

CITY OF AMESBURY, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

City of Amesbury, Massachusetts

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INDEPENDENT AUDITORS' REPORT

To the Mayor and Municipal Council
City of Amesbury, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Amesbury, Massachusetts, as of and for the year ended June 30, 2015, (except for the Amesbury Contributory Retirement System which is as of and for the year ended December 31, 2014), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The City's 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Amesbury, Massachusetts, as of June 30, 2015, (except for the Amesbury Contributory Retirement System which is as of and for the year ended December 31, 2014) and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund 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 Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient 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 accompanying supplementary information appearing on pages 61 and 62 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Melanson Heath

July 26, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Amesbury, we offer readers this narrative overview and analysis of the financial activities of the City of Amesbury for the fiscal year ended June 30, 2015. Unless otherwise noted, all amounts are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all 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 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).

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

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for sewer and water operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, both of which are considered to be major funds.

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.

Notes to 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 which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$23,131 (i.e., net position), a change of \$(2,451) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$(334), a change of \$(336) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,273, a change of \$(699) in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$35,650, a change of \$(611) in comparison to the prior year. Bond anticipation notes at year-end totaled \$9,235, a change of \$(3,202).

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 18,116	\$ 21,138	\$ 2,264	\$ 2,261	\$ 20,380	\$ 23,399
Capital assets	64,828	65,350	41,988	43,083	106,816	108,433
Deferred outflows of resources	492	-	8	-	500	-
Total assets	83,436	86,488	44,260	45,344	127,696	131,832
Other liabilities	13,514	15,182	670	1,601	14,184	16,783
Long-term liabilities outstanding	64,344	29,112	26,037	26,316	90,381	55,428
Total liabilities	77,858	44,294	26,707	27,917	104,565	72,211
Net position:						
Net investment in capital assets	45,123	45,734	17,077	16,070	62,200	61,804
Restricted	4,567	4,201	-	-	4,567	4,201
Unrestricted	(44,112)	(7,741)	476	1,357	(43,636)	(6,384)
Total net position	\$ 5,578	\$ 42,194	\$ 17,553	\$ 17,427	\$ 23,131	\$ 59,621

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,477	\$ 2,448	\$ 6,951	\$ 6,147	\$ 9,428	\$ 8,595
Operating grants and contributions	16,214	19,522	-	-	16,214	19,522
Capital grants and contributions	709	419	-	-	709	419
General revenues:						
Property taxes	37,724	36,876	-	-	37,724	36,876
Excises	2,248	2,136	-	-	2,248	2,136
Penalties, interest and other taxes	208	207	-	-	208	207
Grants and contributions not restricted to specific programs	2,472	2,355	-	-	2,472	2,355
Investment income	23	27	-	-	23	27
Miscellaneous	157	126	-	-	157	126
Total revenues	<u>62,232</u>	<u>64,116</u>	<u>6,951</u>	<u>6,147</u>	<u>69,183</u>	<u>70,263</u>
Expenses:						
General government	5,363	4,277	-	-	5,363	4,277
Public safety	7,808	7,520	-	-	7,808	7,520
Education	34,906	38,013	-	-	34,906	38,013
Public works	4,321	3,599	-	-	4,321	3,599
Health and human services	1,140	1,133	-	-	1,140	1,133
Culture and recreation	1,114	1,090	-	-	1,114	1,090
Employee benefits	6,220	7,342	-	-	6,220	7,342
Intergovernmental	3,851	3,580	-	-	3,851	3,580
Interest on long-term debt	672	547	-	-	672	547
Sewer services	-	-	2,960	2,664	2,960	2,664
Water services	-	-	3,279	2,990	3,279	2,990
Total expenses	<u>65,395</u>	<u>67,101</u>	<u>6,239</u>	<u>5,654</u>	<u>71,634</u>	<u>72,755</u>
Change in net position	(3,163)	(2,985)	712	493	(2,451)	(2,492)
* Net position - beginning of year, as restated	<u>8,741</u>	<u>45,179</u>	<u>16,841</u>	<u>16,934</u>	<u>25,582</u>	<u>62,113</u>
Net position - end of year	<u>\$ 5,578</u>	<u>\$ 42,194</u>	<u>\$ 17,553</u>	<u>\$ 17,427</u>	<u>\$ 23,131</u>	<u>\$ 59,621</u>

* Restated, as described in Note 24.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$23,131, a change of \$(2,451) from the prior year. The largest portion of net position \$62,200 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt

used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$4,567 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$(43,635) primarily results from the City's unfunded net pension and OPEB liabilities.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(3,163). Key elements of this change are as follows:

Increase in OPEB liability	\$ (1,694)
Depreciation in excess of principal debt service	(683)
Change in MSBA receivables	(767)
Change in net pension liability	456
Other	<u>(475)</u>
Total	<u>\$ (3,163)</u>

Business-type activities. Business-type activities for the year resulted in an increase in net position of \$712. Key elements of this change are:

Sewer	\$ 173
Water	<u>539</u>
Total	<u>\$ 712</u>

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing 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 end of the current fiscal year, governmental funds reported a decrease of \$(336) for a combined ending fund balance of \$(334). Key elements of this change are as follows:

General fund expenditures in excess of revenues	\$ (947)
Public safety facility major fund expenditures in excess of revenues and bond proceeds	(58)
Public works facility major fund expenditures in excess of revenues	(1,456)
Current year bond proceeds	1,909
Other	<u>216</u>
Total	<u>\$ (336)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,273, while total fund balance was \$4,377. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>	% of <u>Total General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 3,273	\$ 3,972	\$ (699)	6.1%
Total fund balance ²	\$ 4,377	\$ 4,875	\$ (498)	8.1%

¹ Includes General stabilization fund.

² Includes General and Smart Growth stabilization funds.

The total fund balance of the general fund changed by \$(498) during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$ (1,011)
Revenues in excess of budget	187
Expenditures less than budget	548
Other	<u>(222)</u>
Total	<u>\$ (498)</u>

Included in the total general fund balance are the City's stabilization accounts with the following balances:

	<u>6/30/15</u>	<u>6/30/14</u>	<u>Change</u>
General stabilization (unassigned)	\$ 805	\$ 800	\$ 5
Smart growth stabilization (committed)	<u>449</u>	<u>446</u>	<u>3</u>
Total	<u>\$ 1,254</u>	<u>\$ 1,246</u>	<u>\$ 8</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$476, a change of \$(880) in comparison to the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$1,011. This is due to various appropriations funded by free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$106,816 (net of accumulated depreciation), a net change of \$(1,617) from the prior year. This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following (in thousands):

Remodeling public safety	\$	41
Green communities	\$	149
Lower millyard development	\$	103
DPW facility relocation	\$	1,263
Various vehicles and equipment	\$	227

Change in credit rating. During the fiscal year, the City maintained a Standard & Poor credit rating of AA.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$35,650, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Amesbury'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:

