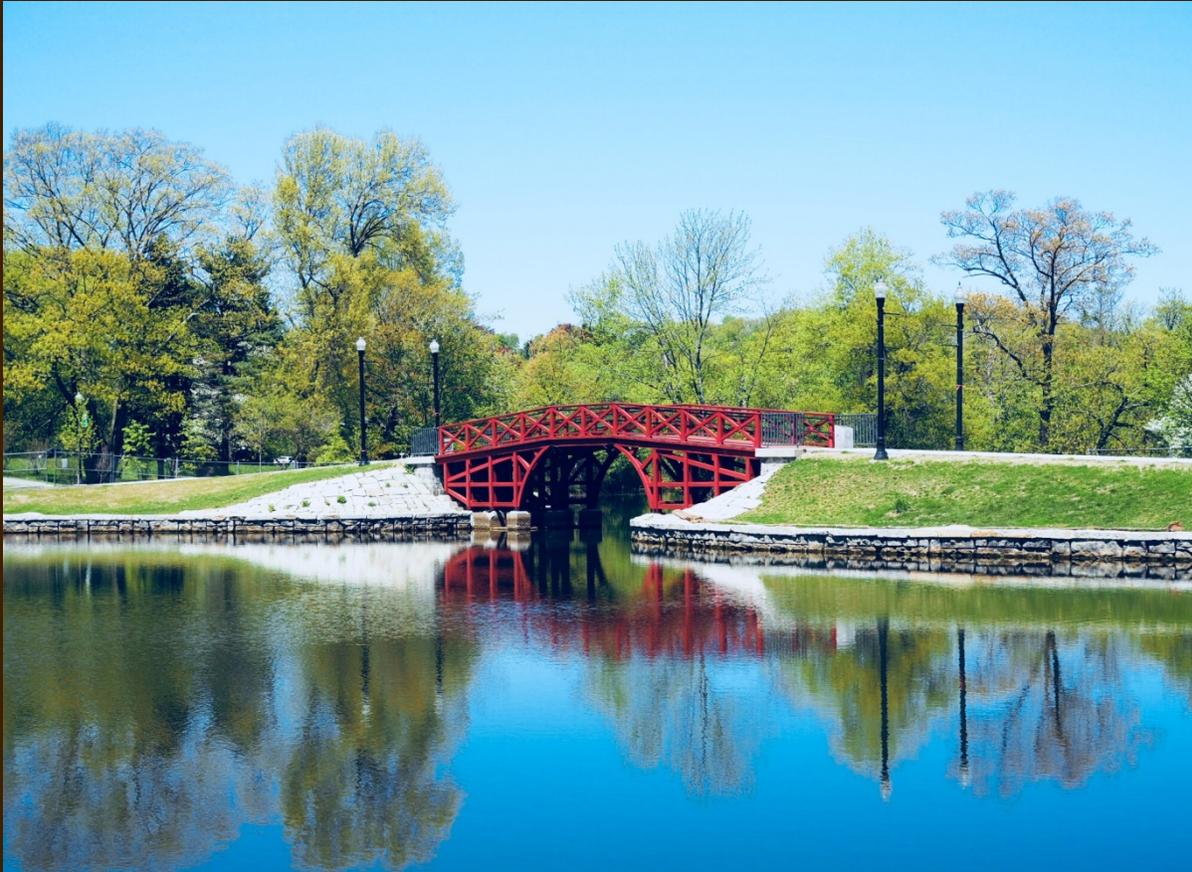


CITY OF WORCESTER

Massachusetts



Elm Park

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2018**



CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

Prepared by:
The Office of the City Auditor
City of Worcester, Massachusetts

Robert V. Stearns, CPA
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

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INTRODUCTORY SECTION



CITY OF WORCESTER, MASSACHUSETTS
AUDITING DEPARTMENT

Robert V. Stearns, CPA
City Auditor

January 11, 2019

To the Honorable Members of the City Council
City of Worcester, Massachusetts:

The Comprehensive Annual Financial Report (CAFR) of the City of Worcester, Massachusetts (the City) for the fiscal year ended June 30, 2018 is presented for your review. The report was prepared by the Auditing Department in accordance with accounting principles generally accepted in the United States of America. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been made.

In evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed their anticipated benefits. Also, the evaluation of costs and benefits requires estimates and judgments by management.

