

CITY OF GLOUCESTER

*City of
Gloucester,
Massachusetts*

*Comprehensive
Annual Financial
Report*

*For the Fiscal
Year Ended
June 30, 2017*



Cover: Listed in the National Registrar of Historic Places, the Gloucester City Hall was built in 1870 to replace the prior City Hall that was burned down in a fire in 1869. Dedicated in 1871 it is a two-story Second Empire brick building. Each of the rectangular building's four corners is topped by its own pyramidal roof structure, above which is a small rectangular cupola with its own roof. Centered on the front elevation is a clock tower that is brick in its lower levels, and decorated wood above, ending in a copper dome.

The City Hall Restoration Commission which was established in 2004 recently completed a major renovation of the building in 2014. All restoration work was completed in accordance with the Secretary of the Interior's Standard for Historic Structures.



Above: Resting on a granite base in the center of Gloucester's long, narrow Stacy Esplanade is the Gloucester Fisherman's Memorial. It is an eight-foot tall, bronze statue of a fisherman dressed in oilskins standing braced at the wheel on the sloping deck of his ship. Erected in 1924 it is dedicated to the hundreds of fishermen who have lost their lives at sea over the centuries old history of the City.

**CITY OF GLOUCESTER,
MASSACHUSETTS**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017

Sefatia Romeo Theken, Mayor



Prepared by the City Finance and Auditing Department

Kenny Costa, City Auditor
John Dunn, Chief Financial Officer



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Introductory Section

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 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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Letter of Transmittal

January 25, 2018

Honorable City Council and Residents of the City of Gloucester, Massachusetts:

We are pleased to acknowledge that the City of Gloucester has completed its inaugural installment of the *Comprehensive Annual Financial Report* (CAFR). The report, which was prepared by the City's Department of Finance and Audit, is for the fiscal year ended June 30, 2017; and we are proud to be one of only about 40 communities in Massachusetts to accomplish this. We are confident this transmission will be the beginning of what will be an important annual endeavor.

The City is responsible for the accuracy, completeness and fairness of the data presented in the CAFR. This letter of transmittal and the **management's discussion and analysis**, located in the financial section, provides a comprehensive financial overview of the City and ensures that the financial and general operations of City government remain transparent and accessible.

The CAFR represents a complete set of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This CAFR meets and exceeds those requirements and presents itself as an informative resource for all those interested in the financial activities of the City.

The report is designed to be used by the City's elected and appointed officials and others who are concerned with its management and progress, such as bond analysts, banking institutions and rating agencies as well as the citizens and taxpayers of the City of Gloucester.

Since the report consists of management's representations concerning the finances of the City, management assumes full responsibility for the completeness and reliability of all of the information presented. In addition, management is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Gloucester's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

The City's Basic Financial Statements present information about the City (the primary government) and its component units as required by the Government Accounting Standards Board (GASB). Component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The inclusion of component units in the City's basic financial statements does not affect their separate legal standing.

The City's component units consist of the legally separate City of Gloucester Contributory Retirement System (the System) and the Gloucester Lyceum and Sawyer Free Library. Additional information on these legally separate entities can be found in the notes to the basic financial statements.

The City of Gloucester's financial statements have been audited by Roselli, Clark and Associates, a firm of licensed certified public accountants. The goal of the independent audit is to annually, provide reasonable assurance that the City's financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Gloucester's financial statements for the fiscal year ended June 30, 2017 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements; with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Gloucester's separately issued Single Audit Reports pursuant to Title 2 US "Code of Federal Regulations" (CFR) Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards".

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement that analysis and should be read in conjunction with it. The City of Gloucester's MD&A can be found immediately following the report of the independent auditors.

Mayor's Message

Success in city government begins with the budget; effective city growth needs financial stability. As the stewards of City tax dollars, my administration is committed to making city government work responsibly for you. We are now well into our third balanced budget and city departments are living within the appropriations that have been approved by the City Council during a collaborative budget review process.

We have built up stronger reserves in our stabilization funds, our capital improvement fund and our maintenance fund. Together with proper capital planning, we will rely on less borrowing to fund our capital projects. In doing so, we can continue to establish a solid foundation for moving the City forward while ensuring growth and stability for years to come.

We continue to work on increasing economic growth within the City. Our Community Development department is actively engaged in planning and organizing our community's priorities around the harbor, the industrial parks and the business district. The Gloucester Fresh program, the addition of three more electric cars to the City fleet and the Gloucester Community Electric Aggregation program are just a few examples of the good work they are doing.

Our housing production plan has been completed and we will begin implementation in the coming year. We continue to work to find efficiencies within our workforce and to consolidate our facilities. To that end, we are working on creating a civic district centrally located in the city to better serve our residents.

Climate change is real, and we are already seeing its impacts here in the northeast. Our challenge moving forward is to determine how to use the existing science, such as fishing, community and habitat

vulnerability assessments, to help Gloucester adapt to our changing environment. Our goal is to figure out how we can best provide resources to support local efforts that encourage innovation and economic diversification on our coastline.

With our partners on the City Council and the School Committee, we have invested in our schools by opening the new West Parish School, upgrading the heating system at our middle school and putting a new roof on the high school. We are also working with the MSBA to replace East Gloucester and Veterans Memorial with a combined elementary school and funding has been approved by the City Council to conduct a feasibility study.

Through transparency and open and honest dialogue, we have made significant progress but there is much left to be done. I am grateful to all city staff and volunteers for their hard work on behalf of Gloucester.

Profile of the City

Gloucester is located at the northeast terminus of State Route 128, the circumferential highway around Boston. Located only 31 miles northeast of Boston, it is bordered by the Towns of Manchester-by-the-Sea and Essex on the west, the Atlantic Ocean on the north and south and the Town of Rockport on the northeast.

Terminal rail, harbor, and airport facilities are easily accessible; and connections may be made for passenger or freight service to all parts of the world. Gloucester Harbor has a controlling depth of 15.2 feet in the inner harbor and eighteen to twenty-five feet in the outer harbor.

The Cape Ann Transportation Authority (CATA) provides bus service throughout the City. Large numbers of independent as well as scheduled trucking companies are attracted to and served by the City's refrigerated seafood and industrial freight volume.

The City has a population of approximately 28,789 (2010 federal census) and occupies a land area of 26.2 square miles. Originally settled in 1623, Gloucester was chartered as a town in 1642 and incorporated as a



city in 1873. The City operates under a form of government adopted by a home rule charter with an elected mayor and nine-member city council.

Its proximity to populated areas makes it a destination for more than a quarter of a million people a year. Five public beaches, and many parks and playgrounds draw the crowds beginning Memorial Day through Labor Day. It is a whale watching capital, with four

whale watch companies bringing thousands of visitors each year to see whales on Stellwagen Bank.

Gloucester also has more than 95 restaurant and food establishments and over 38 businesses in the accommodations field. It is a haven to recreational boaters who enjoy the view, the food and the music

offered by many of the seaside restaurants. It has a vibrant downtown filled with many retail shops offering goods to visitors and citizens alike.

The City offers a full range of traditional municipal services including: (1) police and fire protection, (2) education, (3) maintenance of streets and sidewalks, (4) solid waste collection, (5) health and human services, and (6) cultural and recreational services.

The City owns and operates its own water supply and distribution system servicing approximately 95% of its residential, industrial and commercial users. The system includes two filtration plants (both of which have been in operation since the early 1970's), each with a distribution design capacity of approximately five million gallons per day (MGD) of water, and a one MGD auxiliary pump station used primarily during summer months. Average daily usage is approximately four million gallons. The City's water sources are supplied from seven reservoirs located within the City with a total storage capacity of approximately two billion gallons of water.

The City has operated a chemically enhanced primary treatment sewer plant with a design capacity of 7.2 MGD since 1984. The average daily flow from Gloucester is approximately 5 MGD, allowing the City to sell the excess capacity and enter into inter-municipal agreements with neighboring communities to solve regional pollution and wastewater management problems.

There are currently eight public administered schools in Gloucester:

1. Gloucester High School
2. O'Maley Innovation Middle School
3. Beeman Memorial Elementary School
4. East Gloucester Elementary School
5. Plum Cove Elementary School
6. Veterans' Memorial Elementary School
7. West Parish Elementary School
8. Gloucester Pre-School

Gloucester prides itself on providing a quality education. Its mission is for “*all students to be successful, engaged, life-long learners*”.

In 2003 the City completed a major renovation to the Gloucester High School of about \$30 million and more recently completed a new West Parish Elementary School for about \$42 million. A proposed future project for the combination of East Gloucester Elementary and Veteran’s Memorial Elementary is currently being planned. In addition, many renovations and smaller school projects have been undertaken recently such as the Middle School heating and High School roof. School construction costs were made possible through a partnership with the Commonwealth of Massachusetts who reimbursed the City a substantial portion of eligible construction costs through the Massachusetts School Building Authority. This relationship is expected to continue as the City continues to replace outdated infrastructure.

School enrollment for fiscal year 2017 was nearly 3,000 and funding for schools is provided via taxation and governmental revenues based on a minimum net school spending formula established by the Massachusetts Department of Elementary and Secondary Education (ESE). The City currently spends above the minimum legal requirement on each student.

Form of Government

The City operates under a strong Mayor/City Council form of government. Both the Mayor and the nine-member City Council are elected to two-year terms. January, 2018 marks the beginning of new two-year terms. The City Council makes policy decisions, and the Mayor is responsible for carrying out those policies and for managing the day-to-day operations of the City.

An annual operating budget is submitted by the Mayor and approved by the City Council. The annual budget serves as the foundation for the City’s financial planning and control. The budget is prepared by fund, function (e.g. general government), department (e.g. finance) and category (e.g. personnel and non-personnel) allowing the department heads to allocate resources within the department for non-personnel costs and personnel costs. Transfers between departments, or between personnel and non-personnel need approval from the City Council unless specifically exempted by state statute.

An elected, seven-member School Committee appoints a School Superintendent who administers the public-school system of the City while enforcing policies and procedures adopted by the School Committee. The Mayor is an ex-officio School Committee member while the other School Committee members are elected biennially. In Massachusetts, cities and towns are required to follow the provisions of the Education Reform Act, which specifies, amongst other things, that communities provide a minimum net school spending amount in its annual education budget. A significant portion of this is subsidized by the Commonwealth of Massachusetts through a formula grant called Chapter 70.

Factors Affecting Economic Conditions

Property Taxes

The growth of the City’s main source of revenue, property taxes, is capped by Proposition 2 ½ and can only be overridden by the voters. While revenue increases have been limited in recent years, fixed costs, including health insurance and pension costs, have increased substantially. The City has responded well to these challenges.

Approximately 1,100 businesses employing almost 11,500 individuals are located in the City. The business base is quite diverse. Many manufacturers, service-oriented companies, financial institutions and hospitality businesses have made Gloucester their home. While this has resulted in a beneficial commercial, industrial and residential tax base the City still

	Calendar Year	# of Permits	Residential Value	Non-Residential Value	Total Value
relies just under 90% on residential taxes. Therefore, new growth is essential to revenue growth and the ability to sustain the City’s rising annual costs due to cost of living and inflation increases.	2016	2,091	\$ 67,874,420	\$ 24,219,634	\$ 92,094,054
	2015	1,451	47,023,054	15,837,685	62,860,739
	2014	1,125	36,789,217	63,952,414	100,741,631
	2013	1,124	35,498,257	15,953,180	51,451,437
	2012	1,028	31,372,905	29,697,915	61,070,820
	Total	6,819	\$ 218,557,853	\$ 149,660,828	\$ 368,218,681

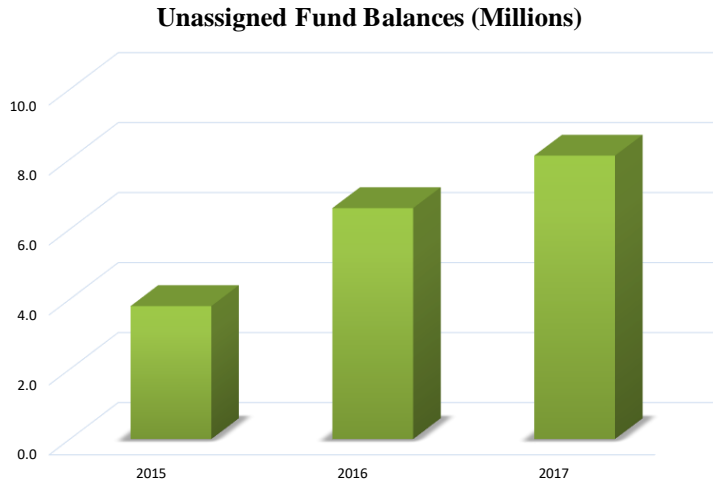
The table to the right summarizes the City’s building activity growth in assessed values and tax dollars over the prior several calendar years.

full year calendar year 2017 data is not available yet.

Unassigned Fund Balances

One of the methods the City uses to maintain reserves from year to year is to conservatively forecast revenues. This allows the City to use free cash (surplus) for reserves, capital projects or other non-operating one-time expenses. In addition, spending controls such as monthly budget monitoring has resulted in turn-backs which also assisted the City in this process. As result, the City have been able to responsibly maintain and/or increase reserves from year to year.

The City’s unassigned fund balance trend over the current and prior two years is illustrated below:



Long-term Financial Planning

Recently, the City implemented a policy of preparing rolling five-year projections. The City believes this will provide better insight when preparing annual budgets and will also alert the City to any potential budgeting issues far ahead of when these situations become real issues.

The following represents the City’s five-year revenue projection:

	2018	2019	2020	2021	2022
Real Estate and Personal Property Taxes	\$ 81,310,484	\$ 84,110,484	\$ 86,910,484	\$ 89,710,484	\$ 92,510,484
Intergovernmental Revenue - Local Aid	10,910,270	11,130,242	11,352,846	11,579,902	11,811,500
Local Receipts	12,869,600	13,127,000	13,389,540	13,657,331	13,930,478
Recurring transfers form other sources	2,252,225	2,200,000	2,150,000	2,100,000	2,050,000
Indirect charges	393,966	401,845	409,882	418,080	426,442
Total Revenues	\$ 107,736,545	\$ 110,969,571	\$ 114,212,752	\$ 117,465,797	\$ 120,728,904

The City will continue to implement budget reforms and work with collective bargaining units to maximize expenditure efficiencies; consequently, the City expects that annual budget sources as forecasted will be sufficient to fund annual appropriations.

The City is also undergoing numerous economic and development initiatives that if successful, will substantially increase the overall tax base, both commercial and residential.

Economic Development

The City is a Community Development Block Grant (CDBG) Entitlement Community and receives an annual grant from the Federal Government to implement community improvement and economic development projects. In fiscal 2017 the City received and spent over \$600,000 in CDBG funds. Using smart growth principles, the City hopes to create walkable, commercial districts with transit services and opportunities for people to live, work and play in a vibrant setting.

The City's economic base has diversified extensively in recent years, supplementing its traditional seafood industry with active and expanding high-tech and light industrial, service, commercial and tourism sectors. Gloucester's name has been associated with the catching, curing, packaging and distribution of fish since its settlement in 1623.

It is the site of the Northeast Headquarters of the National Marine Fisheries Services which has recently relocated and expanded within the Blackburn Industrial Park with the construction of a new 100,000 square foot facility. Gloucester remains one of the top-ranked fishing ports on the East Coast in weight of annual harvest, yet this volume of fresh seafood represents only a minor portion of the City's food-processing industry. Seventy percent of the raw material in the form of frozen blocks of fish is supplied mainly by over-the-road trucking from around the country and Canada.

Gorton's of Gloucester and National Fish and Seafood are major processors of this frozen seafood. The frozen fish industry makes Gloucester a major national refrigerated trucking terminal for the distribution of finished products directly to all parts of the United States. Approximately 9,000 truckloads of frozen seafood and 3,100 truckloads of other commodities are distributed from the City annually.

Long-range efforts continue being made to utilize the ocean export shipping capacity in Gloucester Harbor. Customs and technical transportation issues however must be solved in order to attain increased ocean shipping and trade.

On December 11, 2009, the State issued a decision that approved the City's 2009 Harbor Plan. The plan lays out a template for future development in the port, including an increase from 25% to 50% allowable supporting commercial uses in the industrial Designated Port Area. Following up on identified growth areas, the City commissioned a detailed economic development plan funded with a \$150,000 grant from The Seaport Advisory Council. The 2010 Economic Development Plan identified three priorities of the port economy: fishing, tourism and the maritime industry.

A 2014 Amendment proposes the following strategies: 1) support commercial fishing both directly, and by seeking to attract and expand the kind of businesses and industries that might build upon the existing marine assets and knowledge base of the community, 2) provide greater flexibility for supporting commercial uses on the waterfront property so that those properties have more mixed-use investment options, 3) promote public access along the waterfront in ways that do not interfere with industrial uses so as to create a more appealing environment for investment and to ensure the active use of the water's edge around the harbor, 4) promote change that will benefit the downtown and other areas of the City, 5) provide infrastructure and navigation improvements, and 6) enhance and focus the administrative resources of the City to support and strengthen the viability of the port.

Given changes in the fishing industry, the City is working to ensure future fishing while diversifying use of its hub port assets. This work is guided by the Groundfish Port Recovery and Revitalization Plan supported by The Commonwealth of Massachusetts. Consistent with the Economic Development Plan, the City received a \$1.2 million grant for a downtown HarborWalk. Since opening in August 2012, the HarborWalk has received numerous local and national awards. It is an important new place of

infrastructure for the visitor-based economy and led to the City's first national public art competition in 2013. The HarborWalk was also a key element in The Commonwealth of Massachusetts' decision to name downtown Gloucester a "cultural district" – the second in Gloucester. With this designation, Gloucester has favorable standing in certain state grant applications and an enhanced partnership with the Massachusetts Office of Travel and Tourism.

The cultural district has also engaged key downtown partners in new long-term collaborations that have increased Gloucester's visibility such as a mobile app for visitors. In addition to the HarborWalk and cultural district designation, the City is augmenting its investment in the visitor-based economy with a revitalized Tourism Commission, new staff, and increased budget. While always pursuing additional "heads in beds," the City is working to increase the number of driveshed visitors and regular customers from the greater market area.

The City is currently working with businesses and research and academic institutions to examine the feasibility of an ocean innovation center for a key municipally-owned 1.8 acre site situated along the HarborWalk. The \$1.5 million purchase price was supported by an \$800,000 grant from The Seaport Advisory Council and a City bond issue.

Over the past five years, downtown has seen more than \$90 million in private sector investment. This figure includes the Gloucester Crossing retail project, commercial office projects, industrial investment, and residential development.

In 2013, Ocean Alliance, a global leader in whale research and conservation, moved its headquarters to Gloucester. In doing so, the organization rehabilitated a historic waterfront building that had been vacant. Another key waterfront property was sold in 2011 for triple the previous price paid two years earlier.

To facilitate new investment, the City Council approved a zoning change and subsequently approved the special permits needed for the new owner to build a five-star, \$20 million hotel on the site. The project brought construction jobs as well as a variety of new permanent jobs. The year-round business class hotel fills a void in the market and has been cited as a critical need by area life science and high tech entrepreneurs.

The City initiated and recently completed a \$7.0 million project to upgrade water, sewer and street improvements to benefit the new hotel and the existing commercial and residential properties located in the area. The infrastructure project was funded with state grants (\$3.0 million), City funds (\$2.6 million) and donations (\$1.4 million) from the hotel developer. The approximate 100-unit hotel opened in June 2016 to very positive reviews.

In 2013, the City Council also approved a zoning change to allow the creation of an Innovation House, a space for high tech startups to work and collaborate. Established by a relatively new Gloucester resident who created the leading web browser in Scandinavia, the Gloucester Innovation House joins similar facilities he has established in Iceland and Norway which have a total of more than 50 businesses. One Gloucester start-up is already using the Innovation House. Other local firms are expected to join as well as entrepreneurs from the Icelandic and Norwegian Innovation Houses.

In April of 2008 construction began on the 33-acre private retail plaza mixed-use project known as Gloucester Crossing, which includes approximately 195,000 square feet of open air retail space. The City, in partnership with the developer, received a \$2,500,000 state grant to assist in funding the needed public improvements associated with the project that was primarily used for the upgrading and construction of two new public roads, which are now completed.

The first phase of the retail development opened as scheduled in the fall of 2009 with Market Basket and Marshall's as the anchors. Since then most of the smaller store spaces have been leased out to tenants such as Olympia Sports, Petco, Ace Hardware and Dollar Tree.

It is estimated that the site currently provides 350 full and part-time jobs. In the recent past the MBTA made major improvements to the commuter rail station in the center of the City, including a new 100 space commuter parking lot. Significant private investments followed, flanking either side of the depot. On one side a new mixed-use building with four retail stores on the first floor and seven housing units above, on the other a retail-consumer service complex including a fitness center.

The City continues to evaluate ways to stimulate continued investment in this area with a focus on capitalizing on this transit asset. The station is also less than one-half mile from Main Street, which has also seen recent reinvestment in mixed retail housing projects. The development of housing beyond the downtown core has also been steady.

A major housing project, known as Pond View Village, which included 118 condominium units has been completed. Two condominium projects in West Gloucester continue to introduce units to the market; one with 34 units near completion, another in the early stages designed with 42 units. Additional projects are in pre-application stage, which could introduce another 100+ units over the next few years.

The City has two modern industrial parks: the seventy-acre Blackburn Industrial Park (BIP) and the forty-acre Cape Ann Industrial Park. Responsibility for the parks' operations and development rests with the City's Economic Development and Industrial Corporation (EDIC).

Among the companies located in the BIP are Applied Materials/Varian Semiconductor (manufacturer of high-tech machinery), United States Government (NOAA-Commerce Dept.), Battenfield Gloucester Engineering (manufacturer of machinery for the plastic industry), McNiff Realty, and a medical center. There is currently only one remaining undeveloped lot in the park.

Perhaps the most significant development in the past few years has been construction of two wind turbine projects. One implemented by Applied Materials, a 2.5 megawatt turbine, will help offset their heavy electric usage. The second by Equity Industrial Turbines consists of two 2.0 megawatt turbines. This project is a public-private partnership project which will help defray municipal electric costs. Total investment in these projects has been estimated at approximately \$20 million.

Among the tenants located at the Cape Ann Industrial Park are C.B. Fisk Co. (designer and builder of pipe organs), Wilber Tracy (machine shop), Comdel, Allied Cold Storage, Massachusetts Coastal Seafoods, and Neptune's Harvest. All of the buildable land in the park has been developed and occupied.

The Gloucester EDIC is presently exploring the feasibility of expanding the Cape Ann Industrial Park. The City has two other privately developed and operated industrial parks, the Morse Industrial Park and the Kettle Cove Industrial Park.

The City's location at the anchor end of Route 128, known as the electronics highway, has in recent years contributed to a substantial increase in the non-fishing share of its industrial base. The access to downtown and the waterfront has been improved by a \$1 million state funded project to reconfigure the critical intersections at Route 128 and Eastern and Bass Avenues.

In September of 1993 central Gloucester was designated as a Concentrated Development Center by the Metropolitan Area Planning Council (MAPC). In 1994 Gloucester was designated an Economic Target

Area by The Commonwealth of Massachusetts. The designation facilitates the City in obtaining State and Federal funds to undertake infrastructure improvements in central Gloucester.

The City invested \$1.6 million of State and Federal grant funding to improve the appearance and function of Main Street, successfully showing a 2:1 private to public investment leveraged by the public funding. The City has made many of its downtown intersections accessible to the physically handicapped. Downtown is a vibrant and active place with a wide range of shops, restaurants, cultural attractions, and annual festivals. Commercial and residential vacancies are less than 10 percent. An apartment building that was destroyed by a fire in 2007 was rebuilt in 2011 with 24 units now available for rent downtown. The Temple Ahavat, which was destroyed by the same fire in 2007, was also rebuilt in 2011. The total investment for these buildings was over \$6,500,000.

In 2017, the City launched the Gloucester Fresh brand including a logo, video promotion and a dedicated website. The Gloucester Fresh marketing effort to promote the local fishing industry and encourage businesses to buy and serve Gloucester fish has proven incredibly successful. The efforts include a digital billboard campaign drawing 83,000 eyes a day in South Station and for the digital billboards approximately 273,000 weekly impressions per board per week. The program continues to grow and expand with regional partners signing on across New England.

Capital Improvements

The City maintains a comprehensive long-term capital improvement plan. This is an important component of the City's philosophy to revitalize worn and outdated infrastructure, buildings, machinery, vehicles and equipment. In that regard, the City has completed numerous capital projects over the past 10 to 15 years.

In addition to the improvements to School infrastructure, as previously discussed, the City continues to invest in accordance with its capital improvement plan in many other areas such as:

- Streets and sidewalks; funded through the Massachusetts Highway Department Chapter 90 program.
- Beautification of parks and recreational facilities funded through grants, donations and bond issuances.
- Significant infrastructure upgrades to the Water and Sewer distribution system.
- Upgrades to seawalls.
- Upgrades to City Hall.
- Numerous equipment and vehicle purchases.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting. This is a very prestigious award and in order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report will meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for this certificate.

The publication of this CAFR represents an important achievement in the ability of the City of Gloucester to provide enhanced financial information and accountability to its citizens, elected and appointed officials, and investors. The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Office. Special thanks also go to the certified public accounting firm of Roselli, Clark and Associates for their advice and assistance in the preparation of this report.