Chief Financial Officer
City of Amesbury
62 Friend Street
Amesbury, MA 01913

CITY OF AMESBURY, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 10,888,016	\$ 258,313	\$ 11,146,329
Investments	1,994,395	-	1,994,395
Receivables, net of allowance for uncollectibles:			
Property taxes	1,220,620	-	1,220,620
Excises	317,402	-	317,402
User fees	-	2,005,526	2,005,526
Departmental and other	990,569	-	990,569
Intergovernmental	766,765	-	766,765
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	405,149	-	405,149
Intergovernmental	1,533,534	-	1,533,534
Capital Assets:			
Land and construction in progress	10,207,957	20,958,455	31,166,412
Other capital assets, net of accumulated depreciation	54,619,812	21,029,481	75,649,293
DEFERRED OUTFLOWS OF RESOURCES	<u>492,173</u>	<u>8,613</u>	<u>500,786</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	83,436,392	44,260,388	127,696,780
LIABILITIES			
Current:			
Accounts payable	1,134,465	131,100	1,265,565
Accrued liabilities	3,080,155	538,803	3,618,958
Notes payable	9,235,000	-	9,235,000
Other liabilities	64,282	-	64,282
Current portion of long-term liabilities:			
Bonds payable	1,778,780	2,219,226	3,998,006
Capital leases	173,823	-	173,823
Compensated absences	31,339	6,687	38,026
Noncurrent:			
Bonds payable, net of current portion	8,961,010	22,691,859	31,652,869
Net OPEB obligation	19,286,703	406,315	19,693,018
Net pension liability	33,488,444	586,081	34,074,525
Capital leases, net of current portion	28,514	-	28,514
Compensated absences, net of current portion	595,434	127,043	722,477
TOTAL LIABILITIES	<u>77,857,949</u>	<u>26,707,114</u>	<u>104,565,063</u>
NET POSITION			
Net investment in capital assets	45,123,476	17,076,851	62,200,327
Restricted for:			
Grants and other statutory restrictions	3,815,381	-	3,815,381
Permanent funds:			
Nonexpendable	600,054	-	600,054
Expendable	151,265	-	151,265
Unrestricted	<u>(44,111,733)</u>	<u>476,423</u>	<u>(43,635,310)</u>
TOTAL NET POSITION	<u>\$ 5,578,443</u>	<u>\$ 17,553,274</u>	<u>\$ 23,131,717</u>

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

CITY OF AMESBURY, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General government	\$ 5,362,744	\$ 595,007	\$ 1,029,322	\$ 104,640	\$ (3,633,775)	\$ -	\$ (3,633,775)
Public safety	7,808,437	879,052	494,130	-	(6,435,255)	-	(6,435,255)
Education	34,906,271	480,846	14,549,560	-	(19,875,865)	-	(19,875,865)
Public works	4,320,764	39,970	60,752	602,598	(3,617,444)	-	(3,617,444)
Health and human services	1,140,162	26,771	53,430	-	(1,059,961)	-	(1,059,961)
Culture and recreation	1,113,941	454,928	27,086	2,000	(629,927)	-	(629,927)
Employee benefits	6,220,058	-	-	-	(6,220,058)	-	(6,220,058)
Intergovernmental	3,851,245	-	-	-	(3,851,245)	-	(3,851,245)
Interest	671,970	-	-	-	(671,970)	-	(671,970)
Total Governmental Activities	65,395,592	2,476,574	16,214,280	709,238	(45,995,500)	-	(45,995,500)
Business-Type Activities:							
Sewer services	2,960,346	3,133,262	-	-	-	172,916	172,916
Water services	3,279,190	3,818,000	-	-	-	538,810	538,810
Total Business-Type Activities	6,239,536	6,951,262	-	-	-	711,726	711,726
Total	\$ 71,635,128	\$ 9,427,836	\$ 16,214,280	\$ 709,238	(45,995,500)	711,726	(45,283,774)
General Revenues:							
Property taxes					37,723,666	-	37,723,666
Excises					2,247,500	-	2,247,500
Penalties, interest and other taxes					208,411	-	208,411
Grants and contributions not restricted to specific programs					2,472,383	-	2,472,383
Investment income					23,093	-	23,093
Miscellaneous					157,391	-	157,391
Total general revenues					42,832,444	-	42,832,444
Change in Net Position					(3,163,056)	711,726	(2,451,330)
Net Position:							
Beginning of year, as restated					8,741,499	16,841,548	25,583,047
End of year					\$ 5,578,443	\$ 17,553,274	\$ 23,131,717

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

CITY OF AMESBURY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	Public Safety Facility <u>Fund</u>	Public Works Facility <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS					
Cash and short-term investments	\$ 6,201,313	\$ 205,929	\$ -	\$ 4,480,774	\$ 10,888,016
Investments	1,254,200	-	-	740,195	1,994,395
Receivables:					
Property taxes	1,912,209	-	-	-	1,912,209
Excises	458,612	-	-	-	458,612
Departmental and other	-	-	-	962,841	962,841
Due from other funds	<u>367,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>367,280</u>
TOTAL ASSETS	<u>\$ 10,193,614</u>	<u>\$ 205,929</u>	<u>\$ -</u>	<u>\$ 6,183,810</u>	<u>\$ 16,583,353</u>
LIABILITIES					
Warrants payable	\$ 668,895	\$ 8,265	\$ -	\$ 457,305	\$ 1,134,465
Accrued liabilities	2,717,703	-	-	64,960	2,782,663
Notes payable	-	2,400,000	5,900,000	935,000	9,235,000
Due to other funds	-	-	-	367,280	367,280
Other liabilities	<u>58,728</u>	<u>-</u>	<u>-</u>	<u>5,554</u>	<u>64,282</u>
TOTAL LIABILITIES	3,445,326	2,408,265	5,900,000	1,830,099	13,583,690
DEFERRED INFLOWS OF RESOURCES	2,370,821	-	-	962,841	3,333,662
FUND BALANCES					
Nonspendable	-	-	-	600,054	600,054
Restricted	-	-	-	4,093,554	4,093,554
Committed	448,682	-	-	319,358	768,040
Assigned	655,389	-	-	-	655,389
Unassigned	<u>3,273,396</u>	<u>(2,202,336)</u>	<u>(5,900,000)</u>	<u>(1,622,096)</u>	<u>(6,451,036)</u>
TOTAL FUND BALANCES	<u>4,377,467</u>	<u>(2,202,336)</u>	<u>(5,900,000)</u>	<u>3,390,870</u>	<u>(333,999)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 10,193,614</u>	<u>\$ 205,929</u>	<u>\$ -</u>	<u>\$ 6,183,810</u>	<u>\$ 16,583,353</u>

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

CITY OF AMESBURY, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2015

Total governmental fund balances	\$ (333,999)
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	64,827,769
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	2,933,742
<ul style="list-style-type: none"> • Deferred outflows of resources related to pensions resulting from projected vs actual earnings. 	492,173
<ul style="list-style-type: none"> • MSBA reimbursements for contract assistance and progress payment projects, are not receivable in the current period and, therefore, are not reported in the governmental funds. 	2,300,299
<ul style="list-style-type: none"> • In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	(297,492)
<ul style="list-style-type: none"> • Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds <ul style="list-style-type: none"> Bonds payable Net pension liability Net OPEB obligation Compensated absences Capital leases 	(10,739,790) (33,488,444) (19,286,703) (626,773) <u>(202,337)</u>
Net position of governmental activities	\$ <u>5,578,445</u>

