

CITY OF AMESBURY, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

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, 2016, (except for the Amesbury Contributory Retirement System which is as of and for the year ended December 31, 2015), 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.

Auditors' 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 auditors' 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, 2016, (except for the Amesbury Contributory Retirement System which is as of and for the year ended December 31, 2015) 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 OPEB Funding Progress, the Schedule of Proportionate Share of Net Pension Liability, the Schedule of Pension Contributions, the Schedule of Changes in Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns 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 65 and 66 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 June 14, 2017 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

June 14, 2017

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, 2016. 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, liabilities, and deferred outflows/inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position 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 \$27,494 (i.e., net position), a change of \$4,363 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$12,636, a change of \$12,970 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,953, a change of \$1,680 in comparison to the prior year.
- Total bonds payable at the close of the current fiscal year was \$40,798, a change of \$5,147 in comparison to the prior year. There were no bond anticipation notes outstanding at year-end, a change of \$(9,235).

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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 20,364	\$ 18,116	\$ 2,465	\$ 2,264	\$ 22,829	\$ 20,380
Capital assets	65,824	64,828	40,925	41,988	106,749	106,816
Deferred outflows of resources	4,954	492	93	8	5,047	500
Total assets	91,142	83,436	43,483	44,260	134,625	127,696
Other liabilities	3,531	13,514	444	670	3,975	14,184
Long-term liabilities outstanding	78,893	64,344	23,919	26,037	102,812	90,381
Deferred inflows of resources	338	-	6	-	344	-
Total liabilities	82,762	77,858	24,369	26,707	107,131	104,565
Net position:						
Net investment in capital assets	46,983	45,123	18,248	17,077	65,231	62,200
Restricted	5,798	4,567	-	-	5,798	4,567
Unrestricted	(44,401)	(44,112)	866	476	(43,535)	(43,636)
Total net position	\$ 8,380	\$ 5,578	\$ 19,114	\$ 17,553	\$ 27,494	\$ 23,131

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,414	\$ 2,477	\$ 7,485	\$ 6,951	\$ 10,899	\$ 9,428
Operating grants and contributions	18,037	16,214	-	-	18,037	16,214
Capital grants and contributions	1,716	709	-	-	1,716	709
General revenues:						
Property taxes	38,626	37,724	-	-	38,626	37,724
Excises	2,508	2,248	-	-	2,508	2,248
Penalties, interest and other taxes	236	208	-	-	236	208
Grants and contributions not restricted to specific programs	2,337	2,472	-	-	2,337	2,472
Investment income	36	23	-	-	36	23
Miscellaneous	662	157	-	-	662	157
Total revenues	<u>67,572</u>	<u>62,232</u>	<u>7,485</u>	<u>6,951</u>	<u>75,057</u>	<u>69,183</u>
Expenses:						
General government	3,015	5,363	-	-	3,015	5,363
Public safety	7,784	7,808	-	-	7,784	7,808
Education	37,124	34,906	-	-	37,124	34,906
Public works	2,936	4,321	-	-	2,936	4,321
Health and human services	1,160	1,140	-	-	1,160	1,140
Culture and recreation	1,145	1,114	-	-	1,145	1,114
Employee benefits	7,445	6,220	-	-	7,445	6,220
Intergovernmental	3,723	3,851	-	-	3,723	3,851
Interest on long-term debt	438	672	-	-	438	672
Sewer services	-	-	2,779	2,960	2,779	2,960
Water services	-	-	3,145	3,279	3,145	3,279
Total expenses	<u>64,770</u>	<u>65,395</u>	<u>5,924</u>	<u>6,239</u>	<u>70,694</u>	<u>71,634</u>
Change in net position	2,802	(3,163)	1,561	712	4,363	(2,451)
Net position - beginning of year	<u>5,578</u>	<u>8,741</u>	<u>17,553</u>	<u>16,841</u>	<u>23,131</u>	<u>25,582</u>
Net position - end of year	<u>\$ 8,380</u>	<u>\$ 5,578</u>	<u>\$ 19,114</u>	<u>\$ 17,553</u>	<u>\$ 27,494</u>	<u>\$ 23,131</u>

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 \$27,494, a change of \$4,363 from the prior year. The largest portion of net position \$65,232 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 \$5,798 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position \$(43,535) primarily results from the City's unfunded net pension liability and net OPEB obligation.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$2,802. Key elements of this change are as follows:

Excess of revenues over expenditures	
General fund	\$ 259
Circuit breaker	715
Ambulance receipts	674
Youth revolving funds	358
EEA Riverwalk project fund	509
Other non-major funds	827
Subtotal	<u>3,342</u>
Increase in OPEB liability	(1,735)
Depreciation in excess of principal debt service	(512)
Change in MSBA receivables	(767)
Increase in net pension liability	(4,645)
Increase in deferred outflows related to net pension liability	4,462
Increase in deferred inflows related to net pension liability	(338)
Capital assets purchased with current year revenues and grants	2,278
Other	717
Total	<u>\$ 2,802</u>

Business-type activities. Business-type activities for the year resulted in an increase in net position of \$1,561. Key elements of this change are:

Sewer	\$ 526
Water	<u>1,035</u>
Total	<u>\$ 1,561</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 change of \$12,970 for a combined ending fund balance of \$12,636. Key elements of this change are as follows:

General fund revenues in excess of expenditures	\$	259
Non-major funds revenues in excess of expenditures		3,083
Current year bond proceeds		9,195
Other		<u>433</u>
Total	\$	<u><u>12,970</u></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 \$4,953, while total fund balance was \$5,842. 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>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>	<u>% of Total General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 4,953	\$ 3,273	\$ 1,680	9.1%
Total fund balance ²	\$ 5,842	\$ 4,378	\$ 1,464	10.7%

¹ Includes General stabilization fund.

² Includes General and Smart Growth stabilization funds.

The total fund balance of the general fund changed by \$1,464 during the current fiscal year. Key factors in this change are as follows:

Use of free cash as a funding source	\$	(737)
Use of overlay surplus		(60)
Revenues in excess of budget		1,391
Expenditures less than budget		573
Other		<u>297</u>
Total	\$	<u><u>1,464</u></u>

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

	<u>6/30/16</u>	<u>6/30/15</u>	<u>Change</u>
General stabilization (unassigned)	\$ 819	\$ 805	\$ 14
Smart growth stabilization (committed)	<u>186</u>	<u>449</u>	<u>(263)</u>
Total	<u>\$ 1,005</u>	<u>\$ 1,254</u>	<u>\$ (249)</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 \$866, a change of \$390 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 \$453. Major reasons for these amendments include:

- \$ 64 appropriated to fund purchase of an ambulance, funded by the Ambulance receipts revolving funds
- \$ 60 appropriated to fund the revaluation and triennial certification work, funded by overlay surplus
- \$ 200 appropriated to fund repair and maintenance of streets and sidewalks, funded by free cash
- \$ 105 appropriated to cover FY16 Snow and Ice expenditures, funded by free cash
- \$ 24 appropriated to fund various town costs, funded by transfers