Respectfully submitted,



Sefatia Romeo Theken
Mayor



Kenny Costa
City Auditor

PRINCIPAL CITY OFFICIALS

Elected Officials

Mayor



Sefatia Romeo Theken

CITY COUNCIL



Left to Right: Paul Lundberg, Council President, Councilor at Large, R. Scott Memhard, Ward 1 Councilor, Jen Holmgren, Councilor at Large, Steven G. LeBlanc, Jr., Council Vice President, Ward 3 Councilor, Melissa Cox, Councilor at Large, Sean P. Nolan, Ward 5 Councilor, Valerie H. Gilman, Ward 4 Councilor, James W. O’Hara, Jr., Councilor at Large, Kenneth W. Hecht, Ward 2 Councilor

Elected Officials

School Committee

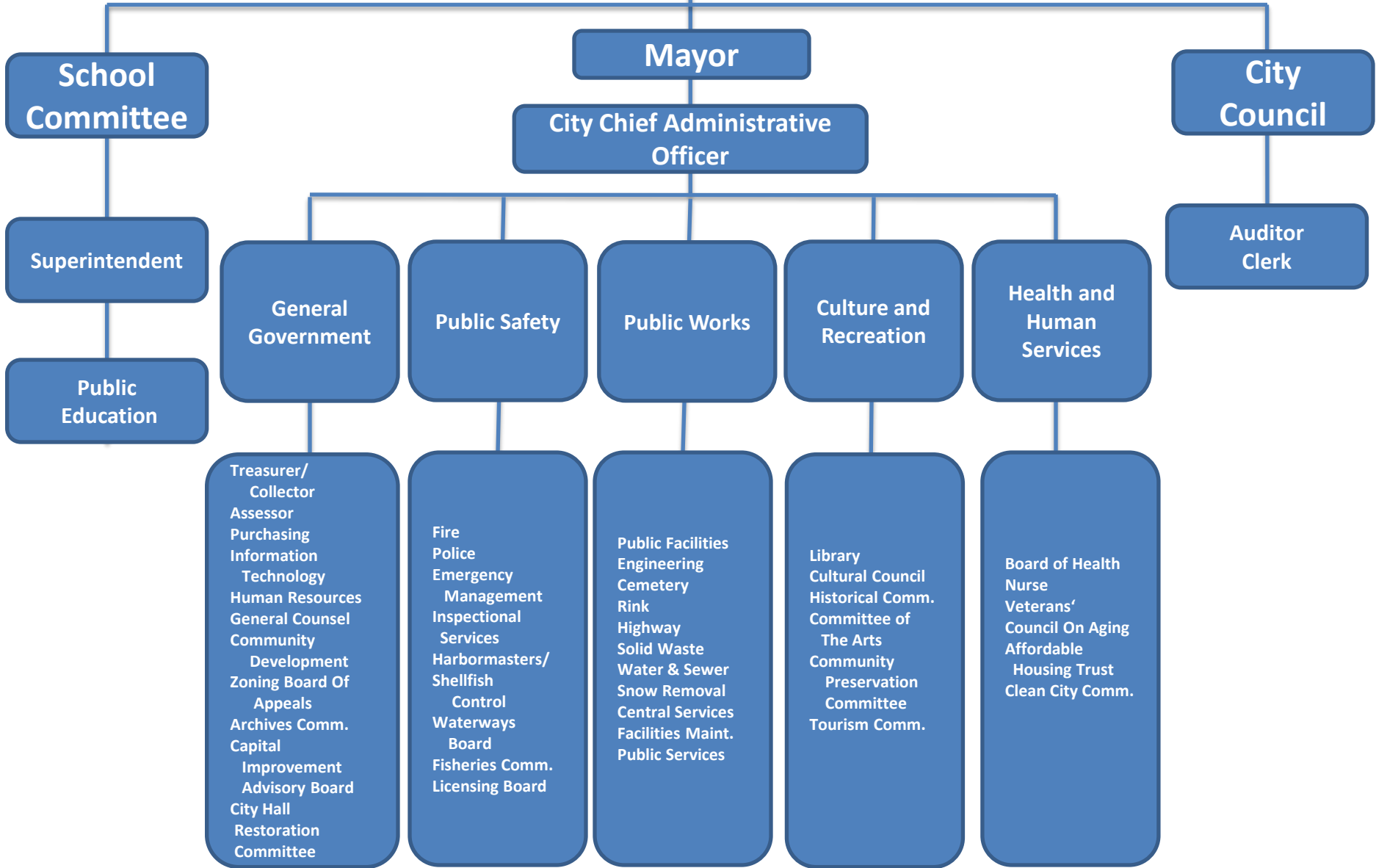
Jonathan A. Pope, Chairperson
Kathleen A. Clancy, Vice-Chairperson
Anthony M. Gross, Secretary
Melissa Joy Teixeira
Joel Favazza
Michelle M. Sweet
Mayor, Sefatia Romeo Theken

Appointed Officials

City Chief Administrative Officer
Superintendent of Schools
School Director of Finance and Operations
City General Counsel
City Chief Financial Officer/Treasurer/Collector
City Auditor
City Clerk
City Assessor

James Destino
Dr. Richard Safier
Tom LaFleur
Charles J. Payson
John Dunn
Kenny Costa
Joanne M. Senos
Nancy A. Papows

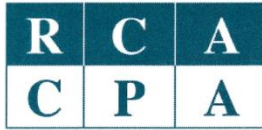
Voters





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Financial Section



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Gloucester, Massachusetts, (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents, (except for the Gloucester Contributory Retirement System, (the "System" or "Retirement System") which is as of December 31, 2016). We did not audit the financial statements of the Gloucester Lyceum and Sawyer Free Library, Inc. (the "Library"), which represents 100% of the assets, net position and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for this discretely presented component unit, is based solely on the report of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, 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, as of June 30, 2017, (except for the System which is as of December 31, 2016) and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the City's proportionate share of net pension liability and the Town's contributions to pension plan, the schedule of the Commonwealth's share of the net pension liability of the Massachusetts Teacher's Retirement System, the schedule of changes in net other postemployment benefits liability and related ratios, the schedules of contributions and investment returns for other postemployment benefits, the schedules of funding progress and contribution funding for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements are the responsibility of management and were 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 combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2018, on our consideration of the City of Gloucester, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Roselli, Clark and Associates

Roselli, Clark and Associates
Certified Public Accountants
Woburn, Massachusetts 01801
January 25, 2018

Management's Discussion and Analysis



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MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the City, we offer readers of the accompanying financial statements this narrative overview and analysis of the financial activities of the City and its component units for the fiscal year ended June 30, 2017.

Financial Highlights

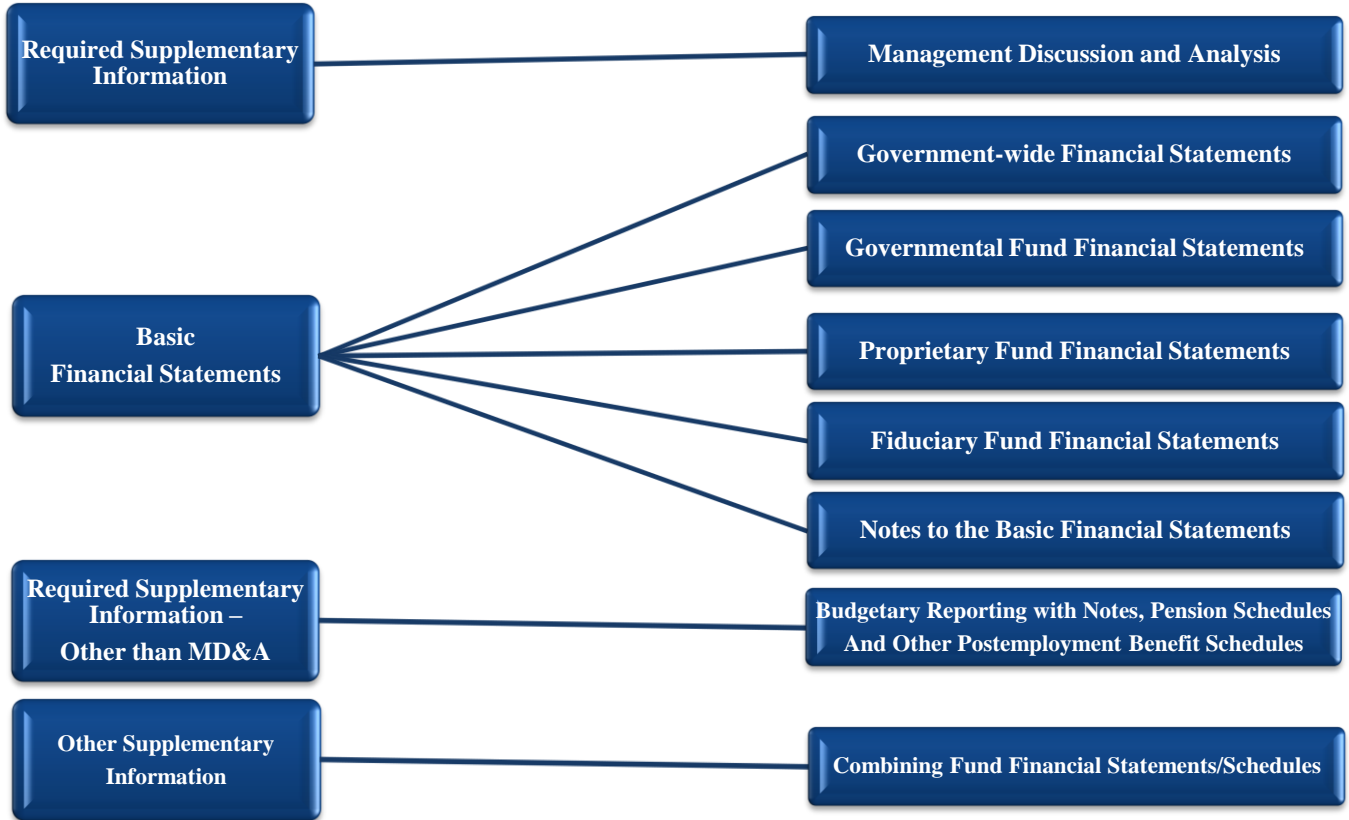
- During the year, the City implemented the provisions of GASB 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Since the City has accepted the provision of Massachusetts General Laws Chapter 32B Section 20, the implementation of this pronouncement impacted the City's Other Postemployment Trust Fund which is included in the City's Fiduciary Funds.
- The assets and deferred outflows of financial resources exceeded the City's liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by over \$63.7 million (*total net position*).
- The government's total net position decreased by over \$2.3 million. This consisted of a decrease in governmental activities' net position by over \$3.4 million combined with an increase in business - type activities' net position by almost \$1.1 million.
- The City's Unassigned Fund Balance reported in the General Fund was almost \$8.1 million (7.7% of General Fund expenditures). Total Fund Balance in the General Fund was almost \$10.7 million (10.1% of General Fund expenditures).
- The City ended the year with \$41.8 million in long-term outstanding debt of its governmental activities and \$95.9 million in long-term outstanding debt of its business-type activities.
- The City ended the year with \$14.8 million in short-term outstanding debt of its governmental activities and \$9.7 million in short-term outstanding debt of its business-type activities.
- The City's total debt decreased by approximately \$1.6 million during the fiscal year. This was mainly the result of bond issuances of \$10.3 million offset by scheduled pay downs of \$11.9 million. Short-term notes decreased by \$2.4 million as the City refinanced short-term notes to long-term debt at a faster pace than issuing new short-term notes.
- The City's cash and cash equivalents and investments in aggregate were consistent with prior year balances at \$32.5 million.
- The Gloucester Lyceum and Sawyer Free Library is a legally separate entity presented discretely in this report because the City is financially accountable for and can impose its will on it.

Overview of the Financial Statements

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

The layout and relationship of the financial statements and supplementary information is visually illustrated in *Illustration 1*.

Illustration 1 – Relationship of Financial Statement information



Government-wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business. The *statement of position* presents information on all of the City’s assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *statement of activities* presents information showing how the government’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions.

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

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

Proprietary funds – The City maintains one types 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 water, sewer, waterways and rink enterprise activities.

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

The City’s fiduciary funds consist of the Gloucester Contributory Retirement System, the Other Postemployment Benefit Trust and the Private Purpose Trust Funds.

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

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s Pension and Other Postemployment Benefit Plans as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and notes to this schedule.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by over \$63.7 million at the close of the most recent fiscal year.

Condensed net position data is presented as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<u>Assets</u>						
Current and other assets	\$ 41,706,009	\$ 39,942,038	\$ 20,720,155	\$ 24,816,133	\$ 62,426,164	\$ 64,758,171
Capital assets, net	133,006,539	126,708,931	210,361,936	209,711,332	343,368,475	336,420,263
Total assets	174,712,548	166,650,969	231,082,091	234,527,465	405,794,639	401,178,434
Deferred outflows of resources	11,084,159	4,623,912	1,149,993	479,736	12,234,152	5,103,648
<u>Liabilities</u>						
Long-term liabilities	211,105,227	190,712,684	109,545,260	113,579,902	320,650,487	304,292,586
Other liabilities	20,898,620	25,131,654	10,868,841	10,748,850	31,767,461	35,880,504
Total liabilities	232,003,847	215,844,338	120,414,101	124,328,752	352,417,948	340,173,090
Deferred inflows of resources	1,814,293	16,286	54,827	1,689	1,869,120	17,975
<u>Net Position</u>						
Net investment in capital assets	83,444,529	79,744,529	107,040,094	99,638,405	190,484,623	179,382,934
Restricted	15,213,577	14,034,943	8,632,529	10,579,756	23,846,106	24,614,699
Unrestricted	(146,679,539)	(138,365,215)	(3,909,467)	458,599	(150,589,006)	(137,906,616)
Total Net Position	\$ (48,021,433)	\$ (44,585,743)	\$ 111,763,156	\$ 110,676,760	\$ 63,741,723	\$ 66,091,017

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

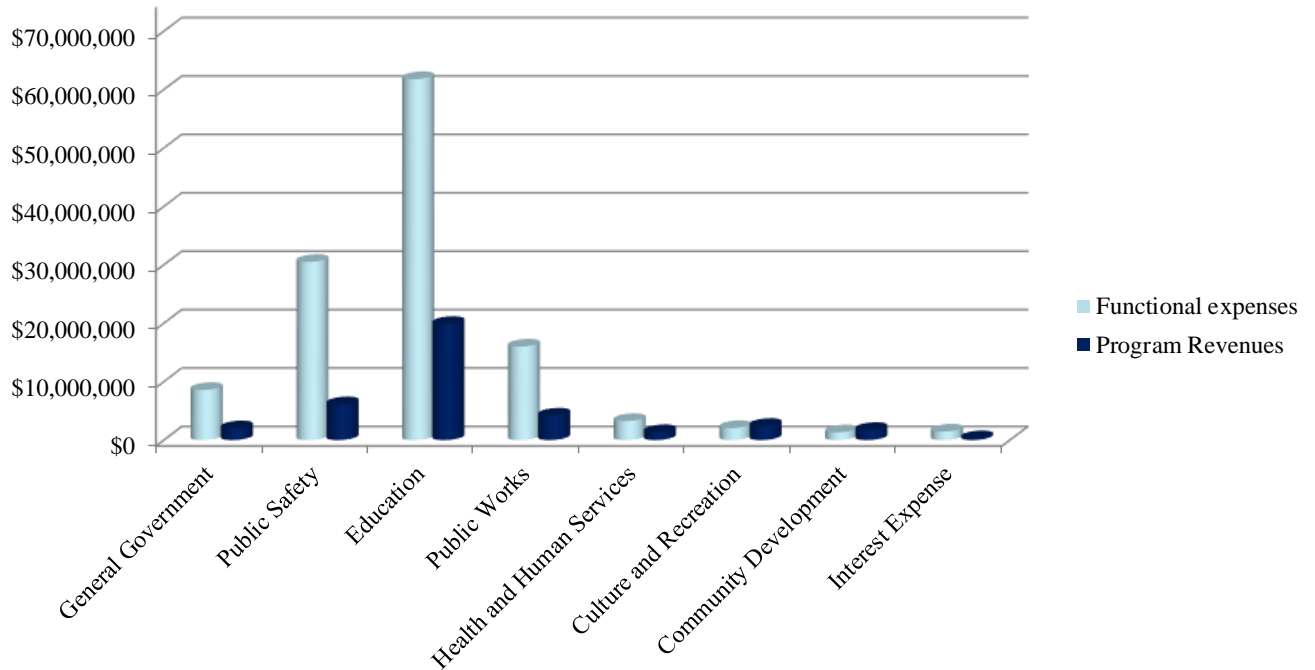
An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. *Unrestricted net position* is reported as a deficit of approximately \$150.6 million. A deficit of \$146.7 million is reported in governmental activities and a deficit of \$3.9 million is reported in Business-type activities. The implementation of GASB 68 and related net pension liability of almost \$108.4 million and the recognition of other postemployment benefits of approximately \$69.4 million since the implementation of GASB 45 in 2009 are the primary contributors to this.

Condensed changes in net position are presented as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 12,567,058	\$ 11,725,582	\$ 14,981,397	\$ 14,458,647	\$ 27,548,455	\$ 26,184,229
Operating grants and contributions	21,573,622	19,468,876	211,525	1,204,530	21,785,147	20,673,406
Capital grants and contributions	3,851,137	11,758,769	329,358	768,472	4,180,495	12,527,241
General revenues:						
Property taxes	78,929,607	76,596,057	-	-	78,929,607	76,596,057
Unrestricted grants and contributions	4,151,445	3,720,566	-	-	4,151,445	3,720,566
Other	5,621,368	5,329,310	-	-	5,621,368	5,329,310
Total Revenues	126,694,237	128,599,160	15,522,280	16,431,649	142,216,517	145,030,809
<u>Expenses</u>						
General government	8,568,308	7,065,924	-	-	8,568,308	7,065,924
Public safety	30,494,053	27,601,798	-	-	30,494,053	27,601,798
Education	61,787,760	61,690,389	-	-	61,787,760	61,690,389
Public works	16,000,830	13,618,155	-	-	16,000,830	13,618,155
Health and human services	3,248,584	2,900,414	-	-	3,248,584	2,900,414
Culture and recreation	2,048,002	1,886,628	-	-	2,048,002	1,886,628
Community development	1,319,911	1,027,976	-	-	1,319,911	1,027,976
Debt service	1,452,361	801,280	-	-	1,452,361	801,280
Water	-	-	7,382,977	7,183,747	7,382,977	7,183,747
Sewer	-	-	11,329,763	10,836,496	11,329,763	10,836,496
Waterways	-	-	519,099	540,878	519,099	540,878
Rink	-	-	414,163	414,350	414,163	414,350
Total Expenses	124,919,809	116,592,564	19,646,002	18,975,471	144,565,811	135,568,035
Change in net position before transfers	1,774,428	12,006,596	(4,123,722)	(2,543,822)	(2,349,294)	9,462,774
Transfers	(5,210,118)	(5,396,825)	5,210,118	5,396,825	-	-
Change in net position	(3,435,690)	6,609,771	1,086,396	2,853,003	(2,349,294)	9,462,774
Net position, beginning of year	(44,585,743)	(53,887,447)	110,676,760	107,823,757	66,091,017	53,936,310
Restate other postemployment liability	-	2,691,933	-	-	-	2,691,933
Net position, beginning of year, as restated	(44,585,743)	(51,195,514)	110,676,760	107,823,757	66,091,017	56,628,243
Net position, end of year	<u>\$ (48,021,433)</u>	<u>\$ (44,585,743)</u>	<u>\$ 111,763,156</u>	<u>\$ 110,676,760</u>	<u>\$ 63,741,723</u>	<u>\$ 66,091,017</u>

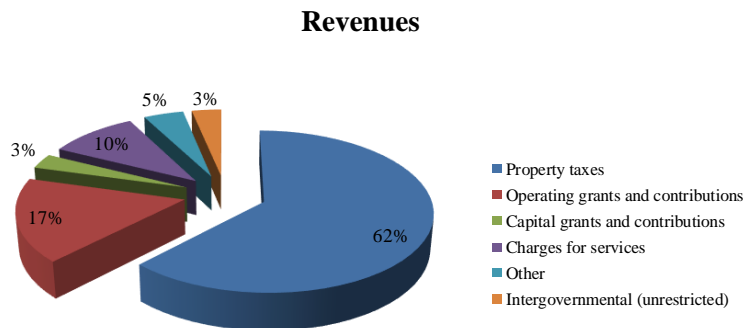
Governmental Activities – The governmental activities decreased net position by over \$3.4 million as compared to an increase in the prior year of approximately \$6.6 million. The biggest reason for this \$10.0 million swing was a direct result of capital grants decreasing by \$7.9 million. This was due to school construction costs for the West Parish School winding down thus resulting in less reimbursements from the Commonwealth for this State eligible construction grant project.

Fiscal year 2017 Expenses and Program Revenues – governmental activities are graphically presented as follows:



Major revenue sources of governmental activities consist of revenue from:

(1) Operating grants which comprised approximately 17.0% of the total governmental activity revenues;



this is \$2.1 million greater than the prior year and relates almost entirely to a change in the method of reporting intergovernmental revenue related to a special funding situation of the City’s teachers’ pensions to conform with GASB 68, and

(2) Property taxes which represented 62.3% of total revenues an increase of \$2.3 million over the prior year; under Massachusetts General Laws, communities are allowed to assess

taxes at 2 ½% of the prior year plus any new growth plus any exclusions authorized by the voters in excess of the statutory limit. As a result this increase met its expectation.

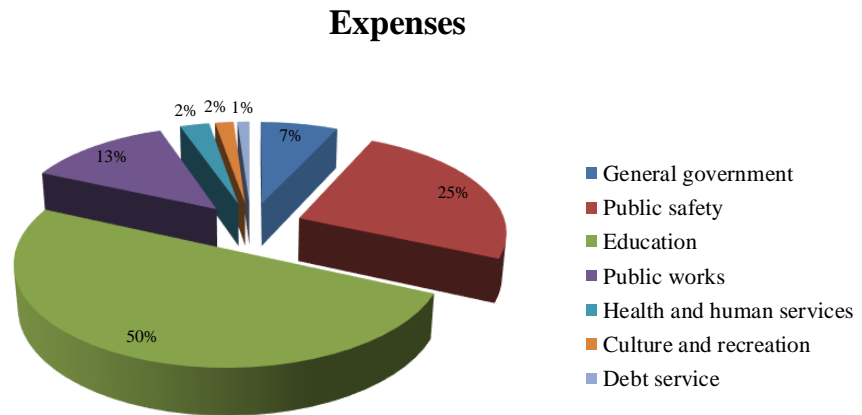
(3) Capital grants and contributions represented 3.0% of total revenues, a decrease of \$7.9 million over the prior year. This was primarily a result of reimbursements received from the State for qualified construction costs of the West Parish Elementary School winding down in fiscal 2017.

All other revenue sources approximated prior year amounts.

Major expense outlays of governmental activities consist of expenses from:

(1) Education costs which represented the City’s largest expense category as education continues to be an area in which the City devotes substantial resources.

Approximately 50.0% of total disbursements related to education; this was consistent in percentage and amount with the prior year;



(2) Public Works expenses represented 12.8% of total expenses, which were \$2.4 million higher than the prior year. This was due primarily to adverse seasonal weather conditions in 2017 and increased benefit costs.

(3) Public Safety expenses represented 24.4% of total expenses; the \$2.9 million increase over the prior year was consistent with collective bargaining salary increases and an increase in the overall costs of benefits.

All other expenses were less than 10% however individually were all in excess of the prior year as increase in benefit costs also extended to these smaller dollar functions.

Business-type Activities – The net position of the business-type activity funds increased, by almost \$1.1 million. This was primarily a result of better than expected operating results in the water funds driven by increases in consumption due to favorable weather patterns. All other activities were consistent with expectations.

Fund-wide Financial Analysis of the Government’s Funds

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

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

As of the close of the current fiscal year, the City's governmental funds balance sheet reported a combined ending fund balance of approximately \$8.1 million; this increased over the prior fiscal year by over \$5.5 million. Favorable results in the general fund were due to an increase in revenues of \$2.0 million driven by the continued expanding local economy combined with increases in the West Parish School construction major fund of \$3.3 million related to the timing of construction payments versus the related bond offerings.

The City's Unassigned Fund Balance reported in the General Fund was approximately \$8.1 million (7.7% of General Fund expenditures). Total Fund Balance in the General Fund was approximately \$10.7 million (7.7% of General Fund expenditures). The City reported a Restricted Fund Balance of \$0.3 million restricted for debt service in the General Fund and \$1.2 million in its Capital Projects Fund restricted for capital projects. In addition to the restricted amounts, approximately \$11.7 million in combined unassigned deficits were reported in the City's West Parish School and Capital Projects Funds. The remaining fund balances are reported as part of Combined Nonmajor Fund Balances and are classified as either (1) restricted due to constraints placed externally by third-parties in the amount of approximately \$7.9 million, or (2) unassigned as they reflect negative balances due to the timing of grant receipts not accrued as revenue.

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

As previously discussed, the total net position increased by approximately \$1.1 million. Waterways and rink incurred deficits primarily due to depreciation costs that the City does not budget for and are positive on a cash basis; water and sewer increases were due to grants and favorable operating results.

Fiduciary Fund – The City's fiduciary fund is comprised primarily of the City's Retirement System whose net position is approximately \$92.7 million. These assets are used strictly to pay retiree pensions and annuities and may not be used for City operating purposes.

For the year ended December 31, 2017 the net position increased by approximately \$5.6 million due primarily to favorable market conditions during that calendar year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not significant (less than 2% of overall budget).

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

Capital Asset and Debt Administration

Capital Assets – The City's investment in capital assets for its governmental and business type activities as of June 30, 2017 amounts to approximately \$343.4 million (net of accumulated depreciation), an increase from the previous year's balance of approximately \$6.9 million. This investment in capital assets includes land, buildings and improvements, infrastructure, machinery, equipment, and software. The total increase is due primarily to final construction on the West Parish School, various public work projects and sewer infrastructure amounting to about \$15.9 million offset by depreciation of about \$9.0 million.

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

Long-term Debt – At the end of the current fiscal year, the City had total long-term debt outstanding of approximately \$137.7 million. The entire amount comprises debt backed by the full faith and credit of the government. The City’s total debt decreased by approximately \$1.6 million during the fiscal year summarized as follows:

Additions:	
Governmental Activities	\$ 6,716,650
Business-Type Activities	2,133,350
Regular Scheduled Maturities:	
Governmental Activities	(3,825,648)
Business-Type Activities	(7,933,519)
Bond Premiums Received:	
Governmental Activities	1,358,298
Business-Type Activities	111,952
Amortization of Bond Premium	
Governmental Activities	(65,867)
Business-Type Activities	(71,128)
	<u>\$ (1,575,912)</u>

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

State statutes limit the amount of general obligation debt a governmental entity may issue to 5.0 % of its total assessed valuation. The current debt limitation for the City is over \$300 million, which is significantly in excess of the City’s outstanding general obligation debt classified as inside the debt limit.

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

Bond anticipation note payable balances outstanding at year-end amount to approximately \$24.5 million and relate to the following projects:

School construction/improv	\$ 10,500,000
Roadways	336,000
Seawall	558,000
Departmental and building	1,400,000
Septic betterments	2,000,000
Water	4,830,000
Sewer	4,870,000
	<u>\$ 24,494,000</u>

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

Economic Factors and Next Year's Budget and Rates

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

All of the above items were considered when the City developed its budget for fiscal year 2018. The budget was adopted in June of 2017 and the City's tax rate was certified in December 2017.

Requests for Information

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

Complete stand-alone financial statements of the Library can be obtained from the Office of the Director of the Library, 2 Dale Avenue, Gloucester, Massachusetts 01930.

