes	-	-	25,304	25,304
User Charges	2,188,582	1,571,238	-	3,759,820
Special Assessments	1,423,811	-	-	1,423,811
Utility Liens	115,654	95,100	-	210,754
Departmental and Other	-	-	35,952	35,952
Intergovernmental	298,646	-	-	298,646
Total Current Assets	<u>10,257,054</u>	<u>2,688,658</u>	<u>792,794</u>	<u>13,738,506</u>
Noncurrent Assets:				
Receivables, Net of Allowance for Uncollectible Amounts:				
Special Assessments	6,606,057	-	-	6,606,057
Intergovernmental	1,627,791	-	-	1,627,791
Capital Assets Not Being Depreciated	28,812,778	26,774,048	582,874	56,169,700
Capital Assets, Net of Accumulated Depreciation	<u>109,841,860</u>	<u>37,174,132</u>	<u>2,523,158</u>	<u>149,539,150</u>
Total Noncurrent Assets	<u>146,888,486</u>	<u>63,948,180</u>	<u>3,106,032</u>	<u>213,942,698</u>
Total Assets	<u>157,145,540</u>	<u>66,636,838</u>	<u>3,898,826</u>	<u>227,681,204</u>
<b>LIABILITIES</b>				
Current liabilities:				
Warrants Payable	113,251	148,772	3,648	265,671
Accrued Payroll	5,216	5,181	1,208	11,605
Other Liabilities	-	7,665	120,473	128,138
Accrued Interest	711,166	338,624	-	1,049,790
Compensated Absences	1,730	9,665	3,468	14,863
Short-Term Notes Payable	-	2,000,000	-	2,000,000
Long-Term Bonds and Notes Payable	<u>4,883,926</u>	<u>2,015,281</u>	<u>50,689</u>	<u>6,949,896</u>
Total Current Liabilities	<u>5,715,289</u>	<u>4,525,188</u>	<u>179,486</u>	<u>10,419,963</u>
Noncurrent Liabilities:				
Compensated Absences	15,574	86,987	31,210	133,771
Net OPEB Obligation	884,711	988,157	239,729	2,112,597
Long-Term Bonds and Notes Payable	<u>60,305,377</u>	<u>42,011,294</u>	<u>897,671</u>	<u>103,214,342</u>
Total Noncurrent Liabilities	<u>61,205,662</u>	<u>43,086,438</u>	<u>1,168,610</u>	<u>105,460,710</u>
Total Liabilities	<u>66,920,951</u>	<u>47,611,626</u>	<u>1,348,096</u>	<u>115,880,673</u>
<b>FUND NET POSITION</b>				
Net Investment in Capital Assets	78,015,756	18,923,951	2,234,098	99,173,805
Unrestricted	<u>12,208,833</u>	<u>101,261</u>	<u>316,632</u>	<u>12,626,726</u>
Total Net Position	<u>\$ 90,224,589</u>	<u>\$ 19,025,212</u>	<u>\$ 2,550,730</u>	<u>\$ 111,800,531</u>

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds			Total
	Sewer	Water	Nonmajor Enterprise Funds	
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 6,881,958	\$ 6,216,798	\$ 575,992	\$ 13,674,748
Penalties and Interest	219,168	57,150	-	276,318
Boat Excise Taxes	-	-	76,722	76,722
Other	-	-	8,238	8,238
Total Operating Revenues	<u>7,101,126</u>	<u>6,273,948</u>	<u>660,952</u>	<u>14,036,026</u>
<b>OPERATING EXPENSES</b>				
Cost of Service and Administration	3,777,204	3,640,927	576,859	7,994,990
Repairs and Maintenance	1,259,724	151,417	17,656	1,428,797
Depreciation	3,301,765	1,171,300	208,427	4,681,492
Total Operating Expenses	<u>8,338,693</u>	<u>4,963,644</u>	<u>802,942</u>	<u>14,105,279</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,237,567)</u>	<u>1,310,304</u>	<u>(141,990)</u>	<u>(69,253)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Premium from Issuance of Bonds and Notes	-	-	27,055	27,055
Intergovernmental	282,091	3,917	-	286,008
Interest Expense	(1,096,774)	(840,893)	(9,492)	(1,947,159)
Total Nonoperating Revenues (Expenses), Net	<u>(814,683)</u>	<u>(836,976)</u>	<u>17,563</u>	<u>(1,634,096)</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>(2,052,250)</u>	<u>473,328</u>	<u>(124,427)</u>	<u>(1,703,349)</u>
<b>CONTRIBUTIONS AND TRANSFERS</b>				
Capital Contributions	-	778,444	-	778,444
Transfers in	1,731,054	-	25,820	1,756,874
Transfers out	(145,000)	(125,000)	-	(270,000)
Total Contributions and Transfers	<u>1,586,054</u>	<u>653,444</u>	<u>25,820</u>	<u>2,265,318</u>
<b>CHANGE IN NET POSITION</b>	(466,196)	1,126,772	(98,607)	561,969
Fund Net Position - Beginning of Year	<u>90,690,785</u>	<u>17,898,440</u>	<u>2,649,337</u>	<u>111,238,562</u>
<b>FUND NET POSITION - END OF YEAR</b>	<u>\$ 90,224,589</u>	<u>\$ 19,025,212</u>	<u>\$ 2,550,730</u>	<u>\$ 111,800,531</u>

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds			Total
	Sewer	Water	Nonmajor Enterprise Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers and Users	\$ 8,359,710	\$ 6,879,955	\$ 655,421	\$ 15,895,086
Payments to Vendors	(4,000,104)	(2,790,297)	(202,423)	(6,992,824)
Payments to Employees	(819,214)	(868,718)	(240,557)	(1,928,489)
Net Cash Provided (Used) by Operating Activities	<u>3,540,392</u>	<u>3,220,940</u>	<u>212,441</u>	<u>6,973,773</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Intergovernmental Grants	-	3,917	-	3,917
Transfers in	1,731,054	-	25,820	1,756,874
Transfers out	(145,000)	(125,000)	-	(270,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,586,054</u>	<u>(121,083)</u>	<u>25,820</u>	<u>1,490,791</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from the Issuance of Bonds and Notes	1,897,896	10,797,482	-	12,695,378
Premium from Issuance of Bonds and Notes	-	-	27,055	27,055
Capital Contributions	-	778,444	-	778,444
Acquisition and Construction of Capital Assets	(5,126,069)	(9,753,294)	(53,227)	(14,932,590)
Principal Payments on Bonds and Notes	(4,521,786)	(4,633,106)	(88,887)	(9,243,779)
Interest Expense	(654,269)	(771,088)	(9,492)	(1,434,849)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(8,404,228)</u>	<u>(3,581,562)</u>	<u>(124,551)</u>	<u>(12,110,341)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(3,277,782)	(481,705)	113,710	(3,645,777)
Cash and Cash Equivalents - Beginning of Year (Includes \$7,271,498, \$298,057, \$313,260 Reported as Restricted in the Sewer, Water and Nonmajor Enterprise Funds, Respectively)	<u>9,508,143</u>	<u>1,504,025</u>	<u>617,828</u>	<u>11,629,996</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> (Includes \$4,355,053, \$617,757, \$319,035 Reported as Restricted in the Sewer, Water and Nonmajor Enterprise Funds, Respectively)	<u>\$ 6,230,361</u>	<u>\$ 1,022,320</u>	<u>\$ 731,538</u>	<u>\$ 7,984,219</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ (1,237,567)	\$ 1,310,304	\$ (141,990)	\$ (69,253)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Changes in Assets and Liabilities Not Requiring Current Cash Flows:				
Depreciation	3,301,765	1,171,300	208,427	4,681,492
Net OPEB Obligation	135,077	145,173	41,523	321,773
Effect of Changes in Operating Assets and Liabilities:				
Utility Liens	189,213	147,786	-	336,999
Excise Taxes	-	-	7,478	7,478
User Charges	(243,954)	458,221	-	214,267
Special Assessments	1,312,373	-	-	1,312,373
Departmental and Other	952	-	(13,009)	(12,057)
Warrants Payable	90,090	(7,813)	(18,319)	63,958
Accrued Payroll	(427)	3,590	(274)	2,889
Other Liabilities	-	(7,642)	119,379	111,737
Compensated Absences	(7,130)	21	9,226	2,117
Total Adjustments	<u>4,777,959</u>	<u>1,910,636</u>	<u>354,431</u>	<u>7,043,026</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,540,392</u>	<u>\$ 3,220,940</u>	<u>\$ 212,441</u>	<u>\$ 6,973,773</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Intergovernmental Debt Subsidies (MWPAT)	<u>\$ 573,856</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 573,856</u>