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$106,749 (net of accumulated depreciation), a net change of \$(67) 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):

Lower millyard development	\$ 21
Remodeling public safety	\$ 24
Water Street improvements	\$ 1,102
Various street improvements	\$ 1,131
Various vehicles and equipment	\$ 1,071

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 \$40,798, 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, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 14,300,581	\$ 474,453	\$ 14,775,034
Investments	1,673,539	-	1,673,539
Receivables, net of allowance for uncollectibles:			
Property taxes	1,150,497	-	1,150,497
Excises	291,991	-	291,991
User fees	-	1,990,753	1,990,753
Departmental and other	1,001,282	-	1,001,282
Intergovernmental	766,765	-	766,765
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	412,677	-	412,677
Intergovernmental	766,769	-	766,769
Capital Assets:			
Land and construction in progress	10,228,729	20,958,455	31,187,184
Other capital assets, net of accumulated depreciation	55,595,144	19,966,344	75,561,488
DEFERRED OUTFLOWS OF RESOURCES	<u>4,954,153</u>	<u>92,716</u>	<u>5,046,869</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	91,142,127	43,482,721	134,624,848
LIABILITIES			
Current:			
Accounts payable	712,819	-	712,819
Accrued liabilities	2,806,998	443,256	3,250,254
Other liabilities	10,659	-	10,659
Current portion of long-term liabilities:			
Bonds payable	2,217,000	2,157,439	4,374,439
Capital leases	312,915	-	312,915
Compensated absences	32,413	6,472	38,885
Noncurrent:			
Bonds payable, net of current portion	15,904,100	20,519,329	36,423,429
Net OPEB obligation	21,021,423	439,040	21,460,463
Net pension liability	38,133,485	673,635	38,807,120
Capital leases, net of current portion	656,134	-	656,134
Compensated absences, net of current portion	615,844	122,970	738,814
DEFERRED INFLOWS OF RESOURCES	<u>338,135</u>	<u>6,373</u>	<u>344,508</u>
TOTAL LIABILITIES	82,761,925	24,368,514	107,130,439
NET POSITION			
Net investment in capital assets	46,983,486	18,248,031	65,231,517
Restricted for:			
Grants and other statutory restrictions	5,043,655	-	5,043,655
Permanent funds:			
Nonexpendable	600,054	-	600,054
Expendable	153,810	-	153,810
Unrestricted	<u>(44,400,803)</u>	<u>866,176</u>	<u>(43,534,627)</u>
TOTAL NET POSITION	<u>\$ 8,380,202</u>	<u>\$ 19,114,207</u>	<u>\$ 27,494,409</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, 2016

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
General government	\$ 3,015,287	\$ 1,344,588	\$ 516,082	\$ -	\$ (1,154,617)	\$ -	\$ (1,154,617)
Public safety	7,784,466	757,857	307,391	-	(6,719,218)	-	(6,719,218)
Education	37,124,149	747,666	16,074,857	-	(20,301,626)	-	(20,301,626)
Public works	2,936,225	55,911	1,072,620	1,479,749	(327,945)	-	(327,945)
Health and human services	1,160,347	86,215	26,919	-	(1,047,213)	-	(1,047,213)
Culture and recreation	1,144,565	421,326	39,170	236,064	(448,005)	-	(448,005)
Employee benefits	7,445,035	-	-	-	(7,445,035)	-	(7,445,035)
Intergovernmental	3,723,309	-	-	-	(3,723,309)	-	(3,723,309)
Interest	438,588	-	-	-	(438,588)	-	(438,588)
Total Governmental Activities	64,771,971	3,413,563	18,037,039	1,715,813	(41,605,556)	-	(41,605,556)
Business-Type Activities:							
Sewer services	2,779,046	3,304,925	-	-	-	525,879	525,879
Water services	3,145,327	4,180,381	-	-	-	1,035,054	1,035,054
Total Business-Type Activities	5,924,373	7,485,306	-	-	-	1,560,933	1,560,933
Total	\$ <u>70,696,344</u>	\$ <u>10,898,869</u>	\$ <u>18,037,039</u>	\$ <u>1,715,813</u>	(41,605,556)	1,560,933	(40,044,623)
General Revenues:							
Property taxes					38,626,465	-	38,626,465
Excises					2,508,427	-	2,508,427
Penalties, interest and other taxes					236,437	-	236,437
Grants and contributions not restricted to specific programs					2,337,291	-	2,337,291
Investment income					35,958	-	35,958
Miscellaneous					662,737	-	662,737
Total general revenues					44,407,315	-	44,407,315
Change in Net Position					2,801,759	1,560,933	4,362,692
Net Position:							
Beginning of year					5,578,443	17,553,274	23,131,717
End of year					\$ <u>8,380,202</u>	\$ <u>19,114,207</u>	\$ <u>27,494,409</u>

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

CITY OF AMESBURY, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 8,106,845	\$ 6,193,736	\$ 14,300,581
Investments	1,005,305	668,234	1,673,539
Receivables:			
Property taxes	1,863,511	-	1,863,511
Excises	425,232	-	425,232
Departmental and other	<u>-</u>	<u>982,797</u>	<u>982,797</u>
TOTAL ASSETS	<u>\$ 11,400,893</u>	<u>\$ 7,844,767</u>	<u>\$ 19,245,660</u>
LIABILITIES			
Warrants payable	\$ 712,819	\$ -	\$ 712,819
Accrued liabilities	2,546,952	67,254	2,614,206
Other liabilities	<u>10,659</u>	<u>-</u>	<u>10,659</u>
TOTAL LIABILITIES	3,270,430	67,254	3,337,684
DEFERRED INFLOWS OF RESOURCES	2,288,742	982,797	3,271,539
FUND BALANCES			
Nonspendable	-	600,054	600,054
Restricted	-	6,022,847	6,022,847
Committed	186,327	394,003	580,330
Assigned	702,243	-	702,243
Unassigned	<u>4,953,151</u>	<u>(222,188)</u>	<u>4,730,963</u>
TOTAL FUND BALANCES	<u>5,841,721</u>	<u>6,794,716</u>	<u>12,636,437</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 11,400,893</u>	<u>\$ 7,844,767</u>	<u>\$ 19,245,660</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, 2016