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

Basic Financial Statements

CITY OF GLOUCESTER, MASSACHUSETTS

STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Gloucester Lyceum and Sawyer Free Library, Inc.
Assets				
Cash and cash equivalents	\$ 26,656,042	\$ 6,466,349	\$ 33,122,391	\$ 382,408
Investments	984,987	-	984,987	6,002,748
Receivables, net:				
Property taxes	820,607	-	820,607	-
Tax liens and deferrals	2,298,347	-	2,298,347	-
User fees	-	5,553,830	5,553,830	-
Betterments	-	7,414,753	7,414,753	-
Departmental and other	2,490,744	67,447	2,558,191	-
Intergovernmental	2,099,488	1,217,776	3,317,264	-
Loans	5,861,802	-	5,861,802	-
Tax foreclosures	493,992	-	493,992	-
Capital assets not being depreciated	72,629,431	13,443,507	86,072,938	194,517
Capital assets, net of accumulated depreciation	60,377,108	196,918,429	257,295,537	2,841,219
Total Assets	174,712,548	231,082,091	405,794,639	9,420,892
Deferred Outflows of Resources				
Deferred pensions	11,084,159	1,149,993	12,234,152	-
Total Deferred Outflows of Resources	11,084,159	1,149,993	12,234,152	-
Liabilities				
Warrants and accounts payable	996,666	-	996,666	17,979
Accrued payroll and withholdings	4,138,774	96,108	4,234,882	-
Retainage payable	92,357	-	92,357	-
Tax refunds payable	200,468	-	200,468	-
Accrued interest	566,663	970,626	1,537,289	-
Other liabilities	109,692	102,107	211,799	-
Bond anticipation notes payable	14,794,000	9,700,000	24,494,000	-
Noncurrent liabilities:				
Due within one year	4,242,600	7,953,938	12,196,538	-
Due in more than one year	206,862,627	101,591,322	308,453,949	-
Total Liabilities	232,003,847	120,414,101	352,417,948	17,979
Deferred Inflows of Resources				
Deferred pensions	528,437	54,827	583,264	-
Taxes paid in advance	1,285,856	-	1,285,856	-
Total Deferred Inflows of Resources	1,814,293	54,827	1,869,120	-
Net Position				
Net investment in capital assets	83,444,529	107,040,094	190,484,623	3,035,736
Restricted for:				
Expendable permanent funds	1,485,000	-	1,485,000	-
Debt service	250,809	8,632,529	8,883,338	-
Community preservation	1,203,473	-	1,203,473	-
Federal and State grants	1,821,967	-	1,821,967	-
Loans	5,861,802	-	5,861,802	-
Gift funds	1,282,477	-	1,282,477	-
Other specific purposes	3,308,049	-	3,308,049	3,303,808
Unrestricted	(146,679,539)	(3,909,467)	(150,589,006)	3,299,424
Total Net Position	\$ (48,021,433)	\$ 111,763,156	\$ 63,741,723	\$ 9,402,913

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 8,568,308	\$ 1,672,776	\$ 331,914	\$ -	\$ (6,563,618)		\$ (6,563,618)	
Public safety	30,494,053	5,112,977	465,694	540,103	(24,375,279)		(24,375,279)	
Education	61,787,760	1,209,605	17,803,701	859,200	(41,915,254)		(41,915,254)	
Public works	16,000,830	1,385,619	426,753	2,371,570	(11,816,888)		(11,816,888)	
Health and human services	3,248,584	439,774	916,738	-	(1,892,072)		(1,892,072)	
Culture and recreation	2,048,002	2,260,209	77,896	80,264	370,367		370,367	
Community development	1,319,911	486,098	1,243,301	-	409,488		409,488	
Interest expense	1,452,361	-	307,625	-	(1,144,736)		(1,144,736)	
Total governmental activities	124,919,809	12,567,058	21,573,622	3,851,137	(86,927,992)		(86,927,992)	
Business-type activities:								
Water	7,382,977	5,926,025	-	-		\$ (1,456,952)	(1,456,952)	
Sewer	11,329,763	8,430,118	211,525	301,551		(2,386,569)	(2,386,569)	
Waterways	519,099	354,549	-	27,807		(136,743)	(136,743)	
Rink	414,163	270,705	-	-		(143,458)	(143,458)	
Total business-type activities	19,646,002	14,981,397	211,525	329,358		(4,123,722)	(4,123,722)	
Total Primary Government	\$ 144,565,811	\$ 27,548,455	\$ 21,785,147	\$ 4,180,495	(86,927,992)	(4,123,722)	(91,051,714)	
Component Unit:								
Gloucester Lyceum and Sawyer Free Library, Inc.	\$ 1,511,610	\$ 23,476	\$ 1,137,827	\$ -				\$ (350,307)
<u>General Revenues:</u>								
Property taxes					78,929,607	-	78,929,607	-
Motor vehicle and other excise					4,991,370	-	4,991,370	-
Grants and contributions not restricted to specific programs					4,151,445	-	4,151,445	-
Penalties and interest on taxes					451,354	-	451,354	-
Unrestricted investment income					178,644	-	178,644	449,712
Transfers (net)					(5,210,118)	5,210,118	-	-
Total general revenues					83,492,302	5,210,118	88,702,420	449,712
Change in Net Position					(3,435,690)	1,086,396	(2,349,294)	99,405
<u>Net Position:</u>								
Beginning of year					(44,585,743)	110,676,760	66,091,017	9,303,508
End of year					\$ (48,021,433)	\$ 111,763,156	\$ 63,741,723	\$ 9,402,913

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	West Parish School Construction	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 16,269,337	\$ 1,148,593	\$ 2,762,665	\$ 6,475,447	\$ 26,656,042
Investments	-	-	-	984,987	984,987
Receivables, net of allowance for uncollectibles:					
Property taxes	804,545	-	-	16,062	820,607
Tax liens and deferrals	2,298,347	-	-	-	2,298,347
Departmental and other	2,101,703	-	-	389,041	2,490,744
Intergovernmental	65,651	165,988	1,067,342	800,507	2,099,488
Loans	-	-	-	5,861,802	5,861,802
Tax foreclosures	493,992	-	-	-	493,992
Due from other funds	14,880	-	-	-	14,880
Total Assets	22,048,455	1,314,581	3,830,007	14,527,846	41,720,889
Deferred Outflows of Resources	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 22,048,455	\$ 1,314,581	\$ 3,830,007	\$ 14,527,846	\$ 41,720,889
Liabilities					
Warrants and accounts payable	\$ -	\$ -	\$ 801,108	\$ 195,558	\$ 996,666
Accrued payroll and withholdings	3,825,393	-	-	313,381	4,138,774
Retainage payable	-	-	92,357	-	92,357
Tax refunds payable	200,468	-	-	10,040	210,508
Other liabilities	99,018	-	-	10,674	109,692
Workers compensation claims payable	370,171	-	-	-	370,171
Bond anticipation notes payable	-	10,000,000	4,794,000	-	14,794,000
Due to other funds	-	-	-	14,880	14,880
Total Liabilities	4,495,050	10,000,000	5,687,465	544,533	20,727,048
Deferred Inflows of Resources					
Taxes paid in advance	1,275,816	-	-	-	1,275,816
Unavailable revenues - property taxes	3,102,892	-	-	16,062	3,118,954
Unavailable revenues - loans	-	-	-	5,861,802	5,861,802
Unavailable revenues - other	2,480,476	-	-	206,254	2,686,730
Total Deferred Inflows of Resources	6,859,184	-	-	6,084,118	12,943,302
Fund Balances					
Restricted	250,809	-	1,170,829	7,914,075	9,335,713
Assigned	2,355,105	-	-	-	2,355,105
Unassigned	8,088,307	(8,685,419)	(3,028,287)	(14,880)	(3,640,279)
Total Fund Balances	10,694,221	(8,685,419)	(1,857,458)	7,899,195	8,050,539
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 22,048,455	\$ 1,314,581	\$ 3,830,007	\$ 14,527,846	\$ 41,720,889

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

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

JUNE 30, 2017

Total Governmental Fund Balances		\$ 8,050,539
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		133,006,539
Other long-term assets are unavailable to pay current-period expenditures		11,667,486
Deferred outflows and inflows of resources to be recognized in future pension expense are not available resources and, therefore, are not reported in the funds		10,555,722
In the Statement of Activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due.		(566,663)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:		
Bonds and notes payable	(40,177,495)	
Unamortized premiums on bonds	(1,644,245)	
Capital lease obligations	(971,175)	
Landfill closure	(420,000)	
Compensated absences	(2,775,097)	
Net pension liability	(98,178,961)	
Other postemployment benefits	(66,568,083)	
Net effect of reporting long-term liabilities		<u>(210,735,056)</u>
Net Position of Governmental Activities		<u>\$ (48,021,433)</u>

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2017**

	General Fund	West Parish School Construction	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 78,505,244	\$ -	\$ -	\$ 623,530	\$ 79,128,774
Intergovernmental	20,443,308	216,013	252,323	8,554,893	29,466,537
Motor vehicle and other excises	5,014,229	-	-	-	5,014,229
Licenses and permits	1,641,886	-	-	-	1,641,886
Penalties and interest on taxes	451,354	-	-	-	451,354
Fines and forfeitures	282,197	-	-	-	282,197
Departmental and other revenue	6,155,229	52,663	227,146	3,898,584	10,333,622
Investment income	61,174	-	-	117,470	178,644
Contributions and donations	-	-	-	1,025,693	1,025,693
Total Revenues	112,554,621	268,676	479,469	14,220,170	127,522,936
Expenditures:					
Current:					
General government	5,304,010	-	373,630	390,200	6,067,840
Public safety	15,955,436	-	297,047	2,685,001	18,937,484
Education	35,583,331	2,362,611	660,183	5,599,948	44,206,073
Public works	10,801,438	-	1,783,310	2,241,108	14,825,856
Health and human services	1,208,821	-	206,199	840,725	2,255,745
Culture and recreation	903,207	-	9,500	414,300	1,327,007
Community development	-	-	-	1,315,993	1,315,993
Pension benefits and fringe benefits	28,368,444	-	-	-	28,368,444
State and county assessments	2,344,811	-	-	-	2,344,811
Debt service:					
Principal	3,660,648	-	-	165,000	3,825,648
Interest	1,498,127	-	51,351	44,250	1,593,728
Total Expenditures	105,628,273	2,362,611	3,381,220	13,696,525	125,068,629
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,926,348	(2,093,935)	(2,901,751)	523,645	2,454,307
Other Financing Sources (Uses):					
Issuance of bonds and notes	-	4,850,350	1,866,300	-	6,716,650
Issuance of capital leases	-	-	90,028	-	90,028
Premiums from bonds and notes	1,143,047	149,650	93,700	104,462	1,490,859
Transfers in	138,835	435,539	659,630	130,000	1,364,004
Transfers out	(6,195,657)	-	(18,700)	(359,765)	(6,574,122)
Total Other Financing Sources (Uses)	(4,913,775)	5,435,539	2,690,958	(125,303)	3,087,419
Net Change in Fund Balances	2,012,573	3,341,604	(210,793)	398,342	5,541,726
FUND BALANCES - Beginning of year	8,681,648	(12,027,023)	(1,646,665)	7,500,853	2,508,813
FUND BALANCES - End of year	\$ 10,694,221	\$ (8,685,419)	\$ (1,857,458)	\$ 7,899,195	\$ 8,050,539

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 5,541,726**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net amounts are reflected here as reconciling items:

Capital outlays	12,885,646	
Depreciation expense	(6,588,038)	
Net effect of reporting capital assets		6,297,608

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The net amounts are reflected here as reconciling items:

Issuances of general obligation bonds and notes	(6,716,650)	
Issuances of capital leases	(90,028)	
Premiums from long-term general obligation bonds and notes	(1,358,298)	
Amortization of premiums on bonds and notes payable	65,867	
Repayments of capital leases	76,582	
Repayments of debt	3,825,648	
Net effect of reporting long-term debt		(4,196,879)

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference in unavailable revenue.

(961,260)

In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.

75,500

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Landfill closure	20,000	
Compensated absences	(60,536)	
Pension benefits	(4,124,138)	
Other postemployment benefits	(6,027,711)	

Net effect of reporting long-term liabilities (10,192,385)

Change in Net Position of Governmental Activities **\$ (3,435,690)**

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2017

Assets	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Waterways	Rink	
Current assets:					
Cash and cash equivalents	\$ 978,179	\$ 5,039,485	\$ 340,581	\$ 108,104	\$ 6,466,349
Investments	-	-	-	-	-
Receivables (net):					
User charges	2,252,430	3,275,392	26,008	-	5,553,830
Betterments	-	93,608	-	-	93,608
Liens	-	-	67,447	-	67,447
Intergovernmental	-	288,997	-	-	288,997
Total current assets	3,230,609	8,697,482	434,036	108,104	12,470,231
Noncurrent assets:					
Receivables (net):					
Betterments	-	7,321,145	-	-	7,321,145
Intergovernmental	-	928,779	-	-	928,779
Nondepreciable capital assets	5,567,798	7,236,735	592,379	46,595	13,443,507
Capital assets (net of depreciation)	63,729,130	131,209,908	1,217,856	761,535	196,918,429
Total noncurrent assets	69,296,928	146,696,567	1,810,235	808,130	218,611,860
Total Assets	72,527,537	155,394,049	2,244,271	916,234	231,082,091
Deferred Outflows of Resources					
Deferred pensions	548,832	524,566	48,937	27,658	1,149,993
Total Deferred Outflows of Resources	548,832	524,566	48,937	27,658	1,149,993
Liabilities					
Current liabilities:					
Warrants and accounts payable	-	-	-	-	-
Accrued payroll and withholdings	41,543	38,113	13,335	3,117	96,108
Accrued interest	466,199	504,427	-	-	970,626
Other liabilities	101,905	-	202	-	102,107
Bond anticipation notes payable	4,830,000	4,870,000	-	-	9,700,000
Compensated absences	9,234	2,763	372	363	12,732
Capital leases	-	147,658	-	-	147,658
Bonds and notes payable	2,950,806	4,793,982	-	48,760	7,793,548
Total current liabilities	8,399,687	10,356,943	13,909	52,240	18,822,779
Noncurrent liabilities:					
Compensated absences	83,104	24,870	3,351	3,266	114,591
Capital leases	-	312,770	-	-	312,770
Bonds and notes payable	38,117,951	49,252,700	-	741,391	88,112,042
Other postemployment benefits	1,326,312	1,200,979	230,528	107,935	2,865,754
Net pension liability	4,861,330	4,646,390	433,463	244,982	10,186,165
Total noncurrent liabilities	44,388,697	55,437,709	667,342	1,097,574	101,591,322
Total Liabilities	52,788,384	65,794,652	681,251	1,149,814	120,414,101
Deferred Inflows of Resources					
Deferred pensions	26,166	25,009	2,333	1,319	54,827
Total Deferred Inflows of Resources	26,166	25,009	2,333	1,319	54,827
Net Position					
Net investment in capital assets	23,398,171	81,790,526	1,810,235	41,162	107,040,094
Restricted	-	8,632,529	-	-	8,632,529
Unrestricted	(3,136,352)	(324,101)	(200,611)	(248,403)	(3,909,467)
Total Net Position	\$ 20,261,819	\$ 90,098,954	\$ 1,609,624	\$ (207,241)	\$ 111,763,156

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FISCAL YEAR ENDED JUNE 30, 2017

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Waterways	Rink	
Operating Revenues:					
Charges for services	\$ 5,647,351	\$ 8,257,858	\$ 345,699	\$ 257,588	\$ 14,508,496
Other	278,674	172,260	8,850	13,117	472,901
Total Operating Revenues	5,926,025	8,430,118	354,549	270,705	14,981,397
Operating Expenses:					
Operating costs	4,520,843	5,865,675	394,437	298,103	11,079,058
Depreciation	1,775,774	3,920,310	124,662	87,136	5,907,882
Total Operating Expenses	6,296,617	9,785,985	519,099	385,239	16,986,940
Operating Income (Loss)	(370,592)	(1,355,867)	(164,550)	(114,534)	(2,005,543)
Nonoperating Revenues (Expenses):					
Intergovernmental	-	211,525	-	-	211,525
Interest expense	(1,086,360)	(1,543,778)	-	(28,924)	(2,659,062)
Total Nonoperating Revenues (Expenses)	(1,086,360)	(1,332,253)	-	(28,924)	(2,447,537)
Income (Loss) Before Capital Contributions and Transfers	(1,456,952)	(2,688,120)	(164,550)	(143,458)	(4,453,080)
Capital contributions	-	301,551	27,807	-	329,358
Transfers in	2,717,989	2,391,983	64,150	35,996	5,210,118
Total Capital Contributions and Transfers	2,717,989	2,693,534	91,957	35,996	5,539,476
Change in Net Position	1,261,037	5,414	(72,593)	(107,462)	1,086,396
Total Net Position - Beginning of the Year	19,000,782	90,093,540	1,682,217	(99,779)	110,676,760
Total Net Position - End of the Year	\$ 20,261,819	\$ 90,098,954	\$ 1,609,624	\$ (207,241)	\$ 111,763,156

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2017**

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Waterways	Rink	
Cash Flows from Operating Activities:					
Receipts from users	\$ 5,412,254	\$ 7,795,650	\$ 335,951	\$ 257,588	\$ 13,801,443
Other receipts	278,674	172,260	8,850	13,117	472,901
Payments to employees	(1,112,433)	(1,015,435)	(229,608)	(173,550)	(2,531,026)
Payments to vendors	(3,043,022)	(4,521,284)	(193,341)	(98,163)	(7,855,810)
Net Cash Provided by (Used in) Operating Activities	1,535,473	2,431,191	(78,148)	(1,008)	3,887,508
Cash Flows from Noncapital Financing Activities:					
Intergovernmental operating grants	-	1,877	-	-	1,877
Transfers in	2,717,989	2,391,983	64,150	35,996	5,210,118
Net Cash Provided by Noncapital Financing Activities	2,717,989	2,393,860	64,150	35,996	5,211,995
Cash Flows from Capital and Related Financing Activities:					
Proceeds from intergovernmental capital grants	-	-	27,807	-	27,807
Proceeds from betterments	-	1,832,310	-	-	1,832,310
Proceeds from the issuance of notes	4,830,000	4,870,000	-	-	9,700,000
Proceeds from the issuance of bonds	2,383,350	700,000	-	-	3,083,350
Premiums from the issuance of bonds and notes	85,526	26,426	-	-	111,952
Acquisition and construction of capital assets	(2,617,274)	(3,218,242)	(65,947)	(46,595)	(5,948,058)
Principal payments on capital leases	-	(150,000)	-	-	(150,000)
Principal payments on bonds and notes	(8,704,363)	(9,288,365)	-	(53,759)	(18,046,487)
Interest payments on bonds and notes	(1,129,957)	(1,407,300)	-	(28,924)	(2,566,181)
Net Cash (Used in) Capital and Related Financing Activities	(5,152,718)	(6,635,171)	(38,140)	(129,278)	(11,955,307)
Net Change in Cash and Cash Equivalents	(899,256)	(1,810,120)	(52,138)	(94,290)	(2,855,804)
Cash and Cash Equivalents:					
Beginning of the year	1,877,435	6,849,605	392,719	202,394	9,322,153
End of the year	\$ 978,179	\$ 5,039,485	\$ 340,581	\$ 108,104	\$ 6,466,349
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Operating Loss	\$ (370,592)	\$ (1,355,867)	\$ (164,550)	\$ (114,534)	\$ (2,005,543)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	1,775,774	3,920,310	124,662	87,136	5,907,882
Changes in assets, deferred outflows, liabilities, and deferred inflows:					
Receivables	(235,097)	(462,208)	(9,748)	-	(707,053)
Deferred pensions	(294,519)	(281,498)	(26,261)	(14,841)	(617,119)
Accounts payable and accrued expenses	19,680	15,992	(34,950)	1,637	2,359
Other liabilities	42,768	-	(61)	-	42,707
Accrued employee benefit liabilities	597,459	594,462	32,760	39,594	1,264,275
Net Cash Provided by (Used in) Operating Activities	\$ 1,535,473	\$ 2,431,191	\$ (78,148)	\$ (1,008)	\$ 3,887,508
Noncash capital and related financing activities:					
Amortization of bond premium	\$ 43,510	\$ 27,618	\$ -	\$ -	\$ 71,128
Debt subsidies from MCWT	-	626,245	-	-	626,245

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Gloucester Contributory Retirement (as of 12/31/16)	Other Postemployment Benefits Trust	Private Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	\$ 977,213	\$ 450	\$ -	\$ 505,758
Investments:				
PRIT	91,659,831	-	-	-
Equity mutual funds	-	239,415	457,167	-
Fixed income securities	-	-	153,238	-
Bond mutual funds	-	-	265,207	-
Receivables (net)	14,887	-	-	-
Prepaid expenses	-	-	-	-
Total Assets	<u>92,651,931</u>	<u>239,865</u>	<u>875,612</u>	<u>505,758</u>
Liabilities				
Warrants payable	11,140	-	-	-
Accrued payroll	-	-	-	1,271
Agency liabilities	-	-	-	504,487
Total Liabilities	<u>11,140</u>	<u>-</u>	<u>-</u>	<u>\$ 505,758</u>
Net Position				
Held in trust for pension benefits	92,640,791	-	-	
Held in trust for other postemployment benefits	-	239,865	-	
Held in trust for private purposes	-	-	875,612	
Total Net Position	<u>\$ 92,640,791</u>	<u>\$ 239,865</u>	<u>\$ 875,612</u>	

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017**

	Gloucester Contributory Retirement (as of 12/31/16)	Other Postemployment Benefits Trust	Private Purpose Trust Funds
Additions			
Contributions:			
Employee	\$ 3,094,661	\$ -	\$ -
Employer	8,211,530	5,807,861	-
Other	704,562	-	-
Total contributions	<u>12,010,753</u>	<u>5,807,861</u>	<u>-</u>
Investment income:			
Interest and dividends	2,571,178	18,214	54,755
Net depreciation in fair value of investments	4,394,726	-	-
Less - investment management fees	(474,112)	-	-
Net investment earnings	<u>6,491,792</u>	<u>18,214</u>	<u>54,755</u>
Other income	<u>17,560</u>	<u>-</u>	<u>-</u>
Total Additions	<u>18,520,105</u>	<u>5,826,075</u>	<u>54,755</u>
Deductions			
Benefits and Refunds to Plan Members:			
Benefit payments to retirees and survivors	11,657,437	-	-
Refunds to members	336,908	-	-
Transfers and reimbursements to other systems	513,977	-	-
Administrative Expenses:			
Payroll expenses of the System	210,129	-	-
Other administrative expenses	194,274	-	-
Retiree health benefits	-	5,807,861	-
Education - scholarships	-	-	945
Total Deductions	<u>12,912,725</u>	<u>5,807,861</u>	<u>945</u>
CHANGE IN NET POSITION	5,607,380	18,214	53,810
NET POSITION AT BEGINNING OF YEAR,	<u>87,033,411</u>	<u>221,651</u>	<u>821,802</u>
NET POSITION AT END OF YEAR	<u>\$ 92,640,791</u>	<u>\$ 239,865</u>	<u>\$ 875,612</u>

See accompanying notes to basic financial statements.

CITY OF GLOUCESTER, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2017

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Unaudited financial statements of the System as of December 31, 2016 were issued and are available at the Retirement Office, 127 Eastern Avenue, Gloucester, Massachusetts 01930.

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

The Library is a non-profit corporation created by state statute in 1830. The Library’s primary operating support is City appropriations and it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Library is governed by a Board of Directors (the “Board”). The Board consists of at least nine, and no more than fifteen, Directors that are elected to three-year terms on a staggered basis at the annual meeting of the Library. The Mayor of the City of Gloucester serves as an ex-officio, non-voting member of the Board. Complete audited financial statements of the Library as of June 30, 2017 are available at the office of Gloucester Lyceum and Sawyer Free Library, Inc., 2 Dale Avenue, Gloucester, Massachusetts 01930.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements, except interfund services provided and used are not eliminated in the process of consolidation. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges for support. Likewise the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

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

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

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

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

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

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

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

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

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

The government reports the following major Governmental Funds:

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

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

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

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

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

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

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

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

The government reports the following major proprietary funds:

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

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

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

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

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

The government reports the following fiduciary funds:

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

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

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

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

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

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

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

Investments of the City and its component unit are recorded at fair value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three items that are reported as deferred inflows of resources. The first arises only under a modified accrual basis of accounting and, accordingly, the item *unavailable revenue* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, loans and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is reported on the government-wide statement of net position which relates to outflows from changes in the net pension liability. This will be recognized in pension expense in future years as more fully described in Note III, subsection A. The third item is reported on both the governmental funds

balance sheet and the government-wide statement of net position and related to taxes that have been paid in advance. Taxes paid in advance will be recognized as an inflow of resources in the period that the amounts become available.

Net Position – In the government-wide financial statements, net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

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

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

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

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

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

Loans represent the outstanding community development and brownfield loans.

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

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

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

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

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

Restricted represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources (from external

resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

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

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

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

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

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

Stabilization Funds – The City maintains a general stabilization fund under Massachusetts General Law (MGL) Chapter 40, Section 5B which may be used for any municipal purpose upon a two-thirds vote of the City Council. The balance of the fund totals \$1,953,544 at June 30, 2017 and is reported as unassigned fund balance in the General Fund.

The City also maintains a capital stabilization fund under MGL Chapter 40, Section 5B which may be used for any capital purpose upon a two-thirds vote of the City Council. The balance of the fund totals \$2,405,639 at June 30, 2017 and is reported as unassigned fund balance in the General Fund.

Encumbrances – The City's encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal purchasing activity as assigned, and (2) classify encumbrances that result from an action of the City Council as committed. Encumbrances of funds already restricted, or committed are included within the classification of those fund balances and not reported separately. The City reports \$2,127,380 of encumbrances from normal purchasing activity in the general fund as assigned. There are no encumbrances reported in any other fund.