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

CITY OF AMESBURY, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Public Safety Facility Fund</u>	<u>Public Works Facility Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 37,872,540	\$ -	\$ -	\$ -	\$ 37,872,540
Excise taxes	2,188,965	-	-	-	2,188,965
Penalties, interest and other taxes	208,411	-	-	-	208,411
Charges for services	199,138	-	-	1,826,961	2,026,099
Intergovernmental	11,791,788	-	-	5,580,766	17,372,554
Licenses and permits	379,993	-	-	-	379,993
Fines and forfeitures	70,482	-	-	-	70,482
Investment income	18,589	-	-	4,504	23,093
Contributions	-	-	-	1,200	1,200
Miscellaneous	157,393	-	-	-	157,393
	<u>52,887,299</u>	<u>-</u>	<u>-</u>	<u>7,413,431</u>	<u>60,300,730</u>
Total Revenues					
Expenditures:					
Current:					
General government	2,600,834	-	-	2,245,318	4,846,152
Public safety	7,253,909	58,032	-	646,467	7,958,408
Education	28,148,498	-	-	3,217,195	31,365,693
Public works	3,078,414	-	1,455,998	721,331	5,255,743
Health and human services	1,044,346	-	-	95,816	1,140,162
Culture and recreation	741,249	-	-	271,956	1,013,205
Employee benefits	4,981,875	-	-	-	4,981,875
Debt service	2,133,581	-	-	-	2,133,581
Intergovernmental	3,851,245	-	-	-	3,851,245
	<u>53,833,951</u>	<u>58,032</u>	<u>1,455,998</u>	<u>7,198,083</u>	<u>62,546,064</u>
Total Expenditures					
Excess (deficiency) of revenues over expenditures	(946,652)	(58,032)	(1,455,998)	215,348	(2,245,334)
Other Financing Sources (Uses):					
Bond proceeds	-	-	236,000	1,673,000	1,909,000
Proceeds from refunding	198,400	-	-	-	198,400
Payments to escrow agent	(198,400)	-	-	-	(198,400)
Transfers in	1,091,706	-	5,000	638,000	1,734,706
Transfers out	(643,000)	-	-	(1,091,706)	(1,734,706)
	<u>448,706</u>	<u>-</u>	<u>241,000</u>	<u>1,219,294</u>	<u>1,909,000</u>
Total Other Financing Sources (Uses)					
Change in fund balance	(497,946)	(58,032)	(1,214,998)	1,434,642	(336,334)
Fund Balance at Beginning of Year	<u>4,875,413</u>	<u>(2,144,304)</u>	<u>(4,685,002)</u>	<u>1,956,228</u>	<u>2,335</u>
Fund Balance, at End of Year	<u>\$ 4,377,467</u>	<u>\$ (2,202,336)</u>	<u>\$ (5,900,000)</u>	<u>\$ 3,390,870</u>	<u>\$ (333,999)</u>

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

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

Net change in fund balances - total governmental funds	\$ (336,334)																		
<ul style="list-style-type: none"> ● 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: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Capital outlay purchases, net</td> <td style="width: 20%; text-align: right;">1,782,764</td> </tr> <tr> <td>Depreciation, net</td> <td style="text-align: right;">(2,304,793)</td> </tr> </table> ● Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. (90,338) ● Some revenues reported in the Statement of Activities, such as MSBA reimbursements for contracted assistance and progress payments, do not provide current financial resources and therefore, are not reported as revenues in the governmental funds. (766,765) ● The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Issuance of debt</td> <td style="width: 20%; text-align: right;">(1,909,000)</td> </tr> <tr> <td>Repayments of debt, net of refunding</td> <td style="text-align: right;">1,621,540</td> </tr> </table> ● In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (150,686) ● 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. <table style="width: 100%; margin-left: 20px;"> <tr> <td style="width: 80%;">Increase in net OPEB obligation</td> <td style="width: 20%; text-align: right;">(1,694,167)</td> </tr> <tr> <td>Change in net pension liability, net of deferred outflows</td> <td style="text-align: right;">455,984</td> </tr> <tr> <td>Decrease in compensated absences liability</td> <td style="text-align: right;">89,590</td> </tr> <tr> <td>Decrease in capital leases</td> <td style="text-align: right;">148,394</td> </tr> <tr> <td>Decrease in deferred asset</td> <td style="text-align: right;"><u>(9,243)</u></td> </tr> </table> 		Capital outlay purchases, net	1,782,764	Depreciation, net	(2,304,793)	Issuance of debt	(1,909,000)	Repayments of debt, net of refunding	1,621,540	Increase in net OPEB obligation	(1,694,167)	Change in net pension liability, net of deferred outflows	455,984	Decrease in compensated absences liability	89,590	Decrease in capital leases	148,394	Decrease in deferred asset	<u>(9,243)</u>
Capital outlay purchases, net	1,782,764																		
Depreciation, net	(2,304,793)																		
Issuance of debt	(1,909,000)																		
Repayments of debt, net of refunding	1,621,540																		
Increase in net OPEB obligation	(1,694,167)																		
Change in net pension liability, net of deferred outflows	455,984																		
Decrease in compensated absences liability	89,590																		
Decrease in capital leases	148,394																		
Decrease in deferred asset	<u>(9,243)</u>																		
Change in net position of governmental activities	\$ <u>(3,163,054)</u>																		

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

CITY OF AMESBURY, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES -
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenue:				
Taxes	\$ 37,577,093	\$ 37,577,093	\$ 37,577,093	\$ -
Motor vehicle excise	2,053,300	2,053,300	2,188,965	135,665
Penalties, interest and other taxes	177,563	177,563	208,411	30,848
Intergovernmental	11,857,883	11,857,883	11,789,520	(68,363)
Charges for services	166,210	166,210	199,138	32,928
Licenses and permits	464,971	464,971	379,993	(84,978)
Fines and forfeits	88,000	88,000	70,482	(17,518)
Investment income	11,400	11,400	12,592	1,192
Miscellaneous	-	-	157,393	157,393
Total Revenues	52,396,420	52,396,420	52,583,587	187,167
Expenditures:				
General government	2,225,069	2,233,869	2,181,150	52,719
Public safety	7,154,712	7,194,912	7,188,822	6,090
Education	28,148,498	28,148,498	28,148,498	-
Public works	2,628,060	3,098,060	3,095,874	2,186
Health and human services	1,134,683	1,135,683	1,042,428	93,255
Culture and recreation	761,070	761,070	730,249	30,821
Debt service	2,562,462	2,562,462	2,287,971	274,491
Intergovernmental	3,837,934	3,837,934	3,851,871	(13,937)
Employee benefits	5,080,795	5,080,795	4,978,375	102,420
Total Expenditures	53,533,283	54,053,283	53,505,238	548,045
Excess (deficiency) of revenues over expenditures	(1,136,863)	(1,656,863)	(921,651)	735,212
Other Financing Sources and Uses				
Use of fund balance (free cash)	-	1,011,000	-	(1,011,000)
Transfers in	1,136,863	1,136,863	1,091,706	(45,157)
Transfers out	-	(491,000)	(491,000)	-
Excess of expenditures and other uses over revenues and other sources	\$ -	\$ -	\$ (320,945)	\$ (320,945)