Total governmental fund balances	\$ 12,636,437
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 	65,823,873
<ul style="list-style-type: none"> • Revenues are reported on the accrual basis of accounting and are not deferred until collection. 	2,856,446
<ul style="list-style-type: none"> • Deferred outflows of resources related to pensions resulting from projected vs actual earnings and expected vs actual experience will be recognized as an increase of pension expense in future years. 	4,954,153
<ul style="list-style-type: none"> • Deferred inflows of resources related to pensions resulting from changes in assumptions and proportion will be recognized as a reduction of pension expense in future years. 	(338,135)
<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. 	1,533,534
<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. 	(192,792)
<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 	
Bonds payable	(18,121,100)
Net pension liability	(38,133,485)
Net OPEB obligation	(21,021,423)
Compensated absences	(648,257)
Capital leases	<u>(969,049)</u>
Net position of governmental activities	\$ <u>8,380,202</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, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 38,702,485	\$ -	\$ 38,702,485
Excise taxes	2,500,458	-	2,500,458
Penalties, interest and other taxes	236,437	-	236,437
Charges for services	122,351	2,384,687	2,507,038
Intergovernmental	12,114,717	6,839,004	18,953,721
Licenses and permits	832,296	-	832,296
Fines and forfeitures	74,229	-	74,229
Investment income	25,414	10,544	35,958
Contributions	-	20,359	20,359
Miscellaneous	98,398	130,676	229,074
	<u>54,706,785</u>	<u>9,385,270</u>	<u>64,092,055</u>
Total Revenues			
Expenditures:			
Current:			
General government	1,820,600	1,499,545	3,320,145
Public safety	7,611,594	187,443	7,799,037
Education	29,048,201	3,271,273	32,319,474
Public works	2,846,706	1,150,253	3,996,959
Health and human services	1,075,277	85,070	1,160,347
Culture and recreation	785,535	108,623	894,158
Employee benefits	5,189,121	-	5,189,121
Debt service	2,347,735	-	2,347,735
Intergovernmental	3,723,309	-	3,723,309
	<u>54,448,078</u>	<u>6,302,207</u>	<u>60,750,285</u>
Total Expenditures			
Excess (deficiency) of revenues over expenditures	258,707	3,083,063	3,341,770
Other Financing Sources (Uses):			
Bond proceeds	-	9,195,000	9,195,000
Premium on bonds	433,666	-	433,666
Proceeds from refunding	2,191,100	-	2,191,100
Payments to escrow agent	(2,191,100)	-	(2,191,100)
Transfers in	1,274,631	502,750	1,777,381
Transfers out	(502,750)	(1,274,631)	(1,777,381)
	<u>1,205,547</u>	<u>8,423,119</u>	<u>9,628,666</u>
Total Other Financing Sources (Uses)			
Change in fund balance	1,464,254	11,506,182	12,970,436
Fund Balance at Beginning of Year, reclassified	<u>4,377,467</u>	<u>(4,711,466)</u>	<u>(333,999)</u>
Fund Balance, at End of Year	<u>\$ 5,841,721</u>	<u>\$ 6,794,716</u>	<u>\$ 12,636,437</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, 2016

Net change in fund balances - total governmental funds	\$ 12,970,436																								
<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="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Capital outlay purchases, net</td> <td style="text-align: right;">3,321,776</td> </tr> <tr> <td>Depreciation, net</td> <td style="text-align: right;">(2,325,671)</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. (68,054) ● 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="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Issuance of bonds</td> <td style="text-align: right;">(9,195,000)</td> </tr> <tr> <td>Repayments of debt, net of refunding</td> <td style="text-align: right;">1,813,690</td> </tr> <tr> <td>Issuance of leases</td> <td style="text-align: right;">(1,043,961)</td> </tr> <tr> <td>Repayments of leases</td> <td style="text-align: right;">277,249</td> </tr> <tr> <td>Change in deferred debt amortization</td> <td style="text-align: right;">(9,243)</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. 104,700 ● 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="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Increase in net OPEB obligation</td> <td style="text-align: right;">(1,734,719)</td> </tr> <tr> <td>Increase in net pension liability</td> <td style="text-align: right;">(4,645,040)</td> </tr> <tr> <td>Increase in deferred outflows of resources related to net pension liability</td> <td style="text-align: right;">4,461,980</td> </tr> <tr> <td>Increase in deferred inflows of resources related to net pension liability</td> <td style="text-align: right;">(338,135)</td> </tr> <tr> <td>Decrease in compensated absences liability</td> <td style="text-align: right;"><u>(21,484)</u></td> </tr> </table> 		Capital outlay purchases, net	3,321,776	Depreciation, net	(2,325,671)	Issuance of bonds	(9,195,000)	Repayments of debt, net of refunding	1,813,690	Issuance of leases	(1,043,961)	Repayments of leases	277,249	Change in deferred debt amortization	(9,243)	Increase in net OPEB obligation	(1,734,719)	Increase in net pension liability	(4,645,040)	Increase in deferred outflows of resources related to net pension liability	4,461,980	Increase in deferred inflows of resources related to net pension liability	(338,135)	Decrease in compensated absences liability	<u>(21,484)</u>
Capital outlay purchases, net	3,321,776																								
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Increase in deferred inflows of resources related to net pension liability	(338,135)																								
Decrease in compensated absences liability	<u>(21,484)</u>																								
Change in net position of governmental activities	\$ <u><u>2,801,759</u></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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenue:				
Taxes	\$ 38,632,828	\$ 38,632,828	\$ 38,632,828	\$ -
Motor vehicle excise	2,185,500	2,185,500	2,500,459	314,959
Penalties, interest and other taxes	207,000	207,000	236,437	29,437
Intergovernmental	11,981,966	11,981,966	12,114,717	132,751
Charges for services	198,000	198,000	189,178	(8,822)
Licenses and permits	379,000	379,000	832,296	453,296
Fines and forfeits	70,000	70,000	98,774	28,774
Investment income	12,000	12,000	11,559	(441)
Miscellaneous	-	-	440,692	440,692
Total Revenues	53,666,294	53,666,294	55,056,940	1,390,646
Expenditures:				
General government	2,375,872	2,375,763	2,229,012	146,751
Public safety	7,290,813	7,601,473	7,512,339	89,134
Education	28,957,496	28,957,496	28,957,496	-
Public works	2,637,236	2,807,626	2,729,173	78,453
Health and human services	1,142,258	1,120,985	1,074,158	46,827
Culture and recreation	788,585	797,021	785,535	11,486
Debt service	2,666,134	2,441,134	2,435,804	5,330
Intergovernmental	3,805,188	3,805,188	3,709,302	95,886
Employee benefits	5,189,239	5,244,239	5,201,120	43,119
Capital outlay	431,500	586,500	530,110	56,390
Total Expenditures	55,284,321	55,737,425	55,164,049	573,376
Excess (deficiency) of revenues over expenditures	(1,618,027)	(2,071,131)	(107,109)	1,964,022
Other Financing Sources and Uses				
Use of fund balance (free cash)	431,500	736,500	-	(736,500)
Use of overlay surplus	-	60,000	-	(60,000)
Transfers in	1,186,527	1,274,631	1,274,631	-
Excess of expenditures and other uses over revenues and other sources	\$ -	\$ -	\$ 1,167,522	\$ 1,167,522