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

	General Fund	West Parish School Construction	Capital Projects	Nonmajor Governmental Funds	Total
Restricted:					
School grants	\$ -	\$ -	\$ -	\$ 682,925	\$ 682,925
School lunch	-	-	-	154,056	154,056
School gifts	-	-	-	531,508	531,508
School revolving	-	-	-	410,306	410,306
Public safety grants	-	-	-	466,608	466,608
Public works grants	-	-	-	502,860	502,860
Other City grants	-	-	-	169,574	169,574
City revolving	-	-	-	1,312,828	1,312,828
Cable revolving	-	-	-	260,030	260,030
Capital outlay	-	-	1,170,829	-	1,170,829
Community preservation	-	-	-	1,187,411	1,187,411
Gift funds	-	-	-	750,969	750,969
Cemetery trust funds	-	-	-	962,902	962,902
Affordable housing trust fund:	-	-	-	248,237	248,237
Other trust funds	-	-	-	273,861	273,861
Debt service	250,809	-	-	-	250,809
Assigned:					
Purchase orders	2,127,380	-	-	-	2,127,380
Subsequent years' budget	227,725	-	-	-	227,725
Unassigned	8,088,307	(8,685,419)	(3,028,287)	(14,880)	(3,640,279)
	<u>\$10,694,221</u>	<u>\$ (8,685,419)</u>	<u>\$ (1,857,458)</u>	<u>\$ 7,899,195</u>	<u>\$ 8,050,539</u>

E. Excess of Expenditures Over Appropriations and Deficits

During fiscal year 2017, expenditures exceeded appropriations in the General Fund for snow and ice expenditures by \$298,896. This over-expenditure will be funded through available funds during fiscal year 2018.

The City incurred deficits of \$8,685,419, \$3,028,287, and \$14,800 in its West Parish School Construction, Capital Projects Major funds and Nonmajor Governmental Funds, respectively. These deficits will be funded through available revenues, grant funds or bond proceeds in future fiscal years.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "cash and cash equivalents". The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the City to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool (the Pool). In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the City did not enter into any repurchase agreements.

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

Custodial Credit Risk: Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk relative to cash holdings. At year-end, the carrying amount of the City's deposits was \$32,535,039 and the bank balance was \$33,645,303. Of the City's bank balance, \$20,270,022 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the City may not be able to recover the full amount of its principal investment and/or investment earnings. Of the City's investments, \$153,237 of corporate bonds, \$61,542 of money market mutual funds, \$102,205 of pooled alternative investments, \$424,883 of exchange traded funds and \$1,093,129 of mutual funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The City's investments in negotiable certificates of deposit are fully insured by the FDIC. The City does not have a formal investment policy related to custodial credit risk.

Fair Value of Investments – The City reports its investments at fair value. When actively quoted observable prices are not available, the City generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.

- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- *Level 3* – Inputs reflect the City’s best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the City’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2017:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
Corporate fixed income securities	\$ 153,237	\$ 153,237	\$ -	\$ -
Fixed income mutual funds	396,547	396,547	-	-
Fixed income exchange traded funds	120,688	120,688	-	-
Negotiable certificates of deposit	326,560	-	326,560	-
Total debt securities	997,032	670,472	326,560	-
Equity securities:				
Equity mutual funds	696,582	696,582	-	-
Equity exchange traded funds	304,195	304,195	-	-
Alternative equity pooled funds	102,205	102,205	-	-
Total equity securities	1,102,982	1,102,982	-	-
Total investments by fair value level	\$ 2,100,014	\$ 1,773,454	\$ 326,560	\$ -
Investments measured at amortized cost				
State investment pool (MMDT)	1,032,018			
Money market mutual funds	61,542			
Total investments	\$ 3,193,574			

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Negotiable certificates of deposit are classified in Level 2 valued on pricing based on the securities relationship to benchmark quoted prices. Money market mutual funds and the State Treasurer’s investment pool (MMDT) are valued at amortized cost. The MMDT’s investment advisor may value the pool using an alternative valuation method that more accurately reflects the fair value in accordance with the pools fair value pricing policies should amortized cost not approximate the fair value of the pool.

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

At June 30, 2017, the City had the following investments with maturities:

Investment Type	Fair Value	Time Until Maturity (Years)		
		Less Than 1	1-5	6-10
Corporate fixed income securities	\$ 153,237	\$ 24,991	\$ -	\$ 128,246
Negotiable certificates of deposit	326,560	142,760	133,478	50,322
Fixed income mutual funds	396,547	-	39,919	356,628
Fixed income exchange traded funds	120,688	-	120,688	-
State investment pool (MMDT)	1,032,018	1,032,018	-	-
Money market mutual funds	61,542	61,542	-	-
Total investments with maturities	<u>\$ 2,090,592</u>	<u>\$ 1,261,311</u>	<u>\$ 294,085</u>	<u>\$ 535,196</u>

Concentration of Credit Risk – The City does not place a limit on the amount that may be invested in any one issuer. The City has 32% of its investments in MMDT.

Credit Risk – The City has not adopted a formal policy related to credit risk. At June 30, 2017, corporate fixed income securities of \$25,457 were rated as AA+, \$76,815 were rated as AA-, \$25,596 were rated as A and \$25,369 were rated A- by Standard and Poor’s. The City’s remaining investments were unrated.

The System

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

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System does not have a policy for custodial credit risk. At December 31, 2016, the System had bank deposits of \$376,831 exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System does not have a policy for custodial credit risk. At December 31, 2016, the System was not exposed to custodial credit risk on its investments.

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

Concentration of Credit Risk: Investments – The System does not have a policy for concentration of credit risk. As of December 31, 2016, the System was not exposed to this risk.

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

At December 31, 2016, the System’s investments in PRIT totaling \$91,659,831 are valued at amortized cost.

Discretely Presented Component Unit – Library

At June 30, 2017, the Library’s carrying amount of cash totaling \$382,408 was fully insured.

The Library had the following investments at June 30, 2017 which are all classified in Level 1 under the fair value framework using prices quoted in active markets for those securities:

Investment Type	Fair Value	Time Until Maturity (Years)		
		Less Than 1	1-5	6-10
Corporate fixed income securities	\$ 1,254,695	\$ -	\$ 741,927	\$ 512,768
Municipal government obligations	107,403	-	-	107,403
Certificates of deposit	1,430,223	269,079	1,024,036	137,108
Fixed income mutual funds	318,124	-	245,020	73,104
Fixed income exchange traded funds	341,532	-	341,532	-
Money market funds	265,324	265,324	-	-
Total investments with maturities	\$ 3,717,301	\$ 534,403	\$ 2,352,515	\$ 830,383

Other Investments:

Common stock	50,407
Equity mutual funds	1,900,791
Equity exchange traded funds	334,249
Total Library investments	\$ 6,002,748

The Library’s investments were rated at June 30, 2017 as follows:

Quality Ratings (S & P)	Corporate Fixed Income	Municipal Government Obligations	Totals
AA+	\$ 152,201	\$ 107,403	\$ 259,604
AA-	128,211	-	128,211
A+	260,569	-	260,569
A	308,061	-	308,061
A-	279,082	-	279,082
Unrated	126,571	-	126,571
Totals - All	\$ 1,254,695	\$ 107,403	\$ 1,362,098

All other investments were unrated.

B. Receivables

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Real estate and personal property taxes	\$ 962,565	\$ (158,020)	\$ 804,545
Community preservation surcharges	16,062	-	16,062
Tax liens and deferrals	2,298,347	-	2,298,347
Motor vehicle and other excise taxes	525,186	(86,524)	438,662
Special assessments	316,417	-	316,417
Ambulance fees	1,709,395	(338,833)	1,370,562
Parking fines	354,149	(297,451)	56,698
Public safety details	182,787	-	182,787
Other departmental	125,618	-	125,618
Loans	5,861,802	-	5,861,802
Intergovernmental	2,099,488	-	2,099,488
Total	<u>\$ 14,451,816</u>	<u>\$ (880,828)</u>	<u>\$ 13,570,988</u>

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
Receivables:			
Water user charges	\$ 2,252,430	\$ -	\$ 2,252,430
Sewer user charges	3,275,392	-	3,275,392
Sewer betterments	7,414,753	-	7,414,753
Sewer intergovernmental	1,217,776	-	1,217,776
Waterways boat excise	67,447	-	67,447
Waterways user charges	26,008	-	26,008
Total	<u>\$ 14,253,806</u>	<u>\$ -</u>	<u>\$ 14,253,806</u>

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

	General Fund	Other Governmental Funds	Total
Receivables and other asset type:			
Real estate and personal property taxes	\$ 804,545	\$ -	\$ 804,545
Community preservation surcharges	-	16,062	16,062
Tax liens and deferrals	2,298,347	-	2,298,347
Motor vehicle and other excise taxes	438,662	-	438,662
Special assessments	110,163	206,254	316,417
Ambulance fees	1,370,562	-	1,370,562
Parking fines	56,698	-	56,698
Other departmental	10,399	-	10,399
Loans	-	5,861,802	5,861,802
Tax foreclosures	493,992	-	493,992
Total	<u>\$ 5,583,368</u>	<u>\$ 6,084,118</u>	<u>\$ 11,667,486</u>

Sewer Betterments – Unapportioned sewer betterments totaling \$7,038,273 are included in the betterments receivable amount and represent amounts that are expected to be billed in future years for sewer projects that have been funded through bond issuances and taxation.

School Building Assistance Reimbursement – As of June 30, 2017, the City expects to receive the balance of grants from the Commonwealth of Massachusetts totaling approximately \$0.4 million applicable to approved school construction costs. This amount is due in a lump sum during fiscal year 2018. In the Governmental funds, a receivable for this amount has been included under the caption Intergovernmental.

MCWT Loan Subsidies – The City has entered into numerous loan agreements with the Massachusetts Clean Water Trust (“MCWT”). It is expected that the City will be subsidized by MCWT on a periodic basis for principal in the amount of \$1,217,776 and interest in the amount of \$410,315 until the maturity of these agreements. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amount of \$1,217,776 is reported as an intergovernmental receivable in the sewer enterprise fund.

C. Interfund Receivables, Payables and Transfers

The composition of interfund balances at June 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds - Roadway Improvements	\$ 14,880

The outstanding balances between funds result mainly from the timing difference between the dates that (1) reimbursable expenditures occur, (2) the intergovernmental reimbursements are received and (3) the payments to the general fund are made.

The composition of interfund transfers for the fiscal year ended June 30, 2017 is as follows:

Transfers In	Transfers Out			Total	
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds		
General Fund	\$ -	\$ -	\$ 138,835	\$ 138,835	(1)
West Parish School Construction	435,539	-	-	435,539	(2)
Capital Projects Fund	420,000	18,700	220,930	659,630	(3)
Nonmajor Governmental Funds	130,000	-	-	130,000	(4)
Water Enterprise Fund	2,717,989	-	-	2,717,989	(5)
Sewer Enterprise Fund	2,391,983	-	-	2,391,983	(5)
Waterways Enterprise Fund	64,150	-	-	64,150	(6)
Rink Enterprise Fund	35,996	-	-	35,996	(5)
Total	<u>\$ 6,195,657</u>	<u>\$ 18,700</u>	<u>\$ 359,765</u>	<u>\$ 6,574,122</u>	

- (1) Transfers to General Fund to supplement operating budgets.
- (2) Transfers to West Parish School Construction for additional construction costs.
- (3) Transfers to Capital Projects Fund for various capital projects.
- (4) Transfers to Nonmajor Governmental Funds to supplement operations.
- (5) Transfers to Water, Sewer and Rink enterprise funds for debt service costs.
- (6) Transfers to Waterways Enterprise Fund to supplement operations.

D. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 19,218,983	\$ -	\$ -	\$ 19,218,983
Construction in process	48,584,597	9,366,909	(4,541,058)	53,410,448
Total capital assets not being depreciated	67,803,580	9,366,909	(4,541,058)	72,629,431
Capital assets being depreciated:				
Buildings	63,947,367	572,660	-	64,520,027
Building improvements	15,161,535	1,885,966	-	17,047,501
Machinery and equipment	10,158,926	415,068	(765,659)	9,808,335
Vehicles	9,229,912	306,777	(582,935)	8,953,754
Other	1,842,068	71,988	-	1,914,056
Infrastructure	27,807,332	4,807,336	-	32,614,668
Total capital assets being depreciated	128,147,140	8,059,795	(1,348,594)	134,858,341
Less accumulated depreciation for:				
Buildings	(43,399,622)	(2,179,968)	-	(45,579,590)
Building improvements	(5,385,558)	(750,391)	-	(6,135,949)
Machinery and equipment	(7,305,097)	(1,420,596)	765,659	(7,960,034)
Vehicles	(5,814,335)	(1,237,036)	582,935	(6,468,436)
Other	(1,053,810)	(112,699)	-	(1,166,509)
Infrastructure	(6,283,367)	(887,348)	-	(7,170,715)
Total accumulated depreciation	(69,241,789)	(6,588,038)	1,348,594	(74,481,233)
Total capital assets being depreciated, net	58,905,351	1,471,757	-	60,377,108
Total governmental activities capital assets, net	\$ 126,708,931	\$ 10,838,666	\$ (4,541,058)	\$ 133,006,539
<i>Business-Type Activities - All:</i>				
Capital assets not being depreciated:				
Land	\$ 4,512,584	\$ -	\$ -	\$ 4,512,584
Construction in process	8,343,226	4,985,525	(4,397,828)	8,930,923
Total capital assets not being depreciated	12,855,810	4,985,525	(4,397,828)	13,443,507
Capital assets being depreciated:				
Buildings	4,655,741	-	-	4,655,741
Building improvements	2,518,023	-	-	2,518,023
Machinery and equipment	2,583,799	22,250	(17,000)	2,589,049
Vehicles	1,146,371	771,793	(81,016)	1,837,148
Other	344,327	-	-	344,327
Infrastructure	267,789,146	5,186,946	-	272,976,092
Total capital assets being depreciated	279,037,407	5,980,989	(98,016)	284,920,380
Less accumulated depreciation for:				
Buildings	(4,358,674)	(25,234)	-	(4,383,908)
Building improvements	(1,147,900)	(123,852)	-	(1,271,752)
Machinery and equipment	(1,683,055)	(159,529)	6,800	(1,835,784)
Vehicles	(1,045,835)	(74,304)	81,016	(1,039,123)
Other	(313,729)	(27,450)	-	(341,179)
Infrastructure	(73,632,692)	(5,497,513)	-	(79,130,205)
Total accumulated depreciation	(82,181,885)	(5,907,882)	87,816	(88,001,951)
Total capital assets being depreciated, net	196,855,522	73,107	(10,200)	196,918,429
Total business-type activities capital assets, net	\$ 209,711,332	\$ 5,058,632	\$ (4,408,028)	\$ 210,361,936

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-type Activities: Water</u></i>				
Capital assets not being depreciated:				
Land	\$ 3,594,263	\$ -	\$ -	\$ 3,594,263
Construction in process	4,429,572	1,799,467	(4,255,504)	1,973,535
Total capital assets not being depreciated	<u>8,023,835</u>	<u>1,799,467</u>	<u>(4,255,504)</u>	<u>5,567,798</u>
Capital assets being depreciated:				
Buildings	160,023	-	-	160,023
Building improvements	177,286	-	-	177,286
Machinery and equipment	1,449,542	-	-	1,449,542
Vehicles	516,162	161,365	(81,016)	596,511
Other	77,977	-	-	77,977
Infrastructure	75,845,534	4,911,946	-	80,757,480
Total capital assets being depreciated	<u>78,226,524</u>	<u>5,073,311</u>	<u>(81,016)</u>	<u>83,218,819</u>
Less accumulated depreciation for:				
Buildings	(160,023)	-	-	(160,023)
Building improvements	(31,024)	(8,864)	-	(39,888)
Machinery and equipment	(937,223)	(73,876)	-	(1,011,099)
Vehicles	(459,657)	(31,970)	81,016	(410,611)
Other	(71,562)	(6,415)	-	(77,977)
Infrastructure	(16,135,442)	(1,654,649)	-	(17,790,091)
Total accumulated depreciation	<u>(17,794,931)</u>	<u>(1,775,774)</u>	<u>81,016</u>	<u>(19,489,689)</u>
Total capital assets being depreciated, net	<u>60,431,593</u>	<u>3,297,537</u>	<u>-</u>	<u>63,729,130</u>
Total Water capital assets, net	<u>\$ 68,455,428</u>	<u>\$ 5,097,004</u>	<u>\$ (4,255,504)</u>	<u>\$ 69,296,928</u>
<i><u>Business-type Activities: Sewer</u></i>				
Capital assets not being depreciated:				
Land	\$ 379,839	\$ -	\$ -	\$ 379,839
Construction in process	3,913,654	3,085,566	(142,324)	6,856,896
Total capital assets not being depreciated	<u>4,293,493</u>	<u>3,085,566</u>	<u>(142,324)</u>	<u>7,236,735</u>
Capital assets being depreciated:				
Buildings	\$ 4,370,258	\$ -	\$ -	\$ 4,370,258
Building improvements	239,887	-	-	239,887
Machinery and equipment	449,065	-	-	449,065
Vehicles	606,959	610,428	-	1,217,387
Other	266,350	-	-	266,350
Infrastructure	190,928,385	275,000	-	191,203,385
Total capital assets being depreciated	<u>196,860,904</u>	<u>885,428</u>	<u>-</u>	<u>197,746,332</u>
Less accumulated depreciation for:				
Buildings	(4,117,999)	(7,312)	-	(4,125,311)
Building improvements	(60,661)	(10,702)	-	(71,363)
Machinery and equipment	(373,538)	(17,777)	-	(391,315)
Vehicles	(562,928)	(42,334)	-	(605,262)
Other	(242,167)	(21,035)	-	(263,202)
Infrastructure	(57,258,821)	(3,821,150)	-	(61,079,971)
Total accumulated depreciation	<u>(62,616,114)</u>	<u>(3,920,310)</u>	<u>-</u>	<u>(66,536,424)</u>
Total capital assets being depreciated, net	<u>134,244,790</u>	<u>(3,034,882)</u>	<u>-</u>	<u>131,209,908</u>
Total Sewer capital assets, net	<u>\$ 138,538,283</u>	<u>\$ 50,684</u>	<u>\$ (142,324)</u>	<u>\$ 138,446,643</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i><u>Business-type Activities: Waterways</u></i>				
Capital assets not being depreciated:				
Land	\$ 538,482	\$ -	\$ -	\$ 538,482
Construction in process	-	53,897	-	53,897
Total capital assets not being depreciated	<u>538,482</u>	<u>53,897</u>	<u>-</u>	<u>592,379</u>
Capital assets being depreciated:				
Building improvements	\$ 1,297,714	\$ -	\$ -	\$ 1,297,714
Machinery and equipment	396,376	22,250	(17,000)	401,626
Vehicles	23,250	-	-	23,250
Infrastructure	1,015,227	-	-	1,015,227
Total capital assets being depreciated	<u>2,732,567</u>	<u>22,250</u>	<u>(17,000)</u>	<u>2,737,817</u>
Less accumulated depreciation for:				
Building improvements	(880,865)	(64,130)	-	(944,995)
Machinery and equipment	(259,555)	(38,818)	6,800	(291,573)
Vehicles	(23,250)	-	-	(23,250)
Infrastructure	(238,429)	(21,714)	-	(260,143)
Total accumulated depreciation	<u>(1,402,099)</u>	<u>(124,662)</u>	<u>6,800</u>	<u>(1,519,961)</u>
Total capital assets being depreciated, net	<u>1,330,468</u>	<u>(102,412)</u>	<u>(10,200)</u>	<u>1,217,856</u>
Total Waterways capital assets, net	<u>\$ 1,868,950</u>	<u>\$ (48,515)</u>	<u>\$ (10,200)</u>	<u>\$ 1,810,235</u>

<i><u>Business-type Activities: Rink</u></i>				
Capital assets not being depreciated:				
Construction in process	\$ -	\$ 46,595	\$ -	\$ 46,595
Total capital assets not being depreciated	<u>-</u>	<u>46,595</u>	<u>-</u>	<u>46,595</u>
Capital assets being depreciated:				
Buildings	\$ 125,460	\$ -	\$ -	\$ 125,460
Building improvements	803,136	-	-	803,136
Machinery and equipment	288,816	-	-	288,816
Total capital assets being depreciated	<u>1,217,412</u>	<u>-</u>	<u>-</u>	<u>1,217,412</u>
Less accumulated depreciation for:				
Buildings	(80,652)	(17,922)	-	(98,574)
Building improvements	(175,350)	(40,156)	-	(215,506)
Machinery and equipment	(112,739)	(29,058)	-	(141,797)
Total accumulated depreciation	<u>(368,741)</u>	<u>(87,136)</u>	<u>-</u>	<u>(455,877)</u>
Total capital assets being depreciated, net	<u>848,671</u>	<u>(87,136)</u>	<u>-</u>	<u>761,535</u>
Total Rink capital assets, net	<u>\$ 848,671</u>	<u>\$ (40,541)</u>	<u>\$ -</u>	<u>\$ 808,130</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 401,246	Water	\$ 1,775,774
Public safety	1,629,339	Sewer	3,920,310
Education	2,631,519	Waterways	124,662
Public works	1,815,036	Rink	87,136
Health and human services	2,400		<u>\$ 5,907,882</u>
Culture and recreation	108,498		
	<u>\$ 6,588,038</u>		

Discretely Presented Component Unit – Library

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in process	-	193,517	-	193,517
Total capital assets not being depreciated	<u>1,000</u>	<u>193,517</u>	<u>-</u>	<u>194,517</u>
Capital assets being depreciated:				
Building improvements	\$ 4,313,156	\$ 98,643	\$ -	\$ 4,411,799
Machinery and equipment	296,525	29,842	-	326,367
Total capital assets being depreciated	<u>4,609,681</u>	<u>128,485</u>	<u>-</u>	<u>4,738,166</u>
Less accumulated depreciation for:				
Buildings, improvements and equipment	(1,744,141)	(152,806)	-	(1,896,947)
Total accumulated depreciation	<u>(1,744,141)</u>	<u>(152,806)</u>	<u>-</u>	<u>(1,896,947)</u>
Total capital assets being depreciated, net	<u>2,865,540</u>	<u>(24,321)</u>	<u>-</u>	<u>2,841,219</u>
Total component unit capital assets, net	<u>\$ 2,866,540</u>	<u>\$ 169,196</u>	<u>\$ -</u>	<u>\$ 3,035,736</u>

E. Leases

The City has entered into various non-cancelable leases for streetlights and departmental vehicles. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

	Governmental Activities	Business-type Activities	Total
<i>Asset:</i>			
Streetlights	\$ 882,191	\$ -	\$ 882,191
Vehicles	221,517	610,428	831,945
Less: accumulated depreciation	(124,353)	(31,597)	(155,950)
Total	<u>\$ 979,355</u>	<u>\$ 578,831</u>	<u>\$ 1,558,186</u>

The future minimum lease payments and the present value of the minimum lease payments at June 30, 2017, are as follows:

Fiscal Year Ended June 30,	Governmental Activities	Business-type Activities	Total
2018	\$ 162,734	\$ 165,568	\$ 328,302
2019	148,485	165,568	314,053
2020	116,360	165,568	281,928
2021	102,702	-	102,702
2022	102,702	-	102,702
2023-2027	462,161	-	462,161
Total minimum lease payments	1,095,144	496,704	1,591,848
Less: amounts representing interest	(123,969)	(36,276)	(160,245)
Present value of minimum lease payments	<u>\$ 971,175</u>	<u>\$ 460,428</u>	<u>\$ 1,431,603</u>

F. Temporary Debt

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

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

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

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

BAN’s outstanding at year end were issued for school construction and improvements (\$10,500,000), roadways (\$336,000), seawall construction (\$558,000), departmental equipment and building repairs (\$1,400,000), other governmental projects combined (\$2,000,000), water projects (\$4,830,000) and sewer projects (\$4,870,000).

Temporary notes outstanding at June 30, 2017, are payable as follows:

Type	Interest Rate	Maturity Date	July 1, 2016	Additions	Retirements	June 30, 2017
<i>Governmental Activities</i>						
BAN	2.00%	Matured	\$ 5,750,000	\$ -	\$ (5,750,000)	\$ -
BAN	2.00%	Matured	10,000,000	-	(10,000,000)	-
BAN	1.50%	Matured	1,560,000	-	(1,560,000)	-
BAN	2.00%	Matured	-	5,750,000	(5,750,000)	-
BAN	2.00%	02/02/18	-	10,308,000	-	10,308,000
BAN	1.75%	02/08/18	-	1,000,000	-	1,000,000
BAN	2.00%	02/08/18	-	2,486,000	-	2,486,000
MCWT	0.10%	12/31/18	-	1,000,000	-	1,000,000
Total Governmental Notes			<u>17,310,000</u>	<u>20,544,000</u>	<u>(23,060,000)</u>	<u>14,794,000</u>
<i>Business-type Activities</i>						
BAN	2.00%	Matured	400,000	-	(400,000)	-
BAN	2.00%	Matured	3,125,000	-	(3,125,000)	-
BAN	1.50%	Matured	5,960,000	-	(5,960,000)	-
BAN	2.00%	02/02/18	-	6,885,000	-	6,885,000
BAN	2.00%	02/08/18	-	2,815,000	-	2,815,000
MCWT	0.10%	12/31/18	94,565	-	(94,565)	-
Total Business-Type Notes			<u>9,579,565</u>	<u>9,700,000</u>	<u>(9,579,565)</u>	<u>9,700,000</u>
Total Notes Payable			<u>\$26,889,565</u>	<u>\$30,244,000</u>	<u>\$(32,639,565)</u>	<u>\$24,494,000</u>

G. Long-Term Obligations

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

On February 2, 2017, the City issued \$8,850,000 in general obligation bonds that mature on various dates through February 1, 2037 and pays interest at 3%-4% per annum. Bonds totaling \$6,716,650 will be used for City capital purposes and has been recorded in the governmental activities, with the remaining \$2,133,350 recorded in the Water Enterprise Fund.

