

CITY OF HAVERHILL, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

YEAR ENDED JUNE 30, 2017

CITY OF HAVERHILL, MASSACHUSETTS

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Independent Auditor's Report

To the Honorable Mayor
City of Haverhill, Massachusetts

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 Haverhill, Massachusetts, as of and for the year ended June 30, 2017 (except for the Haverhill Contributory Retirement System which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the City of Haverhill, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of the City of Haverhill, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Haverhill, Massachusetts' internal control over financial reporting and compliance.



November 14, 2017

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Haverhill, Massachusetts (City), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2017. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- The assets and deferred outflows of resources of the City of Haverhill exceeded the liabilities and deferred inflows of resources at the close of the most recent year by \$11.2 million (net position).
- At the close of the current year, the City's general fund reported an ending fund balance of \$24 million. Total fund balance represents 12% of total general fund expenditures.
- The City's total debt (short-term and long-term combined) increased by \$5.9 million during the year.
- The City's net other postemployment benefit (OPEB) liability increased by \$9.9 million and totaled \$69.3 million at year-end.
- The City's net pension liability (NPL) increased by \$14.7 million and totaled \$169.5 million at year-end.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Haverhill's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual components of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. This report also contains other required 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 finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all assets and liabilities and deferred inflows/outflows 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 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 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, human services, community & economic development, and interest. The business-type activities include the activities of water and sewer operations.

The government-wide financial statements include not only the City of Haverhill itself (known as the *primary government*), but also a legally separate public employee retirement system. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

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 statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the 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*.

The City of Haverhill adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City accounts for its water and sewer activities as an enterprise fund.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health insurance. The City changed to premium based health insurance plans in 2016.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City of Haverhill's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$11.2 million at the close of 2017.

Net position of \$184 million reflects its net investment in capital assets (e.g., land, land improvements, buildings, vehicles, machinery and equipment, building improvements, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net position, \$3.1 million, represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* has a year-end deficit of \$175.9 million. The primary reason for this deficit balance is the recognition of other postemployment benefit and net pension liabilities totaling \$69.3 million and \$169.5 million, respectively.

At the end of the current year, the City of Haverhill is able to report positive balances in two out of three categories of net position for the City as a whole and for its governmental activities. Its business-type activities report positive balances in both categories.

The governmental and business-type activities of the City are presented below.

Governmental Activities

The City of Haverhill's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources for governmental activities by \$23.7 million at the close of 2017.

	2017	2016
Assets:		
Current assets.....	\$ 52,278,471	\$ 60,411,425
Noncurrent assets (excluding capital).....	2,894,264	2,469,696
Capital assets not being depreciated.....	10,126,880	69,700,786
Capital assets, net of accumulated depreciation.....	216,280,193	136,599,483
Total assets.....	281,579,808	269,181,390
Deferred Outflow of Resources:		
Deferred outflows related to pensions.....	22,624,781	13,190,841
Liabilities:		
Current liabilities (excluding debt).....	7,560,726	16,455,414
Noncurrent liabilities (excluding debt).....	244,059,071	220,343,126
Current debt.....	39,551,333	33,224,357
Noncurrent debt.....	36,409,653	38,693,718
Total liabilities.....	327,580,783	308,716,615
Deferred Inflow of Resources:		
Deferred inflows related to pensions.....	326,925	457,694
Net Position:		
Net investment in capital assets.....	152,502,772	136,543,573
Restricted.....	3,061,850	3,321,556
Unrestricted.....	(179,267,741)	(165,347,817)
Total net position.....	\$ (23,703,119)	\$ (25,482,688)

	<u>2017</u>	<u>2016</u>
Program Revenues:		
Charges for services.....	\$ 6,963,728	\$ 8,312,647
Operating grants and contributions.....	86,101,698	81,400,991
Capital grants and contributions.....	11,853,330	40,897,723
General Revenues:		
Real estate and personal property taxes, net of tax refunds payable.....	96,105,718	92,014,642
Tax liens.....	669,818	1,402,639
Motor vehicle excise taxes.....	8,675,546	8,421,873
Penalties and interest on taxes.....	464,185	501,452
Payments in lieu of taxes.....	2,001,878	2,033,978
Nonrestricted grants.....	13,252,217	12,422,332
Unrestricted investment income.....	244,926	105,608
Miscellaneous.....	202,067	443,266
Total revenues.....	<u>226,535,111</u>	<u>247,957,151</u>
Expenses:		
General government.....	8,625,354	6,856,465
Public safety.....	35,666,130	29,629,180
Education.....	154,117,142	145,869,072
Public works.....	15,983,497	11,421,990
Human services.....	6,600,781	7,934,389
Community & economic development.....	2,700,897	2,477,719
Interest.....	1,875,434	1,611,758
Total expenses.....	<u>225,569,235</u>	<u>205,800,573</u>
Excess (Deficiency) before transfers.....	965,876	42,156,578
Transfers.....	<u>813,693</u>	<u>789,993</u>
Change in net position.....	1,779,569	42,946,571
Net position at beginning of the year, as restated.....	<u>(25,482,688)</u>	<u>(68,429,259)</u>
Net position at end of the year.....	<u>\$ (23,703,119)</u>	<u>\$ (25,482,688)</u>

Governmental expenses totaled \$225.6 million of which \$104.9 million (47%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$121.6 million, primarily coming from property taxes, motor vehicle excise taxes, payments in lieu of taxes and non-restricted state aid.

Governmental net position increased by \$1.8 million during the current year. The primary components of this increase include the receipt of \$11.9 million of capital grant revenue, a \$969,000 decrease in the tax refunds payable liability, and debt principal payments raised in the tax levy exceeding depreciation expense by \$12.2 million. These increases were offset by a \$9.6 million increase in the other postemployment benefits liability and a \$14.1 million increase in the net pension liability.

The \$19.8 million increase in governmental expenses is primarily attributable to increases in employee benefits and pension benefits for active employees and retirees.

Business-type Activities

For the City's business-type activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$34.9 million at the close of 2017.

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets.....	\$ 14,999,878	\$ 15,163,925
Noncurrent assets (excluding capital).....	1,075,815	506,565
Capital assets not being depreciated.....	1,771,855	9,181,064
Capital assets, net of accumulated depreciation.....	<u>61,575,307</u>	<u>51,930,503</u>
Total assets.....	<u>79,422,855</u>	<u>76,782,057</u>
Deferred Outflows of Resources:		
Deferred outflows related to pensions.....	<u>1,240,844</u>	<u>654,452</u>
Liabilities:		
Current liabilities (excluding debt).....	1,527,171	1,882,408
Noncurrent liabilities (excluding debt).....	11,108,515	10,226,385
Current debt.....	12,983,836	9,405,608
Noncurrent debt.....	<u>19,854,577</u>	<u>21,553,090</u>
Total liabilities.....	<u>45,474,099</u>	<u>43,067,491</u>
Deferred Inflows of Resources:		
Deferred inflows related to pensions.....	<u>282,522</u>	<u>-</u>
Net Position:		
Net investment in capital assets.....	31,502,848	31,915,730
Unrestricted.....	<u>3,404,230</u>	<u>3,150,198</u>
Total net position.....	<u>\$ 34,907,078</u>	<u>\$ 35,065,928</u>
Program Revenues:		
Charges for services.....	\$ 18,168,836	\$ 16,486,629
Operating grants and contributions.....	<u>211,308</u>	<u>204,580</u>
Total revenues.....	<u>18,380,144</u>	<u>16,691,209</u>
Expenses:		
Water.....	7,157,163	6,993,334
Sewer.....	<u>10,568,138</u>	<u>11,385,151</u>
Total expenses.....	<u>17,725,301</u>	<u>18,378,485</u>
Excess (Deficiency) before transfers.....	654,843	(1,687,276)
Transfers.....	<u>(813,693)</u>	<u>(789,993)</u>
Change in net position.....	(158,850)	(2,477,269)
Net position at beginning of the year, as restated.....	<u>35,065,928</u>	<u>37,543,197</u>
Net position at end of the year.....	<u>\$ 34,907,078</u>	<u>\$ 35,065,928</u>

Business-type net position of \$31.5 million (90%) represents the net investment in capital assets while \$3.4 million (10%) is unrestricted.

The water enterprise fund net position increased by \$523,000 in the current year. This increase is the result of \$611,000 of positive operating results and a \$102,000 increase in deferred outflows/inflows of resources related to pensions, net. These increases were offset by a \$199,000 increase in the net pension liability and a \$129,000 increase in the other postemployment benefits liability.

The sewer enterprise fund net position decreased by \$682,000 in the current year. This decrease is the result of depreciation expense exceeding principal payments on long-term debt by \$914,000, a \$371,000 increase in the net pension liability and a \$183,000 increase in the other postemployment benefits liability. These decreases were offset by \$690,000 of positive operating results and a \$202,000 increase in deferred outflows/inflows of resources related to pensions, net.

Financial Analysis of the Government's Funds

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

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

As of the end of the current year, governmental funds reported a combined ending fund balance of \$15.2 million. This was comprised of the general fund totaling \$24 million, the Hunking Middle School deficit totaling \$13.3 million, and the nonmajor funds totaling \$4.5 million.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$18.4 million, while total fund balance was \$24 million. 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 fund expenditures. Unassigned fund balance represents 9% of the total general fund expenditures, while total fund balance represents 12% of that same amount. Committed fund balance totals \$369,000 and consists of the school stabilization fund totaling \$131,000 and the OPEB stabilization fund totaling \$238,000. Assigned fund balance totals \$5.2 million and includes \$2.5 million of unexpended appropriations that were encumbered to be expended in the subsequent year and \$2.7 million of fund balance that was voted to fund subsequent years' expenditures.

The general fund increased by \$3.8 million, which is due to an operating surplus totaling \$350,000 and a \$1.3 million transfer to the general stabilization fund which is reported as a component of the general fund on the fund based financial statements. In addition, \$778,000 was transferred to the general stabilization fund from the internal service fund as a result of the City changing to a premium based health care plan in 2016. The City also recognized a \$969,000 decrease in its tax refunds payable liability, which contributed to the increase.

The \$5.2 million increase in education expenditures is mainly attributable to an increase in the operating budget.

The \$1.7 million increase in public works expenditures is mainly attributable to an increase in snow and ice expenditures.

The \$5 million increase in pension benefits is mainly attributable to an increase in nonemployer contributions to the Massachusetts Teachers Retirement System which are 100% paid by the Commonwealth and an increase in the pension assessment from the Haverhill Retirement System.

The \$1.5 million increase in employee benefits is primarily attributable to an increase in group health insurance benefits.

The Chapter 90 fund incurred \$1.7 million of expenditures for roadway improvements that are 100% reimbursable through the Massachusetts Department of Transportation Chapter 90 program and accordingly, \$1.7 million of revenues have also been recognized.

The Hunking Middle School capital project fund decreased by \$9.5 million, which is due to a timing difference between the receipt and expenditure of bond proceeds as well as state grant funds.

General Fund Budgetary Highlights

The \$2.2 million (1%) increase between the original budget and the final amended budget was primarily due to increases in appropriations for general government, public safety, public works, employee benefits and state and county charges. These increases were offset by a decrease in the salary reserve appropriation.

Capital Asset and Debt Administration

Capital Assets. In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$289.8 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, land and building improvements, vehicles, equipment and infrastructure.