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

CITY OF AMESBURY, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 216,179	\$ 258,274	\$ 474,453
User fees, net of allowance for uncollectibles	<u>816,836</u>	<u>1,173,917</u>	<u>1,990,753</u>
Total current assets	1,033,015	1,432,191	2,465,206
Noncurrent:			
Capital assets not being depreciated	331,418	20,627,037	20,958,455
Capital assets being depreciated, net of accumulated depreciation	<u>14,087,685</u>	<u>5,878,659</u>	<u>19,966,344</u>
Total noncurrent assets	14,419,103	26,505,696	40,924,799
DEFERRED OUTFLOWS OF RESOURCES	<u>39,724</u>	<u>52,992</u>	<u>92,716</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	15,491,842	27,990,879	43,482,721
LIABILITIES			
Current:			
Accrued liabilities	203,696	239,560	443,256
Current portion of long-term liabilities:			
Bonds payable	1,034,387	1,123,052	2,157,439
Other liabilities	<u>1,823</u>	<u>4,649</u>	<u>6,472</u>
Total current liabilities	1,239,906	1,367,261	2,607,167
Noncurrent:			
Bonds payable, net of current portion	6,307,122	14,212,207	20,519,329
Net OPEB obligation	135,710	303,330	439,040
Net pension liability	266,160	407,475	673,635
Other liabilities, net of current portion	<u>34,637</u>	<u>88,333</u>	<u>122,970</u>
Total noncurrent liabilities	6,743,629	15,011,345	21,754,974
DEFERRED INFLOWS OF RESOURCES	<u>2,756</u>	<u>3,617</u>	<u>6,373</u>
TOTAL LIABILITIES	7,986,291	16,382,223	24,368,514
NET POSITION			
Net investment in capital assets	7,077,594	11,170,437	18,248,031
Unrestricted	<u>427,957</u>	<u>438,219</u>	<u>866,176</u>
TOTAL NET POSITION	<u>\$ 7,505,551</u>	<u>\$ 11,608,656</u>	<u>\$ 19,114,207</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, 2016

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
Operating Revenues:			
Charges for services	\$ 3,304,925	\$ 4,180,381	\$ 7,485,306
Total Operating Revenues	3,304,925	4,180,381	7,485,306
Operating Expenses:			
Personnel	952,228	1,409,668	2,361,896
Non-personnel	848,744	1,030,573	1,879,317
Depreciation	724,913	365,904	1,090,817
Total Operating Expenses	2,525,885	2,806,145	5,332,030
Operating Income	779,040	1,374,236	2,153,276
Nonoperating Revenues (Expenses):			
Interest expense	(253,161)	(339,182)	(592,343)
Total Nonoperating Revenues (Expenses), Net	(253,161)	(339,182)	(592,343)
Change in Net Position	525,879	1,035,054	1,560,933
Net Position at Beginning of Year	6,979,672	10,573,602	17,553,274
Net Position at End of Year	\$ 7,505,551	\$ 11,608,656	\$ 19,114,207

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, 2016

	Business-Type Activities Enterprise Funds		
	Sewer Fund	Water Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Receipts from customers and users	\$ 3,322,668	\$ 4,177,413	\$ 7,500,081
Payments to vendors	(892,152)	(1,118,851)	(2,011,003)
Payments of employees' wages and related benefits	<u>(930,481)</u>	<u>(1,416,788)</u>	<u>(2,347,269)</u>
Net Cash Provided by Operating Activities	1,500,035	1,641,774	3,141,809
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Acquisition and construction of capital assets	-	(27,680)	(27,680)
Principal payments on bonds, net of refunding	(1,055,143)	(1,179,174)	(2,234,317)
Interest expense	<u>(293,522)</u>	<u>(370,150)</u>	<u>(663,672)</u>
Net Cash Provided by (Used For) Capital and Related Financing Activities	<u>(1,348,665)</u>	<u>(1,577,004)</u>	<u>(2,925,669)</u>
Net Change in Cash and Short-Term Investments	151,370	64,770	216,140
Cash and Short-Term Investments, Beginning of Year	<u>64,809</u>	<u>193,504</u>	<u>258,313</u>
Cash and Short-Term Investments, End of Year	<u>\$ 216,179</u>	<u>\$ 258,274</u>	<u>\$ 474,453</u>
<u>Reconciliation of Operating Loss to Net Cash Provided by (Used For) Operating Activities:</u>			
Operating income (Loss)	\$ 779,040	\$ 1,374,236	\$ 2,153,276
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	724,913	365,904	1,090,817
Changes in assets and liabilities:			
User fees	17,742	(2,967)	14,775
Accrued liabilities	4,730	(28,365)	(23,635)
Accounts payable	(43,408)	(88,277)	(131,685)
Compensated absences	(1,314)	(2,974)	(4,288)
Net pension liability, net	4,248	5,576	9,824
OPEB liability	<u>14,084</u>	<u>18,641</u>	<u>32,725</u>
Net Cash Provided By Operating Activities	<u>\$ 1,500,035</u>	<u>\$ 1,641,774</u>	<u>\$ 3,141,809</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, 2016

	Pension Trust Fund (As of <u>December 31, 2015</u>)	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 1,444,985	\$ -	\$ 51,476
Investments	46,548,205	1,856,134	-
Accounts receivable	<u>19,551</u>	<u>-</u>	<u>-</u>
Total Assets	48,012,741	1,856,134	51,476
 <u>LIABILITIES AND NET ASSETS</u>			
Other liabilities	<u>-</u>	<u>-</u>	<u>51,476</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>51,476</u>
 <u>NET POSITION</u>			
Total net position held in trust for pension benefits and other purposes	<u>\$ 48,012,741</u>	<u>\$ 1,856,134</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, 2016

	Pension Trust Fund (For the Year Ended <u>December 31, 2015</u>)	Private Purpose <u>Trust Funds</u>
Additions:		
Contributions:		
Employers	\$ 3,525,137	\$ -
Plan members	1,480,049	-
Other systems and Commonwealth of Massachusetts	218,011	-
Other	<u>3,833</u>	<u>2,750</u>
Total contributions	5,227,030	2,750
Investment Income (Loss):		
Appreciation in fair value of investments	565,416	(12,845)
Less: management fees	<u>(242,977)</u>	<u>-</u>
Net investment income (loss)	<u>322,439</u>	<u>(12,845)</u>
Total additions	5,549,469	(10,095)
Deductions:		
Benefit payments to plan members and beneficiaries	5,360,589	-
Refunds to plan members	64,137	-
Transfers to other systems	305,776	-
Administrative expenses	142,226	-
Other	<u>236,291</u>	<u>35,057</u>
Total deductions	<u>6,109,019</u>	<u>35,057</u>
Net increase	(559,550)	(45,152)
Net position:		
Beginning of year	<u>48,572,291</u>	<u>1,901,286</u>
End of year	<u>\$ 48,012,741</u>	<u>\$ 1,856,134</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 2016, 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.

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 2016 tax levy reflected an excess capacity of \$2,640,023.