CliftonLarsonAllen LLP, a firm of licensed certified public accountants, has audited the City's basic financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2018 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. CliftonLarsonAllen LLP has issued an unqualified opinion on the City of Worcester's basic financial statements for the fiscal year ended June 30, 2018. The independent auditors' report is presented as the first component of the financial section of this report. A management letter is issued for any matters that come to the attention during the course of the audit including special projects that are conducted each year by the CPA firm.

Pursuant to the Uniform Guidance 2 CFR 200, the City is also required to have an annual audit of the federal financial assistance it has received. In addition to a financial statement audit, the Uniform Guidance requires that an internal control review and a compliance audit be performed on selected major programs covering 20% of all federal expenditures. The United States Department of Housing and Urban Development was assigned as the cognizant audit agency. The requirements of the Uniform Guidance have been met. The auditors' reports on internal control and compliance have been furnished separately to the City.

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

City of Worcester Government

Worcester was settled in 1673 and incorporated as a town in 1722 and as a city in 1848 under Acts of the Commonwealth of Massachusetts (the Commonwealth), which as amended, constitute the City's charter. The City is located in the east central part of Massachusetts. It is 39 miles west of Boston, 52 miles east of Springfield, and 40 miles north of Providence, RI. The City occupies 39 square miles and is the second largest populated city in New England with a population of just over 185,000 according to projected estimates since the last federal census in 2010. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City is also empowered to levy an excise tax on motor vehicles whose owner is a resident or business located in the City. Additionally, the City is allotted a portion of the hotel, meals and sales taxes collected within its jurisdiction by the state.

The City has operated under the council-manager form of government since 1950. An eleven-member City Council, six of whom are elected at-large and five of whom are elected from districts, performs the legislative function and policy-making. The City Council is responsible, among other things, for passing ordinances and adopting the budget. City Council members are elected biennially on a non-partisan basis.

The City Manager, appointed by the City Council, is the chief executive officer with appointive and removal authority over department heads and other employees of the City. The City Manager is responsible for the implementation of policies established by the City Council and for overseeing the day-to-day operations of the government. The City Auditor and City Clerk are elected by and are employees of the City Council.

The Mayor is the councilor who receives the highest number of votes for mayor provided he or she is also elected as one of the six at-large councilors. The Mayor serves as presiding officer of the council and ex-officio Chairperson of the School Committee.

An elected six-member School Committee, whose members are elected biennially on a non-partisan basis, has exclusive jurisdiction over the City's public school system and appoints a superintendent to administer the system's day-to-day affairs.

The City provides a full range of services including public safety, public education grades pre-K through 12 and certain technical education beyond high school, public roads, sanitation, water, sewer, health and social services, culture, recreation, municipal golf course, civic and convention center, public improvements, planning and zoning, and general administrative services. The City is also financially responsible for the legally separate Worcester Retirement System (WRS), Upper Blackstone Water Pollution Abatement District (the District) and Worcester Redevelopment Authority (WRA), all of which are reported within the City's basic financial statements. Additional information on these legally separate entities can be found in the notes to the basic financial statements.

All department operating and capital budget requests are required to be submitted to the City Manager by mid-January. The City Manager then reviews these requests with every department head during a series of meetings. In accordance with MGL Chapter 44, the City Manager must then submit his proposed budget within 170 days after the City Council organizes in early January. The Council is required to hold public hearings and to adopt a final budget no later than 45 days after the budget is submitted to them. Budgetary control is centralized and enforced on a statutory account basis. Statutory accounts are maintained on a departmental level and consist of salary, capital and ordinary maintenance accounts. Purchase requisitions and payrolls, which would result in an overrun of an account balance, are not processed until additional appropriations are made available. Transfers between statutory accounts within a department require a simple majority approval by the City Council and transfers from one department to another require a two-thirds majority. Open encumbrances are reported as liabilities. All expenditures are subject to a pre-audit before being processed.

Budget-to-actual comparisons for the general fund are presented on pages 128 through 135 as part of required supplementary information.