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2014**

	Pension Trust Fund (12/31/13)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 607,439	\$ 21,109	\$ 40,645
Investments (PRIT)	81,863,363	-	-
Investments (Other)	-	802,568	-
Receivables, Net of Allowance for Uncollectible Amounts:			
Departmental and Other	7,225	-	-
Total Assets	82,478,027	823,677	\$ 40,645
<b>LIABILITIES</b>			
Warrants Payable	8,242	-	\$ -
Accrued Payroll	-	-	1,349
Liabilities Due Depositors	-	-	39,296
Total Liabilities	8,242	-	\$ 40,645
<b>NET POSITION</b>			
Held in Trust for Pension Benefits and Other Purposes	\$ 82,469,785	\$ 823,677	

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2014**

	Pension Trust Fund (12/31/13)	Private Purpose Trust Funds
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 7,098,838	\$ -
Plan Members	2,364,531	-
Private Donations	-	2,210
Total Contributions	9,463,369	2,210
Net Investment Income:		
Net Appreciation in Fair Value of Investments	8,637,549	-
Interest	2,209,358	58,576
Total Investment Income	10,846,907	58,576
Less: Investment Expense	(419,942)	-
Net Investment Income	10,426,965	58,576
Intergovernmental	422,907	-
Transfers from Other Systems	330,223	-
Total Additions	20,643,464	60,786
<b>DEDUCTIONS</b>		
Administration	328,980	-
Retirement Benefits and Refunds	10,739,661	-
Transfers to Other Systems	284,396	-
Other	-	33,214
Total Deductions	11,353,037	33,214
<b>CHANGE IN NET POSITION</b>	9,290,427	27,572
Net Position - Beginning of Year	73,179,358	796,105
<b>NET POSITION - END OF YEAR</b>	\$ 82,469,785	\$ 823,677

See accompanying Notes to Financial Statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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.

**Fiduciary 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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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 2014 assessment totaled \$1,122,947. 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 ended June 30, 2014, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The implementation of GASB Statement No. 65 established financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 had no retrospective reporting impact for the City.

The implementation of GASB Statement No.'s 66 and 70 had no reporting impact for the City.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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 other 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.

**CITY OF GLOUCESTER, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

***Real Estate***

The fair value of real estate funds is based on independent third-party appraisals. The investment managers of the funds are responsible for the reported value of those investments. However, the structure, risk profile, return potential and marketability of those investments differ from traditional equity and fixed income investments. Determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties to a sales transaction. As a result, the estimated values may differ significantly from the values that would have been used had a ready market for the real estate existed, and the differences could be material.

**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 1<sup>st</sup>, and May 1st and are subject to penalties and interest if they are not paid by the respective due date.

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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***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.

**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

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**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 Inflows of Resources**

The statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The government has two items that qualifies for reporting in this category. Unavailable revenue is reported in the governmental funds balance sheet and 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. Taxes received in advance is reported in the governmental funds balance sheet and governmental activities column of the statement of net position and represents amounts received in advance of the fiscal year 2015 tax levy.

**O. Net Position and Fund Balances**

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

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

Net position has been "restricted" for the following:

"Debt service" represents amounts restricted for future excluded debt.

"Other postemployment benefits" represents amounts restricted for retirees' benefits (see Note 11).

"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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

*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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2014 approved budget for the general fund authorized approximately \$92,781,000 in appropriations. During fiscal year 2014, total appropriations were increased by approximately \$3,679,000.

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

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**B. Fund Deficits**

At June 30, 2014, the following fund deficits exist:

<u>Funds</u>	<u>Amount</u>	<u>Funding Source</u>
<b><u>Special Revenue Funds:</u></b>		
Fiscal year 2014 state 911 support & incentive grant	\$ 116,052	State grant
Fiscal year 2013 state 911 support & incentive grant	106,797	State grant
Police detail	66,847	Charges for services/available funds
Fiscal year 2012 state 911 support & incentive grant	<u>12,362</u>	State grant/available funds
Total special revenue fund deficits	<u>302,058</u>	
<b><u>Capital Projects Funds:</u></b>		
West Parish School project	1,087,613	Issuance of long-term debt
Fire department pumper & ladder truck	998,247	Issuance of long-term debt
Newell stadium improvements project	689,000	Issuance of long-term debt
DPW capital projects	443,948	Issuance of long-term debt
Board of health water pollution	383,338	Issuance of long-term debt
Commercial Street infrastructure project	<u>55,002</u>	Issuance of long-term debt
Total capital projects fund deficits	<u>3,657,148</u>	
Total governmental fund deficits	<u>\$ 3,959,206</u>	

**C. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2014, expenditures exceeded appropriations for public safety (overtime) and state and county charges. These over-expenditure will be funded by taxes during fiscal year 2015.

**NOTE 3 DEPOSITS AND INVESTMENTS**

***D. 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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

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.

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, 2014, \$15,960,685 of the City's bank balance of \$31,592,539 was uninsured and uncollateralized.

**Investments Summary**

The City's investments at June 30, 2014 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	\$ 299,828	\$ 111,538	\$ 188,290
Money market mutual funds	48,306	48,306	-
Pooled fixed income securities	520,850	520,850	-
Certificates of deposit	301,152	188,246	112,906
MMDT	16,885	16,885	-
Total debt securities	<u>1,187,021</u>	<u>\$ 885,825</u>	<u>\$ 301,196</u>
 <u>Other Investments:</u>			
Pooled equity mutual funds	711,355		
Pooled real estate investments	99,836		
Pooled alternative investments	<u>100,953</u>		
Total other investments	<u>912,144</u>		
Total investments	<u>\$ 2,099,165</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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**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, 2014, the City's investments were exposed to custodial credit risk as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Held by Counterparty's Trust or Agent</u>
Corporate bonds	\$ 299,828	\$ 299,828
Money market mutual funds	47,666	47,666
Certificates of deposit	301,152	301,152
Pooled fixed income securities	<u>481,144</u>	<u>481,144</u>
Total	<u>\$ 1,129,791</u>	<u>\$ 1,129,791</u>