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>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP Basis)	\$ 54,706,785	\$ 54,448,078
Other financing sources/uses (GAAP Basis)	<u>3,899,397</u>	<u>2,693,850</u>
Subtotal (GAAP Basis)	58,606,182	57,141,928
Adjust tax revenue to accrual basis	(69,656)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(223,889)
Add end-of-year appropriation carryforwards from expenditures	-	202,244
To reverse stabilization and capital reserve activity	(13,855)	(262,750)
To reverse non-budgeted activity	<u>(2,191,100)</u>	<u>(1,693,484)</u>
Budgetary Basis	<u>\$ 56,331,571</u>	<u>\$ 55,164,049</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2016:

Nonmajor governmental funds:	
Chapter 90 highway fund	\$ (49,089)
Lake Attitash watershed	(1,445)
Special education grant	(39,321)
Title I grant	(7,266)
Council on aging - formula grant	(932)
Council on aging - clinical grant	(23,259)
Council on aging - hosp taxi trans	(550)
Donation - fire safe program	(1,365)
Waste reduce enforce	(7,014)
Our backyard program	(935)
Lower Millyard development	(30,049)
Mass. Works Water Street	(48,463)
Energy manager position	<u>(12,500)</u>
Total nonmajor governmental funds:	<u>\$ (222,188)</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, 2016 and December 31, 2015, 8,766,797 of the City’s bank balance of \$16,066,612, and \$1,173,470 of the System’s bank balance of \$1,455,434, 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:

Investment Type	Fair Value	Exempt From Disclosure	Rating as of Year-end					
			AAA	AA+	AA-	A	A-	BBB
U.S. Treasury notes	\$ 112	\$ -	\$ 112	\$ -	\$ -	\$ -	\$ -	\$ -
Certificates of deposits	973	973	-	-	-	-	-	-
Corporate bonds	713	-	-	-	91	211	161	250
Mutual funds	293	293	-	-	-	-	-	-
Federal agency securities	<u>1,439</u>	-	-	<u>1,439</u>	-	-	-	-
Total investments	<u>\$ 3,530</u>	<u>\$ 1,266</u>	<u>\$ 112</u>	<u>\$ 1,439</u>	<u>\$ 91</u>	<u>\$ 211</u>	<u>\$ 161</u>	<u>\$ 250</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>46,548</u>
Total investments	\$ <u>46,548</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 \$46,548,205 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
State Bank India New York, NY CD	\$ 246
Federal Home Loan Bank	\$ 544
Federal Home Loan Mortgage Corp.	\$ 630

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	\$ 112	\$ -	\$ 112
CDs	973	-	973
Corporate bonds	713	-	713
Federal agency securities	<u>1,439</u>	<u>489</u>	<u>950</u>
Total	<u>\$ 3,237</u>	<u>\$ 489</u>	<u>\$ 2,748</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.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for

identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following fair value measurements as of June 30, 2016 (in thousands):

<u>Description</u>	<u>Fair Value Measurements Using:</u>		
	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments by fair value level:			
Debt securities			
U.S. Treasury securities	\$ 112	\$ -	\$ 112
Federal agencies	1,439	-	1,439
Corporate bonds	713	-	713
Mutual funds	293		293
Total	\$ <u>2,557</u>		\$ <u>2,557</u>

The System has the following fair value measurements as of December 31, 2015 (in thousands):

<u>Description</u>	<u>Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
External investment pool	\$ 46,548	\$ -	Monthly	30 days

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, 2016 consist of the following (in thousands):

Real Estate		
2016	\$ 588	
2015	15	
2014	16	
2013	17	
Prior	<u>87</u>	723
Personal Property		
2016	16	
2015	10	
2014	10	
2013	7	
Prior	<u>24</u>	67
Tax Liens		849
Deferred Taxes		<u>225</u>
Total		<u>\$ 1,864</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	\$ 300	\$ -
Excises	\$ 133	\$ -
Utilities	\$ -	\$ 46

7. Intergovernmental Receivables

This balance represents Massachusetts School Building Authority grants as well as other various fiscal year 2016 State and Federal grant funds. Future receipts of these payments are as follows:

	<u>MSBA</u>
2017	\$ 766,765
2018	<u>766,769</u>
Total	<u>\$ 1,533,534</u>

8. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 87,557	\$ 14	\$ -	\$ 87,571
Machinery, equipment, and furnishings	4,343	1,054	-	5,397
Infrastructure	<u>18,193</u>	<u>2,233</u>	<u>-</u>	<u>20,426</u>
Total capital assets, being depreciated	110,093	3,301	-	113,394
Less accumulated depreciation for:				
Buildings and improvements	(35,451)	(1,996)	-	(37,447)
Machinery, equipment, and furnishings	(3,088)	(267)	-	(3,355)
Infrastructure	<u>(16,934)</u>	<u>(63)</u>	<u>-</u>	<u>(16,997)</u>
Total accumulated depreciation	<u>(55,473)</u>	<u>(2,326)</u>	<u>-</u>	<u>(57,799)</u>
Total capital assets, being depreciated, net	54,620	975	-	55,595
Capital assets, not being depreciated:				
Land	2,827	-	-	2,827
Construction in progress	<u>7,381</u>	<u>21</u>	<u>-</u>	<u>7,402</u>
Total capital assets, not being depreciated	<u>10,208</u>	<u>21</u>	<u>-</u>	<u>10,229</u>
Governmental activities capital assets, net	<u>\$ 64,828</u>	<u>\$ 996</u>	<u>\$ -</u>	<u>\$ 65,824</u>
	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 42,309	\$ -	\$ -	\$ 42,309
Machinery, equipment, and furnishings	616	28	-	644
Infrastructure	<u>50</u>	<u>-</u>	<u>-</u>	<u>50</u>
Total capital assets, being depreciated	42,975	28	-	43,003
Less accumulated depreciation for:				
Buildings and improvements	(21,428)	(1,050)	-	(22,478)
Machinery, equipment, and furnishings	(516)	(40)	-	(556)
Infrastructure	<u>(1)</u>	<u>(1)</u>	<u>-</u>	<u>(2)</u>
Total accumulated depreciation	<u>(21,945)</u>	<u>(1,091)</u>	<u>-</u>	<u>(23,036)</u>
Total capital assets, being depreciated, net	21,030	(1,063)	-	19,967
Capital assets, not being depreciated:				
Land	1,054	-	-	1,054
Construction in progress	<u>19,904</u>	<u>-</u>	<u>-</u>	<u>19,904</u>
Total capital assets, not being depreciated	<u>20,958</u>	<u>-</u>	<u>-</u>	<u>20,958</u>
Business-type activities capital assets, net	<u>\$ 41,988</u>	<u>\$ (1,063)</u>	<u>\$ -</u>	<u>\$ 40,925</u>

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

Governmental Activities:	
General government	\$ 811
Public safety	175
Education	939
Public works	162
Culture and recreation	<u>239</u>
Total depreciation expense - governmental activities	<u>\$ 2,326</u>
Business-Type Activities:	
Sewer	\$ 725
Water	<u>366</u>
Total depreciation expense - business-type activities	<u>\$ 1,091</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, 2016:

	<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>
Pension related:				
Differences between expected and actual experience	\$ 1,809,698	\$ 34,110	\$ 14,750	\$ 19,360
Net difference between projected and actual earnings on pension plan investments	<u>3,144,455</u>	<u>58,606</u>	<u>24,974</u>	<u>33,632</u>
	<u>\$ 4,954,153</u>	<u>\$ 92,716</u>	<u>\$ 39,724</u>	<u>\$ 52,992</u>

10. Accounts Payable

Accounts payable represent 2016 expenditures paid after June 30, 2016.