Current year additions for the governmental investment in capital assets totaled \$27.2 million. \$17.2 million of additions relate to the Hunking Middle School, \$2 million relates to the boardwalk project and \$1.4 relates to stadium improvements. Other additions include \$1.7 million for street resurfacing, and \$4.9 million for various other projects.

The \$12.8 million in water and sewer additions are attributable to infrastructure improvements that include new water mains, water treatment plant improvements and sewer system improvements.

Debt Administration. The City maintains a AA credit rating with Standard and Poor's Financial Services and continues to maintain strong market access for both note and bond sales.

Outstanding long-term debt of the general government totaled \$52.5 million, of which \$17 million relates to Hospital debt, \$11.6 million relates to school construction and \$23.9 million relates to various other capital projects.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During 2017, \$868,861 of such assistance was received; \$1,737,722 will be received in future years. Of this amount, \$98,968 represents reimbursement of long-term interest costs, and \$1,638,754 represents reimbursement of approved construction costs. Accordingly, a \$1,638,754 intergovernmental receivable and corresponding deferred inflow of resources - unavailable revenue has been reported in the governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under this program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2017, the City has received \$34,102,762 of capital grant reimbursements from the MSBA which is equal to 78.93% of approved construction costs incurred to date for the new Hunking Middle School. The City anticipates receiving the final reimbursement in 2018.

The water enterprise fund has \$4.9 million of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

The sewer enterprise fund has \$17 million of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

Short-term debt outstanding at year-end for the general government totaled \$23.4 million of which \$19.1 million is for Hunking Middle School, \$2.2 million is for school green repair projects, \$2 million is for street resurfacing, \$150,000 is for floodwall improvements and \$15,000 is for dog pound repairs.

The sewer enterprise fund outstanding short-term debt totaled \$10.9 million and was used to finance sewer overflow and storm water infrastructure improvements.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the City of Haverhill's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City Hall, 4 Summer Street, Haverhill, Massachusetts 01830.

Basic Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2017

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 37,237,815	\$ 10,490,850	\$ 47,728,665
Investments.....	1,050,325	-	1,050,325
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,805,208	-	1,805,208
Tax liens.....	2,301,616	-	2,301,616
Motor vehicle and other excise taxes.....	1,185,405	-	1,185,405
User fees.....	-	4,433,271	4,433,271
Departmental and other.....	107,342	52,951	160,293
Intergovernmental.....	8,590,760	22,806	8,613,566
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	55,396	-	55,396
Intergovernmental.....	947,465	483,759	1,431,224
Departmental and other.....	1,105,348	592,056	1,697,404
Tax foreclosures.....	786,055	-	786,055
Capital assets not being depreciated.....	10,126,880	1,771,855	11,898,735
Capital assets, net of accumulated depreciation.....	<u>216,280,193</u>	<u>61,575,307</u>	<u>277,855,500</u>
TOTAL ASSETS.....	<u>281,579,808</u>	<u>79,422,855</u>	<u>361,002,663</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions.....	<u>22,624,781</u>	<u>1,240,844</u>	<u>23,865,625</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	4,338,890	1,139,630	5,478,520
Longevity liability.....	1,009,020	-	1,009,020
Tax refunds payable.....	177,044	-	177,044
Accrued interest.....	426,599	286,541	713,140
Payroll withholdings.....	134,173	-	134,173
Compensated absences.....	1,321,000	101,000	1,422,000
Workers' compensation.....	67,000	-	67,000
Landfill closure liability.....	87,000	-	87,000
Notes payable.....	23,439,768	10,942,323	34,382,091
Bonds payable.....	16,111,565	2,041,513	18,153,078
NONCURRENT:			
Compensated absences.....	781,000	-	781,000
Workers' compensation.....	411,000	-	411,000
Landfill closure liability.....	15,113,000	-	15,113,000
Other postemployment benefits.....	67,119,000	2,219,000	69,338,000
Net pension liability.....	160,635,071	8,889,515	169,524,586
Bonds payable.....	<u>36,409,653</u>	<u>19,854,577</u>	<u>56,264,230</u>
TOTAL LIABILITIES.....	<u>327,580,783</u>	<u>45,474,099</u>	<u>373,054,882</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions.....	<u>326,925</u>	<u>282,522</u>	<u>609,447</u>
NET POSITION			
Net investment in capital assets.....	152,502,772	31,502,848	184,005,620
Restricted for:			
Gifts and grants.....	3,061,850	-	3,061,850
Unrestricted.....	<u>(179,267,741)</u>	<u>3,404,230</u>	<u>(175,863,511)</u>
TOTAL NET POSITION.....	<u>\$ (23,703,119)</u>	<u>\$ 34,907,078</u>	<u>\$ 11,203,959</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 8,625,354	\$ 1,529,987	\$ 217,920	\$ -	\$ (6,877,447)
Public safety.....	35,666,130	1,043,438	2,911,303	-	(31,711,389)
Education.....	154,117,142	1,801,771	81,170,597	8,273,842	(62,870,932)
Public works.....	15,983,497	106,331	3,584	1,541,148	(14,332,434)
Human services.....	6,600,781	733,709	790,323	-	(5,076,749)
Community & economic development.....	2,700,897	1,748,492	869,327	2,038,340	1,955,262
Interest.....	1,875,434	-	138,644	-	(1,736,790)
Total Governmental Activities.....	<u>225,569,235</u>	<u>6,963,728</u>	<u>86,101,698</u>	<u>11,853,330</u>	(120,650,479)
<i>Business-Type Activities:</i>					
Water.....	7,157,163	7,928,870	-	-	771,707
Sewer.....	10,568,138	10,239,966	211,308	-	(116,864)
Total Business-Type Activities.....	<u>17,725,301</u>	<u>18,168,836</u>	<u>211,308</u>	<u>-</u>	654,843
Total Primary Government.....	<u>\$ 243,294,536</u>	<u>\$ 25,132,564</u>	<u>\$ 86,313,006</u>	<u>\$ 11,853,330</u>	\$ (119,995,636)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (120,650,479)	\$ 654,843	\$ (119,995,636)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	96,105,718	-	96,105,718
Tax liens.....	669,818	-	669,818
Motor vehicle and other excise taxes.....	8,675,546	-	8,675,546
Penalties and interest on taxes.....	464,185	-	464,185
Payments in lieu of taxes.....	2,001,878	-	2,001,878
Grants and contributions not restricted to specific programs.....	13,252,217	-	13,252,217
Unrestricted investment income.....	244,926	-	244,926
Miscellaneous.....	202,067	-	202,067
<i>Transfers, net</i>	813,693	(813,693)	-
Total general revenues and transfers.....	<u>122,430,048</u>	<u>(813,693)</u>	<u>121,616,355</u>
Change in net position.....	1,779,569	(158,850)	1,620,719
<i>Net Position:</i>			
Beginning of year, as restated.....	<u>(25,482,688)</u>	<u>35,065,928</u>	<u>9,583,240</u>
End of year.....	\$ <u><u>(23,703,119)</u></u>	\$ <u><u>34,907,078</u></u>	\$ <u><u>11,203,959</u></u>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2017

	General	Hunking Middle School	Chapter 90 Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 23,915,233	\$ 5,889,202	\$ 91,361	\$ 7,334,708	\$ 37,230,504
Investments.....	1,050,325	-	-	-	1,050,325
Receivables, net of uncollectibles:					
Real estate and personal property taxes...	1,805,208	-	-	-	1,805,208
Real estate tax deferrals.....	55,396	-	-	-	55,396
Tax liens.....	2,301,616	-	-	-	2,301,616
Motor vehicle and other excise taxes.....	1,185,405	-	-	-	1,185,405
Departmental and other.....	1,212,690	-	-	-	1,212,690
Intergovernmental.....	1,765,722	2,116,801	5,451,404	204,298	9,538,225
Tax foreclosures.....	786,055	-	-	-	786,055
TOTAL ASSETS.....	34,077,650	8,006,003	5,542,765	7,539,006	55,165,424
LIABILITIES					
Warrants payable.....	1,411,903	2,197,542	5,400	724,045	4,338,890
Tax refunds payable.....	177,044	-	-	-	177,044
Payroll withholdings.....	134,173	-	-	-	134,173
Notes payable.....	-	19,100,000	2,000,000	2,339,768	23,439,768
TOTAL LIABILITIES.....	1,723,120	21,297,542	2,005,400	3,063,813	28,089,875
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues.....	8,375,093	-	3,537,365	-	11,912,458
FUND BALANCES					
Restricted.....	-	-	-	6,600,155	6,600,155
Committed.....	369,035	-	-	-	369,035
Assigned.....	5,162,748	-	-	-	5,162,748
Unassigned.....	18,447,654	(13,291,539)	-	(2,124,962)	3,031,153
TOTAL FUND BALANCES.....	23,979,437	(13,291,539)	-	4,475,193	15,163,091
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 34,077,650	\$ 8,006,003	\$ 5,542,765	\$ 7,539,006	\$ 55,165,424

See notes to basic financial statements.

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

JUNE 30, 2017

Total governmental fund balances.....		\$ 15,163,091
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		226,407,073
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		11,912,458
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		22,297,856
Internal service funds are used by management to account for health insurance activities.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		7,311
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(426,599)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(52,521,218)	
Compensated absences.....	(2,102,000)	
Longevity liability.....	(1,009,020)	
Workers' compensation.....	(478,000)	
Landfill closure liability.....	(15,200,000)	
Net pension liability.....	(160,635,071)	
Other postemployment benefits.....	<u>(67,119,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(299,064,309)</u>
Net position of governmental activities.....		<u>\$ (23,703,119)</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2017

	General	Hunking Middle School	Chapter 90 Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 96,339,726	\$ -	\$ -	\$ -	\$ 96,339,726
Tax liens.....	746,147	-	-	-	746,147
Motor vehicle and other excise taxes.....	8,749,932	-	-	5,202	8,755,134
Charges for services.....	-	-	-	2,382,795	2,382,795
Penalties and interest on taxes.....	464,185	-	-	-	464,185
Fees and rentals.....	1,234,808	-	-	-	1,234,808
Payments in lieu of taxes.....	2,001,878	-	-	-	2,001,878
Licenses and permits.....	2,146,603	-	-	-	2,146,603
Fines and forfeitures.....	683,349	-	-	-	683,349
Intergovernmental.....	79,948,659	7,706,773	1,656,221	20,009,203	109,320,856
Departmental and other.....	2,286,149	-	-	-	2,286,149
Contributions.....	10,719	-	-	1,006,119	1,016,838
Investment income.....	244,926	-	-	-	244,926
Miscellaneous.....	308,767	-	-	1,310	310,077
TOTAL REVENUES.....	195,165,848	7,706,773	1,656,221	23,404,629	227,933,471
EXPENDITURES:					
Current:					
General government.....	3,643,414	-	-	470,103	4,113,517
Public safety.....	21,106,206	-	-	2,079,018	23,185,224
Education.....	82,757,026	17,194,894	-	16,345,444	116,297,364
Public works.....	10,277,352	-	1,656,221	2,827,647	14,761,220
Human services.....	2,906,461	-	-	1,686,972	4,593,433
Community & economic development.....	1,011,203	-	-	3,958,792	4,969,995
Pension benefits.....	30,938,547	-	-	-	30,938,547
Employee benefits.....	25,258,269	-	-	-	25,258,269
Property and liability insurance.....	864,691	-	-	-	864,691
State and county charges.....	5,261,443	-	-	-	5,261,443
Debt service:					
Principal.....	18,039,589	-	-	10,000	18,049,589
Interest.....	2,059,480	-	-	1,013	2,060,493
TOTAL EXPENDITURES.....	204,123,681	17,194,894	1,656,221	27,378,989	250,353,785
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(8,957,833)	(9,488,121)	-	(3,974,360)	(22,420,314)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds.....	-	-	-	2,215,000	2,215,000
Issuance of hospital deficit bonds.....	11,612,500	-	-	-	11,612,500
Premium from issuance of bonds.....	132,398	-	-	-	132,398
Transfers in.....	2,078,712	-	-	1,066,891	3,145,603
Transfers out.....	(1,066,891)	-	-	(109,969)	(1,176,860)
TOTAL OTHER FINANCING SOURCES (USES).....	12,756,719	-	-	3,171,922	15,928,641
NET CHANGE IN FUND BALANCES.....	3,798,886	(9,488,121)	-	(802,438)	(6,491,673)
FUND BALANCES AT BEGINNING OF YEAR.....	20,180,551	(3,803,418)	-	5,277,631	21,654,764
FUND BALANCES AT END OF YEAR.....	\$ 23,979,437	\$ (13,291,539)	\$ -	\$ 4,475,193	\$ 15,163,091

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds..... \$ (6,491,673)

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.