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

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
Bond and note indebtedness	\$ 37,286,493	\$ 6,716,650	\$ (3,825,648)	\$ 40,177,495	\$ 3,559,602
Unamortized bond premium	351,814	1,358,298	(65,867)	1,644,245	157,503
Capital leases	957,729	90,028	(76,582)	971,175	135,442
Landfill closure	440,000	-	(20,000)	420,000	20,000
Compensated absences	2,714,561	331,992	(271,456)	2,775,097	277,510
Workers' compensation claims	314,988	312,405	(257,222)	370,171	92,543
Net pension liability	88,106,727	22,300,365	(12,228,131)	98,178,961	-
Other postemployment benefits	60,540,372	11,588,349	(5,560,638)	66,568,083	-
Total Governmental Activities	\$ 190,712,684	\$ 42,698,087	\$ (22,305,544)	\$211,105,227	\$ 4,242,600
<i>Business-Type Activities - Water:</i>					
Bond and note debt	\$ 41,209,199	\$ 2,133,350	\$ (2,784,798)	\$ 40,557,751	\$ 2,900,324
Unamortized bond premium	468,990	85,526	(43,510)	511,006	50,482
Compensated absences	114,379	4,352	(26,393)	92,338	9,234
Net pension liability	4,362,604	1,104,202	(605,476)	4,861,330	-
Other postemployment benefits	1,205,538	232,313	(111,539)	1,326,312	-
Total Water	47,360,710	3,559,743	(3,571,716)	47,348,737	2,960,040
<i>Business-Type Activities - Sewer:</i>					
Bond and note debt	58,908,790	-	(5,094,962)	53,813,828	4,764,532
Unamortized bond premium	234,046	26,426	(27,618)	232,854	29,450
Capital leases	-	610,428	(150,000)	460,428	147,658
Compensated absences	22,221	7,634	(2,222)	27,633	2,763
Net pension liability	4,169,715	1,055,381	(578,706)	4,646,390	-
Other postemployment benefits	1,088,604	216,156	(103,781)	1,200,979	-
Total Sewer	64,423,376	1,916,025	(5,957,289)	60,382,112	4,944,403
<i>Business-Type Activities - Waterways:</i>					
Compensated absences	35,588	425	(32,290)	3,723	372
Net pension liability	388,994	98,457	(53,988)	433,463	-
Other postemployment benefits	210,372	38,771	(18,615)	230,528	-
Total Waterways	634,954	137,653	(104,893)	667,714	372
<i>Business-Type Activities - Rink:</i>					
Bond and note debt	843,910	-	(53,759)	790,151	48,760
Compensated absences	3,556	429	(356)	3,629	363
Net pension liability	219,849	55,645	(30,512)	244,982	-
Other postemployment benefits	93,547	27,677	(13,289)	107,935	-
Total Rink	1,160,862	83,751	(97,916)	1,146,697	49,123
Total Business-Type Activities	\$ 113,579,902	\$ 5,697,172	\$ (9,731,814)	\$109,545,260	\$ 7,953,938

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

The following is a summary of outstanding long-term debt obligations as of June 30, 2017:

Description of Issue	Interest Rate	Beginning Balance	Additions	Maturities	Ending Balance
<i>Governmental Activities:</i>					
General Obligation Bonds	2.00 - 5.00%	\$ 28,180,089	\$ 6,716,650	\$ (1,608,240)	\$ 33,288,499
Refunding Bonds	2.00 - 5.00%	4,364,770	-	(1,834,700)	2,530,070
MCWT notes	0%	4,741,634	-	(382,708)	4,358,926
Total Governmental Activities		<u>37,286,493</u>	<u>6,716,650</u>	<u>(3,825,648)</u>	<u>40,177,495</u>
Add: Unamortized bond premium		351,814	1,358,298	(65,867)	1,644,245
Total Governmental Activities, net		<u>\$ 37,638,307</u>	<u>\$ 8,074,948</u>	<u>\$ (3,891,515)</u>	<u>\$ 41,821,740</u>
<i>Business-Type Activities - Water:</i>					
General Obligation Bonds	2.00 - 5.00%	\$ 9,531,139	\$ 2,133,350	\$ (540,447)	\$ 11,124,042
Refunding Bonds	2.00 - 5.00%	6,555,415	-	(979,300)	5,576,115
MCWT notes	0.00 - 2.00%	25,122,645	-	(1,265,051)	23,857,594
Total Water		<u>41,209,199</u>	<u>2,133,350</u>	<u>(2,784,798)</u>	<u>40,557,751</u>
Add: Unamortized bond premium		468,990	85,526	(43,510)	511,006
Total Water, net		<u>41,678,189</u>	<u>2,218,876</u>	<u>(2,828,308)</u>	<u>41,068,757</u>
<i>Business-Type Activities - Sewer:</i>					
General Obligation Bonds	2.00 - 5.00%	17,811,000	-	(948,000)	16,863,000
Refunding Bonds	2.00 - 5.00%	5,354,815	-	(876,000)	4,478,815
MCWT notes	0.00%	35,742,975	-	(3,270,962)	32,472,013
Total Sewer		<u>58,908,790</u>	<u>-</u>	<u>(5,094,962)</u>	<u>53,813,828</u>
Add: Unamortized bond premium		234,046	26,426	(27,618)	232,854
Total Sewer, net		<u>59,142,836</u>	<u>26,426</u>	<u>(5,122,580)</u>	<u>54,046,682</u>
<i>Business-Type Activities - Rink:</i>					
General Obligation Bonds	2.00 - 5.00%	843,910	-	(53,759)	790,151
Total Rink		<u>843,910</u>	<u>-</u>	<u>(53,759)</u>	<u>790,151</u>
Total Business-Type Activities, net		<u>\$ 101,664,935</u>	<u>\$ 2,245,302</u>	<u>\$ (8,004,647)</u>	<u>\$ 95,905,590</u>

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

Year Ending June 30	Principal			Interest			Total
	Balance	Subsidy	Net of Subsidy	Balance	Subsidy	Net of Subsidy	
<i>Governmental Activities</i>							
2018	\$ 3,559,602	\$ -	\$ 3,559,602	\$ 1,225,941	\$ (9,516)	\$ 1,216,425	\$ 4,776,027
2019	3,499,759	-	3,499,759	1,107,699	(6,480)	1,101,219	4,600,978
2020	3,206,752	-	3,206,752	989,340	(4,000)	985,340	4,192,092
2021	2,974,529	-	2,974,529	882,493	(2,539)	879,954	3,854,483
2022	2,783,497	-	2,783,497	784,410	(2,040)	782,370	3,565,867
2023-2027	12,200,918	-	12,200,918	2,627,283	-	2,627,283	14,828,201
2028-2032	6,934,679	-	6,934,679	1,147,494	-	1,147,494	8,082,173
2033-2037	5,017,759	-	5,017,759	401,748	-	401,748	5,419,507
Total	<u>\$ 40,177,495</u>	<u>\$ -</u>	<u>\$ 40,177,495</u>	<u>\$ 9,166,408</u>	<u>\$ (24,575)</u>	<u>\$ 9,141,833</u>	<u>\$ 49,319,328</u>
<i>Business-Type Activities: Water</i>							
2018	\$ 2,900,324	\$ -	\$ 2,900,324	\$ 1,040,532	\$ -	\$ 1,040,532	\$ 3,940,856
2019	2,930,724	-	2,930,724	956,201	-	956,201	3,886,925
2020	2,722,485	-	2,722,485	872,784	-	872,784	3,595,269
2021	2,729,556	-	2,729,556	795,810	-	795,810	3,525,366
2022	2,483,466	-	2,483,466	724,204	-	724,204	3,207,670
2023-2027	11,916,903	-	11,916,903	2,655,094	-	2,655,094	14,571,997
2028-2032	10,441,938	-	10,441,938	1,282,827	-	1,282,827	11,724,765
2033-2037	4,432,355	-	4,432,355	233,647	-	233,647	4,666,002
Total	<u>\$ 40,557,751</u>	<u>\$ -</u>	<u>\$ 40,557,751</u>	<u>\$ 8,561,099</u>	<u>\$ -</u>	<u>\$ 8,561,099</u>	<u>\$ 49,118,850</u>
<i>Business-Type Activities: Sewer</i>							
2018	\$ 4,764,532	\$ (288,997)	\$ 4,475,535	\$ 1,441,480	\$ (154,885)	\$ 1,286,595	\$ 5,762,130
2019	4,830,344	(299,313)	4,531,031	1,289,911	(120,324)	1,169,587	5,700,618
2020	4,867,982	(313,048)	4,554,934	1,135,371	(82,145)	1,053,226	5,608,160
2021	4,830,236	(316,418)	4,513,818	980,227	(28,386)	951,841	5,465,659
2022	3,451,579	-	3,451,579	858,695	-	858,695	4,310,274
2023-2027	16,444,328	-	16,444,328	3,055,285	-	3,055,285	19,499,613
2028-2032	13,145,990	-	13,145,990	1,183,482	-	1,183,482	14,329,472
2033-2037	1,478,837	-	1,478,837	55,738	-	55,738	1,534,575
Total	<u>\$ 53,813,828</u>	<u>\$ (1,217,776)</u>	<u>\$ 52,596,052</u>	<u>\$ 10,000,189</u>	<u>\$ (385,740)</u>	<u>\$ 9,614,449</u>	<u>\$ 62,210,501</u>
<i>Business-Type Activities: Rink</i>							
2018	\$ 48,760	\$ -	\$ 48,760	\$ 27,085	\$ -	\$ 27,085	\$ 75,845
2019	48,759	-	48,759	25,155	-	25,155	73,914
2020	48,760	-	48,760	23,053	-	23,053	71,813
2021	48,759	-	48,759	21,123	-	21,123	69,882
2022	53,760	-	53,760	19,509	-	19,509	73,269
2023-2027	228,797	-	228,797	73,356	-	73,356	302,153
2028-2032	238,797	-	238,797	36,436	-	36,436	275,233
2033-2037	73,759	-	73,759	3,356	-	3,356	77,115
Total	<u>\$ 790,151</u>	<u>\$ -</u>	<u>\$ 790,151</u>	<u>\$ 229,073</u>	<u>\$ -</u>	<u>\$ 229,073</u>	<u>\$ 1,019,224</u>
<i>Business-Type Activities: Total</i>							
2018	\$ 7,713,616	\$ (288,997)	\$ 7,424,619	\$ 2,509,097	\$ (154,885)	\$ 2,354,212	\$ 9,778,831
2019	7,809,827	(299,313)	7,510,514	2,271,267	(120,324)	2,150,943	9,661,457
2020	7,639,227	(313,048)	7,326,179	2,031,208	(82,145)	1,949,063	9,275,242
2021	7,608,551	(316,418)	7,292,133	1,797,160	(28,386)	1,768,774	9,060,907
2022	5,988,805	-	5,988,805	1,602,408	-	1,602,408	7,591,213
2023-2027	28,590,028	-	28,590,028	5,783,735	-	5,783,735	34,373,763
2028-2032	23,826,725	-	23,826,725	2,502,745	-	2,502,745	26,329,470
2033-2037	5,984,951	-	5,984,951	292,741	-	292,741	6,277,692
Total	<u>\$ 95,161,730</u>	<u>\$ (1,217,776)</u>	<u>\$ 93,943,954</u>	<u>\$ 18,790,361</u>	<u>\$ (385,740)</u>	<u>\$ 18,404,621</u>	<u>\$ 112,348,575</u>

MCWT Loan Subsidies – As previously noted in Note I. B., the City has entered into loan agreements with the MCWT. It is expected that the City will be subsidized by MCWT on a periodic basis for principal in the amount of \$1,217,776 and interest in the amount of \$410,315 until the maturity of these agreements.

The following represents authorized and unissued debt as of June 30, 2017:

<u>Project</u>	<u>Amount</u>
<i>Governmental:</i>	
West Parish elementary school	\$ 1,088,974
School roofs	5,478,430
Roads, drains and sidewalks	1,359,476
Seawalls	620,000
Spillway and dam remodeling	1,800,000
Other capital projects	2,399,125
<i>Business-type:</i>	
Water projects	878,055
Sewer projects	3,676,419
Rink equipment	6,000
Total Authorized and Unissued	<u>\$ 17,306,479</u>

III. Other Information

A. Retirement System

Pension Plan Description – The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan for the City and the Gloucester Housing Authority. The System was established under Chapter 32 of Massachusetts General Laws. The System is administered by the City and is included as part of the reporting entity as fiduciary fund. Unaudited financial statements for the year ended December 31, 2016 are available at the Retirement Office, 127 Eastern Avenue, Gloucester, Massachusetts.

Current membership in the System for all employers as of December 31, 2016 was as follows:

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

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

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and job classification.

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

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

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

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

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

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

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

The City contributed \$7,797,835 to the System in fiscal year 2017, which equaled the actuarially-determined contribution requirement for the fiscal year. The City's contributions as a percentage of covered payroll was approximately 28.3% in fiscal year 2017.

Net Pension Liability – At June 30, 2017, the City reported a liability of \$108,365,126 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was

determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2016. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System's benefit terms since the actuarial valuation.

The City's proportion of the net pension liability is based on a projection of the City's long-term share of contributions to the System relative to the projected contributions of all employers. The City's proportion was approximately 94.96% at December 31, 2016, which was consistent with the proportion measured at January 1, 2016.

Fiduciary Net Position – The elements of the System's basic financial statements (that is, all information about the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the fiduciary fund financial statements. The System's unaudited financial statements as of and for the year ended December 31, 2016 can be obtained by contacting the Retirement Board.

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

Pension Expense – The City recognized \$12,351,030 in pension expense in the statement of activities in fiscal year 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ 3,621,315	\$ -
Differences between expected and actual experience	-	574,027
Changes of assumptions	7,978,036	-
Changes in proportion and differences between City contributions and proportionate share of contributions	634,801	9,237
Total	<u>\$ 12,234,152</u>	<u>\$ 583,264</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized as a credit in the City’s pension expense as follows:

<u>Year ended June 30,</u>	
2018	\$ 3,245,186
2019	3,245,187
2020	3,206,345
2021	1,954,170
Total	<u>\$ 11,650,888</u>

Actuarial Valuation – The measurement of the System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Actuarial cost method:	Entry age normal
Amortization method:	Level dollar for the 2002 and 2003 ERIs and increasing amortization for the remaining unfunded liability such that the total appropriation increases 6.15% per year
Remaining amortization period:	Four years from July 1, 2014 for the 2002 and 2013 ERI liabilities and 20 years from July 1, 2014 for the remaining unfunded liability
Asset valuation method:	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the differences between the actual and expected return on an actuarial value basis, and is recognized over a four-year period, further adjusted, if necessary, to be within 10% of the market value.
Investment rate of return:	7.50%, net of pension plan investment expense, including inflation
Inflation rate:	3.5%
Projected salary increases:	4.50%
Cost of living adjustments:	3% on the first \$14,000 of retirement income

The investment rate of return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns and professional judgment. The market expectations analysis used a building-block approach, which included expected returns by asset class and the target asset allocation.

The target allocation and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	18%	6.44%
International developed markets equity	16%	7.40%
International emerging markets equity	6%	9.42%
Core fixed income	13%	2.02%
High-yield fixed income	10%	4.43%
Real estate	10%	5.00%
Commodities	4%	4.43%
Hedge fund, GTAA, risk parity	13%	3.75%
Private equity	10%	10.47%

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2016 actuarial valuation report was 7.50%, which was a reduction from the previous discount rate of 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as the City’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% increase (8.50%)
City's proportionate share of the net pension liability	\$ 129,398,863	\$ 108,365,126	\$ 90,482,655

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

The Commonwealth is a nonemployer contributor to the MTRS and is legally responsible by statute for all actuarially determined employer contributions and future benefit requirements of

the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

For the year ended June 30, 2017, the Commonwealth contributed \$3,786,177 to the MTRS on behalf of the City. The City's proportionate share of the collective MTRS net pension liability at this reporting date was 0.336674%, which was based on the actual, actuarially determined contribution made by the Commonwealth on behalf of the City as a percentage of the total annual contribution made by the Commonwealth on behalf of all employers.

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

	Commonwealth Portion	Paid (or assumed) On Behalf of the City	City Portion
Net pension liability	\$ 75,273,297	\$ (75,273,297)	\$ —
Pension expense	7,678,370	(7,678,370)	—

The City has recognized intergovernmental revenue and pension expense of \$7,678,370 associated with this arrangement.

B. Other Postemployment Benefits (OPEB)

Plan Description – The City administers a single-employer defined benefit healthcare plan (the “Plan”). The Plan provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Massachusetts General Law Chapter 32B Section 20. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and City ordinance. All benefits are provided through the Town's self-funded insurance program described previously. The Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the City's financial statements.

Under Chapter 32B Section 20 the City Treasurer is the custodian of the Plan and since the City has not designated a Board of Trustees the City Treasurer under this general law is also the Trustee and as such, is responsible for the general supervision of the management, investment and reinvestment of the Plan assets. Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. Plan assets shall be segregated from other funds and shall not be subject to the claims of any general creditor of the City.

For the year ended June 30, 2017 the City records its net OPEB obligation under GASB 45, however note disclosures are also presented for the City's OPEB Plan since those note disclosures are required under GASB 74. All GASB 45 references will be removed in the fiscal year ended June 30, 2018 as they will no longer be applicable.

Plan Membership - At June 30, 2017, membership in the Plan consisted of:

Inactive employees or beneficiaries currently receiving benefits	960
Active employees	651
Total	<u>1,611</u>

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

Investments – The investment policy for Plan assets is that used for all the City’s other trust funds; this requires the City Treasurer to invest in instruments included on the State legal list.

Investment Concentration - The Plan did not maintain investments in any one organization that represented more than 5% of the Fiduciary Net Position of the Plan.

Rate of Return - For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 8.22 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The following was the adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Domestic Equity	30.00%
International Equity	15.00%
Domestic Fixed Income	25.00%
International Fixed Income	10.00%
Alternative Investments	20.00%
Cash	0.00%
	<u>100.00%</u>

Net OPEB Liability – The components of the Net OPEB Liability of the Town are as follows as calculated using the methodology highlighted in GASB 74:

Total OPEB liability	\$ 178,151,905
Plan Fiduciary Net Position	(239,865)
Net OPEB liability	<u>\$ 177,912,040</u>

Plan Fiduciary Net Position as a percentatge of total liability	0.1%
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Actuarial assumptions - The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return	7.00%, net of OPEB plan investment expense, including inflation.
Municipal Bond Index Rate	3.58%
Single Equivalent Discount Rate	3.58%, net of OPEB plan investment expense including inflation.
Inflation	3.75%
Salary Increases	Group 1 and 4: 4.00% for 2016 and 4.50% for 2017 and later Teachers: 7.50% decreasing over 20 years to 4.00%
Cost of Living Adjustment	Not applicable.
Healthcare Trend Rate	5.5% for 1 year, 6.0% for 1 year, 5.5% for 1 year and an ultimate level of 5.0% per year thereafter
Pre-Retirement Mortality	Non-teachers: RP-2000 Employee Mortality Table projected generationally with scale BB2D from 2009 Teachers: RP-2014 Employee Mortality Table projected generationally with scale BB2D from 2014
Post-Retirement Mortality	Non-teachers: RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB2D from 2009 Teachers: RP-2014 Healthy Annuitant Mortality Table projected generationally with scale BB2D from 2014
Disabled Mortality	Non-teachers: RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB2D from 2015 Teachers: RP-2014 Healthy Annuitant Mortality Table set forward 4 years and projected generationally with scale BB2D from 2014

Changes in Assumptions: Effective June 30, 2017- The following changes in assumptions were made as compared to the actuarial valuation used in prior years:

- The discount rate was increased to 3.58% from 3.5%.
- Actuarial Cost Method Entry Age Normal – Previously Projected Unit Credit.

Investment Rate of Return - The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of investment policy) are summarized in the following table:

Asset Class	Expected Investment Rate of Return
Domestic Equity	6.44%
International Equity	7.40% - 9.42%
Domestic Fixed Income	2.02%
International Fixed Income	1.06% - 4.71%
Alternative Investments	3.75% - 10.47%
Cash	0.00%
Real rate of return	3.25%
Inflation assumption	3.75%
Total nominal rate of return	7.00%
Investment expense	-
Net investment return	7.00%

Discount rate - The discount rate used to measure the total OPEB liability was 3.58 percent. This was a blended rate of (1) the long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that the Plan’s fiduciary net position is projected to be sufficient to make projected benefit payments and are invested using a strategy to achieve that return and; (2) a yield rate for a 20 year, tax exempt general obligation municipal bond with an average rating of AA/Aa or higher when the conditions in (1) are not met.

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage-point higher than the current discount rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB Liability	\$ 207,856,173	\$ 177,912,040	\$ 154,004,644

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Trend Rate	1% Increase
Net OPEB Liability	\$ 149,998,739	\$ 177,912,040	\$ 213,918,642

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

Annual required contribution (ARC)	\$ 11,960,493
Interest on net OPEB obligation	2,209,845
Adjustment to ARC	<u>(2,067,072)</u>
Annual OPEB cost	12,103,266
Contributions made	<u>(5,807,862)</u>
Increase in net OPEB obligation	6,295,404
Net OPEB obligation at beginning of year	<u>63,138,433</u>
Net OPEB obligation at end of year	<u><u>\$ 69,433,837</u></u>

Trend information regarding City’s 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	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2017	\$12,103,266	48.0%	\$69,433,837
June 30, 2016	\$11,583,845	46.9%	\$63,138,433
June 30, 2015	\$ 14,493,743	45.0%	\$ 56,990,643

The annual OPEB cost of \$12,103,266 was allocated to functional items as follows:

General Government	\$	736,208
Public Safety		3,187,723
Education		6,356,558
Public Works		897,749
Health and Human Services		235,707
Culture and Recreation		166,872
Community Development		7,532
Water		232,313
Sewer		216,156
Waterways		38,771
Rink		27,677
	\$	<u>12,103,266</u>

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2017, based on the most recent actuarial valuation performed as of June 30, 2015, was as follows (in millions):

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	UAAL as a Percentage of Covered Payroll (B-A)/C
\$ 0.2	\$ 169.5	\$ 169.3	0.1%	370%

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

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

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

Valuation date	June 30, 2015
Actuarial cost method	Projected Unit Credit
Amortization method	Payments increasing at 3.75%
Remaining amortization period	30 years (open)
Interest discount rate	3.50%
Inflation rate	3.75%
Healthcare/Medical cost trend rate	5.5% for 1 year, 6.0% for 1 year, 5.5% for 1 year and an ultimate level of 5.0% per year thereafter

C. Risk Financing

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

Workers' Compensation – The City is self-insured for their workers' compensation activities. Workers' compensation claims are administered by a third-party and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2017, the amount of the liability for workers' compensation claims totaled \$370,171.

Changes in the reported liability since July 1, 2015:

	Balance at Beginning of Year	Claims and Changes in Estimates	Claims Payments	Balance at End of Year	Current Portion
Fiscal Year 2017	\$ 314,988	\$ 312,405	\$(257,222)	\$ 370,171	\$ 92,543
Fiscal Year 2016	468,215	151,162	(304,389)	314,988	31,499

D. Commitments

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

E. Contingencies

The City is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters in these situations cannot be reasonably estimated. Although the amount of liability, if any, in these situations at June 30, 2017, cannot be ascertained, management believes that the resulting liability, if any, should not materially affect the basic financial statements of the City at June 30, 2017. Other amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal

and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The City does not believe it has failed to comply with any of these agreements.

F. Landfill Post-Closure Care

The City's landfill is closed and a final cover has been installed in accordance with Federal and State laws and regulations. Those laws and regulations also require the City to perform certain maintenance and monitoring functions ("post-closure care") at the site for 30 years after the landfill cover is installed. In accordance with generally accepted accounting principles, the estimated remaining cost of monitoring, \$420,000 has been recorded as a governmental activities liability; actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Implementation of GASB pronouncements

Current Year Implementations –

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective was to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement became effective for the City in fiscal year 2017. The adoption of GASB No. 74 had a material effect on the City.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement became effective for the City in fiscal year 2017. The adoption of GASB No. 77 did not have a material effect on the City.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 were applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state of local governmental employer. The provisions of this Statement became effective for the City in fiscal year 2017. The adoption of GASB No. 78 did not have a material effect on the City.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. The provisions of this Statement became effective for the City in fiscal year 2017. The adoption of GASB No. 80 did not have a material effect on the City.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 73 was to address issues raised with respect to previously issued statements related to pensions. The provisions of this Statement became effective for the City in fiscal year 2017. The adoption of GASB No. 82 did not have a material effect on the City.

Future Implementations –

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

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016 (fiscal year 2018) and should be applied retroactively. The City is currently evaluating whether adoption will have a material impact on the financial statements.

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The City is currently evaluating whether adoption will have a material impact on the financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The City is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The City is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The City is currently evaluating whether adoption will have a material impact on the financial statements.



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Required Supplementary Information

CITY OF GLOUCESTER, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2017

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

	Year Ended December 31,		
	2016	2015	2014
City's proportion of the net pension liability (asset)	94.96%	94.42%	94.14%
City's proportionate share of the net pension liability (asset)	\$ 108,365	\$ 97,248	\$ 89,895
City's covered-employee payroll *	\$ 27,576	\$ 25,874	\$ 26,629
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	393.0%	375.9%	337.6%
Plan fiduciary net position as a percentage of the total pension liability	44.8%	45.8%	47.9%

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

	Year Ended June 30,		
	2017	2016	2015
Actuarially determined contribution	\$ 7,798	\$ 7,305	\$ 6,897
Contributions in relation to the actuarially determined contribution	<u>7,798</u>	<u>7,305</u>	<u>6,897</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll *	\$ 27,576	\$ 25,874	\$ 26,629
Contributions as a percentage of covered-employee payroll	28.3%	28.2%	25.9%

* Covered employee payroll as reported in the actuarial valuation report.

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

See accompanying independent auditor's report.

CITY OF GLOUCESTER, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED JUNE 30, 2017

SCHEDULE OF THE COMMONWEALTH'S COLLECTIVE SHARE OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHER'S RETIREMENT SYSTEM

(dollar amounts are in thousands)

	Year Ended June 30,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Commonwealth's proportion of the collective net pension liability (asset)	100.0%	100.0%	100.0%
City's proportion of the collective net pension liability (asset)	0.0%	0.0%	0.0%
Commonwealth's proportionate share of the net pension liability (asset)	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Commonwealth's actuarially determined contribution	\$ 1,124,583	\$ 1,021,930	\$ 937,379

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

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

See accompanying independent auditor's report.

CITY OF GLOUCESTER, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2017**

SCHEDULE OF FUNDING PROGRESS

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
06/30/15	\$ 221,651	\$169,480,868	\$169,259,217	0.13%	\$ 45,737,844	370.1%
06/30/13	-	203,031,629	203,031,629	0%	45,737,844	443.9%
06/30/11	-	204,228,540	204,228,540	0%	38,360,017	532.4%
06/30/09	-	220,755,787	220,755,787	0%	47,216,775	467.5%

SCHEDULE OF CONTRIBUTION FUNDING

Other Postemployment Benefits

Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2017	\$ 11,960,493	\$ 5,807,862	48.6%
2016	11,454,973	5,436,056	47.5%
2015	14,376,558	6,518,743	45.3%
2014	13,760,766	6,297,464	45.8%
2013	14,757,171	4,379,896	29.7%
2012	14,109,143	4,821,767	34.2%

See accompanying independent auditors' report.