11. Notes Payable

The City had no notes outstanding at June 30, 2016:

The following summarizes activity in notes payable during fiscal year 2016.

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Lower Millyard Development	\$ 325,000	\$ -	\$ (325,000)	\$ -
Remodeling Public Works	5,900,000	-	(5,900,000)	-
Parking Garage Repairs	210,000	-	(210,000)	-
Remodeling Public Safety	2,400,000	-	(2,400,000)	-
Land Acquisition - Whitehall Road	400,000	-	(400,000)	-
Total	<u>\$ 9,235,000</u>	<u>\$ -</u>	<u>\$ (9,235,000)</u>	<u>\$ -</u>

12. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2021. Future minimum lease payments under capital leases consisted of the following as of June 30, 2016:

Fiscal Year	Governmental Activities
2017	\$ 328,739
2018	299,085
2019	189,940
2020	95,703
2021	<u>95,702</u>
Total minimum lease payments	1,009,169
Less amounts representing interest	<u>(40,120)</u>
Present Value of Minimum Lease Payments	<u>\$ 969,049</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:

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/16</u>
<u>Governmental Activities:</u>			
GOB Refunding 2014	08/15/21	2.00%	\$ 125,000
School building addition	08/01/28	4.00 - 4.50%	4,400,000
Public safety repair/remodel	12/15/28	3.00 - 3.50%	455,000
Municipal purpose 2014	08/15/34	2.00 - 4.00%	1,755,000
Municipal purpose 2016	09/01/35	2.00 - 4.00%	9,195,000
School refunding 2016	09/17/18	3.00%	<u>2,191,100</u>
Total Governmental Activities:			<u>\$ 18,121,100</u>

	Serial Maturities <u>Through</u>	Interest Rate(s) %	Amount Outstanding as of <u>6/30/16</u>
<u>Business-Type Activities:</u>			
Sewer 95-11	02/01/17	4.50 - 6.00%	\$ 81,827
Title 5	08/01/18	4.00 - 5.00%	7,644
Sewer 98-93	08/01/20	4.50 - 5.625%	75,000
Sewer CW 01-13	08/01/22	3.00 - 5.25%	3,705,000
Sewer CW-02-17A	08/01/23	2.00 - 5.00%	910,000
Sewer CW-02-17B	08/01/23	2.00 - 5.00%	220,000
Sewer CW-02-17C	07/15/26	0.00%	550,138
Sewer treatment facility	08/01/28	4.00 - 4.50%	510,000
Water treatment facility	08/01/28	4.00 - 4.50%	265,000
Water treatment - MWPAT	07/15/30	2.00%	2,576,012
Drinking water bond	07/15/32	2.00%	8,652,247
Water treatment facility	12/15/28	3.00 - 3.50%	1,155,000
Water storage tank	12/15/28	3.00 - 3.50%	225,000
Sewer refunding 2014	08/15/23	2.00%	1,065,000
Water refunding 2014	08/15/23	2.00%	895,000
Water treatment upgrade	08/15/34	2.00 - 4.00%	725,000
Water storage tank	08/15/20	2.00 - 4.00%	335,000
Sewer refunding 2016	09/17/18	3.00%	216,900
Water refunding 2016	09/17/18	3.00%	<u>507,000</u>
Total Business-Type Activities:			<u>\$ 22,676,768</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,217,000	\$ 595,263	\$ 2,812,263
2018	2,071,100	522,766	2,593,866
2019	1,133,000	467,729	1,600,729
2020	1,040,000	426,659	1,466,659
2021	1,045,000	385,434	1,430,434
2022 - 2026	5,160,000	1,310,455	6,470,455
2027-2031	2,855,000	621,415	3,476,415
2032-2036	<u>2,600,000</u>	<u>203,563</u>	<u>2,803,563</u>
Total	\$ <u>18,121,100</u>	\$ <u>4,533,284</u>	\$ <u>22,654,384</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,157,440	\$ 610,615	\$ 2,768,055
2018	2,088,762	536,810	2,625,572
2019	2,099,374	474,412	2,573,786
2020	1,862,602	388,943	2,251,545
2021	1,840,651	337,809	2,178,460
2022 - 2026	6,833,948	1,000,353	7,834,301
2027 - 2031	4,414,501	379,228	4,793,729
2032-2035	<u>1,379,490</u>	<u>36,719</u>	<u>1,416,209</u>
Total	\$ <u>22,676,768</u>	\$ <u>3,764,889</u>	\$ <u>26,441,657</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term:

	Total Balance <u>7/1/15</u>	Additions	Reductions	Refunding of Debt, Net	Total Balance <u>6/30/16</u>	Less Current Portion	Equals Long-Term Portion <u>6/30/16</u>
<u>Governmental Activities</u>							
Bonds payable	\$ 10,739	\$ 9,195	\$ (1,779)	\$ (34)	\$ 18,121	\$ (2,217)	\$ 15,904
Net OPEB obligation	19,287	4,872	(3,138)	-	21,021	-	21,021
Net pension liability	33,488	4,645	-	-	38,133	-	38,133
Capital lease	203	1,044	(277)	-	970	(313)	657
Accrued employee benefits	<u>627</u>	<u>61</u>	<u>(39)</u>	<u>-</u>	<u>649</u>	<u>(32)</u>	<u>617</u>
Totals	\$ <u>64,344</u>	\$ <u>19,817</u>	\$ <u>(5,233)</u>	<u>(34)</u>	\$ <u>78,894</u>	\$ <u>(2,562)</u>	\$ <u>76,332</u>
<u>Business-Type Activities</u>							
Bonds payable	\$ 24,911	\$ -	\$ (2,219)	\$ (15)	\$ 22,677	\$ (2,157)	\$ 20,520
Net OPEB obligation	406	92	(59)	-	439	-	439
Net pension liability	586	88	-	-	674	-	674
Accrued employee benefits	<u>134</u>	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>130</u>	<u>(7)</u>	<u>123</u>
Totals	\$ <u>26,037</u>	\$ <u>180</u>	\$ <u>(2,282)</u>	<u>(15)</u>	\$ <u>23,920</u>	\$ <u>(2,164)</u>	\$ <u>21,756</u>

D. Current Refunding

Current Year

On September 17, 2015, the City issued General Obligation refunding bonds in the amount of \$2,915,000 at a 3% interest rate for the remaining life of the bonds. The bonds were issued at a true interest cost of 0.665596%.

The refunding bonds were issued to current refund \$2,965,000 of the June 15, 2005 bonds (the "2005 bonds"), comprised of serial bonds with interest rates from 4.00% to 4.75% to mature on September 15, 2016 through September 15, 2018 which were called on November 1, 2015.

\$2,982,419 of the net proceeds from the issuance of the refunding bonds was deposited into an irrevocable trust with an escrow agent to provide debt service payments until the bonds were called on November 1, 2015. The refunding met the requirements of an in-substance debt defeasance and the serial bonds were removed from the City's financial statements.

As a result of the 2005 current refunding, the City reduced its total debt service cash flow requirements by \$113,036, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$110,391.