Capital outlay.....	27,239,344
Depreciation expense.....	<u>(7,132,540)</u>

Net effect of reporting capital assets..... 20,106,804

Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....

(1,398,360)

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Issuance of bonds and notes.....	(2,215,000)
Issuance of refunding bonds.....	(11,612,500)
Debt service principal payments.....	<u>19,317,522</u>

Net effect of reporting long-term debt..... 5,490,022

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.

Net change in compensated absences accrual.....	(195,000)
Net change in workers' compensation accrual.....	(39,000)
Net change in accrued interest on long-term debt.....	52,661
Net change in net pension liability.....	(14,102,945)
Net change in deferred outflow/(inflow) of resources related to pensions.....	9,564,709
Net change in longevity liability.....	(38,637)
Net change in other postemployment benefit.....	(9,565,000)
Landfill closure liability.....	<u>(100,000)</u>

Net effect of recording long-term liabilities..... (14,423,212)

Internal service funds are used by management to account for health insurance activities.

The net activity of internal service funds is reported with Governmental Activities.... (1,504,012)

Change in net position of governmental activities..... \$ 1,779,569

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Health Insurance Internal Service Fund
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 8,292,330	\$ 2,198,520	\$ 10,490,850	\$ 7,311
Receivables, net of allowance for uncollectibles:				
User fees.....	1,875,007	2,558,264	4,433,271	-
Departmental and other.....	-	52,951	52,951	-
Total current assets.....	<u>10,167,337</u>	<u>4,832,541</u>	<u>14,999,878</u>	<u>7,311</u>
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	-	592,056	592,056	-
Intergovernmental.....	-	483,759	483,759	-
Capital assets not being depreciated.....	1,254,853	517,002	1,771,855	-
Capital assets, net of accumulated depreciation.....	<u>20,921,141</u>	<u>40,654,166</u>	<u>61,575,307</u>	<u>-</u>
Total noncurrent assets.....	<u>22,175,994</u>	<u>42,246,983</u>	<u>64,422,977</u>	<u>-</u>
TOTAL ASSETS.....	<u>32,343,331</u>	<u>47,079,524</u>	<u>79,422,855</u>	<u>7,311</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions.....	<u>444,953</u>	<u>795,891</u>	<u>1,240,844</u>	<u>-</u>
LIABILITIES				
CURRENT:				
Warrants payable.....	994,452	145,178	1,139,630	-
Accrued interest.....	35,081	251,460	286,541	-
Compensated absences.....	60,000	41,000	101,000	-
Notes payable.....	-	10,942,323	10,942,323	-
Bonds payable.....	<u>904,683</u>	<u>1,136,830</u>	<u>2,041,513</u>	<u>-</u>
Total current liabilities.....	<u>1,994,216</u>	<u>12,516,791</u>	<u>14,511,007</u>	<u>-</u>
NONCURRENT:				
Other postemployment benefits.....	1,120,000	1,099,000	2,219,000	-
Net pension liability.....	3,187,681	5,701,834	8,889,515	-
Bonds payable.....	<u>4,011,442</u>	<u>15,843,135</u>	<u>19,854,577</u>	<u>-</u>
Total noncurrent liabilities.....	<u>8,319,123</u>	<u>22,643,969</u>	<u>30,963,092</u>	<u>-</u>
TOTAL LIABILITIES.....	<u>10,313,339</u>	<u>35,160,760</u>	<u>45,474,099</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions.....	<u>110,054</u>	<u>172,468</u>	<u>282,522</u>	<u>-</u>
NET POSITION				
Net investment in capital assets.....	17,460,046	14,042,802	31,502,848	-
Unrestricted.....	<u>4,904,845</u>	<u>(1,500,615)</u>	<u>3,404,230</u>	<u>7,311</u>
TOTAL NET POSITION.....	<u>\$ 22,364,891</u>	<u>\$ 12,542,187</u>	<u>\$ 34,907,078</u>	<u>\$ 7,311</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2017

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Health Insurance Internal Service Fund</u>
<u>OPERATING REVENUES:</u>				
Charges for services.....	\$ 7,928,870	\$ 10,239,966	\$ 18,168,836	\$ -
Intergovernmental.....	-	13,419	13,419	-
TOTAL OPERATING REVENUES.....	7,928,870	10,253,385	18,182,255	-
<u>OPERATING EXPENSES:</u>				
Cost of services and administration.....	6,086,568	7,893,542	13,980,110	-
Depreciation.....	912,448	2,046,367	2,958,815	-
Employee benefits	-	-	-	351,214
TOTAL OPERATING EXPENSES.....	6,999,016	9,939,909	16,938,925	351,214
OPERATING INCOME (LOSS).....	929,854	313,476	1,243,330	(351,214)
<u>NONOPERATING REVENUES (EXPENSES):</u>				
Investment income.....	-	-	-	2,252
Interest expense.....	(158,147)	(628,229)	(786,376)	-
Intergovernmental.....	-	197,889	197,889	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(158,147)	(430,340)	(588,487)	2,252
INCOME (LOSS) BEFORE TRANSFERS.....	771,707	(116,864)	654,843	(348,962)
<u>TRANSFERS:</u>				
Transfers out.....	(248,521)	(565,172)	(813,693)	(1,155,050)
CHANGE IN NET POSITION.....	523,186	(682,036)	(158,850)	(1,504,012)
NET POSITION AT BEGINNING OF YEAR, AS RESTATED.....	21,841,705	13,224,223	35,065,928	1,511,323
NET POSITION AT END OF YEAR.....	\$ 22,364,891	\$ 12,542,187	\$ 34,907,078	\$ 7,311

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Health Insurance Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users.....	\$ 7,893,145	\$ 10,032,642	\$ 17,925,787	\$ -
Receipts from interfund services provided.....	-	-	-	594,777
Receipts from other governments.....	-	13,419	13,419	-
Payments to vendors.....	(3,349,786)	(5,171,900)	(8,521,686)	-
Payments to employees.....	(2,408,880)	(2,235,815)	(4,644,695)	-
Payments for interfund services used.....	-	-	-	(351,214)
NET CASH FROM OPERATING ACTIVITIES.....	2,134,479	2,638,346	4,772,825	243,563
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in.....	-	-	-	-
Transfers out.....	(248,521)	(565,172)	(813,693)	(1,155,050)
Departmental and other.....	-	51,903	51,903	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(248,521)	(513,269)	(761,790)	(1,155,050)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	-	11,285,323	11,285,323	-
Acquisition and construction of capital assets.....	(1,175,827)	(4,590,523)	(5,766,350)	-
Principal payments on bonds and notes.....	(877,595)	(8,528,013)	(9,405,608)	-
Interest expense.....	(163,465)	(416,349)	(579,814)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(2,216,887)	(2,249,562)	(4,466,449)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income.....	-	-	-	2,252
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(330,929)	(124,485)	(455,414)	(909,235)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	8,623,259	2,323,005	10,946,264	916,546
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 8,292,330	\$ 2,198,520	\$ 10,490,850	\$ 7,311
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH				
FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 929,854	\$ 313,476	\$ 1,243,330	\$ (351,214)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	912,448	2,046,367	2,958,815	-
Deferred (outflows)/inflows of resources related to pensions.....	(102,205)	(201,665)	(303,870)	-
Changes in assets and liabilities:				
User fees.....	(35,725)	(207,324)	(243,049)	-
Working capital deposit.....	-	-	-	594,777
Warrants payable.....	101,193	135,276	236,469	-
Accrued compensated absences.....	1,000	(2,000)	(1,000)	-
Net pension liability.....	198,914	371,216	570,130	-
Other postemployment benefits.....	129,000	183,000	312,000	-
Total adjustments.....	1,204,625	2,324,870	3,529,495	594,777
NET CASH FROM OPERATING ACTIVITIES.....	\$ 2,134,479	\$ 2,638,346	\$ 4,772,825	\$ 243,563
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:				
Intergovernmental subsidy.....	-	197,889	197,889	-

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Pension Trust Fund (as of December 31, 2016)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and cash equivalents..... \$	3,371,010	\$ 1,056,944	\$ 1,869,609
Investments:			
PRIT.....	61,643,719	-	-
Equity securities.....	36,026,993	1,091,187	-
Corporate bonds.....	-	584,396	-
Government sponsored enterprises.....	-	1,169,985	-
Government agencies.....	-	1,128,743	-
Pooled domestic equity funds.....	13,977,415	-	-
Pooled international equity funds.....	7,541,090	-	-
Pooled domestic fixed income funds.....	29,155,682	244,399	-
Pooled alternative investments.....	4,220,327	-	-
Pooled real estate funds.....	22,800,264	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	130,329	-	190,036
TOTAL ASSETS.....	178,866,829	5,275,654	2,059,645
LIABILITIES			
Warrants payable.....	255,674	-	16,789
Liabilities due depositors.....	-	-	2,042,856
TOTAL LIABILITIES.....	255,674	-	2,059,645
NET POSITION			
Held in trust for pension benefits and other purposes... \$	<u>178,611,155</u>	<u>\$ 5,275,654</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2017

	Pension Trust Fund (as of December 31, 2016)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer contributions.....	\$ 16,469,879	\$ -
Member contributions.....	3,769,063	-
Member contributions - transfers from other systems.....	259,221	-
Retirement benefits - 3(8)c contributions from other systems.....	318,157	-
Private donations.....	-	885,572
Total contributions.....	20,816,320	885,572
Net investment income (loss):		
Net change in fair value of investments.....	11,823,410	-
Investment income.....	2,456,567	88,910
Total investment income (loss).....	14,279,977	88,910
Less: investment expense.....	(1,593,081)	-
Net investment income (loss).....	12,686,896	88,910
Intergovernmental.....	261,489	-
TOTAL ADDITIONS.....	33,764,705	974,482
DEDUCTIONS:		
Administration.....	472,465	-
Member contributions - transfers to other systems.....	546,755	-
Retirement benefits - 3(8)c contributions to other systems.....	670,855	-
Retirement benefits and refunds.....	24,860,568	-
Educational scholarships.....	-	208,718
TOTAL DEDUCTIONS.....	26,550,643	208,718
CHANGE IN NET POSITION.....	7,214,062	765,764
NET POSITION AT BEGINNING OF YEAR.....	171,397,093	4,509,890
NET POSITION AT END OF YEAR.....	\$ 178,611,155	\$ 5,275,654

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and City Council (Council). As required by GAAP, these basic financial statements present the government and its component units, entities for which the City is considered to be financially accountable.