Local economy

Worcester has nearly 7,000 establishments in multiple industries of construction, manufacturing, transportation, utilities, trade and retail, information, financial, professional, education, health, hospitality and government. Employment is over 104,000 with health and education making up the largest percentage at 48% of employment by industries and representing nine of the top fifteen employers in the City while providing stability to the local economy. Worcester is home to nine colleges and universities with over 36,000 full and part-time students and 10,000 employees. Also located within Worcester are two major hospitals serving central Massachusetts. The UMass Memorial Health Care system employs 13,745 while St. Vincent Hospital employs 2,450. The school district and the City of Worcester also have a significant economic presence, employing 5,473 employees including teachers, professionals and support staff.

The unemployment rate of the City as of June 30, 2018 was 4.9% and decreased from 5.0% from the year before. By comparison for the same periods the state's unemployment rate was 3.9% and 4.0%, respectively and the national average was 4.0% and 4.4%, respectively. The month of June is typically one of the highest months for unemployment and in September 2018 the local unemployment rate fell to 3.8%. Median household incomes, averaged over the five years ending 2017, within the City of Worcester were \$45,869 compared to \$74,167 for the state and \$57,652 on a national level. According to the state's school district profiles, 59.5% of the 25,306 enrollment at Worcester Public Schools are considered economically disadvantaged compared to the state average of 32%. In addition, the large numbers of college students residing in the city also have an effect by lowering the average income levels.

Worcester's total taxable assessed property value increased to \$12.765 billion in fiscal 2018 based on the legal assessment date of January 1, 2017. Values increased \$.5 billion or 4% more than the previous year. Tax-exempt real property represented 31% of the total assessed values and increased 1% over the prior year to \$5.691 billion. Expectations for continued growth and increased valuations are reasonable given the ongoing private and public redevelopment. Total real and personal taxable assessed values increased 6% in fiscal 2019.

A recent study by Colliers International reported that as of June 30, 2018, a sample of 2.9 million square feet of office space in Worcester was 89% occupied compared to 87% in the prior year.

In the center of the city, major redevelopment continued the transformation of downtown into a vibrant working and living environment. Historic buildings within walking distance of downtown have been redeveloped into residential units. A former vocational high school was redeveloped in 2014 into 84 units. More recently, an industrial building was redeveloped into 82 market rate apartments and a new 118 room hotel was put into service. Redevelopment near the center of the city was completed in fiscal 2018 including 90 residential units in an historic building, the construction of a new 250 room hotel, and the construction of 365 new luxury apartments. Plans to convert the former county courthouse into units are underway.

Subsequent to year end the City and the AAA affiliate of the Boston Red Sox entered into a letter of intent to construct a 10,000 seat minor league ballpark in an urban setting for a cost of \$100 million and opening in 2021. Simultaneously the City entered into a letter of intent with a private developer offering tax incremental financing (TIF) to the developer who will construct two hotels, restaurants, a retail and a residential apartment building on land adjacent to the ballpark. State grants are expected to improve streets and roadways and used to construct a new garage. The total public-private development is expected to cost \$240 million. The City intends to use district improvement financing (DIF) that will allow the new sources of revenue including the rent from the ballpark lease, property taxes on the new development, parking revenue, advertising, and hotel and meal excise taxes to finance the debt service.

Long-term financial planning and major initiatives

Each of the three bond rating agencies have reaffirmed the City's strong high investment grade ratings of AA-(stable) from Standard and Poor's Rating Service, Aa3 (stable) from Moody's Investors Service, and AA (stable

from Fitch Ratings citing positive financial performance and strong fiscal management with good financial policies and practices and a growing tax base.

A new replacement elementary school was completed and opened in the fall of the 2017-2018 school year with a cost in excess of \$50M that was funded 62% by the state through the Massachusetts School Building Authority (MSBA). The new school is LEED certified that will double the square footage while expecting to consume half the energy of the old school building. The City was approved in fiscal 2018 by the MSBA to construct a replacement high school that will include district-wide amenities with a projected cost of \$209M funded 53% by the state. A number of other MSBA projects at several schools replaced doors, window and upgraded boilers making those schools more energy efficient.