**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, 2014, the credit quality ratings of the City's debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings *</u>							<u>Unrated</u>
		<u>AA2</u>	<u>AA1</u>	<u>AA-</u>	<u>BAA1</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	
Corporate bonds	\$ 299,828	\$ 25,441	\$ 77,541	\$ 25,031	\$ 24,849	\$ 35,991	\$ 50,477	\$ 60,498	\$ -
Money market mutual funds	48,306	-	-	-	-	-	-	-	48,306
Certificates of deposit	301,152	-	-	-	-	-	-	-	301,152
Pooled fixed income securities	520,850	-	-	-	-	-	-	-	520,850
MMDT	<u>16,885</u>	-	-	-	-	-	-	-	<u>16,885</u>
Total	<u>\$ 1,187,021</u>	<u>\$ 25,441</u>	<u>\$ 77,541</u>	<u>\$ 25,031</u>	<u>\$ 24,849</u>	<u>\$ 35,991</u>	<u>\$ 50,477</u>	<u>\$ 60,498</u>	<u>\$ 887,193</u>

\* 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, 2014, the City was not exposed to concentration of credit risk.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

***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.

**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, 2013, the System was not exposed to custodial credit risk.

**Investments Summary**

The System's investments consist entirely of PRIT and total \$81,863,363 at December 31, 2013.

**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, 2013, 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, 2013, the System was not exposed to concentration of credit risk.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

***E. Library (Discretely Presented Component Unit)***

The Library's investments as of June 30, 2014 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Fair Value
Equity securities	\$ 41,487
Certificates of deposit and money market accounts	2,306,803
Equity mutual funds	1,932,688
Debt security mutual funds	128,555
Bonds	1,198,321
Total investments	\$ 5,607,854

**NOTE 4 ACCOUNTS RECEIVABLE**

At June 30, 2014, 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:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes	\$ 973,202	\$ (153,161)	\$ 820,041
Real estate tax deferrals	223,954	-	223,954
Tax liens	1,962,436	-	1,962,436
Motor vehicle and other excise taxes	362,756	(82,855)	279,901
Community preservation surcharges	7,917	-	7,917
Special assessments	3,595,184	-	3,595,184
Departmental and other	2,717,780	(991,822)	1,725,958
Intergovernmental	5,012,640	-	5,012,640
Loans	5,513,878	-	5,513,878
	\$ 20,369,747	\$ (1,227,838)	\$ 19,141,909

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 4 ACCOUNTS RECEIVABLE (CONTINUED)**

At June 30, 2014, 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>			
User charges	\$ 3,759,820	\$ -	\$ 3,759,820
Utility liens	210,754	-	210,754
Boat excise taxes	47,082	(21,778)	25,304
Special assessments	8,029,868	-	8,029,868
Departmental and other	35,952	-	35,952
Intergovernmental	<u>1,926,437</u>	<u>-</u>	<u>1,926,437</u>
	<u>\$ 14,009,913</u>	<u>\$ (21,778)</u>	<u>\$ 13,988,135</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 2014, approximately \$1,564,000 of such assistance was received. Approximately \$4,576,000 will be received in future fiscal years. Of this amount, approximately \$1,617,000 represents reimbursement of long-term interest costs, and approximately \$2,959,000 represents reimbursement of approved construction costs. Accordingly, a \$2,958,803 intergovernmental receivable and corresponding deferred inflow of resources have been reported in the governmental funds financial statements. The deferred inflows of resources have been recognized as revenue in the conversion to the government-wide financial statements.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 19,201,783	\$ -	\$ -	\$ 19,201,783
Construction in progress	<u>7,355,005</u>	<u>2,536,796</u>	<u>(3,342,859)</u>	<u>6,548,942</u>
Total capital assets not being depreciated	<u>26,556,788</u>	<u>2,536,796</u>	<u>(3,342,859)</u>	<u>25,750,725</u>
<u>Capital assets being depreciated:</u>				
Buildings	60,565,636	108,770	-	60,674,406
Improvements	9,454,151	3,054,512	-	12,508,663
Machinery and equipment	7,736,954	688,749	(26,000)	8,399,703
Vehicles	8,436,855	997,832	(62,765)	9,371,922
Other	1,234,332	389,223	-	1,623,555
Infrastructure	<u>20,634,462</u>	<u>2,101,630</u>	<u>-</u>	<u>22,736,092</u>
Total capital assets being depreciated	<u>108,062,390</u>	<u>7,340,716</u>	<u>(88,765)</u>	<u>115,314,341</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(36,877,603)	(2,135,392)	-	(39,012,995)
Improvements	(3,629,166)	(493,864)	-	(4,123,030)
Machinery and equipment	(5,867,581)	(384,526)	26,000	(6,226,107)
Vehicles	(4,207,159)	(678,771)	62,765	(4,823,165)
Other	(717,717)	(110,153)	-	(827,870)
Infrastructure	<u>(4,167,077)</u>	<u>(617,472)</u>	<u>-</u>	<u>(4,784,549)</u>
Total accumulated depreciation	<u>(55,466,303)</u>	<u>(4,420,178)</u>	<u>88,765</u>	<u>(59,797,716)</u>
Total capital assets being depreciated, net	<u>52,596,087</u>	<u>2,920,538</u>	<u>-</u>	<u>55,516,625</u>
Total governmental activities capital assets, net	<u>\$ 79,152,875</u>	<u>\$ 5,457,334</u>	<u>\$ (3,342,859)</u>	<u>\$ 81,267,350</u>

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Sewer Enterprise Fund:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 379,839	\$ -	\$ -	\$ 379,839
Construction in progress	<u>23,946,117</u>	<u>4,662,858</u>	<u>(176,036)</u>	<u>28,432,939</u>
Total capital assets not being depreciated	<u>24,325,956</u>	<u>4,662,858</u>	<u>(176,036)</u>	<u>28,812,778</u>
<u>Capital assets being depreciated:</u>				
Buildings	4,370,258	-	-	4,370,258
Improvements	52,702	187,185	-	239,887
Machinery and equipment	376,873	34,394	-	411,267
Vehicles	555,507	51,452	-	606,959
Other	255,862	10,488	-	266,350
Infrastructure	<u>158,659,386</u>	<u>355,728</u>	<u>-</u>	<u>159,015,114</u>
Total capital assets being depreciated	<u>164,270,588</u>	<u>639,247</u>	<u>-</u>	<u>164,909,835</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(4,096,063)	(7,312)	-	(4,103,375)
Improvements	(33,235)	(6,022)	-	(39,257)
Machinery and equipment	(326,119)	(11,990)	-	(338,109)
Vehicles	(454,983)	(48,021)	-	(503,004)
Other	(100,603)	(48,659)	-	(149,262)
Infrastructure	<u>(46,755,207)</u>	<u>(3,179,761)</u>	<u>-</u>	<u>(49,934,968)</u>
Total accumulated depreciation	<u>(51,766,210)</u>	<u>(3,301,765)</u>	<u>-</u>	<u>(55,067,975)</u>
Total capital assets being depreciated, net	<u>112,504,378</u>	<u>(2,662,518)</u>	<u>-</u>	<u>109,841,860</u>
Total sewer capital assets, net	<u>\$ 136,830,334</u>	<u>\$ 2,000,340</u>	<u>\$ (176,036)</u>	<u>\$ 138,654,638</u>