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

CITY OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 64,809	\$ 193,504	\$ 258,313
User fees, net of allowance for uncollectibles	<u>834,579</u>	<u>1,170,947</u>	<u>2,005,526</u>
Total current assets	899,388	1,364,451	2,263,839
Noncurrent:			
Capital assets not being depreciated	331,418	20,627,037	20,958,455
Capital assets being depreciated, net of accumulated depreciation	<u>14,812,598</u>	<u>6,216,883</u>	<u>21,029,481</u>
Total noncurrent assets	<u>15,144,016</u>	<u>26,843,920</u>	<u>41,987,936</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>3,355</u>	<u>5,258</u>	<u>8,613</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	16,046,759	28,213,629	44,260,388
LIABILITIES			
Current:			
Accounts payable	43,408	87,692	131,100
Accrued liabilities	239,328	299,475	538,803
Current portion of long-term liabilities:			
Bonds payable	1,050,552	1,168,674	2,219,226
Other liabilities	<u>1,889</u>	<u>4,798</u>	<u>6,687</u>
Total current liabilities	1,335,177	1,560,639	2,895,816
Noncurrent:			
Bonds payable, net of current portion	7,346,100	15,345,759	22,691,859
Net OPEB obligation	121,626	284,689	406,315
Net pension liability	228,299	357,782	586,081
Other liabilities, net of current portion	<u>35,885</u>	<u>91,158</u>	<u>127,043</u>
Total noncurrent liabilities	<u>7,731,910</u>	<u>16,079,388</u>	<u>23,811,298</u>
TOTAL LIABILITIES	9,067,087	17,640,027	26,707,114
NET POSITION			
Net investment in capital assets	6,747,364	10,329,487	17,076,851
Unrestricted	<u>232,308</u>	<u>244,115</u>	<u>476,423</u>
TOTAL NET POSITION	<u>\$ 6,979,672</u>	<u>\$ 10,573,602</u>	<u>\$ 17,553,274</u>

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

CITY OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
Operating Revenues:			
Charges for services	\$ 3,133,262	\$ 3,818,000	\$ 6,951,262
Total Operating Revenues	3,133,262	3,818,000	6,951,262
Operating Expenses:			
Personnel	893,812	1,333,991	2,227,803
Non-personnel	886,252	1,028,160	1,914,412
Depreciation	724,913	370,054	1,094,967
Total Operating Expenses	2,504,977	2,732,205	5,237,182
Operating Income	628,285	1,085,795	1,714,080
Nonoperating Revenues (Expenses):			
Interest expense	(455,369)	(546,985)	(1,002,354)
Total Nonoperating Revenues (Expenses), Net	(455,369)	(546,985)	(1,002,354)
Change in Net Position	172,916	538,810	711,726
Net Position at Beginning of Year, restated	6,806,756	10,034,792	16,841,548
Net Position at End of Year	\$ 6,979,672	\$ 10,573,602	\$ 17,553,274

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

CITY OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2015

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 3,062,851	\$ 3,530,751	\$ 6,593,602
Payments to vendors	(870,114)	(989,709)	(1,859,823)
Payments of employees' wages and related benefits	<u>(888,903)</u>	<u>(1,316,127)</u>	<u>(2,205,030)</u>
Net Cash Provided by Operating Activities	1,303,834	1,224,915	2,528,749
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from issuance of bonds	-	1,149,000	1,149,000
Principal payments on bonds, net of refunding	(994,770)	(1,052,586)	(2,047,356)
Principal payments on notes	-	(1,203,000)	(1,203,000)
Interest expense	<u>(371,508)</u>	<u>(410,928)</u>	<u>(782,436)</u>
Net Cash Provided by (Used For) Capital and Related Financing Activities	<u>(1,366,278)</u>	<u>(1,517,514)</u>	<u>(2,883,792)</u>
Net Change in Cash and Short-Term Investments	(62,444)	(292,599)	(355,043)
Cash and Short-Term Investments, Beginning of Year	<u>127,253</u>	<u>486,103</u>	<u>613,356</u>
Cash and Short-Term Investments, End of Year	<u>\$ 64,809</u>	<u>\$ 193,504</u>	<u>\$ 258,313</u>
<u>Reconciliation of Operating Loss to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income (Loss)	\$ 628,285	\$ 1,085,795	\$ 1,714,080
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	724,913	370,054	1,094,967
Changes in assets and liabilities:			
User fees	(70,412)	(287,249)	(357,661)
Accrued liabilities	(10,047)	(1,474)	(11,521)
Accounts payable	19,493	43,710	63,203
Compensated absences	956	746	1,702
Net pension liability	(3,109)	(4,872)	(7,981)
OPEB liability	<u>13,755</u>	<u>18,205</u>	<u>31,960</u>
Net Cash Provided By Operating Activities	<u>\$ 1,303,834</u>	<u>\$ 1,224,915</u>	<u>\$ 2,528,749</u>

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

CITY OF AMESBURY, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2015

	Pension Trust Fund (As of <u>December 31, 2014</u>)	Private Purpose Trust <u>Funds</u>	Agency Funds
<u>ASSETS</u>			
Cash and short-term investments	\$ 1,844,659	\$ 25,222	\$ 179,704
Investments	<u>46,727,656</u>	<u>1,876,064</u>	<u>-</u>
Total Assets	48,572,315	1,901,286	179,704
 <u>LIABILITIES AND NET ASSETS</u>			
Other liabilities	<u>24</u>	<u>-</u>	<u>179,704</u>
Total Liabilities	<u>24</u>	<u>-</u>	<u>179,704</u>
 <u>NET POSITION</u>			
Total net position held in trust for pension benefits and other purposes	<u>\$ 48,572,291</u>	<u>\$ 1,901,286</u>	<u>\$ -</u>

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

CITY OF AMESBURY, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2015

	Pension Trust Fund (For the Year Ended <u>December 31, 2014</u>)	Private Purpose <u>Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 3,423,564	\$ -
Plan members	1,412,991	-
Other systems and Commonwealth of Massachusetts	171,805	-
Other	<u>29,520</u>	<u>240,129</u>
Total contributions	5,037,880	240,129
Investment Income (Loss):		
Appreciation in fair value of investments	3,604,830	10,515
Less: management fees	<u>(243,537)</u>	<u>-</u>
Net investment income (loss)	<u>3,361,293</u>	<u>10,515</u>
Total additions	8,399,173	250,644
Deductions:		
Benefit payments to plan members and beneficiaries	5,099,894	-
Refunds to plan members	40,392	-
Transfers to other systems	96,062	-
Administrative expenses	129,258	-
Other	<u>-</u>	<u>228,154</u>
Total deductions	<u>5,365,606</u>	<u>228,154</u>
Net increase	3,033,567	22,490
Net position:		
Beginning of year	<u>45,538,724</u>	<u>1,878,796</u>
End of year	<u>\$ 48,572,291</u>	<u>\$ 1,901,286</u>

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

CITY OF AMESBURY, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Amesbury (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Mayor and Municipal Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2015, it was determined that no entities met the required GASB 14 (as amended) criteria of component units.

In the Fiduciary Funds: The Amesbury Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the Amesbury Contributory Retirement System located at 62 Friend Street, Amesbury, MA 01913.

B. Government-wide and Fund Financial Statements

Government-wide 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (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*.