Defeased debt for the 2005 bonds still outstanding at June 30, 2016 was \$0.

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, 2016:

	Entity-wide Basis		Fund Basis			
	Governmental Activities	Business-type Activities	Governmental Funds General Fund	Nonmajor	Proprietary Funds Sewer	Water
Unavailable revenues	\$ -	\$ -	\$ 2,288,742	\$ 982,797	\$ -	\$ -
Pension related:						
Changes in assumptions	321,904	6,067	-	-	2,624	3,443
Changes in proportion and differences between contributions and proportionate share of contributions	16,231	306	-	-	132	174
	<u>\$ 338,135</u>	<u>\$ 6,373</u>	<u>\$ 2,288,742</u>	<u>\$ 982,797</u>	<u>\$ 2,756</u>	<u>\$ 3,617</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. 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, 2016:

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, 2016:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 600,054	\$ 600,054
Total Nonexpendable	-	600,054	600,054
Restricted			
Bonded projects:			-
Public safety building	-	173,588	173,588
EEA Riverwalk	-	508,796	508,796
other bonded projects	-	142,998	142,998
Special Revenue funds:			
Ambulance receipts	-	787,345	787,345
Youth revolving fund	-	778,651	778,651
School Choice	-	597,278	597,278
Circuit Breaker	-	1,040,881	1,040,881
School tuition	-	275,718	275,718
Lunchroom revolving account	-	104,638	104,638
Planning Board escrow	-	348,180	348,180
Conservation commission receipts	-	102,646	102,646
Cablevision educational	-	112,807	112,807
Other revolving funds	-	895,511	895,511
Expendable permanent funds	-	153,810	153,810
Total Restricted	-	6,022,847	6,022,847
Committed			
Smart Growth Stabilization	186,327	-	186,327
Capital project funds	-	394,003	394,003
Total Committed	186,327	394,003	580,330
Assigned			
Encumbrances	202,243	-	202,243
Assigned for FY17 expenditures	500,000	-	500,000
Total Assigned	702,243	-	702,243
Unassigned ⁽¹⁾	4,953,151	(222,188)	4,730,963
Total Unassigned	4,953,151	(222,188)	4,730,963
Total Fund Balance	\$ 5,841,721	\$ 6,794,716	\$ 12,636,437

(1) Includes General Stabilization fund balance of \$818,978.

17. 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 state-

ments. The following is an analysis of interfund transfers made in fiscal year 2016:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,274,631	\$ 502,750
Nonmajor Funds:		
Special Revenue Funds:		
Emergency management hazard mitigation	7,750	-
Whitehall Road land purchase	5,000	-
Lower Millyard	54,716	-
Elm Street PWED	-	48,687
Titcomb Pit host community	-	20,000
Reg health agreement	-	59,000
Waterways improvement	-	7,500
Sale of cemetery lots	-	13,000
Ambulance receipts	-	844,000
Youth revolving fund	-	293,131
Capital Project Funds:		
School audit	-	50,000
Energy manager	20,000	-
Streets and sidewalks	200,000	-
Mass Works Water Street	78,971	-
Public safety building	5,000	-
Water street parking garage	5,000	-
DPW facility	30,000	-
40R planning projects	125,000	-
40R energy projects	40,000	-
40R grant match projects	85,000	85,000
Trust Funds:		
Expendable	<u>-</u>	<u>8,000</u>
Subtotal Nonmajor Funds ⁽¹⁾	<u>656,437</u>	<u>1,428,318</u>
Grand Total	<u>\$ 1,931,068</u>	<u>\$ 1,931,068</u>

⁽¹⁾ Transfers in and out were netted on page 16 to eliminate activity within the non-major governmental funds

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.

18. **Commitments and Contingencies**

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of these issues 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.

19. **Retirement System – Amesbury Contributory Retirement System**

The Town follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and 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

The System is a member of the Massachusetts Contributory Retirement System (MA System) and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town's basic financial systems.

Substantially all employees of the Town (except teachers and administrators under contract employed by the School Department) and the Amesbury Housing Authority 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 is governed by a five-member board. The five members include two appointed by the Town, two elected by the members and

retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at January 1, 2016 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	227
Terminated plan members entitled to but not yet receiving benefits	49
Disabled	15
Active plan members	<u>266</u>
Total	<u>557</u>
Number of participating employers	2

Participant Retirement Benefits

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 annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, 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. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants 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 on or 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%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

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, 2016 was \$3,415,222, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2015 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.69%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

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.

C. Net Pension Liability of Participating Employers

The net pension liability is based on an actuarial valuation dated January 1, 2016 and reported as of December 31, 2015.

The components of the net pension liability of the participating employers at June 30, 2016 were as follows:

Net Pension Liability of Employers

Total pension liability	\$ 88,080,121
Plan fiduciary net position	<u>(48,012,741)</u>
Employers' net pension liability	<u>\$ 40,067,380</u>
Plan fiduciary net position as a percentage of total pension liability	54.5%

Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2016
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.00%
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first \$12,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2015 through December 31, 2015.

Mortality rates were as follows:

- Pre-retirement and beneficiary – reflects RP-2014 Blue Collar Mortality with Scale MP-2014, fully generational.

- Post-retirement – reflects RP-2014 Blue Collar Mortality tables set forward five years for males and three for females for members of Groups 1 and 2 and set forward three years for males and six for females for members of Group 4, fully generational.
- Disability – reflects RP-2000 Mortality table set forward six years for members of Groups 1 and 2 and set forward two years for members of Group 4. Generational adjusting is based on Scale MP-2014.

Target Allocations

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	18.0%	7.63%
International equity	22.0%	8.63%
Fixed income	19.0%	5.19%
Private equity	10.0%	9.50%
Real estate	10.0%	6.50%
Timber/Natural Resources	4.0%	6.75%
Hedge Funds	9.0%	6.75%
Private Debt	4.0%	8.00%
Portfolio Completion Strategies	<u>4.0%</u>	NA
Total	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. 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 Town's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

City of Amesbury			
Fiscal Year Ended	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
December 31, 2015	\$ 48,224,215	\$ 38,807,120	\$ 30,823,636

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

At June 30, 2016, the City reported a liability of \$38,807,120 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. 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, 2015, the City's proportion was 96.882%.

For the year ended June 30, 2016, the City recognized pension expense of \$4,157,399. 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>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,843,809	\$ -
Changes of assumptions	-	327,971
Net difference between projected and actual earnings on pension plan investments	3,203,061	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	16,537
Total	<u>\$ 5,046,870</u>	<u>\$ 344,508</u>

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

Year ended June 30:	<u>Net deferred outflows (inflows) of resources</u>
2017	\$ 1,168,230
2018	1,168,230
2019	1,168,230
2020	1,043,034
2021	<u>154,638</u>
Total	<u>\$ 4,702,362</u>

20. 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, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.50% 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-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected with Scale BB and base year of 2014 set forward 4 years.