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Water Enterprise Fund:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 3,594,263	\$ -	\$ -	\$ 3,594,263
Construction in progress	<u>13,727,618</u>	<u>9,452,167</u>	<u>-</u>	<u>23,179,785</u>
Total capital assets not being depreciated	<u>17,321,881</u>	<u>9,452,167</u>	<u>-</u>	<u>26,774,048</u>
<u>Capital assets being depreciated:</u>				
Buildings	160,023	-	-	160,023
Improvements	177,286	-	-	177,286
Machinery and equipment	1,334,481	53,945	-	1,388,426
Vehicles	458,774	57,388	-	516,162
Other	77,977	-	-	77,977
Infrastructure	<u>49,317,929</u>	<u>189,794</u>	<u>-</u>	<u>49,507,723</u>
Total capital assets being depreciated	<u>51,526,470</u>	<u>301,127</u>	<u>-</u>	<u>51,827,597</u>
<u>Less accumulated depreciation for:</u>				
Buildings	(160,023)	-	-	(160,023)
Improvements	(4,432)	(8,864)	-	(13,296)
Machinery and equipment	(720,340)	(70,011)	-	(790,351)
Vehicles	(338,058)	(40,385)	-	(378,443)
Other	(30,047)	(15,034)	-	(45,081)
Infrastructure	<u>(12,229,265)</u>	<u>(1,037,006)</u>	<u>-</u>	<u>(13,266,271)</u>
Total accumulated depreciation	<u>(13,482,165)</u>	<u>(1,171,300)</u>	<u>-</u>	<u>(14,653,465)</u>
Total capital assets being depreciated, net	<u>38,044,305</u>	<u>(870,173)</u>	<u>-</u>	<u>37,174,132</u>
Total water capital assets, net	<u>\$ 55,366,186</u>	<u>\$ 8,581,994</u>	<u>\$ -</u>	<u>\$ 63,948,180</u>

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Waterways Nonmajor Enterprise Fund:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 538,482	\$ -	\$ -	\$ 538,482
Construction in progress	<u>26,739</u>	<u>17,653</u>	<u>-</u>	<u>44,392</u>
Total capital assets not being depreciated	<u>565,221</u>	<u>17,653</u>	<u>-</u>	<u>582,874</u>
<u>Capital assets being depreciated:</u>				
Improvements	1,297,714	-	-	1,297,714
Machinery and equipment	368,187	17,860	-	386,047
Vehicles	23,250	-	-	23,250
Infrastructure	<u>931,694</u>	<u>17,714</u>	<u>-</u>	<u>949,408</u>
Total capital assets being depreciated	<u>2,620,845</u>	<u>35,574</u>	<u>-</u>	<u>2,656,419</u>
<u>Less accumulated depreciation for:</u>				
Improvements	(687,341)	(64,886)	-	(752,227)
Machinery and equipment	(150,563)	(34,624)	-	(185,187)
Vehicles	(11,625)	(4,650)	-	(16,275)
Infrastructure	<u>(177,022)</u>	<u>(19,077)</u>	<u>-</u>	<u>(196,099)</u>
Total accumulated depreciation	<u>(1,026,551)</u>	<u>(123,237)</u>	<u>-</u>	<u>(1,149,788)</u>
Total capital assets being depreciated, net	<u>1,594,294</u>	<u>(87,663)</u>	<u>-</u>	<u>1,506,631</u>
Total waterways nonmajor enterprise capital assets, net	<u>\$ 2,159,515</u>	<u>\$ (70,010)</u>	<u>\$ -</u>	<u>\$ 2,089,505</u>

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Talbot Rink Nonmajor Enterprise Fund:</b>				
<u>Capital assets being depreciated:</u>				
Buildings	\$ 125,460	\$ -	\$ -	\$ 125,460
Improvements	784,166	18,970	-	803,136
Machinery and equipment	265,426	17,277	-	282,703
Total capital assets being depreciated	1,175,052	36,247	-	1,211,299
<u>Less accumulated depreciation for:</u>				
Buildings	(26,884)	(17,923)	-	(44,807)
Improvements	(55,354)	(39,683)	-	(95,037)
Machinery and equipment	(27,344)	(27,584)	-	(54,928)
Total accumulated depreciation	(109,582)	(85,190)	-	(194,772)
Total capital assets being depreciated, net	1,065,470	(48,943)	-	1,016,527
Total talbot rink nonmajor enterprise capital assets, net	\$ 1,065,470	\$ (48,943)	\$ -	\$ 1,016,527
Total business-type activities capital assets, net	\$ 195,421,505	\$ 10,463,381	\$ (176,036)	\$ 205,708,850
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Component Unit:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
<u>Capital assets being depreciated:</u>				
Buildings and improvements	3,368,109	735,979	-	4,104,088
Equipment	245,063	5,878	-	250,941
Total capital assets being depreciated	3,613,172	741,857	-	4,355,029
<u>Less accumulated depreciation for:</u>				
Buildings, improvements and equipment	(1,423,550)	(70,245)	-	(1,493,795)
Total capital assets being depreciated, net	2,189,622	671,612	-	2,861,234
Total component unit capital assets, net	\$ 2,190,622	\$ 671,612	\$ -	\$ 2,862,234

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental Activities:**

General government	\$ 194,531
Public safety	700,438
Education	2,290,225
Public works	1,089,261
Culture and recreation	108,235
Community development	<u>37,488</u>

Total depreciation expense - governmental activities \$ 4,420,178

**Business-Type Activities:**

Sewer	\$ 3,301,765
Water	1,171,300
Waterways	123,237
Talbot rink	<u>85,190</u>

Total depreciation expense - business-type activities \$ 4,681,492

**Component Unit:**

Library	\$ <u>70,245</u>
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**NOTE 6 INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2014 are summarized as follows:

	Transfers In:					
Transfers Out:	General Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Nonmajor Enterprise Fund	Total	
General Fund	\$ -	\$ 267,752	\$ 1,731,054	\$ 25,570	\$ 2,024,376	(1)
Nonmajor Governmental Funds	625,247	-	-	250	625,497	(2)
Sewer Enterprise Fund	145,000	-	-	-	145,000	(3)
Water Enterprise Fund	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,000</u>	(3)
	<u>\$ 895,247</u>	<u>\$ 267,752</u>	<u>\$ 1,731,054</u>	<u>\$ 25,820</u>	<u>\$ 2,919,873</u>	

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

- (1) Represents transfers to the sewer enterprise fund for long-term debt service costs (\$1,731,054) and budgeted transfers for capital improvement projects (\$100,000), marketing and public relations support for economic development (\$50,000), police administration (\$2,752) and numerous special revenue funds (\$115,000). Also represents transfers to the rink enterprise fund (\$25,570)
- (2) Represents budgeted transfers from the highway special revenue fund (\$93,966), various special revenue funds (\$81,281), septic betterment reserves fund (\$450,000) and waterways enterprise fund (\$250)
- (3) Represents budgeted transfers to the general fund for indirect costs