Fund Financial Statements

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

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

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the proprietary fund and fiduciary fund financial statements. 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 year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both 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. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expendi-

tures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- The *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.
- The *Public Safety Facility Fund* is used to account for activity associated with the remodeling, reconstructing, and repairs to public safety buildings.
- The *Public Works Facility Fund* is used to account for activity associated with the purchase of land and the design, construction, reconstruction and equipping of the building for use as the Department of Public Works Facility.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

- The *sewer fund* is used to report the City's sewer enterprise fund operations.
- The *water fund* is used to report the City's water enterprise fund operations.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

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

The *agency funds* account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of \$2,284,703.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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.

Property, plant and equipment of the primary government, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Infrastructure	40
Vehicles	5
Office equipment	5 - 10
Computer equipment	5

I. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

K. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City’s fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned and unassigned.

Net Position - Net position represents the difference between assets and liabilities/deferred inflows. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions

imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the Municipal Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special Municipal Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Municipal Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 52,887,299	\$ 53,833,951
Other financing sources/uses (GAAP Basis)	<u>1,290,106</u>	<u>841,400</u>
Subtotal (GAAP Basis)	54,177,405	54,675,351
Adjust tax revenue to accrual basis	(295,447)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(258,069)
Add end-of-year appropriation carryforwards from expenditures	-	223,889
To reverse stabilization and capital reserve activity	(8,265)	-
To reverse non-budgeted activity	<u>(198,400)</u>	<u>(644,933)</u>
Budgetary Basis	<u>\$ 53,675,293</u>	<u>\$ 53,996,238</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

Public safety facility fund	\$ (2,202,336)
Public works facility fund	\$ (5,900,000)
Nonmajor governmental funds:	
Cops in Schools	\$ (22,000)
Brownfields - Lower Millyard	(54,716)
Chapter 90 Highway Fund	(63,962)
Lake Attitash Watershed	(1,445)
Support Access to Curriculum	(13,091)
Project Support	(47,234)
Innovation Schools Partner	(20,813)
Early Childhood Mental Health	(4,780)
Greenleaf Supportive Day	(4,955)
Police Off Duty	(107,508)
Fire Off Duty	(7,624)
Waste Reduce Enforce	(4,487)
Our Backyard Program	(167,616)
Water St. Parking Garage Repairs	(209,641)
Lower Millyard Development	(403,659)
Mass. Works Water Street	(438,392)
Energy Manager Position	(19,959)
Electric Vehicles & Charging	<u>(30,214)</u>
Total nonmajor governmental funds:	\$ <u><u>(1,622,096)</u></u>

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the City's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess."

Massachusetts General Law Chapter 32, Section 23, limits the Contributory Retirement System's deposits "in a bank or trust company to an amount not

exceeding ten percent of the capital and surplus of such bank or trust company.” The City and System do not have a deposit policy for custodial credit risk.

As of June 30, 2015 and December 31, 2014, \$6,169,510 of the City’s bank balance of \$12,086,956, and \$1,573,155 of the System’s bank balance of \$1,857,305, respectively, was exposed to custodial credit risk as uninsured or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City’s investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below (in thousands) is the actual rating as of year-end for each investment of the City:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-end</u>					
			<u>Aaa</u>	<u>Aa3</u>	<u>A1</u>	<u>A2</u>	<u>A3</u>	<u>Baa1</u>
U.S. Treasury notes	\$ 185	\$ -	\$ 185	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of deposits	840	840	-	-	-	-	-	-
Corporate bonds	600	-	-	91	100	99	110	200
Mutual funds	334	334	-	-	-	-	-	-
Federal agency securities	<u>1,911</u>	<u>-</u>	<u>1,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 3,870</u>	<u>\$ 1,174</u>	<u>\$ 2,096</u>	<u>\$ 91</u>	<u>\$ 100</u>	<u>\$ 99</u>	<u>\$ 110</u>	<u>\$ 200</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security. In accordance with Chapter 32 Section 22 of the Massachusetts General Laws, the System has transferred its investments to the Commonwealth's PRIT fund because its funding ratio and rate of return in prior years has not met the standards established by PERAC.

Presented below is the actual rating as of year-end of the System (in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
State Investment Pool*	\$ <u>46,728</u>
Total investments	\$ <u><u>46,728</u></u>

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and the System do not have policies for custodial credit risk.

The City's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the City's brokerage firm, which is also the Counterparty to these securities. The City manages this custodial credit risk with SIPC and excess SIPC.

The System's investments of \$46,727,656 were exposed to custodial credit risk as uninsured and uncollateralized. However, the investments were held in the State Investment Pool.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are (In thousands):

Barclays Bank Delaware CD	\$ 201
Federal National Mortgage Association	\$ 942
Federal Home Loan Mortgage Corp.	\$ 209
Federal Home Loan Bank	\$ 760

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>		
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>
Debt-related Securities:			
U.S. Treasury notes	\$ 185	\$ -	\$ 185
Corporate bonds	600	101	499
Federal agency securities	<u>1,911</u>	<u>102</u>	<u>1,809</u>
Total	<u>\$ 2,696</u>	<u>\$ 203</u>	<u>\$ 2,493</u>

The System does not maintain investments that are sensitive to market interest rate fluctuations.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and System do not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2015 consist of the following (in thousands):

Real Estate		
2015	\$ 539	
2014	18	
2013	17	
2012	16	
Prior	<u>70</u>	660
Personal Property		
2015	13	
2014	10	
2013	7	
2012	10	
Prior	<u>15</u>	55
Tax Liens		999
Deferred Taxes		<u>198</u>
Total		<u>\$ 1,912</u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 286	\$ -
Excises	\$ 142	\$ -
Utilities	\$ -	\$ 47

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various fiscal year 2015 State and Federal grant funds. Future receipts of these payments are as follows:

	<u>MSBA</u>
2016	\$ 766,765
2017	766,765
2018	<u>766,769</u>
Total	<u>\$ 2,300,299</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 87,557	\$ -	\$ -	\$ 87,557
Machinery, equipment, and furnishings	4,116	227	-	4,343
Infrastructure	18,193	-	-	18,193
	<u>109,866</u>	<u>227</u>	<u>-</u>	<u>110,093</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(33,455)	(1,996)	-	(35,451)
Machinery, equipment, and furnishings	(2,842)	(246)	-	(3,088)
Infrastructure	(16,871)	(63)	-	(16,934)
	<u>(53,168)</u>	<u>(2,305)</u>	<u>-</u>	<u>(55,473)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	56,698	(2,078)	-	54,620
Capital assets, not being depreciated:				
Land	2,827	-	-	2,827
Construction in progress	5,825	1,556	-	7,381
	<u>8,652</u>	<u>1,556</u>	<u>-</u>	<u>10,208</u>
Total capital assets, not being depreciated				
Governmental activities capital assets, net	<u>\$ 65,350</u>	<u>\$ (522)</u>	<u>\$ -</u>	<u>\$ 64,828</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 42,309	\$ -	\$ -	\$ 42,309
Machinery, equipment, and furnishings	616	-	-	616
Infrastructure	50	-	-	50
	<u>42,975</u>	<u>-</u>	<u>-</u>	<u>42,975</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Buildings and improvements	(20,374)	(1,054)	-	(21,428)
Machinery, equipment, and furnishings	(476)	(40)	-	(516)
Infrastructure	-	(1)	-	(1)
	<u>(20,850)</u>	<u>(1,095)</u>	<u>-</u>	<u>(21,945)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	22,125	(1,095)	-	21,030
Capital assets, not being depreciated:				
Land	1,054	-	-	1,054
Construction in progress	19,904	-	-	19,904
	<u>20,958</u>	<u>-</u>	<u>-</u>	<u>20,958</u>
Total capital assets, not being depreciated				
Business-type activities capital assets, net	<u>\$ 43,083</u>	<u>\$ (1,095)</u>	<u>\$ -</u>	<u>\$ 41,988</u>

Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:			
General government		\$	805
Public safety			174
Education			943
Public works			167
Culture and recreation			<u>216</u>
Total depreciation expense - governmental activities		\$	<u>2,305</u>
Business-Type Activities:			
Sewer		\$	725
Water			<u>370</u>
Total depreciation expense - business-type activities		\$	<u>1,095</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	<u>Entity-wide Basis</u>		<u>Fund Basis</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Proprietary Funds Sewer</u>	<u>Water</u>
Net difference between projected and actual earnings on pension plan investments	\$ <u>492,173</u>	\$ <u>8,613</u>	\$ <u>3,355</u>	\$ <u>5,258</u>

10. Accounts Payable

Accounts payable represent 2015 expenditures paid after June 30, 2015.

11. Notes Payable

The City had the following notes outstanding at June 30, 2015:

	Interest Rate	Date of Issue	Date of Maturity	Balance at 6/30/15
Parking Garage Repairs	1.00%	12/12/14	09/11/15	\$ 210,000
Remodeling Public Works	0.60%	09/12/14	09/11/15	1,100,000
Remodeling Public Works	1.00%	12/12/14	09/11/15	4,800,000
Remodeling Public Safety	1.00%	12/12/14	06/11/15	2,400,000
Lower Millyard Development	1.00%	12/12/14	09/11/15	325,000
Land Acquisition - Whitehall Road	0.55%	06/19/15	09/11/15	<u>400,000</u>
Total				<u>\$ 9,235,000</u>

The following summarizes activity in notes payable during fiscal year 2015.

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Lower Millyard Development	\$ 325,000	\$ 325,000	\$ (325,000)	\$ 325,000
State Grant Anticipation	338,000	-	(338,000)	-
Remodeling Public Works	241,000	-	(241,000)	-
MVRTA Transportation Facility	1,500,000	-	(1,500,000)	-
Snow Dump Relocation	120,000	-	(120,000)	-
Parking Garage Repairs	200,000	-	(200,000)	-
Remodeling Public Works	5,900,000	5,900,000	(5,900,000)	5,900,000
Parking Garage Repairs	210,000	210,000	(210,000)	210,000
Remodeling Public Safety	2,400,000	2,400,000	(2,400,000)	2,400,000
Water Treatment	746,000	-	(746,000)	-
Water Storage Tank	457,000	-	(457,000)	-
Land Acquisition - Whitehall Road	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>400,000</u>
Total	<u>\$ 12,437,000</u>	<u>\$ 9,235,000</u>	<u>\$ (12,437,000)</u>	<u>\$ 9,235,000</u>

12. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2017. Future minimum lease payments under capital leases consisted of the following as of June 30, 2015:

Fiscal Year	Governmental Activities
2016	\$ 181,671
2017	<u>29,672</u>
Total minimum lease payments	211,343
Less amounts representing interest	<u>(9,006)</u>
Present Value of Minimum Lease Payments	<u>\$ 202,337</u>

13. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/15</u>
Municipal refunding 2005	09/15/18	3.00 - 5.00%	\$ 3,297,390
GOB Refunding 2014	08/15/21	2.00%	198,400
School building addition	08/01/28	4.00 - 4.50%	4,840,000
Public safety repair/remodel	12/15/28	3.00 - 3.50%	495,000
Municipal purpose 2014	08/15/34	2.00 - 4.00%	1,909,000
Total Governmental Activities:			<u>\$ 10,739,790</u>

<u>Business-Type Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of 6/30/15</u>
Sewer 95-11	02/01/17	4.50 - 6.00%	\$ 161,212
Title 5	08/01/18	4.00 - 5.00%	10,193
Sewer 98-93	08/01/20	4.50 - 5.625%	90,000
Sewer CW 01-13	08/01/22	3.00 - 5.25%	4,175,000
Sewer CW-02-17A	08/01/23	2.00 - 5.00%	1,010,000
Sewer CW-02-17B	08/01/23	2.00 - 5.00%	245,000
Sewer refunding 2005	09/15/18	3.50 - 5.00%	335,795
Water refunding 2005	09/15/18	3.50 - 5.00%	746,815
Sewer CW-02-17C	07/15/26	0.00%	600,151
Sewer treatment facility	08/01/28	4.00 - 4.50%	550,000
Water treatment facility	08/01/28	4.00 - 4.50%	290,000
Water treatment facility	08/01/28	4.50%	5,000
Water treatment - MWPAT	07/15/30	2.00%	2,721,976
Drinking water bond	07/15/32	2.00%	9,069,343
Water treatment facility	12/15/28	3.00 - 3.50%	1,245,000
Water storage tank	12/15/28	3.00 - 3.50%	265,000
Sewer refunding 2014	08/15/23	2.00%	1,219,300
Sewer refunding 2014	08/15/23	2.00%	1,022,300
Water treatment upgrade	08/15/34	2.00 - 4.00%	745,000
Water storage tank	08/15/20	2.00 - 4.00%	404,000
Total Business-Type Activities:			<u>\$ 24,911,085</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,778,780	\$ 416,431	\$ 2,195,211
2017	1,745,100	322,014	2,067,114
2018	1,618,670	249,326	1,867,996
2019	662,240	202,257	864,497
2020	565,000	177,363	742,363
2021 - 2025	2,800,000	552,838	3,352,838
2026 - 2030	1,040,000	139,206	1,179,206
2031 - 2035	<u>530,000</u>	<u>43,928</u>	<u>573,928</u>
Total	\$ <u>10,739,790</u>	\$ <u>2,103,363</u>	\$ <u>12,843,153</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,219,226	\$ 687,924	\$ 2,907,150
2017	2,159,340	592,617	2,751,957
2018	2,091,192	526,191	2,617,383
2019	2,110,134	470,932	2,581,066
2020	1,862,602	388,943	2,251,545
2021 - 2025	7,729,406	1,200,758	8,930,164
2026 - 2030	4,542,232	478,308	5,020,540
2031 - 2035	<u>2,196,953</u>	<u>75,045</u>	<u>2,271,998</u>
Total	\$ <u>24,911,085</u>	\$ <u>4,420,718</u>	\$ <u>29,331,803</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term:

	Total Balance 7/1/14	Additions	Reductions	Refunding of Debt, Net	Total Balance 6/30/15	Less Current Portion	Equals Long-Term Portion 6/30/15
<u>Governmental Activities</u>							
Bonds payable	\$ 10,452	\$ 1,909	\$ (1,625)	\$ 3	\$ 10,739	\$ (1,779)	\$ 8,960
Net OPEB obligation	17,592	4,667	(2,972)	-	19,287	-	19,287
Net pension liability	33,452	492	(456)	-	33,488	-	33,488
Capital lease	351	85	(233)	-	203	(174)	29
Accrued employee benefits	717	22	(112)	-	627	(31)	596
Totals	\$ <u>62,564</u>	\$ <u>7,175</u>	\$ <u>(5,398)</u>	<u>3</u>	\$ <u>64,344</u>	\$ <u>(1,984)</u>	\$ <u>62,360</u>
<u>Business-Type Activities</u>							
Bonds payable	\$ 25,809	\$ 1,149	\$ (2,084)	\$ 37	\$ 24,911	\$ (2,219)	\$ 22,692
Net OPEB obligation	375	88	(57)	-	406	-	406
Net pension liability	585	9	(8)	-	586	-	586
Accrued employee benefits	132	2	-	-	134	(7)	127
Totals	\$ <u>26,901</u>	\$ <u>1,248</u>	\$ <u>(2,149)</u>	<u>37</u>	\$ <u>26,037</u>	\$ <u>(2,226)</u>	\$ <u>23,811</u>

D. Current Refunding

Current Year

On December 18, 2014, the City of Amesbury issued general obligation bonds in the aggregate amount of \$2,440,000 with a 2.0% interest rate throughout the life of the bonds. The bonds were issued a true interest cost (TIC) of 1.462%.

The refunding bonds were issued to current refund \$2,400,000 of its August 15, 2003 Bonds (the "2003 Bonds"), comprised of serial bonds with interest rates ranging from 4.15% to 4.80%. The 2003 Bonds mature on August 15, 2015 through August 15, 2023 and were callable on February 1, 2015 at par.

The refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's financial statements.

After paying issuance costs and underwriter's discount of approximately \$53,455, the net bond proceeds associated with current refunding the 2003 Bonds were \$2,450,200. The bond proceeds were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the 2003 Bonds were called on February 1, 2015. As a result of the 2003 current refunding the City reduced its total debt service cash flow requirements by \$286,985, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$267,841.

Prior Year

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in 2019. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's balance sheet. As of June 30, 2015, the amount of defeased debt outstanding but removed from the governmental activities and business-type activities was \$4,465,000.

14. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

The following is a summary of deferred inflow of resources balances as of June 30, 2015:

	<u>Fund Basis</u>	
	<u>Governmental Funds</u>	
	<u>General Fund</u>	<u>Nonmajor</u>
Unavailable revenues	\$ <u>2,370,821</u>	\$ <u>962,841</u>

15. Restricted Net Position

The accompanying entity-wide financial statements report restricted net position when external constraints from grantors or contributors are placed on net position.

Permanent fund restricted net position is segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

16. Subsequent Events

Debt

Subsequent to June 30, 2015, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation refunding bond	\$ 2,915,000	3.00%	09/17/15	09/15/18
General obligation bond	\$ 9,195,000	2.00-4.00%	09/01/15	09/01/35

17. Governmental Funds - Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2015:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved by City Council, Smart Growth stabilization funds set aside by City Council vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the City's fund balances at June 30, 2014:

	General Fund	Public Safety Building Fund	Public Works Facility Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Nonexpendable permanent funds	\$ -	-	-	\$ 600,054	\$ 600,054
Total Nonexpendable	-	-	-	600,054	600,054
Restricted					
Bonded projects	-	-	-	126,907	126,907
Special Revenue funds:					
Ambulance Receipts	-	-	-	957,234	957,234
Youth Revolving fund	-	-	-	713,314	713,314
School Choice	-	-	-	637,467	637,467
Circuit Breaker	-	-	-	325,896	325,896
School Tuition	-	-	-	307,506	307,506
Planning Board Escrow	-	-	-	268,876	268,876
Athletic Revolving account	-	-	-	106,685	106,685
Cablevision Educational	-	-	-	103,024	103,024
Other revolving funds	-	-	-	395,379	395,379
Expendable permanent funds	-	-	-	151,266	151,266
Total Restricted	-	-	-	4,093,554	4,093,554

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	General Fund	Public Safety Building Fund	Public Works Facility Fund	Nonmajor Governmental Funds	Total Governmental Funds
Committed					
Smart Growth Stabilization	448,682	-	-	-	448,682
Capital project funds	-	-	-	319,358	319,358
Total Committed	448,682	-	-	319,358	768,040
Assigned					
Encumbrances	223,889	-	-	-	223,889
Assigned for FY16 expenditures	431,500	-	-	-	431,500
Total Assigned	655,389	-	-	-	655,389
Unassigned ⁽¹⁾	3,273,396	(2,202,336)	(5,900,000)	(1,622,096)	(6,451,036)
Total Unassigned	3,273,396	(2,202,336)	(5,900,000)	(1,622,096)	(6,451,036)
Total Fund Balance	\$ 4,377,467	\$ (2,202,336)	\$ (5,900,000)	\$ 3,390,870	\$ (333,999)

⁽¹⁾ Includes General Stabilization fund balance of \$805,518.

18. Interfund Transfers

The government reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2015:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,091,706	\$ 643,000
Public Safety Facility	-	-
Public Works Facility	5,000	-
Nonmajor Funds:		
Special Revenue Funds:		
School lunch	41,000	-
Reg Health Agreement	-	59,000
Waterways Improvement	-	7,500
Sale of Cemetery Lots	-	19,000
Ambulance Receipts	-	730,000
Youth Revolving Fund	-	264,206
Capital Project Funds:		
School audit	50,000	-
Snow dump	39,000	-
Streets and sidewalks	400,000	-
MVRTA building	43,000	-
Water street parking garage	65,000	-
Trust Funds:		
Expendable	-	12,000
Subtotal Nonmajor Funds	638,000	1,091,706
Grand Total	\$ 1,734,706	\$ 1,734,706

The transfers are used to either move revenues from the fund that statute or budget requires the City to collect to the fund that statute or budget requires the City to expend, or use unrestricted revenues collected in the General fund to finance various programs and accounted for in other funds in accordance with budgetary authorizations.

19. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Abatements - There are several cases pending before the Appellate Tax Board in regard to alleged discrepancies in property assessments. According to City Counsel, the probable outcome of these cases at the present time is indeterminable, although the City expects such amounts, if any, to be immaterial.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount 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.

20. Retirement System

The City follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Amesbury Contributory Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publically available from the System located at 62 Friend Street, Amesbury, Massachusetts 01913.

B. Benefits Provided

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five year average for those first becoming members of the MA System on or after that date. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received attaining 20 years of service. The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 50 for groups 1 and 2, respectively. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979

contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The City's contribution to the System for the year ended June 30, 2015 was \$3,317,591, which was equal to its annual required contribution.

D. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

E. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability of \$34,074,525 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the City's proportion was 96.9%.