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, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	2.4%
Hedge funds	9.0%	5.8%
Private equity	10.0%	8.5%
Real estate	10.0%	6.5%
Value added fixed income	10.0%	5.8%
Portfolio completion strategies	4.0%	5.5%
Timber/natural resources	4.0%	6.6%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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 6.5%</u>	<u>Current Discount Rate 7.5%</u>	<u>1% Increase to 8.5%</u>
June 30, 2015	\$ 25,449,000	\$ 20,489,643	\$ 16,221,000

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 2015 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability and pension expense was \$47,871,783 and \$3,882,828 respectively, based on a proportionate share of 0.233639%. 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.

21. 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 2016 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, 2016, 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)	\$ 4,176,544
Interest on net OPEB obligation	787,721
Adjustment to ARC	<u>(656,434)</u>
Annual OPEB cost	4,307,831
Contributions made	<u>(2,540,387)</u>
Increase in net OPEB obligation	1,767,444
Net OPEB obligation - beginning of year	<u>19,693,019</u>
Net OPEB obligation - end of year	<u>\$ 21,460,463</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>
2016	\$ 4,307,831	59%	\$ 21,460,463
2015	\$ 4,155,928	58%	\$ 19,693,019
2014	\$ 5,338,987	53%	\$ 17,966,891
2013	\$ 5,195,799	52%	\$ 15,445,397
2012	\$ 6,195,819	38%	\$ 12,955,792

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 tech-

niques 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%.

22. 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.

23. Beginning Fund Balance Reclassification

The Town’s major governmental funds for fiscal year 2016, as defined by GASB Statement 34, have changed from the previous year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/15 (as previously reported)	Reclassification	Fund Equity 6/30/15 (as restated)
General fund	\$ 4,377,467	\$ -	\$ 4,377,467
Public Safety Facility Fund	(2,202,336)	2,202,336	-
Public Works Facility Fund	(5,900,000)	5,900,000	-
Nonmajor funds	<u>3,390,870</u>	<u>(8,102,336)</u>	<u>(4,711,466)</u>
Total	<u>\$ (333,999)</u>	<u>\$ -</u>	<u>\$ (333,999)</u>

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

June 30, 2016

(Unaudited)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
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, 2016
(Unaudited)

Amesbury Retirement System					
Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2016	96.882%	\$38,807,120	\$ 13,009,625	298.30%	54.50%
June 30, 2015	96.905%	\$34,074,527	\$ 11,951,824	285.10%	58.00%

Massachusetts Teachers' Retirement System							
Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the Town	Total Net Pension Liability Associated with the Town	<u>Covered Payroll</u>	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2016	0.233639%	\$ -	\$ 47,871,783	\$ 47,871,783	\$ 14,810,115	0.00%	55.38%
June 30, 2015	0.234419%	\$ -	\$ 37,264,050	\$ 37,264,050	\$ 14,373,387	0.00%	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 PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016
(Unaudited)

Amesbury Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$ 3,415,222	\$ 3,415,222	\$ -	\$ 13,009,625	26.3%
June 30, 2015	\$ 3,317,591	\$ 3,317,591	\$ -	\$ 11,951,824	27.8%

See Independent Auditors' Report.

**CITY OF AMESBURY, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability

(Unaudited)

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 1,596,238	\$ 1,430,806
Interest on unfunded liability - time value of \$	7,040,701	6,789,264
Change in assumptions	(414,546)	-
Experience (gain) and loss	2,330,523	-
Benefit payments, including refunds of member contributions	(5,966,793)	(5,140,286)
Interest on benefit payments	<u>(241,254)</u>	<u>(207,834)</u>
Net change in total pension liability	4,344,869	2,871,950
Total pension liability - beginning	<u>83,735,252</u>	<u>80,863,302</u>
Total pension liability - ending (a)	<u><u>\$ 88,080,121</u></u>	<u><u>\$ 83,735,252</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 3,525,137	\$ 3,423,564
Contributions - member	1,480,049	1,412,991
Net investment income	322,438	3,102,777
Benefit payments, including refunds of member contributions	(5,966,793)	(5,140,286)
Administrative expense	(142,225)	129,258
Other	<u>221,844</u>	<u>105,263</u>
Net change in plan fiduciary net position	(559,550)	3,033,567
Plan fiduciary net position - beginning	<u>48,572,291</u>	<u>45,538,724</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 48,012,741</u></u>	<u><u>\$ 48,572,291</u></u>
Net pension liability - ending (a-b)	<u><u>\$ 40,067,380</u></u>	<u><u>\$ 35,162,961</u></u>

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

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

**TOWN OF AMESBURY, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

Schedule of Net Pension Liability

	<u>2016</u>	<u>2015</u>
Total pension liability	\$ 88,080,121	\$ 83,735,252
Plan fiduciary net position	<u>48,012,741</u>	<u>48,572,291</u>
Net pension liability (asset)	<u>\$ 40,067,380</u>	<u>\$ 35,162,961</u>
Plan fiduciary net position as a percentage of the total pension liability	54.5%	58.0%
Covered payroll	\$ 13,428,320	\$ 12,333,598
Participating employer net pension liability (asset) as a percentage of covered payroll	298.4%	285.1%

Schedule of Contributions

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 3,525,137	\$ 3,423,564
Contributions in relation to the actuarially determined contribution	<u>3,525,137</u>	<u>3,423,564</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 13,428,320	\$ 12,333,598
Contributions as a percentage of covered payroll	26.3%	27.8%

Schedule of Investment Returns

Year Ended December 31

	<u>2016</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	0.69%	7.71%

*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, 2016

	<u>Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Current service charges	\$ 2,768,934	\$ 2,802,459	\$ 33,525
Miscellaneous revenues	15,191	171,380	156,189
Retained earnings	<u>26,000</u>	<u>-</u>	<u>(26,000)</u>
Total Revenues	2,810,125	2,973,839	163,714
Expenditures:			
Personnel services	888,484	890,603	(2,119)
Supplies and materials	756,977	822,036	(65,059)
Capital outlay	152,672	68,162	84,510
Debt service	<u>1,011,992</u>	<u>1,008,763</u>	<u>3,229</u>
Total Expenditures	<u>2,810,125</u>	<u>2,789,564</u>	<u>20,561</u>
Excess of Revenues over Expenditures	<u>\$ -</u>	<u>\$ 184,275</u>	<u>\$ 184,275</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, 2016

	<u>Budget</u>	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:			
Current service charges	\$ 3,945,047	\$ 4,141,989	\$ 196,942
Miscellaneous revenues	11,395	35,425	24,030
Retained earnings	<u>35,000</u>	<u>-</u>	<u>(35,000)</u>
Total Revenues	3,991,442	4,177,414	185,972
Expenditures:			
Personnel services	1,328,377	1,345,500	(17,123)
Supplies and materials	970,309	993,633	(23,324)
Capital outlay	121,317	56,998	64,319
Debt service	<u>1,571,439</u>	<u>1,566,589</u>	<u>4,850</u>
Total Expenditures	<u>3,991,442</u>	<u>3,962,720</u>	<u>28,722</u>
Excess of Revenues over Expenditures	<u>\$ -</u>	<u>\$ 214,694</u>	<u>\$ 214,694</u>

See Independent Auditors' report.