In 2017, the City Council updated its financial plan to increase the target of general fund reserves to 10% of combined balances in undesignated fund balance and the bond rating stabilization fund; to prefund a new high school construction stabilization fund for the planned construction of two new high schools; to offset increases in the prior year tax levy with excess new growth defined as new growth levy above what is budgeted; updated the borrowing cap from one based on inflation to one tied to the five-year capital improvement plan with debt service that is supported by the general fund limited to 8% to 10% of budget; and to establish an expendable trust fund for OPEB and an OPEB board of trustees to manage its investments and liabilities. Elements of the former financial plan were retained including reporting and the free cash policy to transfer 50% of free cash to a stabilization fund, 30% to OPEB trust and 20% available for operations.

As of June 30, 2018, the City's combined balance in its general fund reserves totaled \$42M and was 6.7% of general fund revenues and other financial sources. During 2018 the City made the first transfer to the new high school construction stabilization fund totaling \$2.8M. Debt service supported by the general fund excluding pension obligation bonds totaled 5.4% of the budget.

General fund revenue sources to the City during fiscal 2018 included 45% from tax levy, 7% from local and other sources and 48% from state aid. The City did not tax all of its levy capacity and had a total of \$13.7 million in untaxed levy capacity at the end of fiscal 2018 up from \$11.1 million for fiscal 2017. Total combined reserves in the unassigned general fund and the debt service fund increased \$4.7 million to \$63.1 million or 9.8% of revenue.

The City's use of tax increment financing and district improvement financing as well as the development by the local colleges have helped attract private investment in new construction and redevelopment of vacant buildings including some designated as historical sites and some former industrial sites currently unused. Through the creation of the DCU Center finance district the City was able to provide a revenue stream with local hotel and meals tax in the designated area to finance much of the capital investment for the City's combined civic and convention center, thereby attracting events. The City received \$1.2M in distributable operating income and other revenue from the Center that will cover DCU improvement related debt service, management and insurance costs without the need for tax levy subsidies in fiscal 2018.

The City continues to pursue grants and other resources that keep the borrowing within the capital improvement program and borrowing cap. Grants for street and sidewalk projects totaled \$7.9 million which have reduced the amount the City has needed to borrow for infrastructure. The City has made significant investments in its school buildings from grants from the state's Massachusetts School Building Authority (MSBA) for new school construction and the replacement of windows, doors and boilers at several other schools increasing the energy efficiency of the school buildings. Total MSBA grants received in fiscal 2018 was \$15.3 million.

The City of Worcester is designated a "Green Community" by the Commonwealth under the State's Green Community Act. It provides recognition of our community-wide efforts to conserve energy, identify and utilize renewable energy sources, implement recycling programs and promote the reduction of energy and fuel use both as a municipality and as a community. It will also enable the City to market itself on a regional, national and global basis as a City that is attractive to companies in the green energy sector, thus boosting our economic development business attraction and expansion activities. The City has invested over \$74 million in an energy improvement program between 2011 and 2017 that includes HVAC upgrades, building infiltration, water conservation, energy efficient replacement lighting for buildings and streetlights, solar panels installed on top of

several school buildings and the construction of a large solar array atop a capped landfill that went online in fiscal 2018. Savings on energy including selling back electricity to the grid is expected to offset debt service. Rebates from ESCO projects and energy credits from solar energy totaled \$5.6 million in fiscal 2018. Net metering from the electricity generated from solar panels that offset electricity charges with National Grid totaled \$1.8M with \$0.4M that directly reduced schools electricity costs and \$1.4M earmarked to pay debt on those solar installations. Solar renewable energy certificates were sold under contract that brought in \$1.7M to the general fund. Another \$2.1M was received in fiscal 2018 from National Grid for energy efficiency updates that are currently reserved for future use.

The City has taken advantage of the current low interest environment by retiring general obligation bonds that had higher paying interest rates through the issuance of refunding bonds. In fiscal 2018, \$42 million of bonds were refunded that generated economic gains in excess of \$5.4 million. This follows debt refunded in fiscal years 2015 - 2017 of \$60 million generating economic gains of \$5.4 million.