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (primary government) and its component units. Two entities have been included as component units in the reporting entity, because of the significance of their operational and/or financial relationship with the City.

Component Unit Presented as a Fiduciary Fund – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the City and the component unit.

The Haverhill Contributory Retirement System (System) was established to provide retirement benefits to City employees, Whittier Regional Vocational Technical High School employees, the Haverhill Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System did not issue a separate audited financial statement. The System issues a publicly available un-audited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 4 Summer Street, Haverhill, Massachusetts 01830.

Joint Ventures

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

The City has entered into a joint venture with the City of Newburyport and the Towns of Amesbury, Georgetown, Groveland, Ipswich, Merrimac, Newbury, Rowley, Salisbury, and West Newbury to pool resources and share the costs, risks and rewards of providing vocational education through the Whittier Regional Vocational Technical High School. The City's assessment for 2017 was \$7,456,139. Stand-alone financial statements for the year ended June 30, 2017, are available at Whittier Regional Vocational Technical High School, 115 Amesbury Line Road, Haverhill, Massachusetts 01830.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

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

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows or resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

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

Fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions restricted to meeting the capital requirements of a particular function or segment.

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund. Stabilization fund is also classified as part of the general fund.

The *Hunking Middle School fund* is used to account for activity associated with the construction of the new middle school.

The *Chapter 90 fund* is used to account for roadway construction and improvements.

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

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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

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

The City's proprietary funds include the water and sewer enterprise funds which are used to account for the water and sewer activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governments units. This fund is used to account for risk financing activities related to employees' health insurance. The City changed to premium based health insurance plans in 2016 and this fund was substantially closed in 2017.

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

The following fiduciary fund types are reported:

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

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

The *agency fund* is used to account for assets held in a purely custodial capacity.

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

E. Fair Value Measurements

The City reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the City's financial instruments, see Note 2 – Cash and Investments.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes, Tax Liens and Tax Foreclosures

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 Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are imposed in October of each year on delinquent properties and are recorded as receivables in the year they are processed. Real estate tax liens may be subject to foreclosure if the tax liens are not paid in accordance with the period required by the law (M.G.L. Ch.60, §50). Foreclosure proceedings are processed by the Treasurer or other tax lien custodian. Foreclosed properties can then be sold through advertised public auction or held for use by the City.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle and Other Excise Taxes

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

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and sewer fees and liens are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of police detail receivables that are recorded as receivables in the year that the details are completed. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

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

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

G. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

H. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, building improvements, vehicles, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets; donated works of art, historical treasures and similar assets; and capital assets received in service concession arrangements are recorded at acquisition value. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$50,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-40
Buildings.....	20-40
Building improvements.....	20
Vehicles.....	5-10
Machinery and equipment.....	5-15
Infrastructure.....	10-50

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

Governmental Fund Financial Statements

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

I. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has reported deferred outflows of resources related to pensions in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has reported deferred inflows of resources related to pensions in this category.

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The City has reported unavailable revenues from property taxes as deferred inflows of resources in this category.

J. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

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

Fund Financial Statements

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

L. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

Net position reported as "net investment in capital assets" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Gifts and grants” represents restrictions placed on assets from outside parties and consists primarily of state and federal grants.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. A vote of the City Council is the highest level of decision making authority that can commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Council has by resolution authorized the City Auditor to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City’s spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

M. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Governmental Fund Financial Statements

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

N. Investment Income

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

Investment income derived from the proprietary funds is retained by the proprietary funds.

O. Pensions

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 both the Haverhill Contributory Retirement System and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

Q. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets

and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the year. Actual results could vary from estimates that were used.

R. Total Column

Government-Wide Financial Statements

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

Fund Financial Statements

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

S. Appropriation and Fund Deficits

Several individual fund deficits exist at June 30, 2017, in the special revenue and capital project funds. These deficits will be funded by grants, bond proceeds, departmental revenues and available fund balance.

NOTE 2 - CASH AND INVESTMENTS

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

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth. In addition, there are various restrictions limiting the amount and length of deposits and investments.

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

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of deposits totaled \$49,497,113 and the bank balance totaled \$51,940,535. Of the bank balance, \$3,250,000 was covered by Federal Depository Insurance, \$6,419,121 was covered by the Share Insurance Fund, \$35,758,673 was covered by Depositors Insurance Fund, and \$6,512,741 was uninsured and uncollateralized.

At December 31, 2016, the carrying amount of deposits for the System totaled \$648,737 and the bank balance totaled \$947,741. All of the bank balance was covered by Federal Depository Insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City's investments subject to custodial credit risk include \$1,409,727 in government agencies, \$1,408,027 in government sponsored enterprises, \$665,157 in corporate bonds and \$1,356,870 in equity securities, which have custodial credit risk exposure totaling \$4,839,781 because the related securities are uninsured, unregistered and held by the counterparty. The City does not have an investment policy for custodial credit risk.

Interest Rate Risk

The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The System follows PRIM policies for interest rate risk.

As of June 30, 2017, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1 to 5	6 to 10
<u>Debt Securities</u>				
Government Sponsored Enterprises.....	\$ 1,408,027	\$ 77,287	\$ 1,228,143	\$ 102,597
Corporate Bonds.....	665,157	-	615,393	49,764
U.S. Government Agencies.....	1,409,727	177,558	929,866	302,303
Fixed Income Mutual Funds.....	253,533	-	-	253,533
Total Debt Securities.....	3,736,444	\$ <u>254,845</u>	\$ <u>2,773,402</u>	\$ <u>708,197</u>
<u>Other Investments</u>				
Equity Securities.....	1,356,870			
Equity Mutual Funds.....	175,721			
Money Market Mutual Funds.....	1,158,105			
Total Investments.....	\$ <u>6,427,140</u>			

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .45 to 22.60 years.

As of December 31, 2016, the System had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1 to 5	6 to 10
<u>Debt Securities</u>				
Pooled domestic fixed income funds.....	\$ 29,155,682	\$ -	\$ -	\$ <u>29,155,682</u>
<u>Other Investments</u>				
PRIT.....	61,643,719			
Money market mutual funds.....	2,722,273			
Equity Securities.....	36,026,993			
Pooled domestic equity funds.....	13,977,415			
Pooled international equity funds.....	7,541,090			
Pooled alternative investments.....	4,220,327			
Pooled real estate funds.....	22,800,264			
Total Investments.....	\$ <u>178,087,763</u>			

Credit Risk

The City has not adopted a formal policy related to credit risk. As of June 30, 2017, Standard & Poor’s Investors Service rated the City’s investments as follows:

Investment Type	Fair Value	Quality Ratings		
		AA	A	BBB
Government Sponsored				
Enterprises.....	\$ 1,408,027	\$ 1,408,027	\$ -	\$ -
Corporate Bonds.....	665,157	-	128,612	536,545
Fixed Income Mutual Funds...	253,533	-	-	253,533
Total.....	\$ <u>2,326,717</u>	\$ <u>1,408,027</u>	\$ <u>128,612</u>	\$ <u>790,078</u>

The City’s investments in money market mutual funds are unrated.

The System has not adopted a formal policy related to credit risk. As of December 31, 2016, \$6,998,404 and \$22,157,282 of the System’s investment in pooled domestic fixed income funds were rated B and AA, respectively. The System’s investments in PRIT and money market mutual funds are unrated.

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer. The City did not have any investments in any one issuer exceeding 5 percent of their total investments.

The System follows PRIM policies for concentration of credit risk. The System did not have any investments in any one issuer exceeding 5 percent of their total investments.

Fair Market Value of Investments

The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City’s mission, the City determines that the disclosures related to these investments only need to be disaggregated by major type. The City chooses a tabular format for disclosing the levels within the fair value hierarchy.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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 City has the following recurring fair value measurements as of June 30, 2017:

Investment Type	6/30/17	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities:				
Government Sponsored				
Enterprises.....	\$ 1,408,027	\$ 1,408,027	\$ -	\$ -
Corporate bonds.....	665,157	-	665,157	-
U.S. Government Agencies.....	1,409,727	1,409,727	-	-
Fixed income mutual funds.....	253,533	253,533	-	-
Total debt securities.....	3,736,444	3,071,287	665,157	-
Other investments:				
Equity securities.....	1,356,870	1,356,870	-	-
Equity mutual funds.....	175,721	175,721	-	-
Money market mutual funds.....	1,158,105	1,158,105	-	-
Total other investments.....	2,690,696	2,690,696	-	-
Total investments measured at fair value.....	\$ 6,427,140	\$ 5,761,983	\$ 665,157	\$ -

Government sponsored enterprises, U.S. government agencies, fixed income mutual funds, equity securities, equity mutual funds and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The retiree pension defined benefit plan holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the System's activities, the System shows greater disaggregation in its disclosures. The System chooses a tabular format for disclosing the levels within the fair value hierarchy.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System has the following recurring fair value measurements as of December 31, 2016:

Investment Type	12/31/16	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
<u>Debt Securities:</u>				
Pooled domestic fixed income funds.....	\$ 29,155,682	\$ 29,155,682	\$ -	\$ -
<u>Other investments:</u>				
Money market mutual funds.....	2,722,273	2,722,273	-	-
Equity Securities.....	36,026,993	36,026,993	-	-
Pooled domestic equity funds.....	13,977,415	13,977,415	-	-
Pooled international equity funds.....	7,541,090	7,541,090	-	-
Pooled alternative investments.....	4,220,327	-	-	4,220,327
Pooled real estate funds.....	22,800,264	-	-	22,800,264
Total other investments.....	87,288,362	60,267,771	-	27,020,591
Total investments measured at fair value.....	116,444,044	\$ 89,423,453	\$ -	\$ 27,020,591
Investments measured at the net asset value (NAV):				
PRIT.....	61,643,719			
Total investments.....	\$ 178,087,763			

Pooled domestic fixed income funds, money market mutual funds, equity securities, pooled domestic equity funds and pooled international equity funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Pooled alternative investments and pooled real estate funds classified in level 3 are valued using either a discounted cash flow or market comparable company’s technique.