**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, 2014, is as follows:

**Notes Payable – Governmental Funds**

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
ILN*	MWPAT	Various dates	Interim loan	0.00%	\$ 50,088	\$ 114,792	\$ -	\$ 164,880
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%	1,000,000	-	(1,000,000)	-
BAN	Recreational facility	2/8/13	2/7/14	1.25%	3,930	-	(3,930)	-
BAN	Newell stadium	6/8/13	2/7/14	1.00%	213,000	-	(213,000)	-
BAN	Newell stadium	2/7/14	2/6/15	1.00%	-	630,000	(561,000)	69,000
BAN	West parish school	2/7/14	2/6/15	1.00%	-	414,145	(244,000)	170,145
BAN	Departmental equipment	2/7/14	2/6/15	1.00%	-	1,000,000	(1,000,000)	-
BAN	Newell stadium	2/7/14	2/6/15	1.00%	-	78,000	-	78,000
BAN	DPW building improvements	2/7/14	2/6/15	1.00%	-	350,000	(350,000)	-
BAN	Financial software	2/7/14	2/6/15	1.00%	-	125,000	(125,000)	-
BAN	Salt shed	2/7/14	2/6/15	1.00%	-	350,000	(350,000)	-
BAN	City hall boiler	2/7/14	2/6/15	1.00%	-	250,000	(250,000)	-
BAN	Street sweeper	2/7/14	2/6/15	1.00%	-	240,000	(240,000)	-
BAN	Fire station repairs	2/7/14	2/6/15	1.00%	-	135,000	(135,000)	-
Total					\$ 2,332,518	\$ 3,686,937	\$ (5,537,430)	\$ 482,025

\* Interim Loan Notes

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 7 SHORT-TERM FINANCING (CONTINUED)**

**Subsequent Events**

On August 15, 2014, the City issued BANs in the amount of \$16,350,000, at an interest rate of 1.00% with a maturity date of August 14, 2015 for West Parish Elementary School construction, Commercial Street roads, drains and sidewalks and seawall construction.

On February 5 2015, the City issued \$6,750,000 of general obligation bonds, of which \$3,255,000 were used to retire BAN's outstanding at June 30, 2014. Accordingly, \$3,255,000 of BAN's have been reclassified to long-term debt at June 30, 2014. The remaining BAN's outstanding, totaling \$317,145, were retired with available funds.

***Notes Payable – Enterprise Funds***

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
<i>Sewer Enterprise</i>								
ILN*	MCWT	Various dates	Interim loan	0.00%	\$ -	\$ 1,897,896	\$ (1,897,896)	\$ -
<i>Water Enterprise</i>								
BAN	Water systems improvements	2/8/13	2/7/14	1.25%	580,500	-	(580,500)	-
BAN	Water systems improvements	6/28/13	2/7/14	1.00%	2,000,000	-	(2,000,000)	-
ILN*	MCWT	Various dates	Interim loan	0.00%	7,281,589	8,797,481	(16,079,070)	-
BAN	Water systems improvements	2/7/14	2/6/15	1.00%	-	2,000,000	-	2,000,000
Sub-total (water enterprise)					<u>9,862,089</u>	<u>10,797,481</u>	<u>(18,659,570)</u>	<u>2,000,000</u>
<i>Talbot Rink Enterprise</i>								
BAN	Talbot rink improvements	2/8/13	2/7/14	1.25%	8,070	-	(8,070)	-
Total enterprise funds					<u>\$ 9,870,159</u>	<u>\$ 12,695,377</u>	<u>\$ (20,565,536)</u>	<u>\$ 2,000,000</u>

\* Interim Loan Notes

**Subsequent Events**

On August 15, 2014, the City issued BANs in the amount of \$450,000, at an interest rate of 1.00% with a maturity date of August 14, 2015 for water and sewer system improvements.

On January 7, 2015, the City issued \$16,871,801 of MCWT bonds, of which \$16,079,070 were used to retire ILN's outstanding at June 30, 2014. Accordingly, \$16,079,070 of ILN's have been reclassified to long-term debt at June 30, 2014.

On February 6, 2015, the City renewed BANs in the amount of \$2,000,000, at an interest rate of 1.25% with a maturity date of February 5, 2016.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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, 2014:

	Balance June 30, 2013	Increases	Decreases	Balance June 30, 2014	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable	\$ 39,995,863	\$ 3,255,000	\$ (5,002,121)	\$ 38,248,742	\$ 5,289,282
Net OPEB obligation	42,468,480	13,271,159	(6,029,547)	49,710,092	-
Workers' compensation claims	744,419	19,526	(300,960)	462,985	111,116
Landfill closure	1,117,331	-	(637,331)	480,000	20,000
Compensated absences	1,902,813	335,193	-	2,238,006	223,801
Total	<u>\$ 86,228,906</u>	<u>\$ 16,880,878</u>	<u>\$ (11,969,959)</u>	<u>\$ 91,139,825</u>	<u>\$ 5,644,199</u>
<b>Business-type Activities:</b>					
Bonds and notes payable	\$ 100,255,420	\$ 16,079,070	\$ (6,750,208)	\$ 109,584,282	\$ 6,949,896
Unamortized bond premiums	443,110	175,379	(38,533)	579,956	-
Total bonds and notes payable	100,698,530	16,254,449	(6,788,741)	110,164,238	6,949,896
Net OPEB obligation	1,790,824	589,690	(267,917)	2,112,597	-
Compensated absences	146,517	2,117	-	148,634	14,863
Total	<u>\$ 102,635,871</u>	<u>\$ 16,846,256</u>	<u>\$ (7,056,658)</u>	<u>\$ 112,425,469</u>	<u>\$ 6,964,759</u>

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

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 9 LONG-TERM DEBT**

Details related to the outstanding indebtedness at June 30, 2014, and the debt service requirements are as follows:

***Bonds and Notes Payable – Governmental Funds***

Project	Maturity Date	Interest Rate	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
General obligation bonds - school	Through fiscal year 2035	3.00 - 5.00%	\$ 13,153,870	\$ 244,000	\$ (2,392,429)	\$ 11,005,441
General obligation bonds - other governmental	Through fiscal year 2035	4.00 - 5.00%	16,207,450	3,011,000	(1,513,150)	17,705,300
Special assessment debt - sewer GOB	Through fiscal year 2026	3.50 - 5.00%	1,426,796	-	(223,933)	1,202,863
Special assessment debt - sewer MCWT	Through fiscal year 2026	0.00 - 5.70%	3,499,361	-	(498,143)	3,001,218
MCWT	Through fiscal year 2033	3.00 - 5.50%	5,708,386	-	(374,466)	5,333,920
Total governmental funds			<u>\$ 39,995,863</u>	<u>\$ 3,255,000</u>	<u>\$ (5,002,121)</u>	<u>\$ 38,248,742</u>

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
2015	\$ 5,289,282	\$ 1,089,243	\$ 6,378,525
2016	5,375,732	967,838	6,343,570
2017	4,372,733	786,535	5,159,268
2018	3,038,799	651,376	3,690,175
2019	2,982,013	550,569	3,532,582
2020	2,660,721	452,082	3,112,803
2021	2,414,443	365,988	2,780,431
2022	2,042,562	297,271	2,339,833
2023	1,759,398	239,001	1,998,399
2024	1,680,563	190,686	1,871,249
2025	1,655,668	144,112	1,799,780
2026	1,385,773	101,792	1,487,565
2027	1,109,571	70,118	1,179,689
2028	833,628	42,331	875,959
2029	366,891	29,117	396,008
2030	366,891	23,380	390,271
2031	268,026	17,643	285,669
2032	268,026	11,906	279,932
2033	268,026	6,176	274,202
2034	55,000	2,475	57,475
2035	54,996	858	55,854
Total	<u>\$ 38,248,742</u>	<u>\$ 6,040,497</u>	<u>\$ 44,289,239</u>

The City issued \$3,255,000 of general obligation bonds for Newell Stadium, a fire truck & pumper and various other governmental projects.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