CITY OF GLOUCESTER, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2017**

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 6,840,214
Interest	5,604,137
Changes in benefit terms	-
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	(21,164,291)
Benefit payments	<u>(5,807,861)</u>
Net change in total OPEB liability	(14,527,801)
Total OPEB liability - beginning of year	<u>192,679,706</u>
Total OPEB liability - end of year (a)	<u><u>\$ 178,151,905</u></u>
Plan fiduciary net position:	
Contributions - employer	\$ 5,807,861
Contributions - employee	-
Net investment income	18,214
Benefit payments	(5,807,861)
Administrative expenses	-
Other	-
Net change in Plan fiduciary net position	<u>18,214</u>
Plan fiduciary net position - beginning of year	<u>221,651</u>
Plan fiduciary net position - end of year (b)	<u><u>\$ 239,865</u></u>
Net OPEB liability - end of year (a) - (b)	<u><u>\$ 177,912,040</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.13%
Covered-employee payroll	\$ 62,478,064
Net OPEB liability as a percentage of covered-employee payroll	284.76%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Note: This schedule is presented using the optional format of combining the required schedules in paragraph 36a and 36b.

See accompanying independent auditor's report.

CITY OF GLOUCESTER, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB
YEAR ENDED JUNE 30, 2017**

SCHEDULE OF CONTRIBUTIONS

	<u>2017</u>
Actuarially-determined contribution	\$ 11,960,493
Contributions in relation to the actuarially-determined contribution	<u>(5,807,861)</u>
Contribution deficiency (excess)	<u>\$ 6,152,632</u>
Covered-employee payroll	\$ 62,478,064
Contribution as a percentage of covered-employee payroll	9.30%
Valuation Date	July 1, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Period	30 years from July 1, 2016
Asset Valuation Method	Market Value of Assets as of Reporting Date
Discount Rate	3.58%
Inflation	3.75%
Healthcare cost trend rates	5.5% for 1 year, 6.0% for 1 year, 5.5% for 1 year with an ultimate level of 5.0% per year thereafter
Salary increases	Group 1 and 4 employees: 4.0% for 2016 and 4.5% thereafter Service-related increases for Teachers: 7.5% decreasing over 20 years to an ultimate level of 4.0%
Investment rate of return	7.00%

SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>
Annual money-weighted rate of return, net of	8.23%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

CITY OF GLOUCESTER, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Revenues:						
<i>Taxes:</i>						
Real estate taxes	\$ 76,572,261	\$ 76,572,261	\$ 76,392,273	\$ -	76,392,273	(179,988)
Personal property taxes	1,532,988	1,532,988	1,481,618	-	1,481,618	(51,370)
Tax title	-	-	631,353	-	631,353	631,353
Payments in lieu of taxes	78,075	78,075	78,439	-	78,439	364
Motor vehicle excise	3,290,000	3,290,000	3,671,271	-	3,671,271	381,271
Meals excise	565,000	565,000	640,831	-	640,831	75,831
Room occupancy excise	495,000	495,000	702,127	-	702,127	207,127
	<u>82,533,324</u>	<u>82,533,324</u>	<u>83,597,912</u>	<u>-</u>	<u>83,597,912</u>	<u>1,064,588</u>
<i>Intergovernmental:</i>						
State aid - chapter 70	6,413,737	6,413,737	6,413,737	-	6,413,737	-
State aid - unrestricted	3,840,097	3,840,097	3,840,097	-	3,840,097	-
State aid - veterans & elderly	364,834	364,834	363,185	-	363,185	(1,649)
State aid - other	18,905	18,905	358,290	-	358,290	339,385
Medicaid reimbursements	200,000	200,000	273,604	-	273,604	73,604
MSBA school construction reimbursement	1,503,459	1,503,459	1,503,460	-	1,503,460	1
	<u>12,341,032</u>	<u>12,341,032</u>	<u>12,752,373</u>	<u>-</u>	<u>12,752,373</u>	<u>411,341</u>
<i>Departmental fees, charges, and other:</i>						
Solid waste revenue	975,000	975,000	1,024,341	-	1,024,341	49,341
Parking revenues	2,025,000	2,025,000	2,083,577	-	2,083,577	58,577
Wind turbine revenues	325,000	325,000	256,382	-	256,382	(68,618)
Naming rights fees	50,000	50,000	50,000	-	50,000	-
Treasurer/Collector fees	42,500	42,500	183,929	-	183,929	141,429
City clerk fees	58,000	58,000	83,098	-	83,098	25,098
Police fees	402,050	402,050	528,254	-	528,254	126,204
Ambulance charges	1,150,000	1,150,000	1,373,718	-	1,373,718	223,718
Rental of municipal property	133,735	133,735	168,942	-	168,942	35,207
Other miscellaneous	296,140	296,140	320,549	-	320,549	24,409
	<u>5,457,425</u>	<u>5,457,425</u>	<u>6,072,790</u>	<u>-</u>	<u>6,072,790</u>	<u>615,365</u>
<i>Licenses and permits:</i>						
Liquor licenses	145,000	145,000	153,515	-	153,515	8,515
Mayor licenses	-	-	150,000	-	150,000	150,000
Other licenses	81,400	81,400	128,010	-	128,010	46,610
Inspectional services permits	926,000	926,000	952,516	-	952,516	26,516
Fire permits	67,500	67,500	93,370	-	93,370	25,870
Health permits	120,000	120,000	151,805	-	151,805	31,805
Other permits	17,000	17,000	12,670	-	12,670	(4,330)
	<u>1,356,900</u>	<u>1,356,900</u>	<u>1,641,886</u>	<u>-</u>	<u>1,641,886</u>	<u>284,986</u>
<i>Fines and forfeitures:</i>						
Parking fines	275,000	275,000	253,725	-	253,725	(21,275)
Court fines	50,000	50,000	21,742	-	21,742	(28,258)
Other fines	2,000	2,000	6,730	-	6,730	4,730
	<u>327,000</u>	<u>327,000</u>	<u>282,197</u>	<u>-</u>	<u>282,197</u>	<u>(44,803)</u>
<i>Penalties and interest on taxes</i>						
	<u>460,000</u>	<u>460,000</u>	<u>451,354</u>	<u>-</u>	<u>451,354</u>	<u>(8,646)</u>
<i>Interest and investment income</i>						
	<u>45,000</u>	<u>45,000</u>	<u>53,194</u>	<u>-</u>	<u>53,194</u>	<u>8,194</u>
Total Revenues	<u>102,520,681</u>	<u>102,520,681</u>	<u>104,851,706</u>	<u>-</u>	<u>104,851,706</u>	<u>2,331,025</u>

CITY OF GLOUCESTER, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Expenditures:						
<i>General Government:</i>						
<i>City Council:</i>						
Personal services	103,500	103,500	103,500	-	103,500	-
Ordinary maintenance	4,500	4,500	1,617	-	1,617	2,883
	<u>108,000</u>	<u>108,000</u>	<u>105,117</u>	<u>-</u>	<u>105,117</u>	<u>2,883</u>
<i>Mayor:</i>						
Personal services	319,332	359,761	359,464	-	359,464	297
Ordinary maintenance	42,209	39,016	25,785	7,539	33,324	5,692
	<u>361,541</u>	<u>398,777</u>	<u>385,249</u>	<u>7,539</u>	<u>392,788</u>	<u>5,989</u>
<i>Auditor:</i>						
Personal services	302,228	297,614	295,058	-	295,058	2,556
Ordinary maintenance	76,330	77,233	76,800	240	77,040	193
	<u>378,558</u>	<u>374,847</u>	<u>371,858</u>	<u>240</u>	<u>372,098</u>	<u>2,749</u>
<i>Purchasing:</i>						
Personal services	144,951	149,670	148,696	-	148,696	974
Ordinary maintenance	182,268	178,189	164,113	13,175	177,288	901
	<u>327,219</u>	<u>327,859</u>	<u>312,809</u>	<u>13,175</u>	<u>325,984</u>	<u>1,875</u>
<i>Assessors:</i>						
Personal services	377,500	390,627	389,531	-	389,531	1,096
Ordinary maintenance	91,782	85,911	67,949	15,205	83,154	2,757
	<u>469,282</u>	<u>476,538</u>	<u>457,480</u>	<u>15,205</u>	<u>472,685</u>	<u>3,853</u>
<i>Treasurer-Collector:</i>						
Personal services	590,177	599,509	598,520	-	598,520	989
Ordinary maintenance	319,220	318,682	288,210	21,589	309,799	8,883
Liability insurance	611,500	648,881	646,290	1,729	648,019	862
Capital outlay	2,500	2,500	1,916	-	1,916	584
	<u>1,523,397</u>	<u>1,569,572</u>	<u>1,534,936</u>	<u>23,318</u>	<u>1,558,254</u>	<u>11,318</u>
<i>Legal:</i>						
Personal services	236,524	245,232	244,902	-	244,902	330
Ordinary maintenance	104,328	102,140	81,117	14,312	95,429	6,711
	<u>340,852</u>	<u>347,372</u>	<u>326,019</u>	<u>14,312</u>	<u>340,331</u>	<u>7,041</u>
<i>Personnel:</i>						
Personal services	265,749	274,789	268,788	1,033	269,821	4,968
Ordinary maintenance	54,523	49,090	45,327	218	45,545	3,545
	<u>320,272</u>	<u>323,879</u>	<u>314,115</u>	<u>1,251</u>	<u>315,366</u>	<u>8,513</u>
<i>Information Technology:</i>						
Personal services	211,816	219,439	218,449	-	218,449	990
Ordinary maintenance	506,630	433,275	377,249	48,318	425,567	7,708
Capital outlay	35,000	35,000	34,070	-	34,070	930
	<u>753,446</u>	<u>687,714</u>	<u>629,768</u>	<u>48,318</u>	<u>678,086</u>	<u>9,628</u>
<i>City Clerk:</i>						
Personal services	287,885	255,291	251,876	-	251,876	3,415
Ordinary maintenance	6,947	6,947	4,632	12	4,644	2,303
	<u>294,832</u>	<u>262,238</u>	<u>256,508</u>	<u>12</u>	<u>256,520</u>	<u>5,718</u>
<i>Registration:</i>						
Personal services	53,808	54,776	54,517	-	54,517	259
Ordinary maintenance	58,950	50,950	49,455	-	49,455	1,495
	<u>112,758</u>	<u>105,726</u>	<u>103,972</u>	<u>-</u>	<u>103,972</u>	<u>1,754</u>

(continued)

CITY OF GLOUCESTER, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Licensing board:						
Personal services	16,136	17,136	16,893	-	16,893	243
Ordinary maintenance	1,475	1,175	159	-	159	1,016
	<u>17,611</u>	<u>18,311</u>	<u>17,052</u>	<u>-</u>	<u>17,052</u>	<u>1,259</u>
Zoning Board of Appeals:						
Personal services	7,500	18,857	17,768	-	17,768	1,089
Ordinary maintenance	400	400	360	-	360	40
	<u>7,900</u>	<u>19,257</u>	<u>18,128</u>	<u>-</u>	<u>18,128</u>	<u>1,129</u>
Conservation Commission:						
Personal services	73,470	75,870	75,602	-	75,602	268
Ordinary maintenance	3,000	3,000	2,204	-	2,204	796
	<u>76,470</u>	<u>78,870</u>	<u>77,806</u>	<u>-</u>	<u>77,806</u>	<u>1,064</u>
Community Development:						
Personal services	478,865	454,367	450,219	-	450,219	4,148
Ordinary maintenance	87,307	61,762	48,892	4,108	53,000	8,762
	<u>566,172</u>	<u>516,129</u>	<u>499,111</u>	<u>4,108</u>	<u>503,219</u>	<u>12,910</u>
Special Reserve:						
Ordinary maintenance	1,800	1,800	-	-	-	1,800
	<u>1,800</u>	<u>1,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,800</u>
<i>Total General Government</i>	<u>5,660,110</u>	<u>5,616,889</u>	<u>5,409,928</u>	<u>127,478</u>	<u>5,537,406</u>	<u>79,483</u>
<i>Public Safety:</i>						
Police Administration:						
Personal services	511,233	511,902	492,377	-	492,377	19,525
Ordinary maintenance	56,468	117,621	114,058	2,794	116,852	769
	<u>567,701</u>	<u>629,523</u>	<u>606,435</u>	<u>2,794</u>	<u>609,229</u>	<u>20,294</u>
Police Uniform:						
Personal services	4,976,697	4,973,991	4,966,810	-	4,966,810	7,181
Ordinary maintenance	156,353	166,072	148,571	16,608	165,179	893
Capital outlay	65,383	68,009	53,757	14,252	68,009	-
	<u>5,198,433</u>	<u>5,208,072</u>	<u>5,169,138</u>	<u>30,860</u>	<u>5,199,998</u>	<u>8,074</u>
Police Investigations:						
Personal services	467,732	473,732	472,994	-	472,994	738
Ordinary maintenance	2,924	2,703	2,230	1	2,231	472
	<u>470,656</u>	<u>476,435</u>	<u>475,224</u>	<u>1</u>	<u>475,225</u>	<u>1,210</u>
Police Harbor Patrol:						
Personal services	16,320	26,626	20,889	-	20,889	5,737
Ordinary maintenance	18,041	13,803	6,149	4,683	10,832	2,971
	<u>34,361</u>	<u>40,429</u>	<u>27,038</u>	<u>4,683</u>	<u>31,721</u>	<u>8,708</u>
Police Parking:						
Personal services	68,994	70,315	70,124	-	70,124	191
Ordinary maintenance	563	563	487	76	563	-
	<u>69,557</u>	<u>70,878</u>	<u>70,611</u>	<u>76</u>	<u>70,687</u>	<u>191</u>
Fire Prevention and Suppression:						
Personal services	8,102,362	8,127,933	8,125,197	-	8,125,197	2,736
Ordinary maintenance	648,669	607,677	511,721	69,926	581,647	26,030
Capital outlay	87,534	96,234	94,447	1,204	95,651	583
	<u>8,838,565</u>	<u>8,831,844</u>	<u>8,731,365</u>	<u>71,130</u>	<u>8,802,495</u>	<u>29,349</u>

CITY OF GLOUCESTER, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Inspectional Service:						
Personal services	468,356	477,134	474,031	-	474,031	3,103
Ordinary maintenance	16,340	12,577	9,342	780	10,122	2,455
Capital outlay	1,300	2,090	1,426	649	2,075	15
	<u>485,996</u>	<u>491,801</u>	<u>484,799</u>	<u>1,429</u>	<u>486,228</u>	<u>5,573</u>
Civil Defense:						
Ordinary maintenance	57,062	51,062	47,335	525	47,860	3,202
Capital outlay	1,800	1,800	-	-	-	1,800
	<u>58,862</u>	<u>52,862</u>	<u>47,335</u>	<u>525</u>	<u>47,860</u>	<u>5,002</u>
Animal Control:						
Personal services	104,494	108,446	108,444	-	108,444	2
Ordinary maintenance	8,360	3,039	844	1,561	2,405	634
	<u>112,854</u>	<u>111,485</u>	<u>109,288</u>	<u>1,561</u>	<u>110,849</u>	<u>636</u>
Shellfish Control:						
Personal services	77,285	80,286	80,009	-	80,009	277
Ordinary maintenance	1,560	1,499	259	-	259	1,240
	<u>78,845</u>	<u>81,785</u>	<u>80,268</u>	<u>-</u>	<u>80,268</u>	<u>1,517</u>
Total Public Safety	<u>15,915,830</u>	<u>15,995,114</u>	<u>15,801,501</u>	<u>113,059</u>	<u>15,914,560</u>	<u>80,554</u>
Education:						
Public schools	40,709,919	40,499,862	39,066,819	1,357,253	40,424,072	75,790
Regional School Assessment: Ordinary maintenance	1,547,778	1,515,778	1,515,626	-	1,515,626	152
	<u>42,257,697</u>	<u>42,015,640</u>	<u>40,582,445</u>	<u>1,357,253</u>	<u>41,939,698</u>	<u>75,942</u>
Public Works:						
Solid Waste:						
Personal services	10,000	10,000	9,854	-	9,854	146
Ordinary maintenance	1,808,507	1,749,961	1,709,325	40,617	1,749,942	19
	<u>1,818,507</u>	<u>1,759,961</u>	<u>1,719,179</u>	<u>40,617</u>	<u>1,759,796</u>	<u>165</u>
Engineering:						
Personal services	49,179	50,142	50,951	-	50,951	(809)
Ordinary maintenance	19,153	10,138	4,911	2,086	6,997	3,141
	<u>68,332</u>	<u>60,280</u>	<u>55,862</u>	<u>2,086</u>	<u>57,948</u>	<u>2,332</u>
Highway Administration:						
Personal services	101,225	104,710	104,617	-	104,617	93
Ordinary maintenance	17,389	16,852	9,090	506	9,596	7,256
	<u>118,614</u>	<u>121,562</u>	<u>113,707</u>	<u>506</u>	<u>114,213</u>	<u>7,349</u>
Snow and Ice:						
Personal services	141,500	147,600	147,591	-	147,591	9
Ordinary maintenance	590,100	973,900	1,288,117	-	1,288,117	(314,217)
Capital outlay	35,000	35,000	19,688	-	19,688	15,312
	<u>766,600</u>	<u>1,156,500</u>	<u>1,455,396</u>	<u>-</u>	<u>1,455,396</u>	<u>(298,896)</u>
Public Properties - Maintenance:						
Personal services	1,411,871	1,402,608	1,405,000	-	1,405,000	(2,392)
Ordinary maintenance	350,267	345,480	287,481	45,028	332,509	12,971
Capital outlay	88,699	133,634	104,236	26,905	131,141	2,493
	<u>1,850,837</u>	<u>1,881,722</u>	<u>1,796,717</u>	<u>71,933</u>	<u>1,868,650</u>	<u>13,072</u>

(continued)

CITY OF GLOUCESTER, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Public Properties - Facilities:						
Personal services	2,061,836	2,117,623	2,097,995	-	2,097,995	19,628
Ordinary maintenance	3,001,507	2,887,935	2,573,138	273,403	2,846,541	41,394
	5,063,343	5,005,558	4,671,133	273,403	4,944,536	61,022
DPW Central Services:						
Personal services	116,695	118,581	116,503	-	116,503	2,078
Ordinary maintenance	1,166,693	1,007,679	872,941	123,819	996,760	10,919
	1,283,388	1,126,260	989,444	123,819	1,113,263	12,997
Total Public Works	10,969,621	11,111,843	10,801,438	512,364	11,313,802	(201,959)
Health and Human Services:						
Public Health:						
Personal services	448,205	430,286	424,169	-	424,169	6,117
Ordinary maintenance	9,307	9,242	8,299	180	8,479	763
	457,512	439,528	432,468	180	432,648	6,880
Council on Aging:						
Personal services	115,535	117,667	116,880	-	116,880	787
Ordinary maintenance	6,504	6,218	4,063	1,474	5,537	681
	122,039	123,885	120,943	1,474	122,417	1,468
Veterans Services:						
Personal services	119,276	123,399	123,185	-	123,185	214
Ordinary maintenance	333,500	341,700	336,347	-	336,347	5,353
	452,776	465,099	459,532	-	459,532	5,567
Tourism:						
Personal services	16,500	35,500	34,683	-	34,683	817
Ordinary maintenance	175,443	172,721	161,195	1,556	162,751	9,970
	191,943	208,221	195,878	1,556	197,434	10,787
Total Health and Human Services	1,224,270	1,236,733	1,208,821	3,210	1,212,031	24,702
Culture and Recreation:						
Sawyer Free Library:						
Personal services	826,005	802,976	786,590	-	786,590	16,386
Ordinary maintenance	117,471	126,000	116,617	9,383	126,000	-
Total Culture and Recreation	943,476	928,976	903,207	9,383	912,590	16,386
State and County Assessments:						
State assessments and charges	95,520	95,520	87,820	-	87,820	7,700
Transportation authorities assessments	343,155	343,155	343,155	-	343,155	-
Annual charges against receipts	9,924	9,924	9,693	-	9,693	231
Tuition assessments	1,867,497	1,897,565	1,904,143	-	1,904,143	(6,578)
Total State and County Assessments	2,316,096	2,346,164	2,344,811	-	2,344,811	1,353
Pension and Fringe Benefits:						
Pension Services:						
Personal services	7,134,804	7,107,923	7,107,923	-	7,107,923	-
	7,134,804	7,107,923	7,107,923	-	7,107,923	-

CITY OF GLOUCESTER, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Positive (Negative)
	Original Budget	Final Budget				
Employee Benefits:						
Personal services - workers' compensation	306,000	306,000	257,222	-	257,222	48,778
Personal services - unemployment compensation	50,000	42,500	17,834	4,633	22,467	20,033
Personal services - group health insurance	7,626,790	7,353,595	7,353,308	-	7,353,308	287
Personal services - life insurance	16,600	16,600	13,997	-	13,997	2,603
Personal services - medicare	620,000	719,280	719,280	-	719,280	-
	<u>8,619,390</u>	<u>8,437,975</u>	<u>8,361,641</u>	<u>4,633</u>	<u>8,366,274</u>	<u>71,701</u>
<i>Total Pension and Fringe Benefits</i>	<u>15,754,194</u>	<u>15,545,898</u>	<u>15,469,564</u>	<u>4,633</u>	<u>15,474,197</u>	<u>71,701</u>
Debt Service:						
Ordinary maintenance - long-term debt principal	9,579,090	9,167,270	9,167,270	-	9,167,270	-
Ordinary maintenance - long-term debt interest	1,851,552	2,394,818	2,462,306	-	2,462,306	(67,488)
Ordinary maintenance - temporary debt interest	365,956	662,602	662,602	-	662,602	-
	<u>11,796,598</u>	<u>12,224,690</u>	<u>12,292,178</u>	<u>-</u>	<u>12,292,178</u>	<u>(67,488)</u>
Total Expenditures	<u>106,837,892</u>	<u>107,021,947</u>	<u>104,813,893</u>	<u>2,127,380</u>	<u>106,941,273</u>	<u>80,674</u>
Other Financing Sources (Uses)						
Premiums on bonds and notes	-	855,539	893,831	-	893,831	38,292
Transfers in	2,646,445	3,131,902	2,947,259	-	2,947,259	(184,643)
Transfers out	(130,000)	(2,303,926)	(2,303,926)	-	(2,303,926)	-
	<u>2,516,445</u>	<u>1,683,515</u>	<u>1,537,164</u>	<u>-</u>	<u>\$ 1,537,164</u>	<u>(146,351)</u>
<i>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Uses Of Prior Year Budgetary Fund Balance</i>	<u>(1,800,766)</u>	<u>(2,817,751)</u>	<u>\$ 1,574,977</u>	<u>-</u>	<u>-</u>	<u>\$ 2,265,348</u>
Other Budgetary Items						
Use of unassigned fund balance (free cash)	\$ 200,000	\$ 2,041,730				
Prior year encumbrances	1,600,766	1,600,766				
Encumbrance reversions	-	(336,511)				
Prior year deficit	-	(460,508)				
Other items	-	(27,726)				
	<u>1,800,766</u>	<u>2,817,751</u>				
Total Other Budgetary Items	<u>1,800,766</u>	<u>2,817,751</u>				
Net budget and actual	<u>\$ -</u>	<u>\$ -</u>				

(Concluded)

The notes to the financial statements are an integral part of this statement.

The notes to the required supplementary information are and integral part of this statement.

CITY OF GLOUCESTER, MASSACHUSETTS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

I. Budgetary Basis of Accounting

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

The City adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2017, City Council approved various supplemental budgetary appropriations which resulted in a net increase of approximately \$2,000,000 from the original voted budget which were primarily for transfers to other funds.

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

Budgetary-to-GAAP Reconciliation – The City’s general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2017, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 104,851,706
Stabilization revenue	\$ -	\$ 11,980	11,980
Debt subsidies	12,565	-	12,565
On behalf payments	7,678,370	-	7,678,370
Revenues on a GAAP basis	<u>\$ 7,690,935</u>	<u>\$ 11,980</u>	<u>\$ 112,554,621</u>

	Basis of Accounting Differences	Fund Perspective Differences	Total
Expenditures on a budgetary basis			\$ 104,813,893
Reclass of enterprise indirects cost to expenditures	\$ -	\$ (380,332)	(380,332)
Transfer for enterprise debt service	-	(7,145,968)	(7,145,968)
Debt subsidies	12,565	-	12,565
Debt issuance costs	249,216	-	249,216
Change in expenditure accruals	55,183	-	55,183
On behalf payments	7,678,370	-	7,678,370
Stabilization expenditures	-	345,346	345,346
Expenditures on a GAAP basis	<u>\$ 7,995,334</u>	<u>\$ (7,180,954)</u>	<u>\$ 105,628,273</u>
Other financing sources (uses) on a budgetary basis			\$ 1,537,164
Reclass of enterprise indirects cost to expenditures	\$ -	\$ (380,332)	(380,332)
Bond premiums	249,216	-	249,216
Transfer for enterprise debt service	-	(7,145,968)	(7,145,968)
Stabilization transfers	-	826,145	826,145
Other financing sources (uses) on a GAAP basis	<u>\$ 249,216</u>	<u>\$ (6,700,155)</u>	<u>\$ (4,913,775)</u>

Excess of Expenditures Over Appropriations – During fiscal year 2017, expenditures exceeded appropriations in the General Fund for snow and ice expenditures by \$298,896. This over-expenditure will be funded through available funds during fiscal year 2018.

Combining Statements

Nonmajor Governmental Fund

Special Revenue Funds –

Special revenue funds are used to account for certain revenue generating activities that are legally and/or programmatically restricted to expenditures for a specific purpose. From the City's financial ledgers, these activities can be distinctly categorized into the following groupings:

City Federal Grants – This fund accounts for federally funded non-school grant programs received either directly from federal agencies or indirectly through pass-through entities.

School Federal Grants – This fund accounts for federally funded educational-based grant programs received either directly from federal agencies or indirectly through pass-through entities.

City State Grants – This fund accounts for Commonwealth of Massachusetts funded non-school grant programs received directly from state agencies.

School State Grants – This fund accounts for Commonwealth of Massachusetts funded educational-based grant programs received directly from state agencies.

Receipts Reserved for Appropriation – This fund accounts for receipts collected which are reserved until appropriated for a specific purpose for which it has been segregated by law or administrative action.

City Revolving Funds – This fund accounts for the non-school related activity within revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and other applicable statutes.

School Revolving Funds – This fund accounts for educational-based activities within revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and Chapter 71.

School Lunch Fund – This segregated revolving fund accounts for the activities of the child nutrition programs; amounts collected from services include federal and state meal reimbursements and meal charges.

City Gift and Other Funds – This fund accounts for donated monies and other miscellaneous special revenue accounts which related to non-school activities.