For the year ended June 30, 2015, the City recognized pension expense of \$2,963,596. In addition, 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>
Net difference between projected and actual earnings on pension plan investments	\$ <u>500,787</u>
Total	\$ <u><u>500,787</u></u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$ 125,197
2017	125,197
2018	125,197
2019	<u>125,196</u>
Total	<u>\$ 500,787</u>

Actuarial assumptions: The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Not explicitly assumed
Salary increases	4%
Investment rate of return	8.25%
Post-retirement cost-of-living adjustment	3% of first \$12,000

Mortality rates were based on the RP-2000 Mortality Tables for males and females, adjusted to 2015 with Scale AA. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years for all disabled members.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major 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	18.00%	7.90%
International equity	22.00%	8.90%
Fixed income	19.00%	5.90%
Private equity	10.00%	9.80%
Real estate	10.00%	6.50%
Timber/Natural resources	4.00%	6.90%
Hedge funds	9.00%	7.00%
Private debt	4.00%	8.30%
Portfolio completion strategies	<u>4.00%</u>	<u>N/A</u>
Total	<u>100.00%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive 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 of the proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.25%) or 1 percentage-point higher (9.25%) than the current rate:

<u>Fiscal Year Ended</u>	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
June 30, 2015	\$ <u>42,422</u>	\$ <u>34,075</u>	\$ <u>26,899</u>

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

21. Massachusetts Teachers' Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers' Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers' Retirement Board (MTRB), which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by

employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan

investments was determined using a building-block method in which best-estimate ranges of expected future rates of return 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 rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timber/natural resources	4.0%	5.0%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the 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.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease to 7%</u>	<u>Current Discount Rate 8%</u>	<u>1% Increase to 9%</u>
June 30, 2013	\$ 21,426,000	\$ 17,234,000	\$ 13,672,000
June 30, 2014	\$ 20,247,000	\$ 15,896,000	\$ 12,200,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. City Proportions

In fiscal year 2014 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability and pension expense was \$37,264,050 and \$2,588,912 respectively, based on a proportionate share of .0234419%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expense in the Government-Wide Statement of Activities.

22. Post-Employment Healthcare and Life Insurance

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Position over time.

A. Plan Description

In addition to providing the pension benefits described, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2015, the actuarial valuation date, approximately 513 retirees and 372 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, dental, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents.

All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute a variable portion of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2015.

Annual Required Contribution (ARC)	\$ 4,036,148
Interest on net OPEB obligation	718,676
Adjustment to ARC	<u>(598,896)</u>
Annual OPEB cost	4,155,928
Contributions made	<u>(2,429,801)</u>
Increase in net OPEB obligation	1,726,127
Net OPEB obligation - beginning of year	<u>17,966,891</u>
Net OPEB obligation - end of year	<u><u>\$ 19,693,018</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 4,155,928	58%	\$ 19,693,018
2014	\$ 5,338,987	53%	\$ 17,966,891
2013	\$ 5,195,799	52%	\$ 15,445,397
2012	\$ 6,195,819	38%	\$ 12,955,792
2011	\$ 5,906,671	46%	\$ 9,137,325

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 71,692,842
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 71,692,842</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>\$ 28,031,951</u>
UAAL as a percentage of covered payroll	<u>255.8%</u>

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 6.5% which decreases to a 4.5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.0%.

23. Risk Management

The government 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 government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

24. Beginning Net Position Restatement

The beginning (July 1, 2014) net position of the City has been restated as follows:

Government-Wide Financial Statements:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
As previously reported	\$ 42,193,754	\$ 17,426,997
Implementation of GASB 68	<u>(33,452,255)</u>	<u>(585,449)</u>
As restated	<u>\$ 8,741,499</u>	<u>\$ 16,841,548</u>

Fund Basis Financial Statements:

	<u>Sewer Fund</u>	<u>Water Fund</u>
As previously reported	\$ 7,034,809	\$ 10,392,188
Implementation of GASB 68	<u>(228,053)</u>	<u>(357,396)</u>
As restated	<u>\$ 6,806,756</u>	<u>\$ 10,034,792</u>

**CITY OF AMESBURY, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2015

(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u>
06/30/15	\$ -	\$ 71,692,842	\$ 71,692,842	0.0%	\$ 28,031,951	255.8%
06/30/13	\$ -	\$ 87,212,371	\$ 87,212,371	0.0%	\$ 29,000,000	300.7%
06/30/11	\$ -	\$ 93,574,188	\$ 93,574,188	0.0%	\$ 28,915,767	323.6%
06/30/09	\$ -	\$ 81,294,859	\$ 81,294,859	0.0%	\$ 28,069,341	289.6%

See Independent Auditors' Report.

* = Estimated amounts

CITY OF AMESBURY, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015
(Unaudited)

<u>Amesbury Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	96.90%
Proportionate share of the net pension liability for the most recent measurement date	\$ 34,074,527
Covered-employee payroll for the most recent measurement date	\$ 12,591,751
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	271%
Plan fiduciary net position as a percentage of the total pension liability	58%
 <u>Massachusetts Teachers' Retirement System:</u>	 <u>2015</u>
Proportion of the net pension liability for the most recent measurement date	0.23%
The City's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the Town	<u>37,264,050</u>
Total net pension liability associated with the Town	<u><u>\$ 37,264,050</u></u>
Covered-employee payroll for the most recent measurement date	\$ 15,250,538
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0%
Plan fiduciary net position as a percentage of the total pension liability	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

CITY OF AMESBURY, MASSACHUSETTS

**SCHEDULE OF CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2015
(Unaudited)**

<u>Amesbury Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 3,317,591
Contributions in relation to the contractually required contribution	<u>(3,317,591)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll for the current fiscal year	\$ 13,078,325
Contributions as a percentage of covered-employee payroll	25%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available

See Independent Auditors' Report.

CITY OF AMESBURY, MASSACHUSETTS

SCHEDULE OF REVENUES AND EXPENDITURES
AND OTHER USES - BUDGET AND ACTUAL
SEWER ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budget</u>	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:			
Current service charges	\$ 2,741,912	\$ 2,682,854	\$ (59,058)
Miscellaneous revenues	<u>64,870</u>	<u>14,678</u>	<u>(50,192)</u>
Total Revenues	2,806,782	2,697,532	(109,250)
Expenditures:			
Personnel services	850,593	882,210	(31,617)
Supplies and materials	743,150	767,237	(24,087)
Capital outlay	162,500	140,011	22,489
Debt service	<u>1,050,539</u>	<u>1,000,959</u>	<u>49,580</u>
Total Expenditures	<u>2,806,782</u>	<u>2,790,417</u>	<u>16,365</u>
Excess of Revenues over Expenditures	<u>\$ -</u>	<u>\$ (92,885)</u>	<u>\$ (92,885)</u>

See Independent Auditors' report.

CITY OF AMESBURY, MASSACHUSETTS

SCHEDULE OF REVENUES AND EXPENDITURES,
AND OTHER USES - BUDGET AND ACTUAL
WATER ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budget</u>	Actual (Budgetary <u>Basis</u>)	Variance Favorable (<u>Unfavorable</u>)
Revenues:			
Current service charges	\$ 3,883,852	\$ 3,519,145	\$ (364,707)
Miscellaneous revenues	<u>30,375</u>	<u>11,605</u>	<u>(18,770)</u>
Total Revenues	3,914,227	3,530,750	(383,477)
Expenditures:			
Personnel services	1,292,886	1,319,911	(27,025)
Supplies and materials	940,049	989,437	(49,388)
Capital outlay	83,667	54,582	29,085
Debt service	<u>1,597,625</u>	<u>1,517,517</u>	<u>80,108</u>
Total Expenditures	<u>3,914,227</u>	<u>3,881,447</u>	<u>32,780</u>
Excess of Revenues over Expenditures	<u>\$ -</u>	<u>\$ (350,697)</u>	<u>\$ (350,697)</u>

See Independent Auditors' report.