PRIT Investments are valued using the net asset value (NAV) method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool’s shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

NOTE 3 - RECEIVABLES

At June 30, 2017, receivables for the individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,896,938	\$ (91,730)	\$ 1,805,208
Real estate tax deferrals.....	55,396	-	55,396
Tax liens.....	2,301,616	-	2,301,616
Motor vehicle and other excise taxes.....	1,896,140	(710,735)	1,185,405
Departmental and other.....	1,212,690	-	1,212,690
Intergovernmental.....	9,538,225	-	9,538,225
 Total.....	 <u>\$ 16,901,005</u>	 <u>\$ (802,465)</u>	 <u>\$ 16,098,540</u>

At June 30, 2017, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
User fees.....	\$ 4,433,271	\$ -	\$ 4,433,271
Departmental and other.....	645,007	-	645,007
Intergovernmental.....	506,565	-	506,565
 Total.....	 <u>\$ 5,584,843</u>	 <u>\$ -</u>	 <u>\$ 5,584,843</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

COMPONENTS OF DEFERRED REVENUE

	General Fund	Other Governmental Funds	Total
<u>Asset type:</u>			
Real estate and personal property taxes.....	\$ 1,068,209	\$ -	\$ 1,068,209
Real estate tax deferrals.....	55,396	-	55,396
Tax liens.....	2,301,616	-	2,301,616
Motor vehicle and other excise taxes.....	1,185,405	-	1,185,405
Departmental and other.....	1,212,690	-	1,212,690
Intergovernmental.....	1,765,722	3,537,365	5,303,087
Tax foreclosures.....	786,055	-	786,055
 Total.....	 <u>\$ 8,375,093</u>	 <u>\$ 3,537,365</u>	 <u>\$ 11,912,458</u>

NOTE 4 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,126,880	\$ -	\$ -	\$ 10,126,880
Construction in progress.....	59,573,906	-	(59,573,906)	-
Total capital assets not being depreciated.....	<u>69,700,786</u>	<u>-</u>	<u>(59,573,906)</u>	<u>10,126,880</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	125,752,063	59,948,165	-	185,700,228
Improvements.....	5,363,930	1,325,492	-	6,689,422
Equipment.....	1,610,704	682,323	-	2,293,027
Vehicles.....	5,517,377	595,266	-	6,112,643
Infrastructure.....	145,024,139	24,262,004	-	169,286,143
Total capital assets being depreciated.....	<u>283,268,213</u>	<u>86,813,250</u>	<u>-</u>	<u>370,081,463</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(55,050,049)	(3,220,686)	-	(58,270,735)
Improvements.....	(3,828,105)	(272,215)	-	(4,100,320)
Equipment.....	(1,313,687)	(86,637)	-	(1,400,324)
Vehicles.....	(4,445,191)	(139,084)	-	(4,584,275)
Infrastructure.....	(82,031,698)	(3,413,918)	-	(85,445,616)
Total accumulated depreciation.....	<u>(146,668,730)</u>	<u>(7,132,540)</u>	<u>-</u>	<u>(153,801,270)</u>
Total capital assets being depreciated, net.....	<u>136,599,483</u>	<u>79,680,710</u>	<u>-</u>	<u>216,280,193</u>
Total governmental activities capital assets, net.....	<u>\$ 206,300,269</u>	<u>\$ 79,680,710</u>	<u>\$ (59,573,906)</u>	<u>\$ 226,407,073</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Water enterprise activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,054,853	\$ 200,000	\$ -	\$ 1,254,853
<u>Capital assets being depreciated:</u>				
Buildings.....	37,808	-	-	37,808
Improvements.....	298,036	1,167,962	-	1,465,998
Equipment.....	12,939,365	-	-	12,939,365
Vehicles.....	700,437	-	-	700,437
Infrastructure.....	31,816,560	550,638	-	32,367,198
Total capital assets being depreciated.....	45,792,206	1,718,600	-	47,510,806
<u>Less accumulated depreciation for:</u>				
Buildings.....	(34,341)	(408)	-	(34,749)
Improvements.....	(298,036)	(14,600)	-	(312,636)
Equipment.....	(9,204,592)	(264,544)	-	(9,469,136)
Vehicles.....	(634,482)	(6,970)	-	(641,452)
Infrastructure.....	(15,505,766)	(625,926)	-	(16,131,692)
Total accumulated depreciation.....	(25,677,217)	(912,448)	-	(26,589,665)
Total capital assets being depreciated, net.....	20,114,989	806,152	-	20,921,141
Total water enterprise capital assets, net.....	\$ 21,169,842	\$ 1,006,152	\$ -	\$ 22,175,994

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer enterprise activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 517,002	\$ -	\$ -	\$ 517,002
Construction in Progress.....	7,609,209	-	(7,609,209)	-
Total capital assets not being depreciated.....	<u>8,126,211</u>	<u>-</u>	<u>(7,609,209)</u>	<u>517,002</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	133,912	-	-	133,912
Improvements.....	21,721	508,022	-	529,743
Equipment.....	20,139,222	-	-	20,139,222
Vehicles.....	269,307	-	-	269,307
Infrastructure.....	56,686,298	10,376,997	-	67,063,295
Total capital assets being depreciated.....	<u>77,250,460</u>	<u>10,885,019</u>	<u>-</u>	<u>88,135,479</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(106,284)	(2,973)	-	(109,257)
Improvements.....	(21,721)	(6,350)	-	(28,071)
Equipment.....	(9,904,376)	(873,951)	-	(10,778,327)
Vehicles.....	(237,840)	(3,200)	-	(241,040)
Infrastructure.....	(35,164,725)	(1,159,893)	-	(36,324,618)
Total accumulated depreciation.....	<u>(45,434,946)</u>	<u>(2,046,367)</u>	<u>-</u>	<u>(47,481,313)</u>
Total capital assets being depreciated, net.....	<u>31,815,514</u>	<u>8,838,652</u>	<u>-</u>	<u>40,654,166</u>
Total sewer enterprise capital assets, net.....	<u>\$ 39,941,725</u>	<u>\$ 8,838,652</u>	<u>\$ (7,609,209)</u>	<u>\$ 41,171,168</u>

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

Governmental Activities:

General government.....	\$ 210,978
Public safety.....	320,053
Education.....	2,996,852
Public works.....	3,403,631
Human services.....	<u>201,026</u>

Total depreciation expense - governmental activities..... \$ 7,132,540

Business-Type Activities:

Water.....	\$ 912,448
Sewer.....	<u>2,046,367</u>

Total depreciation expense - business-type activities..... \$ 2,958,815

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017, are summarized as follows:

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 1,066,891	\$ 1,066,891 (1)
Nonmajor Governmental Funds.....	109,969	-	109,969 (2)
Internal Service Fund.....	1,155,050	-	1,155,050 (3)
Water Enterprise Fund.....	248,521	-	248,521 (4)
Sewer Enterprise Fund.....	565,172	-	565,172 (5)
Total.....	<u>\$ 2,078,712</u>	<u>\$ 1,066,891</u>	<u>\$ 3,145,603</u>

- (1) Budgeted transfers from the general fund to School and City capital project funds and to special revenue funds for snow and ice removal and small business development.
- (2) Transfer closing out the E-rate special revenue fund to the general fund.
- (3) Budgeted transfers to close out the internal service fund to both the general fund and the general stabilization fund.
- (4) Budgeted transfer to the general fund from the water enterprise fund.
- (5) Budgeted transfer to the general fund from the sewer enterprise fund.

NOTE 6 - SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the year ended June 30, 2017, is as follows:

Type	Purpose	Interest Rate	Due Date	Balance at June 30, 2016	Issued	Redeemed	Balance at June 30, 2017
Governmental Activities:							
BAN	Municipal Purpose.....	2.00%	06/01/17	\$ 13,674,768	\$ -	\$ 13,674,768	\$ -
SAAN	State Aide Anticipation Note.....	0.90%	06/01/17	1,500,000	-	1,500,000	-
BAN	Municipal Purpose.....	2.00%	12/15/17	-	21,439,768	-	21,439,768
SAAN	State Aide Anticipation Note.....	2.00%	06/01/18	-	2,000,000	-	2,000,000
Total Governmental.....				<u>15,174,768</u>	<u>23,439,768</u>	<u>15,174,768</u>	<u>23,439,768</u>
Business-Type Activities:							
BAN**	MCWT Interim Financial Loan.....	2.00%	06/30/17	5,984,921	-	5,984,921	-
BAN**	MCWT Interim Financial Loan.....	2.00%	06/30/17	1,410,421	-	1,410,421	-
BAN**	MCWT Interim Financial Loan.....	2.00%	06/30/18	-	8,231,770	-	8,231,770
BAN**	MCWT Interim Financial Loan.....	2.00%	06/30/18	-	2,710,553	-	2,710,553
Total Business-Type Activities.....				<u>7,395,342</u>	<u>10,942,323</u>	<u>7,395,342</u>	<u>10,942,323</u>
Total Short-term Debt.....				<u>\$ 22,570,110</u>	<u>\$ 34,382,091</u>	<u>\$ 22,570,110</u>	<u>\$ 34,382,091</u>

(**) The Massachusetts Clean Water Trust (MCWT) Temporary Financing relates to a program in which the City is able to rehabilitate, expand, or upgrade the existing sewer infrastructure network. The City has been approved for construction costs up to \$11,931,090 at a market interest rate of 2%. The City entered into financing agreements where the City is allowed two years to expend funds against the interim loan. After the two years, the City will determine the final construction costs and a permanent debt schedule will be agreed upon and payable over 20 years. During the temporary status of the loan the City is only liable for the payment of interest costs.

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The City operated Hale Hospital until financial difficulties required the Hospital to be sold in 2001 with a significant loss. The Commonwealth enacted Chapter 387 of the Acts of 2000 for the purpose of allowing the City to issue State Qualified Deficit Financing Bond Anticipation Notes up to \$30 million. The legislation allows the City to amortize the deficit over a 20 year period ending no later than 2023. Therefore the City recorded the initial note issuance as long-term debt. Pursuant to this legislation the City appropriates a principal paydown amount each year in the general fund and issues new notes to pay off the remaining outstanding principal balance. The new notes are a current refunding since the City has reported the series of one year notes as long-term debt. There is no gain or loss on the current refunding. At June 30, 2017, there are two notes outstanding for a total of \$11,612,500. In September 2017, the City issued a \$7,000,000 hospital current refunding note, due on September 1, 2018, where the proceeds were used to redeem the \$7,000,000 note due on September 1, 2017.

Details related to the outstanding indebtedness at June 30, 2017, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
MCWT.....	2033	\$ 12,121,424	0.00 - 2.00%	\$ 8,844,507	\$ -	\$ 556,789	\$ 8,287,718
Municipal purpose bonds of 2006.....	2017	17,808,260	3.80 - 5.30%	701,100	-	701,100	-
Municipal purpose bonds of 2007.....	2017	1,165,000	4.00%	110,000	-	110,000	-
Municipal purpose bonds of 2007 - refunding.....	2019	11,360,500	4.00 - 4.96%	3,725,000	-	1,210,000	2,515,000
Municipal purpose bonds of 2010.....	2029	10,027,261	2.80 - 3.80%	6,073,000	-	657,000	5,416,000
Hospital restructuring bonds of 2011.....	2022	9,680,000	4.30%	6,300,000	-	940,000	5,360,000
Municipal purpose bonds of 2012.....	2032	2,762,700	4.03 - 4.33%	2,230,200	-	155,200	2,075,000
Municipal purpose bonds of 2014.....	2034	3,165,000	0.70 - 3.48%	2,545,000	-	295,000	2,250,000
Municipal purpose bonds of 2015.....	2045	11,197,000	3.60 - 4.00%	11,175,000	-	20,000	11,155,000
Municipal purpose bonds of 2016.....	2041	1,677,000	2.00 - 4.00%	1,677,000	-	42,000	1,635,000
Municipal purpose bonds of 2017.....	2042	2,215,000	2.00 - 4.00%	-	2,215,000	-	2,215,000
Sub-total of long-term governmental bonds.....				43,380,807	2,215,000	4,687,089	40,908,718
Hospital deficit refunding note.....	2017	3,000,000	0.80%	3,000,000	-	3,000,000	-
Hospital deficit refunding note.....	2017	3,362,500	2.00%	3,362,500	-	3,362,500	-
Hospital deficit refunding note.....	2017	7,000,000	1.10%	7,000,000	-	7,000,000	-
Hospital deficit refunding note.....	2018	4,612,500	1.75%	-	4,612,500	-	4,612,500
Hospital deficit refunding note.....	2018	7,000,000	2.25%	-	7,000,000	-	7,000,000
Sub-total of Hospital Deficit long-term notes.....				13,362,500	11,612,500	13,362,500	11,612,500
Total governmental bonds payable.....				\$ 56,743,307	\$ 13,827,500	\$ 18,049,589	\$ 52,521,218