To manage the elevated long term liabilities related to benefits including pensions and retiree health insurance the City has made its annual required contribution for the pension and annual debt service for the pension obligation bonds while beginning to fund OPEB above the pay-as-you-go annual expenditure. The City's share of the net pension liability was \$469 million and is being amortized pursuant to an aggressive schedule over the next sixteen years with annual contributions increasing 6.33% after fiscal 2019. Outstanding pension obligation bonds issued in 1998 had a balance outstanding of \$121 million with full amortization in 10 years. In Fiscal 2018, the new GASB statement 75 was put into effect that requires the recognition of the total OPEB liability on the statement of net position. The actuarially accrued liability for OPEB totaled \$802 million which was based on an actuarial measurement at June 30, 2018. In June 2017, the City passed an ordinance to create an expendable trust fund for OPEB and to establish a board of trustees to manage the benefit liability. Additionally, the City expanded the current policy of funding OPEB above pay-as-you-go with 30% free cash to also include increasing annual appropriations included in the operating budget. As of the end of the year there was a restricted account in the general fund for OPEB totaling \$15 million.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Worcester, Massachusetts for its CAFR for the year ended June 30, 2017. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate, a government must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last twenty-five consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Auditing Department. I also wish to acknowledge our indebtedness to personnel in other City departments who assisted in our preparation. I am grateful to the City's independent auditors, CliftonLarsonAllen LLP, for the professional assistance and advice they have provided during the course of their audit. In addition, I would like to thank the members of the City Council for your support.

Respectfully submitted,



Robert V. Stearns, CPA
City Auditor

CITY OF WORCESTER, MASSACHUSETTS

LIST OF ELECTED AND APPOINTED OFFICIALS
COUNCIL – MANAGER FORM OF GOVERNMENT

June 30, 2018

ELECTED OFFICIALS

CITY COUNCIL

MAYOR

Joseph M. Petty

COUNCILORS-AT-LARGE

Morris A. Bergman
Khrystian E. King
Konstantina B. Lukes
Gary Rosen
Kathleen M. Toomey

DISTRICT COUNCILORS

Sean M. Rose
Candy F. Mero-Carlson
Sarai Rivera
George J. Russell
Matthew E. Wally

SCHOOL COMMITTEE

EX-OFFICIO CHAIRPERSON

Joseph M. Petty

COMMITTEE MEMBERS

Dianna L. Biancheria
Dante A. Comparetto
John L. Foley

COMMITTEE MEMBERS

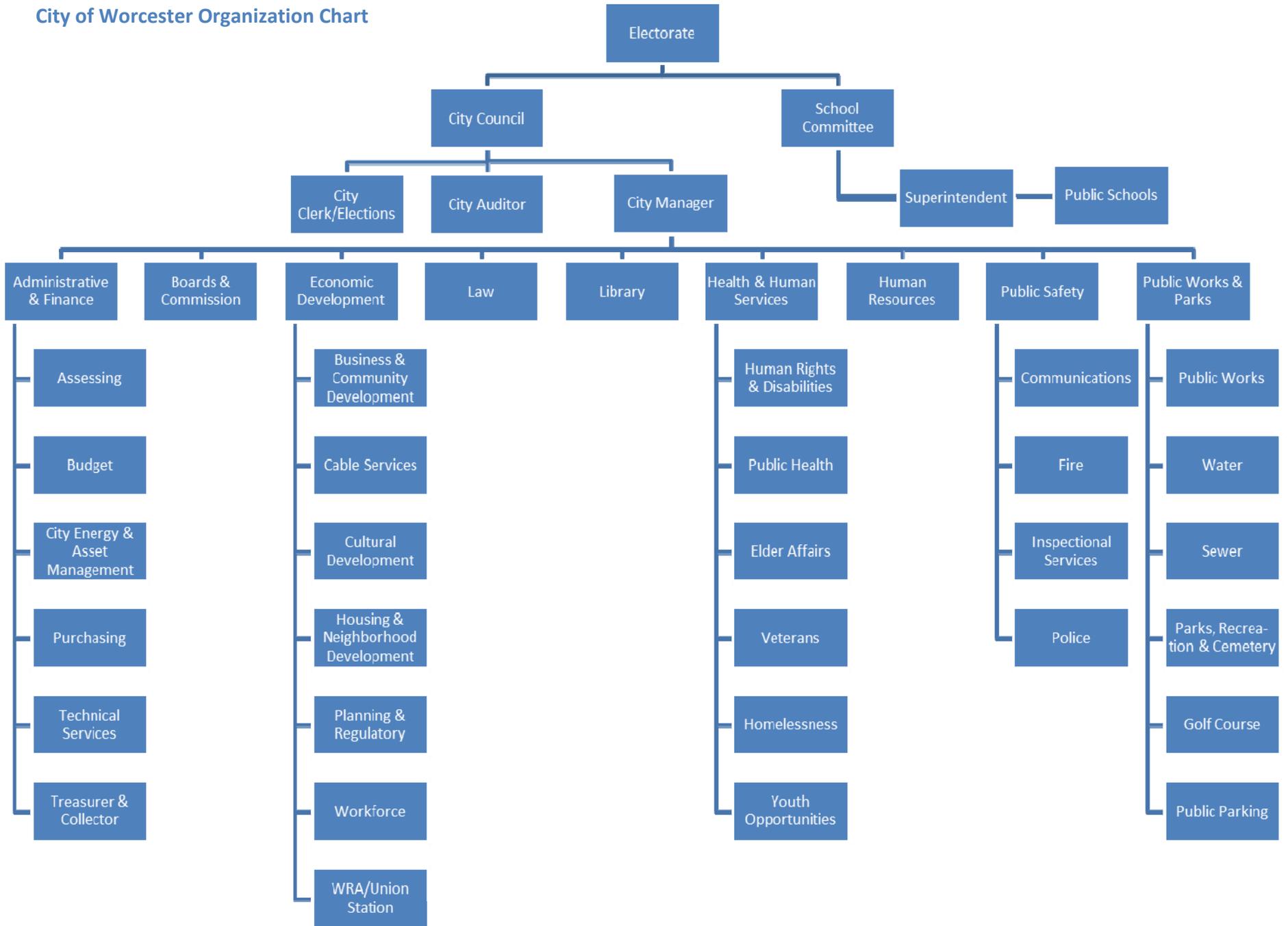
Molly O. McCullough
John F. Monfredo
Brian A. O'Connell