***Bonds and Notes Payable – Enterprise Funds***

**Sewer Enterprise**

Project	Interest Rate	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Sewer projects (funded by sewer rates):					
General obligation bonds	2.63 - 5.70%	\$ 22,853,555	-	\$ (989,102)	\$ 21,864,453
MCWT	2.00%	<u>32,014,943</u>	<u>-</u>	<u>(1,497,705)</u>	<u>30,517,238</u>
Total sewer debt funded by sewer rates		<u>54,868,498</u>	<u>-</u>	<u>(2,486,807)</u>	<u>52,381,691</u>
Sewer betterment projects (Gross):					
General obligation bonds	3.50 - 5.00%	5,707,179	-	(895,731)	4,811,448
MCWT	0.00 - 5.70%	<u>13,997,448</u>	<u>-</u>	<u>(1,992,570)</u>	<u>12,004,878</u>
Sub-total		19,704,627	-	(2,888,301)	16,816,326
Less sewer betterment projects funded by the general fund:					
General obligation bonds	3.50 - 5.00%	(1,426,795)	-	223,933	(1,202,862)
MCWT	0.00 - 5.70%	<u>(3,499,361)</u>	<u>-</u>	<u>498,143</u>	<u>(3,001,220)</u>
Sub-total		<u>(4,926,156)</u>	<u>-</u>	<u>722,076</u>	<u>(4,204,082)</u>
Total sewer debt funded by sewer betterments		<u>14,778,471</u>	<u>-</u>	<u>(2,166,225)</u>	<u>12,612,244</u>
Total sewer enterprise (net)		<u>\$ 69,646,969</u>	<u>\$ -</u>	<u>\$ (4,653,032)</u>	<u>\$ 64,993,935</u>

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
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	<u>280,000</u>	<u>11,200</u>	<u>291,200</u>
Total	<u>\$ 64,993,935</u>	<u>\$ 14,682,532</u>	<u>\$ 79,676,467</u>

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

**Water Enterprise**

Project	Interest Rate	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Water projects - general obligation bonds	2.63 - 5.00%	\$ 19,575,016	\$ -	\$ (1,536,017)	\$ 18,038,999
Water projects - MCWT	2.00%	<u>10,040,506</u>	<u>16,079,070</u>	<u>(516,589)</u>	<u>25,602,987</u>
Total water enterprise		<u>\$ 29,615,522</u>	<u>\$ 16,079,070</u>	<u>\$ (2,052,606)</u>	<u>\$ 43,641,986</u>

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
2015	2,015,281	906,918	2,922,199
2016	2,666,150	1,095,661	3,761,811
2017	2,697,408	1,009,035	3,706,443
2018	2,722,742	928,347	3,651,089
2019	2,749,612	846,555	3,596,167
2020	2,538,433	766,390	3,304,823
2021	2,543,615	693,333	3,236,948
2022	2,296,472	625,496	2,921,968
2023	2,264,109	562,764	2,826,873
2024	2,259,549	504,075	2,763,624
2025	2,289,595	445,081	2,734,676
2026	2,163,265	390,055	2,553,320
2027	1,918,134	341,072	2,259,206
2028	1,860,430	295,057	2,155,487
2029	1,903,305	251,161	2,154,466
2030	1,946,771	204,641	2,151,412
2031	1,985,839	157,636	2,143,475
2032	1,542,312	113,045	1,655,357
2033	1,162,575	72,507	1,235,082
2034	1,137,787	45,933	1,183,720
2035	<u>978,602</u>	<u>19,572</u>	<u>998,174</u>
Total	<u>\$ 43,641,986</u>	<u>\$ 10,274,334</u>	<u>\$ 53,916,320</u>

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

**Talbot Rink Nonmajor Enterprise**

<u>Project</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2014</u>
Departmental equipment - zamboni	2.00-4.00%	\$ 124,000	\$ -	\$ (19,000)	\$ 105,000
Roof replacement	2.00-4.00%	477,000	-	(25,570)	451,430
Talbot rink	2.00-5.00%	391,930	-	-	391,930
Total talbot rink enterprise		<u>\$ 992,930</u>	<u>\$ -</u>	<u>\$ (44,570)</u>	<u>\$ 948,360</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 948,360</u>	<u>\$ 321,778</u>	<u>\$ 1,270,138</u>

**Subsequent Event**

On February 5 2015, the City issued \$6,750,000 of general obligation bonds, of which \$3,255,000 were used to retire BAN's outstanding at June 30, 2014, which have been reclassified to long-term debt. The remaining \$3,495,000 of the issuance represents a refunding of \$3,645,000 of previously issued debt. The average interest rate of the refunded bonds totals approximately 4.0%, while the average interest rate of the refunding bonds totals approximately 3.5%.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

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 \$367,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$331,000.

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, 2014, the City had the following authorized and unissued debt:

Purpose	Amount
West Parish Elementary School	\$ 39,774,111
Sewer projects	5,216,812
Water projects	3,991,783
Other governmental projects	3,841,830
Roads, drains and sidewalks	3,075,000
Seawall construction	1,120,000
Talbot rink improvements/machinery	6,000
Total	\$ 57,025,536

**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 \$480,000 as the estimated landfill post-closure care liability at June 30, 2014. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**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, 2013, the latest actuarial valuation, is as follows:

Active employees	618
Retired employees and surviving spouses	924
Total	1,542

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**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:

	Amount
Annual required contribution	\$ 13,760,766
Interest on net OPEB obligation	1,549,076
Adjustment to annual required contribution	(1,448,993)
Annual OPEB cost	13,860,849
Contributions made	(6,297,464)
Increase in net OPEB obligation	7,563,385
Net OPEB obligation at beginning of year	44,259,304
Net OPEB obligation at end of year	\$ 51,822,689

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, 2012	\$ 14,164,467	34.0%	33,808,550
June 30, 2013	14,830,650	29.5%	44,259,304
June 30, 2014	13,860,849	45.4%	51,822,689

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Funded Status and Funding Progress** – The funded status of the Plan at June 30, 2013, 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)
06/30/13	\$ -	\$ 203,031,629	\$ 203,031,629	-	\$ 45,737,844	443.9%

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.

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

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

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Allocation of AOPEBC** – AOPEBC costs were allocated to the City’s functions as follows:

<b>Governmental Activities:</b>	
General government	\$ 843,053
Public safety	3,650,590
Education	7,279,747
Public works	1,028,152
Health and human services	269,922
Culture and recreation	191,046
Community development	<u>8,649</u>
Total AOPEBC - governmental activities	<u>13,271,159</u>
 <b>Business-Type Activities:</b>	
Sewer	247,545
Water	266,048
Waterways	44,401
Talbot Rink	<u>31,696</u>
Total AOPEBC - business-type activities	<u>589,690</u>
Total AOPEBC	<u><u>\$ 13,860,849</u></u>

**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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 12 RISK FINANCING (CONTINUED)**

The estimated liability at June 30, 2014 totaled \$462,985. Changes in the reported liability since July 1, 2012 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 2013	\$ 332,003	\$	648,708	\$	(236,292)	\$	744,419
Fiscal year 2014	744,419		19,526		(300,960)		462,985

**Unemployment Insurance**

The City is self-insured for its unemployment compensation. The City's liability for unemployment claims is immaterial at June 30, 2014 and, therefore, is not reported.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 13 FUND BALANCES**