Debt service requirements for principal and interest for governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2018.....	\$ 16,111,565	\$ 1,867,482	\$ 17,979,047
2019.....	4,441,569	1,589,464	6,031,033
2020.....	2,947,235	1,336,153	4,283,388
2021.....	3,076,611	1,145,632	4,222,243
2022.....	3,134,610	955,638	4,090,248
2023.....	1,872,781	789,574	2,662,355
2024.....	1,791,126	650,382	2,441,508
2025.....	1,806,652	588,626	2,395,278
2026.....	1,775,361	537,744	2,313,105
2027.....	1,370,258	485,504	1,855,762
2028.....	1,279,367	441,699	1,721,066
2029.....	1,256,650	408,320	1,664,970
2030.....	1,211,132	368,223	1,579,355
2031.....	1,185,816	334,096	1,519,912
2032.....	1,084,995	303,375	1,388,370
2033.....	963,364	274,416	1,237,780
2034.....	811,106	247,061	1,058,167
2035.....	761,020	224,033	985,053
2036.....	545,000	201,906	746,906
2037.....	565,000	183,394	748,394
2038.....	570,000	164,206	734,206
2039.....	585,000	144,819	729,819
2040.....	605,000	124,350	729,350
2041.....	625,000	102,613	727,613
2042.....	550,000	80,164	630,164
2043.....	515,000	59,813	574,813
2044.....	530,000	40,500	570,500
2045.....	550,000	20,622	570,622
Total.....	\$ 52,521,218	\$ 13,669,809	\$ 66,191,027

The Commonwealth has approved school construction assistance for the City. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During 2017, \$868,861 of such assistance was received; \$1,737,722 will be received in future years. Of this amount, \$98,968 represents reimbursement of long-term interest costs, and \$1,638,754 represents reimbursement of approved construction costs. Accordingly, a \$1,638,754 intergovernmental receivable and corresponding deferred inflow of resources - unavailable revenue has been reported in the governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under this program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2017, the City has received \$34,102,762 of capital grant reimbursements from the MSBA which is equal to 78.93% of approved construction costs incurred to date for the new Hunking Middle School. The City anticipates receiving the final reimbursement in 2018.

The governmental funds are scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$126,968 and interest costs for \$68,754. Thus, net MCWT loan repayments, including interest, are scheduled to be \$403,114. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The 2017 principal and interest subsidies totaled \$14,248 and \$19,011, respectively.

Bonds Payable Schedule – Water Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
MCWT.....	2033	\$ 2,786,681	2.00%	\$ 2,397,920	\$ -	\$ 136,795	\$ 2,261,125
Municipal purpose bonds of 2006.....	2017	75,700	5.12%	4,800	-	4,800	-
Municipal purpose bonds of 2007 - refunding.....	2019	3,012,500	4.00%	1,015,000	-	320,000	695,000
Municipal purpose bonds of 2012.....	2023	1,974,000	4.02%	1,156,000	-	226,000	930,000
Municipal purpose bonds of 2014.....	2023	1,600,000	1.78%	1,220,000	-	190,000	1,030,000
Total water enterprise bonds payable.....				\$ 5,793,720	\$ -	\$ 877,595	\$ 4,916,125

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

Year	Principal	Interest	Total
2018.....	\$ 904,683	\$ 130,510	\$ 1,035,193
2019.....	907,632	98,492	1,006,124
2020.....	565,645	66,890	632,535
2021.....	463,721	51,591	515,312
2022.....	376,861	41,404	418,265
2023.....	320,068	32,504	352,572
2024.....	158,343	26,916	185,259
2025.....	161,687	23,736	185,423
2026.....	165,102	20,489	185,591
2027.....	168,589	17,174	185,763
2028.....	172,150	13,788	185,938
2029.....	105,636	11,033	116,669
2030.....	107,932	8,920	116,852
2031.....	110,277	6,762	117,039
2032.....	112,675	4,556	117,231
2033.....	115,124	2,301	117,425
Total.....	\$ 4,916,125	\$ 557,066	\$ 5,473,191

Bonds Payable Schedule – Sewer Enterprise Fund

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Beginning Balance	Issued	Redeemed	Ending Balance
MCWT.....	2035	\$ 23,219,765	2.00%	\$ 15,688,736	\$ -	\$ 930,771	\$ 14,757,965
Municipal purpose bonds of 2006.....	2017	407,278	5.15 - 5.23%	34,100	-	34,100	-
Municipal purpose bonds of 2010.....	2029	187,800	3.90%	132,000	-	8,000	124,000
Municipal purpose bonds of 2012.....	2023	1,244,300	3.93 - 4.04%	833,800	-	123,800	710,000
Municipal purpose bonds of 2016.....	2036	1,081,000	2.00 - 4.00%	1,081,000	-	36,000	1,045,000
Municipal purpose bonds of 2017.....	2042	343,000	2.00 - 4.00%	-	343,000	-	343,000
Total sewer enterprise bonds payable.....				\$ 17,769,636	\$ 343,000	\$ 1,132,671	\$ 16,979,965

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

Year	Principal	Interest	Total
2018.....	\$ 1,136,830	\$ 624,448	\$ 1,761,278
2019.....	1,158,522	587,243	1,745,765
2020.....	1,158,811	543,279	1,702,090
2021.....	1,193,979	502,006	1,695,985
2022.....	1,188,726	462,188	1,650,914
2023.....	1,213,282	421,171	1,634,453
2024.....	1,034,499	381,965	1,416,464
2025.....	1,008,966	347,682	1,356,648
2026.....	1,044,222	312,504	1,356,726
2027.....	1,068,683	270,678	1,339,361
2028.....	808,966	242,687	1,051,653
2029.....	709,023	211,494	920,517
2030.....	716,477	180,807	897,284
2031.....	738,979	149,527	888,506
2032.....	635,000	118,513	753,513
2033.....	655,000	87,563	742,563
2034.....	680,000	55,575	735,575
2035.....	690,000	22,688	712,688
2036.....	80,000	4,673	84,673
2037.....	10,000	1,950	11,950
2038.....	10,000	1,625	11,625
2039.....	10,000	1,300	11,300
2040.....	10,000	975	10,975
2041.....	10,000	650	10,650
2042.....	10,000	325	10,325
Total.....	\$ 16,979,965	\$ 5,533,516	\$ 22,513,481

The sewer enterprise fund is scheduled to be subsidized by the MCWT on a periodic basis for principal in the amount of \$506,565 and interest costs for \$1,831,456. Thus, net MCWT loan repayments, including interest, are scheduled to be \$11,074,974. The principal subsidies are guaranteed and therefore a \$506,565 intergovernmental receivable has been reported in the proprietary fund financial statements. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The 2017 principal and interest subsidies totaled \$27,439 and \$197,889, respectively.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2017, the City had the following authorized and unissued debt:

Purpose	Amount
School Remolding.....	\$ 2,680,000
Landfill.....	9,657,212
MCWT CW-00-54A (Landfill).....	4,995
Departmental Equipment.....	115,000
Parking Deck.....	301
High School Renovation.....	227,488
Park Dept Building Repairs.....	53,000
School Books.....	125,325
Green School Project.....	2,174,768
Flood Wall.....	663,868
Fire Pumper Truck.....	70
School Energy Project.....	2,500,000
Hunking School Feasibility Study.....	20
Hunking School.....	20,692,014
Dog Pound Repairs/Replacement.....	150,000
CWSRF-143/ MCWT CW-98-90.....	50,000
Sewer.....	1,520,000
Planning CSO.....	200,000
CSO Project MCWT-CW-03-34, 04-09.....	969,063
Sewer MCWT CW-05-17.....	321,426
Sewer Lake Street.....	444
Wastewater Odor.....	8,340,000
Wastewater Odor.....	2,200,000
CSO System Improvements.....	1,176,720
Water Mains.....	3,088,000
Water Treatment Plant.....	37,484,000
Total.....	\$ <u>94,393,714</u>

Changes in Long-term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Bonds payable.....	\$ 56,743,307	\$ 13,827,500	\$ (18,049,589)	\$ 52,521,218	\$ 16,111,565
Compensated absences.....	1,907,000	1,323,000	(1,128,000)	2,102,000	1,321,000
Workers' compensation.....	439,000	494,000	(455,000)	478,000	67,000
Other postemployment benefits.....	57,554,000	20,057,000	(10,492,000)	67,119,000	-
Landfill.....	15,100,000	133,000	(33,000)	15,200,000	87,000
Net pension liability.....	146,532,126	45,581,111	(31,478,166)	160,635,071	-
Total.....	<u>\$ 278,275,433</u>	<u>\$ 81,415,611</u>	<u>\$ (61,635,755)</u>	<u>\$ 298,055,289</u>	<u>\$ 17,586,565</u>
Business-type Activities:					
Bonds payable.....	\$ 23,563,356	\$ 343,000	\$ (2,010,266)	\$ 21,896,090	\$ 2,041,513
Compensated absences.....	102,000	101,000	(102,000)	101,000	101,000
Other postemployment benefits.....	1,907,000	659,000	(347,000)	2,219,000	-
Net pension liability.....	8,319,385	2,053,394	(1,483,264)	8,889,515	-
Total.....	<u>\$ 33,891,741</u>	<u>\$ 3,156,394</u>	<u>\$ (3,942,530)</u>	<u>\$ 33,105,605</u>	<u>\$ 2,142,513</u>

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

GASB #54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB #54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City’s highest level of decision making authority is City Council.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2017, the governmental fund balances consisted of the following:

	<u>General</u>	<u>Hunking Middle School</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances				
Restricted for:				
City federal & state grants..... \$	-	-	932,431	932,431
School federal & state grants.....	-	-	1,436,155	1,436,155
School lunch.....	-	-	659,601	659,601
City revolving funds.....	-	-	267,945	267,945
School revolving funds.....	-	-	1,052,390	1,052,390
City gift funds.....	-	-	190,932	190,932
School gift funds.....	-	-	94,220	94,220
Receipts reserved for appropriation.....	-	-	640,054	640,054
School capital projects.....	-	-	30,388	30,388
Other capital projects.....	-	-	1,296,039	1,296,039
Committed to:				
School stabilization fund.....	131,182	-	-	131,182
OPEB stabilization fund.....	237,853	-	-	237,853
Assigned to:				
General government.....	140,108	-	-	140,108
Public safety.....	527,758	-	-	527,758
Education.....	709,065	-	-	709,065
Public works.....	624,706	-	-	624,706
Community development.....	1,912	-	-	1,912
Human services.....	63,205	-	-	63,205
Pension benefits.....	65,000	-	-	65,000
Employee benefits.....	19,394	-	-	19,394
Salary reserve.....	311,600	-	-	311,600
Subsequent years' expenditures.....	2,700,000	-	-	2,700,000
Unassigned.....	<u>18,447,654</u>	<u>(13,291,539)</u>	<u>(2,124,962)</u>	<u>3,031,153</u>
Total Fund Balances..... \$	<u>23,979,437</u>	<u>(13,291,539)</u>	<u>4,475,193</u>	<u>15,163,091</u>

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

At year end, the general stabilization fund totaled \$5,061,407 and is reported as unassigned fund balance within the general fund. The school stabilization fund totaled \$131,182 and the OPEB stabilization fund totaled \$237,853 both of which are reported as committed fund balance within the general fund.