APPOINTED OFFICIALS

| | |
|--|---------------------------|
| CITY MANAGER | Edward M. Augustus, Jr. |
| ASSISTANT CITY MANAGER | Kathleen G. Johnson |
| HEALTH & HUMAN SERVICES COMMISSIONER | Dr. Matilde Castiel, MD |
| FIRE CHIEF | Michael J. Lavoie |
| INSPECTIONAL SERVICES COMMISSIONER | John R. Kelly |
| CITY SOLICITOR | David M. Moore |
| PUBLIC WORKS & PARKS COMMISSIONER | Paul J. Moosey |
| CHIEF OF POLICE | Steven M. Sargent |
| EMERGENCY COMMUNICATIONS ACTING DIR. | Michael E. Shanley |
| CHIEF DEVELOPMENT OFFICER | Michael E. Traynor |
| CHIEF FINANCIAL OFFICER | Thomas F. Zidelis |
| SUPERINTENDENT OF SCHOOLS | Maureen F. Binienda |
| CHIEF FIN. & OPERATIONS OFFICER W.P.S. | Brian E. Allen |
| BUDGET DIRECTOR, W.P.S. | Sara Consalvo |
| HEAD LIBRARIAN | Geoffrey M. Dickinson |
| EXECUTIVE DIRECTOR, RETIREMENT | Elizabeth A. Early |
| CITY CLERK* | Susan M. Ledoux |
| CITY AUDITOR* | Robert V. Stearns |
| DIRECTOR OF ACCOUNTS | Kimberly J. Laino |
| DIRECTOR OF TECHNICAL SERVICES | Eileen M. Cazaropoul |
| TREASURER & COLLECTOR | Sandra J. Flynn |
| ASSISTANT TREASURER | Geralyn M. Walsh |
| BUDGET DIRECTOR / ASST. TREASURER | Erin M. Arvizu |
| CITY ASSESSOR | William J. Ford |
| PURCHASING AGENT | Christopher J. Gagliastro |
| DIRECTOR OF ENERGY & ASSET MGMT. | John W. Odell |

* City Auditor and City Clerk are elected by the City Council for two year terms

City of Worcester Organization Chart





Government Finance Officers Association

**Certificate of
Achievement for
Excellence in Financial
Reporting**

Presented to

**City of Worcester
Massachusetts**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

Independent Auditors' Report

The Honorable Mayor and City Council
City of Worcester, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Worcester, Massachusetts (the City), as of and for the year ended June 30, 2018 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 did not audit the financial statements of the Upper Blackstone Water Pollution Abatement District (the District), which represents 87.4%, 51.3% and 96.3%, respectively, of the assets, net position and operating revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the District, is based solely on the report of the other auditors. We and the other auditor conducted our audits 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.