School Gift and Other Funds – This fund accounts for donated monies and other miscellaneous special revenue accounts which related to educational-based activities.

Community Preservation – This fund accounts for assets that are restricted by state law for the purposes of acquiring or developing open space and recreational facilities, historic resources and affordable housing.

Chapter 90 Road Improvements – This fund accounts for certain roadway improvement projects which are fully reimbursed by the Commonwealth of Massachusetts.

Permanent Funds –

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support governmental programs.

Cemetery Trust Funds – This fund accounts for contributions earmarked for the perpetual care and maintenance of cemetery facilities and property.

Other Trust Funds – This fund accounts for all contributions including: gifts, donations and bequests for which only earnings on the original trust corpus may be expended to benefit government approved programs, other than those associated with cemetery activities.

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
JUNE 30, 2017

	Special Revenue Funds				
	City Federal Grants	School Federal Grants	City State Grants	School State Grants	Receipts Reserved for Appropriation
Assets:					
Cash and cash equivalents	\$ 617,695	\$ 125,568	\$ 377,220	\$ 471,311	\$ 203,930
Investments	-	-	-	-	-
Receivables, net of allowance for uncollectibles:					
Property taxes	-	-	-	-	-
Departmental and other	-	-	-	-	206,254
Intergovernmental	463,915	221,393	67,617	-	-
Loans	5,861,802	-	-	-	-
Total Assets	\$ 6,943,412	\$ 346,961	\$ 444,837	\$ 471,311	\$ 410,184
Liabilities, Deferred Inflows of Resources, and Fund Balances:					
Liabilities:					
Warrants and accounts payable	\$ 195,558	\$ -	\$ -	\$ -	\$ -
Accrued payroll and withholdings	15,185	125,795	15,279	9,551	-
Tax refunds payable	-	-	-	-	-
Other liabilities	10,674	-	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	221,417	125,795	15,279	9,551	-
Deferred Inflows of Resources:					
Unavailable revenues - property taxes	-	-	-	-	-
Unavailable revenues - loans	5,861,802	-	-	-	-
Unavailable revenues - other	-	-	-	-	206,254
Total Deferred Inflows of Resources	5,861,802	-	-	-	206,254
Fund Balances:					
Restricted	860,193	221,166	429,558	461,760	203,930
Unassigned	-	-	-	-	-
Total Fund Balances	860,193	221,166	429,558	461,760	203,930
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	\$ 6,943,412	\$ 346,961	\$ 444,837	\$ 471,311	\$ 410,184

City Revolving Funds	School Revolving Funds	School Lunch Fund	City Gifts and Other Funds	School Gifts and Other Funds	Community Preservation	Chapter 90 Road Improvements	Sub-total Special Revenue Funds
\$ 1,089,681	\$ 434,913	\$ 115,719	\$ 809,365	\$ 531,508	\$ 1,198,524	\$ -	\$ 5,975,434
-	-	-	-	-	-	-	-
-	-	-	-	-	16,062	-	16,062
182,787	-	-	-	-	-	-	389,041
-	-	47,582	-	-	-	-	800,507
-	-	-	-	-	-	-	5,861,802
<u>\$ 1,272,468</u>	<u>\$ 434,913</u>	<u>\$ 163,301</u>	<u>\$ 809,365</u>	<u>\$ 531,508</u>	<u>\$ 1,214,586</u>	<u>\$ -</u>	<u>\$ 13,042,846</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195,558
110,349	24,607	9,245	2,297	-	1,073	-	313,381
-	-	-	-	-	10,040	-	10,040
-	-	-	-	-	-	-	10,674
-	-	-	-	-	-	14,880	14,880
<u>110,349</u>	<u>24,607</u>	<u>9,245</u>	<u>2,297</u>	<u>-</u>	<u>11,113</u>	<u>14,880</u>	<u>544,533</u>
-	-	-	-	-	16,062	-	16,062
-	-	-	-	-	-	-	5,861,802
-	-	-	-	-	-	-	206,254
-	-	-	-	-	16,062	-	6,084,118
1,162,119	410,306	154,056	807,068	531,508	1,187,411	-	6,429,075
-	-	-	-	-	-	(14,880)	(14,880)
<u>1,162,119</u>	<u>410,306</u>	<u>154,056</u>	<u>807,068</u>	<u>531,508</u>	<u>1,187,411</u>	<u>(14,880)</u>	<u>6,414,195</u>
<u>\$ 1,272,468</u>	<u>\$ 434,913</u>	<u>\$ 163,301</u>	<u>\$ 809,365</u>	<u>\$ 531,508</u>	<u>\$ 1,214,586</u>	<u>\$ -</u>	<u>\$ 13,042,846</u>

(Continued)

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
JUNE 30, 2017

	<u>Permanent Funds</u>			<u>Total</u>
	<u>Cemetery Trust Funds</u>	<u>Other Trust Funds</u>	<u>Sub-total Permanent Funds</u>	<u>Nonmajor Governmental Funds</u>
Assets:				
Cash and cash equivalents	\$ 324,218	\$ 175,795	\$ 500,013	\$ 6,475,447
Investments	638,683	346,304	984,987	984,987
Receivables, net of allowance for uncollectibles:				
Property taxes	-	-	-	16,062
Departmental and other	-	-	-	389,041
Intergovernmental	-	-	-	800,507
Loans	-	-	-	5,861,802
Total Assets	<u>\$ 962,901</u>	<u>\$ 522,099</u>	<u>\$ 1,485,000</u>	<u>\$ 14,527,846</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:				
Liabilities:				
Warrants and accounts payable	\$ -	\$ -	\$ -	\$ 195,558
Accrued payroll and withholdings	-	-	-	313,381
Tax refunds payable	-	-	-	10,040
Other liabilities	-	-	-	10,674
Due to other funds	-	-	-	14,880
Total Liabilities	-	-	-	544,533
Deferred Inflows of Resources:				
Unavailable revenues - property taxes	-	-	-	16,062
Unavailable revenues - loans	-	-	-	5,861,802
Unavailable revenues - other	-	-	-	206,254
Total Deferred Inflows of Resources	-	-	-	6,084,118
Fund Balances:				
Restricted	962,901	522,099	1,485,000	7,914,075
Unassigned	-	-	-	(14,880)
Total Fund Balances	<u>962,901</u>	<u>522,099</u>	<u>1,485,000</u>	<u>7,899,195</u>
Total Liabilities, Deferred Inflow of Resources, and Fund Balances	<u>\$ 962,901</u>	<u>\$ 522,099</u>	<u>\$ 1,485,000</u>	<u>\$ 14,527,846</u>

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NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2017

	Special Revenue Funds				
	City Federal Grants	School Federal Grants	City State Grants	School State Grants	Receipts Reserved for Appropriation
Revenues:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	2,136,319	1,794,731	2,302,202	1,073,606	-
Departmental and other revenue	262,535	-	-	-	99,468
Investment income	-	-	-	-	-
Contributions and donations	-	-	-	-	-
Total Revenues	2,398,854	1,794,731	2,302,202	1,073,606	99,468
Expenditures:					
Current:					
General government	-	-	134,579	-	-
Public safety	646,223	-	282,686	-	-
Education	-	1,890,948	-	1,442,100	-
Public works	46,901	-	1,672,063	-	-
Health and human services	311,211	-	120,207	-	-
Culture and recreation	2,190	-	49,934	-	-
Community development	1,313,783	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	2,320,308	1,890,948	2,259,469	1,442,100	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	78,546	(96,217)	42,733	(368,494)	99,468
Other Financing Sources (Uses):					
Premiums from bonds and notes	-	-	-	-	104,462
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	104,462
Net Change in Fund Balance	78,546	(96,217)	42,733	(368,494)	203,930
Fund Balances - Beginning of Year	781,647	317,383	386,825	830,254	-
Fund Balances - End of Year	\$ 860,193	\$ 221,166	\$ 429,558	\$ 461,760	\$ 203,930

City Revolving Funds	School Revolving Funds	School Lunch Fund	City Gifts and Other Funds	School Gifts and Other Funds	Community Preservation	Chapter 90 Road Improvements	Sub-total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 623,530	\$ -	\$ 623,530
-	-	661,606	-	-	120,295	466,134	8,554,893
2,326,975	712,085	443,853	-	53,668	-	-	3,898,584
-	-	-	-	-	2,879	-	2,879
-	-	-	505,841	519,852	-	-	1,025,693
<u>2,326,975</u>	<u>712,085</u>	<u>1,105,459</u>	<u>505,841</u>	<u>573,520</u>	<u>746,704</u>	<u>466,134</u>	<u>14,105,579</u>
68,727	-	-	186,894	-	-	-	390,200
1,700,778	-	-	55,314	-	-	-	2,685,001
-	871,313	1,077,722	-	317,865	-	-	5,599,948
4,817	-	-	-	-	-	481,014	2,204,795
301,454	-	-	107,853	-	-	-	840,725
15,564	-	-	107,512	-	239,100	-	414,300
-	-	-	2,210	-	-	-	1,315,993
-	-	-	-	-	165,000	-	165,000
-	-	-	-	-	44,250	-	44,250
<u>2,091,340</u>	<u>871,313</u>	<u>1,077,722</u>	<u>459,783</u>	<u>317,865</u>	<u>448,350</u>	<u>481,014</u>	<u>13,660,212</u>
235,635	(159,228)	27,737	46,058	255,655	298,354	(14,880)	445,367
-	-	-	-	-	-	-	104,462
40,000	75,000	-	15,000	-	-	-	130,000
(138,835)	-	-	-	-	(220,930)	-	(359,765)
<u>(98,835)</u>	<u>75,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>(220,930)</u>	<u>-</u>	<u>(125,303)</u>
136,800	(84,228)	27,737	61,058	255,655	77,424	(14,880)	320,064
<u>1,025,319</u>	<u>494,534</u>	<u>126,319</u>	<u>746,010</u>	<u>275,853</u>	<u>1,109,987</u>	<u>-</u>	<u>6,094,131</u>
<u>\$ 1,162,119</u>	<u>\$ 410,306</u>	<u>\$ 154,056</u>	<u>\$ 807,068</u>	<u>\$ 531,508</u>	<u>\$ 1,187,411</u>	<u>\$ (14,880)</u>	<u>\$ 6,414,195</u>

(Continued)

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2017

	<u>Permanent Funds</u>			<u>Total</u>
	<u>Cemetery Trust Funds</u>	<u>Other Trust Funds</u>	<u>Sub-total Permanent Funds</u>	<u>Nonmajor Governmental Funds</u>
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ 623,530
Intergovernmental	-	-	-	8,554,893
Departmental and other revenue	-	-	-	3,898,584
Investment income	94,035	20,556	114,591	117,470
Contributions and donations	-	-	-	1,025,693
Total Revenues	<u>94,035</u>	<u>20,556</u>	<u>114,591</u>	<u>14,220,170</u>
Expenditures:				
Current:				
General government	-	-	-	390,200
Public safety	-	-	-	2,685,001
Education	-	-	-	5,599,948
Public works	36,313	-	36,313	2,241,108
Health and human services	-	-	-	840,725
Culture and recreation	-	-	-	414,300
Community development	-	-	-	1,315,993
Debt service:				
Principal	-	-	-	165,000
Interest	-	-	-	44,250
Total Expenditures	<u>36,313</u>	<u>-</u>	<u>36,313</u>	<u>13,696,525</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>57,722</u>	<u>20,556</u>	<u>78,278</u>	<u>523,645</u>
Other Financing Sources (Uses):				
Premiums from bonds and notes	-	-	-	104,462
Transfers in	-	-	-	130,000
Transfers out	-	-	-	(359,765)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(125,303)</u>
Net Change in Fund Balance	<u>57,722</u>	<u>20,556</u>	<u>78,278</u>	<u>398,342</u>
Fund Balances - Beginning of Year	<u>905,179</u>	<u>501,543</u>	<u>1,406,722</u>	<u>7,500,853</u>
Fund Balances - End of Year	<u>\$ 962,901</u>	<u>\$ 522,099</u>	<u>\$ 1,485,000</u>	<u>\$ 7,899,195</u>

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Fiduciary Funds

Agency Funds –

Agency funds are used to account for assets maintained in a custodial capacity. Such activities primarily consist of performance bonds and school deposits held, as well as, monies due to City personnel for certain services rendered that were collected from external parties on their behalf.

AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FISCAL YEAR ENDED JUNE 30, 2017

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Assets:				
Cash and cash equivalents	\$ 229,785	\$ 1,372,764	\$ (1,096,791)	\$ 505,758
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities:				
Accrued payroll	\$ -	\$ 1,271	\$ -	\$ 1,271
Agency liabilities	229,785	1,372,764	(1,098,062)	504,487
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	\$ 229,785	\$ 1,374,035	\$ (1,098,062)	\$ 505,758
	<u> </u>	<u> </u>	<u> </u>	<u> </u>



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Statistical Section

Statistical Section

This part of the comprehensive annual financial report presents information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt; as well as the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the financial statements for the relevant year.

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Governmental activities:										
Net investment in capital assets.....	\$ 52,167,940	\$ 40,075,777	\$ 41,810,591	\$ 30,275,698	\$ 42,164,538	\$ 46,050,972	\$ 50,775,626	\$ 67,919,534	\$ 79,744,529	\$ 83,444,529
Restricted.....	10,262,324	5,042,678	5,427,686	17,235,118	14,598,432	11,107,946	17,957,590	14,703,484	14,034,943	15,213,577
Unrestricted.....	<u>(9,825,365)</u>	<u>(4,504,015)</u>	<u>(8,089,584)</u>	<u>(13,458,533)</u>	<u>(23,443,933)</u>	<u>(30,400,280)</u>	<u>(42,372,213)</u>	<u>(136,510,465)</u>	<u>(138,365,215)</u>	<u>(146,679,539)</u>
Total governmental activities net position.....	<u>\$ 52,604,899</u>	<u>\$ 40,614,440</u>	<u>\$ 39,148,693</u>	<u>\$ 34,052,283</u>	<u>\$ 33,319,037</u>	<u>\$ 26,758,638</u>	<u>\$ 26,361,003</u>	<u>\$ (53,887,447)</u>	<u>\$ (44,585,743)</u>	<u>\$ (48,021,433)</u>
Business-type activities:										
Net investment in capital assets.....	\$ 107,127,369	\$ 67,009,058	\$ 78,138,873	\$ 82,476,284	\$ 88,027,781	\$ 92,884,895	\$ 99,173,805	\$ 100,025,889	\$ 99,638,405	\$ 107,040,094
Restricted.....	-	36,111,184	25,228,594	3,799,714	-	-	-	-	10,579,756	8,632,529
Unrestricted.....	<u>3,321,450</u>	<u>6,914,961</u>	<u>6,431,737</u>	<u>24,528,662</u>	<u>23,299,662</u>	<u>18,353,667</u>	<u>12,626,726</u>	<u>7,797,868</u>	<u>458,599</u>	<u>(3,909,467)</u>
Total business-type activities net position.....	<u>\$ 110,448,819</u>	<u>\$ 110,035,203</u>	<u>\$ 109,799,204</u>	<u>\$ 110,804,660</u>	<u>\$ 111,327,443</u>	<u>\$ 111,238,562</u>	<u>\$ 111,800,531</u>	<u>\$ 107,823,757</u>	<u>\$ 110,676,760</u>	<u>\$ 111,763,156</u>
Primary government:										
Net investment in capital assets.....	\$ 159,295,309	\$ 107,084,835	\$ 119,949,464	\$ 112,751,982	\$ 130,192,319	\$ 138,935,867	\$ 149,949,431	\$ 167,945,423	\$ 179,382,934	\$ 190,484,623
Restricted.....	10,262,324	41,153,862	30,656,280	21,034,832	14,598,432	11,107,946	17,957,590	14,703,484	24,614,699	23,846,106
Unrestricted.....	<u>(6,503,915)</u>	<u>2,410,946</u>	<u>(1,657,847)</u>	<u>11,070,129</u>	<u>(144,271)</u>	<u>(12,046,613)</u>	<u>(29,745,487)</u>	<u>(128,712,597)</u>	<u>(137,906,616)</u>	<u>(150,589,006)</u>
Total primary government net position.....	<u>\$ 163,053,718</u>	<u>\$ 150,649,643</u>	<u>\$ 148,947,897</u>	<u>\$ 144,856,943</u>	<u>\$ 144,646,480</u>	<u>\$ 137,997,200</u>	<u>\$ 138,161,534</u>	<u>\$ 53,936,310</u>	<u>\$ 66,091,017</u>	<u>\$ 63,741,723</u>

Note: The City restated the 2008 - 2012 governmental activities net position to conform to the current year classifications.

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses -										
Governmental activities:										
General government.....	\$ 15,268,743	\$ 8,221,549	\$ 6,687,783	\$ 7,590,541	\$ 8,065,325	\$ 7,876,806	\$ 8,157,467	\$ 7,030,527	\$ 7,065,924	\$ 8,568,308
Public safety.....	11,465,316	19,498,597	19,891,820	21,378,976	21,639,656	23,611,041	25,041,322	26,236,458	27,601,798	30,494,053
Education.....	52,925,369	60,834,332	61,389,047	60,613,207	61,434,195	62,636,639	62,749,205	61,431,058	61,690,389	61,787,760
Public works.....	6,519,837	9,127,735	7,604,686	12,903,774	11,520,406	13,358,454	13,847,127	15,733,578	13,618,155	16,000,830
Human services.....	1,615,431	2,377,069	3,093,944	2,897,092	2,760,670	3,492,413	3,109,978	2,640,005	2,900,414	3,248,584
Culture and recreation.....	904,935	1,320,640	1,306,697	1,228,440	1,338,998	1,485,843	1,470,795	2,248,760	1,886,628	2,048,002
Community development.....	-	-	-	-	-	743,152	433,472	283,559	1,027,976	1,319,911
Interest.....	2,137,776	1,520,347	1,365,600	1,489,621	1,570,886	1,810,129	1,928,689	1,079,444	801,280	1,452,361
Total government activities expenses.....	90,837,407	102,900,269	101,339,577	108,101,651	108,330,136	115,014,477	116,738,055	116,683,389	116,592,564	124,919,809
Business-type activities:										
Waterways operations.....	320,260	381,369	351,991	415,062	379,238	433,976	458,485	481,211	540,878	519,099
Talbot rink operations.....	-	-	-	215,488	256,093	340,235	353,949	364,877	414,350	414,163
Water operations.....	4,370,629	4,998,627	5,628,213	5,169,099	5,068,206	6,467,800	5,804,537	6,672,772	7,183,747	7,382,977
Sewer operations.....	8,105,616	10,520,880	9,574,904	9,188,687	9,627,430	9,870,450	9,435,467	10,773,921	10,836,496	11,329,763
Total business-type activities expenses.....	12,796,505	15,900,876	15,555,108	14,988,336	15,330,967	17,112,461	16,052,438	18,292,781	18,975,471	19,646,002
Total primary government expenses.....	\$ 103,633,912	\$ 118,801,145	\$ 116,894,685	\$ 123,089,987	\$ 123,661,103	\$ 132,126,938	\$ 132,790,493	\$ 134,976,170	\$ 135,568,035	\$ 144,565,811
Program Revenues -										
Governmental activities:										
Charges for services:										
General government.....	\$ 530,674	\$ 1,151,384	\$ 1,453,924	\$ 1,345,727	\$ 1,925,415	\$ 1,396,875	\$ 1,554,393	\$ 968,894	\$ 1,022,856	\$ 1,672,776
Public safety.....	2,169,029	2,852,071	4,136,494	4,026,394	4,242,730	3,938,415	4,581,632	5,077,913	4,590,746	5,112,977
Education.....	1,574,229	1,809,909	1,908,344	1,665,823	1,422,699	1,258,229	1,097,475	1,326,587	2,054,882	1,209,605
Public works.....	3,034,161	2,474,165	2,954,283	3,063,593	3,146,335	4,427,430	3,424,833	3,046,751	105,046	1,385,619
Human services.....	388,592	416,248	498,203	417,484	442,633	409,567	454,490	463,970	1,426,179	439,774
Culture and recreation.....	11,227	284,897	-	-	-	-	-	-	2,471,843	2,260,209
Community development.....	-	-	-	-	-	153,887	-	590,774	54,030	486,098
Operating grants and contributions.....	20,395,906	24,708,974	22,854,138	23,658,517	23,651,184	24,263,000	23,885,539	18,448,966	19,468,876	21,573,622
Capital grants and contributions.....	2,835,336	699,924	1,245,970	985,212	2,295,805	688,653	1,850,835	10,879,240	11,758,769	3,851,137
Total government activities program revenues.....	30,939,154	34,397,572	35,051,356	35,162,750	37,126,801	36,536,056	36,849,197	40,803,095	42,953,227	37,991,817
Business-type activities:										
Charges for services.....	13,370,571	13,896,538	12,953,425	14,580,630	13,399,135	13,801,523	13,959,304	13,284,388	14,458,647	14,981,397
Operating grants and contributions.....	13,609	534,399	470,519	580,041	133,507	796,589	313,063	313,201	1,204,530	211,525
Capital grants and contributions.....	-	-	1,602,899	-	1,235,968	1,059,902	778,444	2,030,382	768,472	329,358
Total business-type activities program revenues.....	13,384,180	14,430,937	15,026,843	15,160,671	14,768,610	15,658,014	15,050,811	15,627,971	16,431,649	15,522,280
Total primary government program revenues.....	\$ 44,323,334	\$ 48,828,509	\$ 50,078,199	\$ 50,323,421	\$ 51,895,411	\$ 52,194,070	\$ 51,900,008	\$ 56,431,066	\$ 59,384,876	\$ 53,514,097
Net (Expense)/Program Revenue										
Governmental activities.....	\$ (59,898,253)	\$ (68,502,697)	\$ (66,288,221)	\$ (72,938,901)	\$ (71,203,335)	\$ (78,478,421)	\$ (79,888,858)	\$ (75,880,294)	\$ (73,639,337)	\$ (86,927,992)
Business-type activities.....	587,675	(1,469,939)	(528,265)	172,335	(562,357)	(1,454,447)	(1,001,627)	(2,664,810)	(2,543,822)	(4,123,722)
Total primary government net (expense)/program revenue.....	\$ (59,310,578)	\$ (69,972,636)	\$ (66,816,486)	\$ (72,766,566)	\$ (71,765,692)	\$ (79,932,868)	\$ (80,890,485)	\$ (78,545,104)	\$ (76,183,159)	\$ (91,051,714)

(continued)

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Revenues, Transfers and Other Changes in Net Position -										
Governmental activities:										
Real estate and personal property taxes,										
net of tax refunds payable.....	\$ 52,584,070	\$ 54,775,708	\$ 57,151,585	\$ 61,124,814	\$ 63,550,949	\$ 65,256,614	\$ 68,099,541	\$ 73,802,313	\$ 76,596,057	\$ 78,929,607
Motor vehicle and other excise taxes.....	3,159,022	2,738,111	3,073,946	3,469,727	3,891,502	4,020,479	4,192,373	4,526,892	4,712,182	4,991,370
Penalties and interest on taxes.....	525,423	404,219	771,830	580,182	605,280	482,536	574,470	579,891	472,492	451,354
Grants and contributions not restricted to specific programs.....	6,219,557	4,522,568	3,546,018	3,400,946	3,400,000	3,398,980	3,477,561	3,572,975	3,720,566	4,151,445
Unrestricted investment income.....	441,875	544,141	177,915	81,153	78,204	92,508	105,615	84,034	144,636	178,644
Gain on sale of capital assets.....	-	-	8,026	-	-	-	3,000	2,300	-	-
Miscellaneous.....	571,459	325,055	182,918	18,790	29,294	32,471	41,905	-	-	-
Transfers.....	(41,950)	(546,610)	(89,764)	(833,121)	(1,085,140)	(1,365,566)	(1,486,874)	(5,613,589)	(5,396,825)	(5,210,118)
Total governmental activities.....	<u>63,459,456</u>	<u>62,763,192</u>	<u>64,822,474</u>	<u>67,842,491</u>	<u>70,470,089</u>	<u>71,918,022</u>	<u>75,007,591</u>	<u>76,954,816</u>	<u>80,249,108</u>	<u>83,492,302</u>
Business-type activities:										
Motor vehicle and other excise taxes.....	-	-	-	-	-	-	76,722	98,683	-	-
Unrestricted investment income.....	-	-	202,502	-	-	-	-	-	-	-
Transfers.....	41,950	546,610	89,764	833,121	1,085,140	1,365,566	1,486,874	5,613,589	5,396,825	5,210,118
Total business-type activities.....	<u>41,950</u>	<u>546,610</u>	<u>292,266</u>	<u>833,121</u>	<u>1,085,140</u>	<u>1,365,566</u>	<u>1,563,596</u>	<u>5,712,272</u>	<u>5,396,825</u>	<u>5,210,118</u>
Total primary government general revenues, transfers and other changes in net position.....	<u>\$ 63,501,406</u>	<u>\$ 63,309,802</u>	<u>\$ 65,114,740</u>	<u>\$ 68,675,612</u>	<u>\$ 71,555,229</u>	<u>\$ 73,283,588</u>	<u>\$ 76,571,187</u>	<u>\$ 82,667,088</u>	<u>\$ 85,645,933</u>	<u>\$ 88,702,420</u>
Changes in Net Position										
Governmental activities.....	\$ 3,561,203	\$ (5,739,505)	\$ (1,465,747)	\$ (5,096,410)	\$ (733,246)	\$ (6,560,399)	\$ (4,881,267)	\$ 1,074,522	\$ 6,609,771	\$ (3,435,690)
Business-type activities.....	<u>629,625</u>	<u>(923,329)</u>	<u>(235,999)</u>	<u>1,005,456</u>	<u>522,783</u>	<u>(88,881)</u>	<u>561,969</u>	<u>3,047,462</u>	<u>2,853,003</u>	<u>1,086,396</u>
Total primary government changes in net position.....	<u>\$ 4,190,828</u>	<u>\$ (6,662,834)</u>	<u>\$ (1,701,746)</u>	<u>\$ (4,090,954)</u>	<u>\$ (210,463)</u>	<u>\$ (6,649,280)</u>	<u>\$ (4,319,298)</u>	<u>\$ 4,121,984</u>	<u>\$ 9,462,774</u>	<u>\$ (2,349,294)</u>

(concluded)

FUND BALANCES - GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General Fund:										
Restricted.....	\$ -	\$ -	\$ -	\$ 10,000	\$ 20,017	\$ 99,139	\$ 559,229	\$ 314,964	\$ 282,025	\$ 250,809
Committed.....	-	-	-	109,793	762,351	860,215	1,991,952	-	-	-
Assigned.....	1,164,905	306,568	861,269	815,750	1,377,844	1,908,475	1,388,337	3,163,485	1,800,766	2,355,105
Unassigned.....	392,927	907,329	4,769,340	6,241,339	8,422,360	7,412,492	6,160,494	3,802,793	6,598,857	8,088,307
Total general fund.....	<u>\$ 1,557,832</u>	<u>\$ 1,213,897</u>	<u>\$ 5,630,609</u>	<u>\$ 7,176,882</u>	<u>\$ 10,582,572</u>	<u>\$ 10,280,321</u>	<u>\$ 10,100,012</u>	<u>\$ 7,281,242</u>	<u>\$ 8,681,648</u>	<u>\$ 10,694,221</u>
All Other Governmental Funds:										
Nonspendable.....	\$ 720,384	\$ 1,825,767	\$ 2,455,422	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted.....	6,370,809	3,047,869	3,707,007	8,859,837	10,420,817	12,826,218	18,149,060	8,441,210	8,099,571	9,084,904
Committed.....	6,098,725	-	-	-	-	-	-	-	-	-
Unassigned.....	(1,945,569)	(2,071,062)	(329,192)	(2,304,074)	(5,149,626)	(3,964,533)	(3,959,206)	(13,144,666)	(14,272,406)	(11,728,586)
Total all other governmental funds.....	<u>\$ 11,244,349</u>	<u>\$ 2,802,574</u>	<u>\$ 5,833,237</u>	<u>\$ 6,555,763</u>	<u>\$ 5,271,191</u>	<u>\$ 8,861,685</u>	<u>\$ 14,189,854</u>	<u>\$ (4,703,456)</u>	<u>\$ (6,172,835)</u>	<u>\$ (2,643,682)</u>

Note: The City implemented GASB 54 in fiscal year 2011. All previous years (2008 - 2010) data presented were restated to conform to the GASB 54 presentation.