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

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Restricted:</b>			
Debt service	\$ 348,773	\$ -	\$ 348,773
Other post employment benefits	210,456	-	210,456
Affordable housing	-	246,327	246,327
School lunch	-	118,027	118,027
Septic betterment fund	-	1,302,884	1,302,884
Comcast fund	-	175,584	175,584
Cemetery perpetual care	-	899,001	899,001
Capital - harbor improvements	-	171,102	171,102
Capital - Blackburn expansion	-	3,196	3,196
Capital - harborwalk grant	-	109,457	109,457
Capital - surface improvement	-	63,678	63,678
Kent circle	-	169,400	169,400
Federal asset forfeiture	-	291,356	291,356
Newell stadium donations	-	121,194	121,194
General government	-	990,597	990,597
Public safety	-	265,378	265,378
Education	-	2,854,443	2,854,443
Public works	-	1,436,257	1,436,257
Health and human services	-	285,636	285,636
Culture and recreation	-	65,009	65,009
Community development	-	5,593,102	5,593,102
Community preservation	-	1,312,772	1,312,772
Other	-	1,674,660	1,674,660
	<u>559,229</u>	<u>18,149,060</u>	<u>18,708,289</u>
<b>Sub-total - Restricted</b>			
<b>Committed:</b>			
Subsequent year's expenditures	1,450,000	-	1,450,000
Other	541,952	-	541,952
	<u>1,991,952</u>	<u>-</u>	<u>1,991,952</u>
<b>Sub-total - Committed</b>			
<b>Assigned:</b>			
General government	312,535	-	312,535
Education	364,640	-	364,640
Public works	602,682	-	602,682
Other	108,480	-	108,480
	<u>1,388,337</u>	<u>-</u>	<u>1,388,337</u>
<b>Sub-total - Assigned</b>			
<b>Unassigned</b>	<u>6,160,494</u>	<u>(3,959,206)</u>	<u>2,201,288</u>
<b>Total fund balances</b>	<u>\$ 10,100,012</u>	<u>\$ 14,189,854</u>	<u>\$ 24,289,866</u>

**CITY OF GLOUCESTER, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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, 2014 total \$1,939,761, \$533,660, \$292 and \$8,000, 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, 2013, the System's membership consists of the following:

Active members	505
Inactive members	68
Retirees and beneficiaries currently receiving benef	<u>443</u>
Total	<u><u>1,016</u></u>

**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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 15 PENSION PLAN (CONTINUED)**

**Annual Pension Cost** – The City’s contributions to the System for the fiscal years ended June 30, 2014, 2013, and 2012 were \$6,652,009, \$6,361,903, and \$6,139,153, 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, 2014, the City did not have a net pension obligation.

**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

**Actuarial assumptions:**

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

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 15 PENSION PLAN (CONTINUED)**

**Legally Required Reserve Accounts** – The balance in the System’s legally required reserves as of December 31, 2013 are as follows:

Description	Amount	Purpose
Annuity Savings Fund	\$ 24,958,933	Active members' contribution balance
Annuity Reserve Fund	8,891,383	Retired members' contribution account
Military Service Fund	14,869	Military leave of absence contribution balance
Pension Reserve Fund	47,270,388	Amounts appropriated to fund future retiremer
Pension Fund	<u>1,334,212</u>	Remaining net position
Total	<u>\$ 82,469,785</u>	

**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 2014 totaled approximately \$12,000.

**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 \$8,678,285 for the fiscal year ended June 30, 2014, 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 \$57,000,000 for various governmental, water, sewer and talbot rink projects.

Other significant commitments include encumbrances and continuing appropriations outstanding for the general fund, which total \$1,388,337 at June 30, 2014.

**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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the City at June 30, 2014.

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, 2014, 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.

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 19 PRIOR PERIOD RESTATEMENT**

The beginning net position of the governmental activities has been adjusted to reflect the correction of an error related to loans receivable. As a result, the governmental activities' beginning net position of \$26,758,638 has been restated to \$31,242,270.

The beginning fund balance of the nonmajor governmental funds has been adjusted to reflect the correction of an error related to loans receivable. As a result, the nonmajor governmental funds beginning fund balance of \$8,861,685 has been restated to \$14,295,443.

**NOTE 20 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

➤ 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. 71, *Accounting Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will require the City, in the transition year of Statement No. 68, to recognize contributions to defined benefit pension plans between the measurement date of the reported net position liability and the end of the government's reporting period as a deferred outflow of resources.

These pronouncements will be implemented by their respective implementation dates.

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

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**CITY OF GLOUCESTER, MASSACHUSETTS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2014**

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real Estate and Personal Property Taxes	\$ -	\$ 67,110,068	\$ -	\$ 67,110,068
Motor Vehicle and Other Excise Taxes	-	3,325,000	-	3,325,000
Hotel/Motel Tax	-	475,000	-	475,000
Tax Liens	-	-	-	-
Payments in Lieu of Taxes	-	70,000	-	70,000
Charges for Services	-	1,786,500	-	1,786,500
Intergovernmental	-	11,990,820	-	11,990,820
Special Assessments	-	4,000	-	4,000
Penalties and Interest on Taxes	-	472,600	-	472,600
Licenses and Permits	-	1,290,100	-	1,290,100
Fines and Forfeitures	-	598,000	-	598,000
Departmental	-	2,431,458	-	2,431,458
Investment Income	-	68,000	-	68,000
Total Revenues	-	89,621,546	-	89,621,546
<b>EXPENDITURES</b>				
Current:				
General Government	198,051	4,202,251	301,911	4,702,213
Public Safety	57,785	12,450,100	795,462	13,303,347
Education	801,821	38,170,820	100,948	39,073,589
Public Works	842,306	9,408,490	1,688,046	11,938,842
Health and Human Services	8,512	946,543	102,534	1,057,589
Culture and Recreation	-	837,786	-	837,786
Pension Benefits	-	6,100,157	(10,000)	6,090,157
Employee Benefits	-	7,130,376	-	7,130,376
Property and Liability Insurance	-	578,028	-	578,028
State and County Charges	-	2,863,860	181,322	3,045,182
Debt Service:				
Principal	-	6,741,449	(3,200)	6,738,249
Interest	-	1,505,024	(1,303)	1,503,721
Total Expenditures	1,908,475	90,934,884	3,155,720	95,999,079
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	(1,908,475)	(1,313,338)	(3,155,720)	(6,377,533)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	2,809,393	918,606	3,727,999
Premium from Issuance of Bonds and Notes	-	-	-	-
Sale of Capital Assets	-	-	-	-
Transfers out	-	(1,846,054)	(523,602)	(2,369,656)
Total Other Financing Sources (Uses)	-	963,339	395,004	1,358,343
<b>NET CHANGE IN FUND BALANCE</b>				
	(1,908,475)	(349,999)	(2,760,716)	(5,019,190)
Fund Balance - Beginning of Year	7,394,264	7,394,264	7,394,264	7,394,264
<b>FUND BALANCE - END OF YEAR</b>	\$ 5,485,789	\$ 7,044,265	\$ 4,633,548	\$ 2,375,074

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 67,140,463	\$ -	\$ 67,140,463	\$ 30,395
3,892,384	-	3,892,384	567,384
473,882	-	473,882	(1,118)
781,652	-	781,652	781,652
41,905	-	41,905	(28,095)
2,133,209	-	2,133,209	346,709
12,227,617	-	12,227,617	236,797
4,141	-	4,141	141
572,797	-	572,797	100,197
1,486,456	-	1,486,456	196,356
635,315	-	635,315	37,315
3,266,822	-	3,266,822	835,364
86,639	-	86,639	18,639
<u>92,743,282</u>	<u>-</u>	<u>92,743,282</u>	<u>3,121,736</u>