NOTE 9 - RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City administers various premium-based health care plans, workers compensation and other insurance for its employees and retirees.

The City participates in premium-based health care plans for its active employees and retirees. The City is self-insured for its workers' compensation and unemployment compensation activities. Settlements have not

exceeded coverage for each of the past three years. The incurred but not reported liability related to unemployment claims is immaterial and therefore not recorded.

Workers' Compensation

The City participates in a self-insured workers' compensation plan for which the City employs a third party administrator. Workers' compensation claims are administered by the third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2017, the amount of the liability for workers' compensation claims totaled \$478,000. Changes in the reported liability since July 1, 2015, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End	Current Portion
Year 2016.....	\$ 377,000	\$ 544,000	\$ (482,000)	\$ 439,000	\$ 61,000
Year 2017.....	439,000	494,000	(455,000)	478,000	67,000

NOTE 10 - PENSION PLAN

Plan Descriptions

The City is a member of the Haverhill Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 3 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary fund financial statements.

The City is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the 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 the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to the MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2016. The City's portion of the collective pension expense, contributed by the Commonwealth, of \$15,687,221 is reported in the general fund as intergovernmental revenue and pension benefits in the current year. The portion of the Commonwealth's collective net pension liability associated with the City is \$153,786,397 as of the measurement date.

Benefits Provided

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service. There were no changes in benefit terms that affected the measurement of the total pension liability at December 31, 2016.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

At December 31, 2016, the System's membership consists of the following:

Active members.....	928
Inactive members.....	201
Disabled members.....	97
Retirees and beneficiaries currently receiving benefits.....	<u>975</u>
Total.....	<u><u>2,201</u></u>

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2016, was \$16,511,360, 41.2% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution was \$15,685,281, which was \$39,490 less than the City's actual contribution.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2017, were as follows:

Total pension liability.....	\$	356,397,449
The pension plan's fiduciary net position.....		<u>(178,611,155)</u>
The net pension liability.....	\$	<u><u>177,786,294</u></u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....		50.12%

At June 30, 2017, the City reported a liability of \$169,524,586 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. 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 members, except for the portion related to early retirement incentives (ERI), which is allocated to individual employers in proportion with the amount of ERI payment made as part of the fiscal 2017 contribution. At December 31, 2016, the City's proportion was 95.35%, which equaled its proportion measured at December 31, 2015. Changes of assumptions in the January 1, 2016 valuation include a reduction of the discount rate from 8.00% to 7.50%, the ultimate salary rate was reduced from 3.75% to 3.00%, and the mortality assumption is based upon the RP-2000 table with Generational Mortality projected with scale BB with a base year of 2009. The previous mortality assumption used the RP-2000 table projected 19 years with scale BB.

Pension Expense

For the year ended June 30, 2017, the City recognized pension expense of \$20,529,267. At June 30, 2017, the City reported deferred outflows of resources related to pensions of \$23,865,625, from the net difference between projected and actual investment earnings on pension plan investments, changes of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions. The City also reported deferred inflows of resources related to pensions of \$609,447 from changes in proportion and differences between employer contributions and proportionate share of contributions.

The balances of deferred outflows and inflows at June 30, 2017, consist of the following:

<u>Deferred Category</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Total</u>
Differences between expected and actual experience....	\$ 2,026,318	\$ -	\$ 2,026,318
Difference between projected and actual earnings.....	10,115,273	-	10,115,273
Changes of assumptions.....	11,521,512	-	11,521,512
Changes in proportion.....	<u>202,522</u>	<u>(609,447)</u>	<u>(406,925)</u>
Total deferred outflows/(inflows) of resources.....	\$ <u><u>23,865,625</u></u>	\$ <u><u>(609,447)</u></u>	\$ <u><u>23,256,178</u></u>

The deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	<u>Deferred (Inflows)/Outflows</u>
2018.....	\$ 7,253,403
2019.....	7,253,403
2020.....	7,230,764
2021.....	<u>1,518,608</u>
Total.....	<u>\$ 23,256,178</u>

Actuarial Assumptions - The total pension liability in the January 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2016:

Valuation date.....	January 1, 2016
Actuarial cost method.....	Entry age normal
Amortization method.....	3.8% Amortization Increase.
Remaining amortization period.....	15 years for the fresh start base.
Asset valuation method.....	Market value adjusted by accounts payable and receivables adjusted to phase in over 4 years investment gains or losses above or below the expected rate of return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.
Projected salary increases.....	3.00% steps for the first four years of service. Ultimate rate: 3.75% reduced to 3.00% for 2016 - 2017.
Cost of living adjustments.....	3.00% of the first \$12,000 of a member's retirement allowance is assumed to be granted annually.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Rates of disability.....	Varies based upon age for general employees, police and fire employees.
Mortality Rates:	
Pre-Retirement.....	The RP-2000 table with General Mortality, projected with scale BB with a base year of 2009 (sex distinct). During employment the healthy employee mortality table is used. In-service death is assumed to be 55% accidental for group 1 and 2 and 90% accidental for group 4.
Post-Retirement.....	The RP-2000 table with General Mortality, projected with scale BB with a base year of 2009 (sex distinct). Post-employment the healthy annuitant table is used. In-service death is assumed to be 55% accidental for group 1 and 2 and 90% accidental for group 4.
Disabled Retiree.....	The RP-2000 table with General Mortality, projected with scale BB with a base year of 2009 for healthy annuitants set forward by 2 years (sex distinct). Death is assumed to be due to the same cause as the disability 40% of the time.
Investment rate of return/Discount rate.....	7.50%

Investment policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan 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.

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 real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity		
U.S. Equity - Large Cap.....	8.00%	5.81%
U.S. Equity - Mid Cap.....	9.20%	6.77%
U.S. Equity - Small Cap.....	12.10%	7.74%
International Large Cap Equity.....	13.20%	5.58%
Emerging Markets Equity.....	5.80%	7.31%
Fixed Income		
Domestic Fixed Income.....	11.00%	1.91%
High Yield.....	6.00%	3.69%
Alternatives		
Real estate.....	9.00%	4.71%
Real Assets.....	8.70%	5.88%
Private Equity.....	7.00%	10.38%
Hedge Funds.....	10.00%	4.25%
	<u>100.00%</u>	

Rate of return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.62%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
The City's proportionate share of the net pension liability.....	\$ 202,220,855	\$ 169,524,586	\$ 146,144,168
The System's total net pension liability.....	\$ 212,131,113	\$ 177,786,294	\$ 153,227,031

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The City of Haverhill administers a single-employer defined benefit healthcare plan (Retiree Health Plan). The Plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. Depending on the healthcare plan selected and date of hire, the City contributes various percentages ranging from 70% to 85% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining portion of their premium costs. For life insurance, the City contributes \$5.40 per month for each retiree receiving \$5,000 of basic life insurance.

Annual OPEB Cost and Net OPEB Obligation – The City’s annual other postemployment benefit (OPEB) cost (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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 20,609,329
Interest on net OPEB obligation.....	2,378,439
Adjustment to annual required contribution.....	<u>(2,272,148)</u>
Annual OPEB cost (expense).....	20,715,620
Contributions made.....	<u>(10,838,598)</u>
Increase in net OPEB obligation.....	9,877,022
Net OPEB obligation-beginning of year.....	<u>59,460,980</u>
Net OPEB obligation-end of year.....	<u>\$ 69,338,002</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 was as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2017	\$ 20,715,620	52%	\$ 69,338,002
6/30/2016	17,446,411	52%	59,460,980
6/30/2015	16,893,785	58%	51,078,560

Funded Status and Funding Progress – As of June 30, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$307,246,145 all of which was unfunded.

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

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of 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, 2016, actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 4.0% investment return assumption, which is based on the expected yield on the assets of the City, calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend rate of 6.0% initially, graded to 4.5% over 3 years. The UAAL is being amortized using a 30 year open amortization method, with amortization payments increasing at 3.0% per year. The remaining amortization period at June 30, 2017, is 30 years.

NOTE 12 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the City to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City had operated a solid waste landfill in conjunction with Aggregate Industries (Aggregate) that ceased operations in 1996. The City and Aggregate have entered into an agreement to share the costs associated with the landfill closure and post-closure monitoring and maintenance as well as the cost of certain debt principal and interest associated with previously issued debt for landfill closure. Accordingly, a receivable has been recognized for Aggregate's share of the remaining principal payments. As of June 30, 2016, the governmental and sewer activities restated beginning net position by recognizing receivables totaling \$1,319,390 and \$696,910, respectively. As of June 30, 2017, the governmental and sewer activities recognized receivables totaling \$1,212,690 and \$645,007, respectively. The City has reflected its share of the landfill closure and post-closure costs totaling \$15.2 million, approximately 50% of the total estimated landfill closure liability at June 30, 2017, in the government-wide financial statements governmental activities. The landfill closure liability includes \$12.9 million of closure costs,

\$760,000 of postclosure maintenance costs and \$1.4 million of additional operating and maintenance costs. This amount is based on estimates of what it would cost to perform all future closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 13 - CONTINGENCIES

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* through June 30, 2017, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2017.

NOTE 14 - COMMITMENTS

The Massachusetts School Building Authority voted in October 2012 to approve the City's plans to build a new Hunking Middle School. The plan is to replace the existing middle school and build a brand new facility. The City has been approved to receive assistance from the Massachusetts School Building Authority for 78.93% of eligible construction costs. The total cost of the project will be approximately \$61.4 million, of which the City's share of projected cost is approximately \$21.4 million. Through June 30, 2017, the City has spent \$52.3 million towards the project.

NOTE 15 – TAX INCREMENT FINANCING AGREEMENTS

The City enters into tax increment financing (TIF) agreements with local businesses under Chapter 40, Section 59 of the Massachusetts General Laws. Under this section of the law, localities may grant property tax exemptions of a business' property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The exemptions may be granted to any business located within or promising to relocate to the City.

For the fiscal year ended June 30, 2017, the City exempted property taxes totaling \$436,000 under this program.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 14, 2017, which is the date the financial statements were available to be issued.