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues:										
Real estate and personal property taxes, net of tax refunds.....	\$ 52,272,295	\$ 53,687,316	\$ 56,718,544	\$ 60,321,588	\$ 63,226,876	\$ 64,563,325	\$ 67,660,642	\$ 73,314,196	\$ 76,418,856	\$ 79,128,774
Motor vehicle and other excise taxes.....	3,159,022	3,199,763	3,050,315	3,482,871	3,875,520	3,864,021	4,366,266	4,389,505	4,667,949	5,014,229
Penalties and interest on taxes.....	525,423	404,219	771,830	582,442	610,806	482,536	574,469	579,891	472,492	451,354
Intergovernmental.....	26,553,235	29,231,079	27,964,588	28,717,037	29,706,314	28,417,008	29,116,562	33,172,664	34,976,514	29,466,537
Departmental and other.....	8,954,705	8,175,900	9,930,086	9,230,633	9,673,237	8,998,714	9,834,636	8,775,422	10,361,766	10,333,622
Licenses and permits.....	1,101,855	1,142,515	1,273,074	1,388,405	1,382,935	1,469,954	1,486,456	1,799,191	1,710,803	1,641,886
Fines and forfeitures.....	325,400	269,703	393,422	394,975	606,414	593,931	635,315	359,724	349,429	282,197
Contributions.....	566,837	1,829,018	643,614	475,130	582,757	1,649,316	439,650	490,332	540,184	1,025,693
Miscellaneous.....	1,147,371	-	-	-	-	-	-	-	-	-
Investment income.....	519,644	436,138	251,782	211,432	78,395	167,848	213,693	84,034	144,636	178,644
Total Revenue.....	95,125,787	98,375,651	100,997,255	104,804,513	109,743,254	110,206,653	114,327,689	122,964,959	129,642,629	127,522,936
Expenditures:										
General government.....	13,652,481	4,423,811	4,405,071	4,791,015	4,760,118	4,830,801	4,844,555	4,662,678	4,243,241	5,235,956
Public safety.....	11,518,547	11,929,978	11,724,539	12,459,141	13,136,257	14,242,542	15,105,879	17,955,067	18,166,710	18,306,769
Education.....	48,960,596	43,362,014	42,300,832	40,607,221	40,307,690	41,448,800	44,252,035	43,171,417	39,315,418	38,262,648
Public works.....	5,668,710	7,539,886	5,629,209	9,195,769	8,414,606	9,316,246	10,511,206	11,332,988	8,472,442	9,346,234
Health and human services.....	1,615,431	2,123,692	2,243,951	2,351,678	2,147,534	2,218,459	2,188,146	1,954,080	2,107,184	2,255,745
Culture and recreation.....	800,342	780,619	719,011	722,469	737,745	833,284	851,535	1,728,756	1,274,780	1,327,007
Community development.....	-	-	-	-	-	469,147	429,525	207,477	1,024,150	1,315,993
Pension and fringe benefits.....	-	17,429,837	17,906,781	19,502,002	19,938,895	21,360,791	22,110,603	18,390,910	25,491,834	28,368,444
State and county charges.....	3,463,771	3,592,803	3,691,967	4,440,241	5,127,863	4,097,879	3,073,226	2,101,304	2,328,208	2,344,811
Capital outlay.....	2,379,332	6,853,389	3,533,740	3,310,124	8,877,373	9,396,426	6,534,656	25,555,132	29,775,096	12,885,646
Debt service:										
Principal.....	6,528,872	4,339,015	4,325,958	4,526,283	4,664,851	4,970,003	5,002,121	4,582,222	4,802,928	3,825,648
Interest.....	2,924,057	1,929,302	1,361,777	1,498,070	1,613,112	1,763,333	2,007,394	1,065,665	1,055,839	1,593,728
Total Expenditures.....	97,512,139	104,304,346	97,842,836	103,404,013	109,726,044	114,947,711	116,910,881	132,707,696	138,057,830	125,068,629
Excess of revenues over (under) expenditures.....	(2,386,352)	(5,928,695)	3,154,419	1,400,500	17,210	(4,741,058)	(2,583,192)	(9,742,737)	(8,415,201)	2,454,307
Other Financing Sources (Uses):										
Issuance of bonds and notes.....	-	5,443,135	3,808,948	1,364,000	3,020,000	9,002,773	3,255,000	164,880	12,300,000	6,716,650
Issuance of refunding bonds.....	-	-	-	1,590,180	-	891,438	-	822,470	-	-
Payments to refunding escrow agent.....	-	-	-	(1,658,785)	-	(951,007)	-	(698,396)	-	-
Issuance of capital lease.....	-	-	-	-	-	-	-	-	985,635	90,028
Premiums from bonds and notes.....	-	304,401	164,346	216,495	169,048	435,459	526,168	380,340	457,418	1,490,859
Sale of capital assets.....	-	-	-	3,600	-	16,205	3,000	2,300	-	-
Transfers in.....	3,643,364	1,429,830	2,519,685	828,835	916,868	995,635	1,162,999	458,764	399,397	1,364,004
Transfers out.....	(3,624,807)	(1,935,882)	(2,200,023)	(1,476,026)	(2,002,008)	(2,361,202)	(2,649,873)	(6,072,353)	(5,796,222)	(6,574,122)
Total other financing sources (uses).....	18,557	5,241,484	4,292,956	868,299	2,103,908	8,029,301	2,297,294	(4,941,995)	8,346,228	3,087,419
Net change in fund balance.....	\$ (2,367,795)	\$ (687,211)	\$ 7,447,375	\$ 2,268,799	\$ 2,121,118	\$ 3,288,243	\$ (285,898)	\$ (14,684,732)	\$ (68,973)	\$ 5,541,726
Debt service as a percentage of noncapital expenditures.....	9.94%	6.43%	6.03%	6.02%	6.23%	6.38%	6.35%	5.27%	5.41%	4.83%

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY BY CLASSIFICATION AND TAX RATES

LAST TEN FISCAL YEARS

Fiscal Year	Assessed Value					Total Commercial Value	Total City Value	State Equalized Value	Ratio of Assessed to Equalized Value	Tax Rates		
	Residential Value	Commercial Value	Industrial Value	Personal Property	Average Tax Rate					Residential Tax Rate	Commercial Tax Rate	Average Tax Rate
2008	\$ 5,242,429,165	\$ 280,893,305	\$ 168,669,130	\$ 74,752,690	\$ 524,315,125	\$ 5,766,744,290	\$ 6,093,216,100	94.64%	\$ 9.10	\$ 9.70	\$ 9.15	
2009	5,131,715,937	291,565,933	167,680,030	83,931,100	543,177,063	5,674,893,000	6,244,033,100	90.89%	9.60	10.24	9.66	
2010	4,823,470,706	300,127,372	167,286,322	90,546,600	557,960,294	5,381,431,000	6,244,033,100	86.19%	10.49	11.20	10.56	
2011	4,722,167,330	301,355,658	162,664,112	101,892,820	565,912,590	5,288,079,920	5,923,627,100	89.27%	11.31	12.06	11.39	
2012	4,568,213,394	298,555,412	160,182,394	108,995,390	567,733,196	5,135,946,590	5,923,627,100	86.70%	12.18	13.01	12.27	
2013	4,547,193,970	295,165,012	159,699,918	111,716,260	566,581,190	5,113,775,160	5,580,515,200	91.64%	12.62	13.48	12.72	
2014	4,586,013,382	306,863,592	162,999,426	108,314,630	578,177,648	5,164,191,030	5,580,515,200	92.54%	12.98	13.86	13.08	
2015	4,742,958,563	309,327,365	165,566,272	110,008,000	584,901,637	5,327,860,200	5,495,341,100	96.95%	13.65	14.58	13.75	
2016	4,952,400,301	312,996,766	161,739,833	109,622,320	584,358,919	5,536,759,220	5,495,341,100	100.75%	13.61	14.53	13.71	
2017	5,325,464,096	328,422,330	164,154,274	112,471,660	605,048,264	5,930,512,360	6,026,476,200	98.41%	13.19	13.63	13.23	

Source: Official Statements, State Division of Local Services

Note: All property in the Commonwealth of Massachusetts is assessed at 100% of full and fair cash value. The State estimates this "equalized valuation" for all municipalities every two years. Chapter 59, Section 21C of the Massachusetts General Laws, known as "Proposition 2 1/2", imposes 2 separate limits on the annual tax levy of the City. The primary limitation is that the tax levy cannot exceed 2 1/2% of the full and fair cash value. The secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2%, subject to an exception for property added to the tax rolls and for certain valuation increases. This secondary limit may be exceeded in any fiscal year by majority approval of the voters, however, it cannot exceed the primary limitation.

PRINCIPAL TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	Nature of Business	2017			2008		
		Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value	Assessed Valuation	Rank	Percentage of Total Taxable Assessed Value
Massachusetts Electric Co.	Utility	\$ 44,809,450	1	0.76%	\$ 37,053,770	1	0.64%
Boston Gas Co.	Utility	28,079,140	2	0.47%	13,111,730	7	0.23%
Varian Semiconductor Equipment	Semiconductors	21,730,310	3	0.37%	23,291,000	2	0.40%
ART Mortgage Borrower Propco	Freezer Storage	20,367,600	4	0.34%			0.00%
Gloucester Commons LLC	Retail Shopping Center	16,052,800	5	0.27%			0.00%
NGP Gloucester Mall	Office Building	13,513,600	6	0.23%			0.00%
Blackburn Center LLC	Real Estate	13,481,700	7	0.23%	12,804,000	8	0.22%
Gorton's Inc.	Fish Processing	12,986,500	8	0.22%	11,419,500	9	0.20%
Heights at Cape Ann II LLC	Residential	12,299,800	9	0.21%	14,910,200	5	0.26%
Beauport Gloucester LLC	Hotel	9,936,200	10	0.17%			0.00%
Americold Real Estate LP	Freezer Storage			0.00%	21,751,420	3	0.38%
Verizon New England	Utility			0.00%	15,769,400	4	0.27%
Trayes William Hetux TRS	Real Estate			0.00%	14,543,600	6	0.25%
Lamson Katherine Et al TRS	Real Estate			0.00%	10,158,700	10	0.18%
		<u>\$ 193,257,100</u>		<u>3.26%</u>	<u>\$ 62,223,120</u>		<u>3.03%</u>

Source: Official Statements

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year	Tax Levy			Collections				Percent of Total Tax Collections to Net Tax Levy
	Total Tax Levy	Less Abatements & Exemptions	Net Tax Levy	First Year Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	
2008	\$ 52,791,962	\$ 435,012	\$ 52,356,950	\$ 50,086,057	95.66%	\$ 1,689,167	\$ 51,775,224	98.89%
2009	54,826,606	310,828	54,515,778	53,013,298	97.24%	973,088	53,986,386	99.03%
2010	56,847,363	451,068	56,396,295	54,898,487	97.34%	1,204,197	56,102,684	99.48%
2011	60,243,937	399,096	59,844,841	58,328,499	97.47%	1,147,630	59,476,129	99.38%
2012	63,027,048	400,000	62,627,048	61,592,946	98.35%	616,813	62,209,759	99.33%
2013	65,023,102	407,466	64,615,636	64,197,240	99.35%	418,396	64,615,636	100.00%
2014	67,539,996	429,928	67,110,068	66,264,173	98.74%	315,636	66,579,809	99.21%
2015	73,269,250	390,273	72,878,977	71,883,521	98.63%	612,879	72,496,400	99.48%
2016	75,892,903	390,222	75,502,681	74,541,095	98.73%	531,156	75,072,251	99.43%
2017	78,489,679	384,430	78,105,249	77,197,819	98.84%	-	77,197,819	98.84%

Source: Accounting Records

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities		Business-type Activities		Total Outstanding Debt	Personal Income	Percentage of Personal Income	U.S Census Population	Debt Per Capita
	General Obligation Bonds (1)	Capital Leases	General Obligation Bonds	Capital Leases					
2008	\$ 40,203,999	\$ 1,557,948	\$ 51,352,478	\$ -	\$ 93,114,425	\$ 774,837,435	12.02%	30,273	\$ 3,076
2009	41,308,119	1,357,519	58,977,170	-	101,642,808	774,837,435	13.12%	30,273	3,358
2010	40,791,109	1,147,973	54,896,641	-	96,835,723	984,698,956	9.83%	28,789	3,364
2011	37,649,007	-	75,494,570	-	113,143,577	984,698,956	11.49%	28,789	3,930
2012	36,004,156	-	82,518,560	-	118,522,716	984,698,956	12.04%	28,789	4,117
2013	39,995,863	-	100,698,530	-	140,694,393	984,698,956	14.29%	28,789	4,887
2014 (2)	34,044,661	-	114,368,318	-	148,412,979	984,698,956	15.07%	28,789	5,155
2015	30,160,252	-	107,383,369	-	137,543,621	984,698,956	13.97%	28,789	4,778
2016	37,638,307	957,729	101,664,935	-	140,260,971	984,698,956	14.24%	28,789	4,872
2017	41,821,740	971,175	95,905,590	460,428	139,158,933	984,698,956	14.13%	28,789	4,834

Source: U. S. Census, State Division of Local Services

(1) Presented net of original issuance discounts and premiums.

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>General Obligation Bonds (1)</u>	<u>Less: Amounts Available (2)</u>	<u>Total</u>	<u>Assessed Value</u>	<u>Percentage of Assessed Value</u>	<u>U.S Census Population</u>	<u>Debt Per Capita</u>
2008	\$ 91,556,477	\$ (9,610,797)	\$ 81,945,680	\$ 5,766,744,290	1.42%	30,273	\$ 2,707
2009	100,285,289	(8,408,897)	91,876,392	5,674,893,000	1.62%	30,273	3,035
2010	95,687,750	(7,343,237)	88,344,513	5,381,431,000	1.64%	28,789	3,069
2011	113,143,577	(6,033,989)	107,109,588	5,288,079,920	2.03%	28,789	3,721
2012	118,522,716	(5,008,927)	113,513,789	5,135,946,590	2.21%	28,789	3,943
2013	140,694,393	(3,983,865)	136,710,528	5,113,775,160	2.67%	28,789	4,749
2014	148,412,979	(2,958,803)	145,454,176	5,164,191,030	2.82%	28,789	5,052
2015	137,543,621	(2,146,988)	135,396,633	5,327,860,200	2.54%	28,789	4,703
2016	139,303,242	(1,195,835)	138,107,407	5,536,759,220	2.49%	28,789	4,797
2017	137,727,330	-	137,727,330	5,930,512,360	2.32%	28,789	4,784

Source: U. S. Census, State Division of Local Services

(1) General obligation bonds consist of debt of both governmental and business-type activities, net of original issuance discounts and premiums.

(2) These are restricted resources from the Massachusetts School Building Authority for debt principal on school construction.

COMPUTATION OF LEGAL DEBT MARGIN

LAST TEN FISCAL YEARS

(Amounts in Thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Equalized Valuation.....	\$ 6,093,216	\$ 6,244,033	\$ 6,244,033	\$ 5,923,627	\$ 5,923,627	\$ 5,580,515	\$ 5,580,515	\$ 5,495,341	5,495,341	6,026,476
Debt Limit.....	304,661	312,202	312,202	296,181	296,181	279,026	279,026	274,767	274,767	301,324
Outstanding general obligation bonds.....	91,556	100,285	95,688	113,144	118,523	140,694	148,413	137,544	139,303	137,727
Authorized and unissued debt.....	52,962	57,521	74,283	68,798	27,612	16,188	57,026	35,344	13,161	17,306
Debt not applicable to debt limit.....	(65,368)	(59,666)	(54,017)	(58,257)	(58,667)	(56,303)	(52,093)	(62,131)	(56,205)	(67,451)
Legal debt margin.....	<u>\$ 225,511</u>	<u>\$ 214,062</u>	<u>\$ 196,248</u>	<u>\$ 172,496</u>	<u>\$ 208,713</u>	<u>\$ 178,447</u>	<u>\$ 125,680</u>	<u>\$ 164,010</u>	<u>\$ 178,508</u>	<u>\$ 213,742</u>
Total debt applicable to the limit as a percentage of debt limit.....	25.98%	31.43%	37.14%	41.76%	29.53%	36.05%	54.96%	40.31%	35.03%	29.07%

Source: State Division of Local Services, Accounting Records

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF JUNE 30, 2017

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes:			
Essex North Shore Agricultural and Technical School District.....	\$ 29,710,000	9.970%	<u>\$ 2,962,087</u>
Subtotal, overlapping debt.....			2,962,087
City direct debt.....			<u>42,792,915</u>
Total direct and overlapping debt.....			<u><u>\$ 45,755,002</u></u>

Source: Official Statements, Accounting Records

Note: The estimated percentage applicable is determined based on the City's weighted percentage of the total member municipalities of the school district as provided in its agreements.

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Population Estimates</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2008	30,273	\$ 774,837,435	\$ 25,595	40.1	3,393	5.20%
2009	30,273	774,837,435	25,595	40.1	3,426	9.90%
2010	28,789	984,698,956	34,204	46.4	3,246	10.00%
2011	28,789	984,698,956	34,204	46.4	3,098	8.70%
2012	28,789	984,698,956	34,204	46.4	3,067	7.80%
2013	28,789	984,698,956	34,204	46.4	3,078	8.60%
2014	28,789	984,698,956	34,204	46.4	2,863	7.60%
2015	28,789	984,698,956	34,204	46.4	2,986	6.60%
2016	28,789	984,698,956	34,204	46.4	2,930	4.30%
2017	28,789	984,698,956	34,204	46.4	2,904	5.10%

Source: U. S. Census, Division of Local Services, Massachusetts
 Department of Elementary and Secondary Education.
 Median age is based on most recent census data.

PRINCIPAL EMPLOYERS (EXCLUDING CITY)

CURRENT YEAR AND NINE YEARS AGO

Employer	Nature of Business	2017			2008		
		Approximate Number of Employees	Rank	Percentage of Total City Employment	Approximate Number of Employees	Rank	Percentage of Total City Employment
Varian Semiconductor Equipment	Semiconductors	500-999	1	26.70%	909	1	32.28%
Addision Gilbert Hospital	Hospital	250-500	2	13.36%	363	3	12.89%
Seaport Grille	Food Industry	250-500	3	13.36%			0.00%
Action Inc.	Human Services	100-249	4	6.65%			0.00%
Applied Materials Inc.	Semiconductors	100-249	5	6.65%			0.00%
Bomco Inc.	Metal Forming	100-249	6	6.65%	87	10	3.09%
Gloucester Engineering Co Inc.	Engineering	100-249	7	6.65%			0.00%
Head Start-Emerson	Day Care	100-249	8	6.65%			0.00%
North Shore Prenatal	Nursing	100-249	9	6.65%			0.00%
Pathways for Children	Day Care	100-249	10	6.65%			0.00%
Gorton's	Seafood processing				424	2	15.06%
Battenfeld Gloucester Engineering	Manufacturing				235	4	8.35%
Shaw's Sipermarkets	Supermarkets				223	5	7.92%
Seacoast Nursing & Retirement	Nursing home				165	6	5.86%
Stop & Shop Supermarkets	Supermarkets				148	7	5.26%
ITT Industries-Rule Industries	Marine and special hardware				134	8	4.76%
First Boston Pharma	Manufacturing				128	9	4.55%

Source: Official Statements

FULL-TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION

LAST TEN FISCAL YEARS

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government.....	44	41	42	38	42	44	44	42	41	44
Public safety.....	163	150	155	153	154	152	153	155	155	159
Education.....	714	704	704	650	652	663	665	652	659	663
Public works.....	33	27	28	65	65	67	63	62	65	69
Health and human services.....	16	15	15	14	13	13	13	14	13	13
Culture and recreation.....	18	18	18	16	17	17	17	17	17	17
Sub-total	988	955	961	936	942	955	954	941	950	964
Water, sewer, waterways and rink.....	37	39	40	36	37	36	35	36	37	31
Total City employees.....	1,025	994	1,001	972	979	992	989	978	986	995

Source: City personnel records

OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government:										
City Clerk										
Registered voters.....	13,103	13,466	13,961	14,381	15,706	16,386	17,189	18,130	20,487	21,529
Public Safety:										
Police										
Criminal offenses										
Homicide.....	-	-	-	-	-	-	-	-	-	-
Rape.....	9	2	3	6	4	9	4	2	4	5
Robbery.....	1	7	4	1	1	1	6	6	4	5
Aggravated assault.....	15	21	28	15	23	13	12	23	16	28
Burglary.....	34	29	26	32	20	23	21	23	22	27
Larceny.....	33	41	39	24	32	31	37	21	22	33
Motor vehicle theft.....	17	5	4	5	4	5	13	16	15	8
Total criminal offenses.....	<u>109</u>	<u>105</u>	<u>104</u>	<u>83</u>	<u>84</u>	<u>82</u>	<u>93</u>	<u>91</u>	<u>83</u>	<u>106</u>
Adult arrests.....	610	418	530	448	585	554	854	979	867	473
Juvenile arrests.....	24	12	26	29	15	21	63	57	59	22
Incident reports.....	4,089	3,578	3,735	3,570	4,020	4,336	2,924	2,815	2,711	7,875
Citations issued.....	2,185	932	992	1,160	1,870	1,968	1,529	2,613	1,776	1,193
Fire										
Incidents										
Fires.....	640	622	699	633	739	678	647	733	719	694
Non-fire incidents.....	3,774	4,047	4,539	3,950	3,830	3,953	4,149	4,347	4,350	4,636
Total fire calls.....	<u>4,414</u>	<u>4,669</u>	<u>5,238</u>	<u>4,583</u>	<u>4,569</u>	<u>4,631</u>	<u>4,796</u>	<u>5,080</u>	<u>5,069</u>	<u>5,330</u>
Inspectional Services										
Number of Building permits	976	881	793	1,087	1,028	1,124	1,125	1,451	1,348	1,293
Estimated dollar value of new construction	42,397,852	41,595,612	41,545,301	50,727,409	61,070,820	51,451,437	100,741,631	62,860,739	57,208,759	64,140,373
Education:										
Number of students.....	3,393	3,426	3,246	3,098	3,067	3,078	2,863	2,986	2,930	2,904
Public Works:										
Highway										
Roads paved (miles).....	0.50	1.20	0.90	1.30	6.30	0.80	2.20	1.40	0.69	1.10
Water										
Water mains replaced (miles).....	0.40	0.17	-	1.40	-	3.13	3.99	0.56	0.07	6.90
Sewer										
Sanitary sewers replaced (miles).....	0.60	-	0.49	0.44	0.44	-	0.29	0.77	0.15	1.40
Health and Human Services:										
Board of Health										
Permits issued										
Food permits.....	N/A	N/A	N/A	N/A	N/A	407	375	378	364	N/A
Other.....	N/A	N/A	N/A	N/A	N/A	589	593	846	850	N/A
Total permits.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>996</u>	<u>968</u>	<u>1,224</u>	<u>1,214</u>	<u>-</u>
Culture and Recreation:										
Libraries										
Circulation.....	153,637	163,064	158,697	155,208	154,935	137,966	138,860	146,061	163,445	162,986
Holdings.....	132,842	134,999	136,940	139,313	144,754	153,305	148,865	136,044	121,627	112,491
Number of visits.....	154,301	155,682	154,763	152,485	151,771	142,252	135,078	73,948	160,419	233,569

N/A - Information not available at the current time.
Source: Various City Departments and State websites.

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST TEN FISCAL YEARS

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government:										
Number of buildings.....	4	4	4	4	4	4	4	4	4	4
Public Safety:										
Police										
Number of stations.....	1	1	1	1	1	1	1	1	1	1
Fire										
Number of stations.....	4	4	4	4	4	4	4	4	4	4
Education:										
Number of Pre-K schools.....	1	1	1	1	1	1	-	-	-	-
Number of grade K - 8 schools.....	6	6	6	6	6	6	6	6	6	6
Number of high schools.....	1	1	1	1	1	1	1	1	1	1
Public Works:										
Number of facility yards.....	1	1	1	1	1	1	1	1	1	1
Road miles (Public/Private).....	90/67	90/67	90/67	90/67	90/67	90/67	90/67	90/67	90/67	90/67
Water main lines (miles).....	133.0	133.0	133.0	133.0	133.0	133.0	133.0	133.0	133.0	133.0
Sewer main lines (miles).....	107.6	107.6	107.6	107.6	107.6	107.6	107.6	107.6	107.6	107.6
Number of cemeteries.....	15	15	15	15	15	15	15	15	15	15
Culture and Recreation:										
Number of senior centers.....	1	1	1	1	1	1	1	1	1	1
Number of public parks.....	14	14	14	14	14	14	14	14	14	14
Number of public beaches.....	5	5	5	5	5	5	5	5	5	5

Source: Various City Departments and State websites.