4,323,391	312,536	4,635,927	66,286
13,279,010	65,949	13,344,959	(41,612)
38,700,846	364,741	39,065,587	8,002
10,907,817	602,682	11,510,499	428,343
988,858	42,429	1,031,287	26,302
823,058	-	823,058	14,728
6,086,798	-	6,086,798	3,359
7,052,331	-	7,052,331	78,045
574,623	-	574,623	3,405
3,073,226	-	3,073,226	(28,044)
6,738,235	-	6,738,235	14
1,503,706	-	1,503,706	15
<u>94,051,899</u>	<u>1,388,337</u>	<u>95,440,236</u>	<u>558,843</u>

<u>(1,308,617)</u>	<u>(1,388,337)</u>	<u>(2,696,954)</u>	<u>3,680,579</u>
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3,349,887	-	3,349,887	(378,112)
526,168	-	526,168	526,168
3,000	-	3,000	3,000
(2,369,656)	-	(2,369,656)	-
<u>1,509,399</u>	<u>-</u>	<u>1,509,399</u>	<u>151,056</u>

200,782	(1,388,337)	(1,187,555)	3,831,635
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<u>7,394,264</u>	<u>-</u>	<u>7,394,264</u>	<u>-</u>
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<u>\$ 7,595,046</u>	<u>\$ (1,388,337)</u>	<u>\$ 6,206,709</u>	<u>\$ 3,831,635</u>
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**CITY OF GLOUCESTER, MASSACHUSETTS  
PENSION PLAN SCHEDULES  
YEAR ENDED JUNE 30, 2014**

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 (%)
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
2013	7,098,838	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 (%)
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%
2014	6,652,009	100	93.7%

**CITY OF GLOUCESTER, MASSACHUSETTS  
OTHER POSTEMPLOYMENT BENEFITS SCHEDULE  
YEAR ENDED JUNE 30, 2014**

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)
06/30/13	\$ -	\$ 203,031,629	\$ 203,031,629	-	\$ 45,737,844	444%
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%

**CITY OF GLOUCESTER, MASSACHUSETTS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2014**

**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 results for the general fund for the fiscal year ended June 30, 2014, 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	\$ 92,743,282	\$ 95,440,236	\$ 1,509,399	\$ 6,206,709
<u>Adjustments and Reclassifications</u>				
To record 60-day receipts	(11,795)	-	-	309,774
To record tax refunds payable	25,671	-	-	(136,400)
Net change in recording departmental receivable	(1,180)	-	-	102,410
To record MTRS on-behalf payments	8,678,285	8,678,285	-	-
To record MWPAT interest subsidy	209,686	209,686	-	-
To record workers' compensation claims	-	(281,434)	-	(462,985)
To record encumbrances and continuing appropriations	-	(1,388,337)	-	1,388,337
To reclassify sewer betterment principal	-	(1,365,088)	(1,365,088)	-
To reclassify sewer betterment interest	-	(290,482)	(290,482)	-
Stabilization fund to the general fund for GAAP purposes	6,365	-	(824,640)	1,939,761
Capital stabilization funds to the general fund for GAAP purposes	3,292	242,405	270,850	541,950
OPEB fund to the general fund for GAAP purposes	11,317	-	100,000	210,456
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 101,664,923</u>	<u>\$ 101,245,271</u>	<u>\$ (599,961)</u>	<u>\$ 10,100,012</u>

**CITY OF GLOUCESTER, MASSACHUSETTS  
NONMAJOR ENTERPRISE FUNDS  
COMBINING STATEMENT OF FUND NET POSITION  
JUNE 30, 2014**

	<u>Waterways</u>	<u>Talbot Rink</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 245,261	\$ 167,242	\$ 412,503
Restricted Cash and Cash Equivalents	246,661	72,374	319,035
Receivables, Net of Allowance for Uncollectible Amounts:			
Excise Taxes	25,304	-	25,304
Departmental and Other	35,952	-	35,952
Total Current Assets	<u>553,178</u>	<u>239,616</u>	<u>792,794</u>
Noncurrent Assets:			
Capital Assets Not Being Depreciated	582,874	-	582,874
Capital Assets, Net of Accumulated Depreciation	1,506,631	1,016,527	2,523,158
Total Noncurrent Assets	<u>2,089,505</u>	<u>1,016,527</u>	<u>3,106,032</u>
Total Assets	<u>2,642,683</u>	<u>1,256,143</u>	<u>3,898,826</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	3,537	111	3,648
Accrued Payroll	442	766	1,208
Other Liabilities	120,473	-	120,473
Compensated Absences	3,364	104	3,468
Long-Term Bonds and Notes Payable	-	50,689	50,689
Total Current Liabilities	<u>127,816</u>	<u>51,670</u>	<u>179,486</u>
Noncurrent Liabilities:			
Compensated Absences	30,276	934	31,210
Net OPEB Obligation	174,545	65,184	239,729
Long-Term Bonds and Notes Payable	-	897,671	897,671
Total Noncurrent Liabilities	<u>204,821</u>	<u>963,789</u>	<u>1,168,610</u>
Total Liabilities	<u>332,637</u>	<u>1,015,459</u>	<u>1,348,096</u>
<b>FUND NET POSITION</b>			
Net Investment in Capital Assets	2,089,505	144,593	2,234,098
Unrestricted	220,541	96,091	316,632
Total Net Position	<u>\$ 2,310,046</u>	<u>\$ 240,684</u>	<u>\$ 2,550,730</u>

**CITY OF GLOUCESTER, MASSACHUSETTS  
NONMAJOR ENTERPRISE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
YEAR ENDED JUNE 30, 2014**

	<u>Waterways</u>	<u>Talbot Rink</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 261,805	\$ 314,187	\$ 575,992
Boat Excise Taxes	76,722	-	76,722
Other	8,238	-	8,238
Total Operating Revenues	<u>346,765</u>	<u>314,187</u>	<u>660,952</u>
<b>OPERATING EXPENSES</b>			
Cost of Service and Administration	317,592	259,267	576,859
Repairs and Maintenance	17,656	-	17,656
Capital Outlay	-	-	-
Depreciation	123,237	85,190	208,427
Total Operating Expenses	<u>458,485</u>	<u>344,457</u>	<u>802,942</u>
<b>OPERATING (LOSS)</b>	<u>(111,720)</u>	<u>(30,270)</u>	<u>(141,990)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Premium from Issuance of Bonds and Notes	-	27,055	27,055
Interest Expense	-	(9,492)	(9,492)
Total Nonoperating Revenues (Expenses), Net	<u>-</u>	<u>17,563</u>	<u>17,563</u>
<b>(LOSS) BEFORE TRANSFERS</b>	(111,720)	(12,707)	(124,427)
<b>TRANSFERS</b>			
Transfers in	<u>250</u>	<u>25,570</u>	<u>25,820</u>
<b>CHANGE IN FUND NET POSITION</b>	(111,470)	12,863	(98,607)
Fund Net Position - Beginning of Year	<u>2,421,516</u>	<u>227,821</u>	<u>2,649,337</u>
<b>FUND NET POSITION - END OF YEAR</b>	<u>\$ 2,310,046</u>	<u>\$ 240,684</u>	<u>\$ 2,550,730</u>