NOTE 17 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2017, the following GASB pronouncements were implemented:

- GASB Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #77, *Tax Abatement Disclosures*. The footnotes were updated to be in compliance with this pronouncement.
- GASB Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This pronouncement did not impact the basic financial statements.
- GASB Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*. This pronouncement did not impact the basic financial statements.
- GASB Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2020.
- The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in 2018.
- The GASB issued Statement #86, *Certain Debt Extinguishment Issues*, which is required to be implemented in 2018.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds..... \$	95,458,069	95,462,215	\$ 94,985,770	\$ -	(476,445)
Tax liens.....	-	-	746,147	-	746,147
Motor vehicle and other excise taxes.....	7,434,000	7,702,000	8,749,932	-	1,047,932
Penalties and interest on taxes.....	540,876	490,876	464,185	-	(26,691)
Fees and rentals.....	1,109,773	1,124,773	1,234,808	-	110,035
Payments in lieu of taxes.....	2,041,000	2,025,000	2,001,878	-	(23,122)
Licenses and permits.....	1,842,331	1,842,331	2,146,603	-	304,272
Fines and forfeitures.....	454,000	454,000	683,349	-	229,349
Intergovernmental.....	63,538,592	63,884,704	64,228,179	-	343,475
Departmental and other.....	1,957,500	1,615,500	2,286,149	-	670,649
Investment income.....	15,000	50,000	208,908	-	158,908
Miscellaneous.....	160,351	160,351	308,767	-	148,416
TOTAL REVENUES.....	174,551,492	174,811,750	178,044,675	-	3,232,925
EXPENDITURES:					
Current:					
General government.....	3,664,466	3,924,062	3,663,414	140,108	120,540
Public safety.....	21,743,177	21,961,308	21,106,206	527,758	327,344
Education.....	83,498,280	83,498,280	82,757,026	709,065	32,189
Public works.....	8,541,229	10,173,138	10,277,352	624,706	(728,920)
Community & economic development.....	1,119,037	1,135,336	1,011,203	1,912	122,221
Human services.....	2,925,581	2,979,581	2,906,461	63,205	9,915
Pension benefits.....	15,316,356	15,316,356	15,251,326	65,000	30
Employee benefits.....	25,892,002	26,044,356	25,258,269	19,394	766,693
Property and liability insurance.....	933,402	928,102	864,691	-	63,411
Salary reserve.....	965,277	311,600	-	311,600	-
State and county charges.....	5,126,358	5,358,333	5,261,443	-	96,890
Debt service:					
Principal.....	6,500,210	6,500,210	6,427,089	-	73,121
Interest.....	2,032,969	2,032,969	2,026,221	-	6,748
TOTAL EXPENDITURES.....	178,258,344	180,163,631	176,810,701	2,462,748	890,182
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(3,706,852)	(5,351,881)	1,233,974	(2,462,748)	4,123,107
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds and notes payable.....	-	-	132,398	-	132,398
Use of fund balance for prior year encumbrances.....	2,474,900	2,474,900	-	-	(2,474,900)
Budgeted use of free cash.....	2,629,089	4,056,417	-	-	(4,056,417)
Prior year deficits raised.....	(140,830)	(140,830)	-	-	140,830
Transfers in.....	813,693	1,300,550	1,300,550	-	-
Transfers out.....	(2,070,000)	(2,339,156)	(2,316,891)	-	22,265
TOTAL OTHER FINANCING SOURCES (USES).....	3,706,852	5,351,881	(883,943)	-	(6,235,824)
NET CHANGE IN FUND BALANCE.....	-	-	350,031	(2,462,748)	(2,112,717)
BUDGETARY FUND BALANCE, Beginning of year.....	17,639,008	17,639,008	17,639,008	-	-
BUDGETARY FUND BALANCE, End of year..... \$	17,639,008	17,639,008	\$ 17,989,039	\$ (2,462,748)	\$ (2,112,717)

See notes to required supplementary information.

Pension Plan Schedules – Retirement System

The Pension Plan's Schedule of Changes in the Net Pension Liability and Related Ratios presents multi-year trend information on the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

The schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
Total pension liability:			
Service cost.....	\$ 4,276,136	\$ 4,457,871	\$ 5,091,379
Interest.....	25,172,959	25,608,700	24,463,813
Changes in benefit terms.....	-	-	-
Differences between expected and actual experience.....	-	-	2,750,089
Changes in assumptions.....	-	-	15,636,834
Benefit payments, including refunds of employee contributions.....	<u>(24,393,730)</u>	<u>(23,974,413)</u>	<u>(25,274,903)</u>
Net change in total pension liability.....	5,055,365	6,092,158	22,667,212
Total pension liability, beginning.....	<u>322,582,714</u>	<u>327,638,079</u>	<u>333,730,237</u>
Total pension liability, ending (a)	<u>\$ 327,638,079</u>	<u>\$ 333,730,237</u>	<u>\$ 356,397,449</u>
Plan fiduciary net position:			
Member contributions.....	\$ 4,103,074	\$ 3,455,693	\$ 3,764,777
Employer contributions.....	14,661,848	15,869,862	16,511,360
Net investment income (loss).....	12,874,474	(3,625,996)	12,685,293
Retirement benefits and refunds.....	(24,393,730)	(23,974,413)	(25,274,903)
Administrative expenses.....	<u>(546,094)</u>	<u>(481,093)</u>	<u>(472,465)</u>
Net increase (decrease) in fiduciary net position.....	6,699,572	(8,755,947)	7,214,062
Fiduciary net position at beginning of year.....	<u>173,453,468</u>	<u>180,153,040</u>	<u>171,397,093</u>
Fiduciary net position at end of year (b)	<u>\$ 180,153,040</u>	<u>\$ 171,397,093</u>	<u>\$ 178,611,155</u>
Net pension liability - ending (a) - (b)	<u>\$ 147,485,039</u>	<u>\$ 162,333,144</u>	<u>\$ 177,786,294</u>
Plan fiduciary net position as a percentage of the total pension liability.....	54.99%	51.36%	50.12%
Covered-employee payroll.....	\$ 37,792,808	\$ 38,734,500	\$ 40,037,584
Net pension liability as a percentage of covered-employee payroll.....	390.25%	419.09%	444.05%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

See notes to required supplementary information.

SCHEDULE OF CONTRIBUTIONS
HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM

	December 31, 2014	December 31, 2015	December 31, 2016
Actuarially determined contribution.....	\$ 14,638,101	\$ 15,840,897	\$ 16,469,879
Contributions in relation to the actuarially determined contribution.....	<u>(14,638,101)</u>	<u>(15,869,862)</u>	<u>(16,511,360)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ (28,965)</u>	<u>\$ (41,481)</u>
Covered-employee payroll.....	\$ 37,792,808	\$ 38,734,500	\$ 40,037,584
Contributions as a percentage of covered- employee payroll.....	38.73%	40.97%	41.24%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURN
HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM

	December 31, 2014	December 31, 2015	December 31, 2016
Annual money-weighted rate of return, net of investment expense.....	7.62%	-1.73%	7.62%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

The annual money-weighted rate of return has been calculated by
the System's actuary.

See notes to required supplementary information.

Pension Plan Schedules – City

The Schedule of the City's Proportionate Share of the Net Pension Liability presents multi-year trend information on the City's net pension liability and related ratios.

The Schedule of City's Contributions presents multi-year trend information on the City's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the City along with related ratios.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
City's proportion of the net pension liability (asset).....	95.79%	95.39%	95.35%
City's proportionate share of the net pension liability (asset)..... \$	141,269,878	\$ 154,851,511	\$ 169,524,586
City's covered employee payroll..... \$	34,552,896	\$ 38,734,500	\$ 36,801,857
Net pension liability as a percentage of City's covered-employee payroll.....	408.85%	399.78%	460.64%
Plan fiduciary net position as a percentage of the total pension liability.....	54.99%	51.36%	50.12%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

SCHEDULE OF CITY'S CONTRIBUTIONS
HAVERTHILL CONTRIBUTORY RETIREMENT SYSTEM

	June 30, 2015	June 30, 2016	June 30, 2017
Actuarially determined contribution.....	\$ 13,990,894	\$ 15,086,263	\$ 15,685,281
Contributions in relation to the actuarially determined contribution.....	(13,990,894)	(15,113,837)	(15,724,771)
Contribution deficiency (excess).....	\$ -	\$ (27,574)	\$ (39,490)
City's covered-employee payroll.....	\$ 34,552,896	\$ 38,734,500	\$ 36,801,857
Contributions as a percentage of City covered- employee payroll.....	40.49%	39.02%	42.73%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS
OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the City; the portion of the collective pension expense as both a revenue and pension expense recognized by the City; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Fiscal Year</u>	Commonwealth's 100% Share of the Net Pension Liability Associated with the City	City's Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2017.....	\$ 153,786,397	\$ 15,687,221	52.73%
2016.....	142,197,190	11,533,458	55.38%
2015.....	111,625,445	7,755,155	61.64%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

The Schedule of Funding Progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets. The Schedule of Employer Contributions compares, over time, the annual required contribution with the actual contributions made.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2016	\$ -	\$ 307,246,145	\$ 307,246,145	0%	\$ 76,735,413	400%
6/30/2014	-	270,890,482	270,890,482	0%	86,898,971	312%
6/30/2012	-	323,004,713	323,004,713	0%	80,000,000	404%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2017	\$ 20,609,329	\$ 10,838,598	53%
6/30/2016	17,355,106	9,063,991	52%
6/30/2015	16,815,241	9,754,622	58%
6/30/2014	16,287,334	12,109,295	74%
6/30/2013	20,168,404	11,934,942	59%
6/30/2012	19,529,707	11,131,024	57%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Valuation date.....	June 30, 2016
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	30 year open amortization method with payments increasing at 3.0% per year
Remaining amortization period.....	30 years as of June 30, 2016

Actuarial Assumptions:

Investment rate of return.....	4.0%, pay-as-you-go
Medical cost trend rate.....	6.0% graded to 4.5% over 3 years

Plan Membership:

Current retirees, beneficiaries, and dependents....	1,858
Current active members.....	<u>1,422</u>
Total.....	<u><u>3,280</u></u>

See notes to required supplementary information.

NOTE A - BUDGETARY BASIS OF ACCOUNTING

1. Budgetary Information

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

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Council approval via a supplemental appropriation or Council order.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote of the Council.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2017 approved budget authorized \$180.5 million in appropriations, carryforwards, and other amounts to be raised. During 2017, the Council also approved supplemental appropriations totaling \$2.2 million. The change is primarily due to increases in appropriations for public works, general government, public safety, employee benefits, state and county charges and a decrease in salary reserves.

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

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2017, is presented below:

Net change in fund balance - budgetary basis.....	\$ 350,031
<u>Perspective difference:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	2,074,899
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts.....	385,000
Net change in recording tax refunds payable.....	968,956
Net change in recording the search for unrecorded liabilities.....	20,000
Increase in revenues due to on-behalf payments.....	15,687,221
Increase in expenditures due to on-behalf payments.....	<u>(15,687,221)</u>
Net change in fund balance - GAAP basis.....	<u>\$ 3,798,886</u>

NOTE B – PENSION PLAN***Pension Plan Schedules – Retirement System***Schedule of Changes in the Net Pension Liability and Related Ratios

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the System's total pension liability, changes in the System's net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

Since the System performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms and differences between expected and actual experience as of December 31, 2016.

Schedule of Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The appropriations are allocated amongst employers based on covered payroll.

Schedule of Investment Return

The money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

Pension Plan Schedules – CitySchedule of the City's Proportionate Share of the Net Pension Liability

The Schedule of the City's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of City's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The City may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation".

Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the City; the portion of the collective pension expense as both revenue and pension expense recognized by the City; and the Plan's fiduciary net position as a percentage of the total liability.

Changes of Assumptions

Changes of assumptions in the January 1, 2016 valuation include a reduction of the discount rate from 8.00% to 7.50%, the ultimate salary rate was reduced from 3.75% to 3.00%, and the mortality assumption is based upon the RP-2000 table with Generational Mortality projected with scale BB with a base year of 2009. The previous mortality assumption used the RP-2000 table projected 19 years with scale BB.

Changes in Plan Provisions – None**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The City administers a single-employer defined benefit healthcare plan (Retiree Health Plan). The plan provides lifetime healthcare and prescription drug benefits for eligible retirees and their spouses through the City's health insurance plan, which covers both active and retired members, including teachers.

The City currently finances its other postemployment benefits on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0.0%. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets. The Schedule of Employer Contributions compares, over time, the annual required contribution with the actual contributions made.

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

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.