To The Honorable Mayor and City Council
City of Worcester, Massachusetts

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

Opinions

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City, as of June 30, 2018 (except for the Worcester Retirement System, which is as of and for the fiscal year ended December 31, 2017), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 23 to the basic financial statements, during the fiscal year ended June 30, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our auditors' opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 12 through 32) and general fund budgetary comparison and certain pension and other post-employment benefits information (located on pages 128 through 147) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To The Honorable Mayor and City Council
City of Worcester, Massachusetts

The supplementary statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Boston, Massachusetts
January 11, 2019

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

This section of the City's annual financial report presents a discussion and analysis of the City's financial activities during the fiscal year ended June 30, 2018 to assist readers of the basic financial statements in understanding the financial activities of the City. Please read it in conjunction with the transmittal letter at the front of this report and the basic financial statements, which follow this section.

Financial Highlights

Government-Wide (Accrual Basis) Financial Statements Highlights

- The liabilities and deferred inflows of the City (primary government) exceeded its assets and deferred outflows (net position) at the close of fiscal 2018 by \$674,056.
- The City's total net position decreased by \$51,973 or 8.4% during the year of the restated beginning net position.
- Other postemployment benefits (OPEB)
 - GASB statement no. 75, accounting and financial reporting for OPEB, was implemented in fiscal 2018. The total OPEB liability at June 30, 2018 was \$802,709 and the related net deferred outflows and inflows totaled \$5,453 the net of which increased the prior year OPEB payable of \$313,720 as reported under GASB 45 by \$483,536 which increased the deficit in unrestricted net position with \$445,879 restating the beginning net position and \$37,657 recognized in the current year as accrued OPEB expense.
 - OPEB expense for fiscal 2018 totaled \$61,033 of which \$23,376 was pay-as-you-go and \$37,657 was accrued OPEB expense. The OPEB expense was made up of fiscal 2018 service cost of \$31,604, accrued interest \$28,218 and amortization of the related deferred outflows and inflows of \$1,211.
 - The valuation and measurement date for the OPEB actuarial accrued liability was June 30, 2018. This latest valuation was lower than the previous valuation dated as of July 1, 2015 by \$58,164. Changes to the liability were a result of several changes in assumptions and an updated study of membership and claims experience.
 - The total OPEB liability is considered unfunded since the city has not established an irrevocable trust dedicated to the benefits. The total OPEB liability is based on a discount rate using the 20-year municipal bond rate with AA rating which was 3.62% as of the June 30, 2018 measurement date.
 - The City has an OPEB reserve fund which totaled \$15,009 as of June 30, 2018. A financial plan was recently approved that allows for the creation of an irrevocable trust through a board of trustees whose duties will be governed by a declaration of trust taking effect ninety days after filing with the governing body unless disapproved.
- The change in the net pension liability \$468,883 less deferred outflows/inflows related to pensions \$55,144 resulted in a decrease in net position of \$23,477 during the year.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

- The City's total capital assets (net) increased by \$25,575 or 2.4% during fiscal 2018.
- The City's total long and short-term debt including bonds, notes, capital leases, bond anticipation notes (BANS) and unamortized bond premiums totaled \$759,036, an increase of \$9,496 or 1.3% during fiscal 2018. Long term debt increased \$38,478; BANS decreased \$35,896; and unamortized premiums increased \$6,914.

Governmental Funds (Modified Accrual Basis) Financial Statements Highlights

- The City's general fund balance increased \$5,250 or 10.1% during the year to \$57,386. The unassigned general fund balance increased \$1,995 to \$42,377 and the fund restricted for OPEB increased \$3,255 to \$15,009.
- At the end of fiscal 2018, the unassigned portion of the general fund was \$42,377 or 6.7% of total general fund revenues.
- "Free Cash", certified by the state's Department of Revenue as of July 1, 2018 was \$4,298. This amount is unassigned in the general fund and available for appropriation in fiscal 2019.

Overview of the Financial Statements

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

Government-wide financial statements – The government-wide financial statements report information about the City with a broad overview of its finances using accounting methods similar to those used by a private-sector business.

The statement of net position presents information of all of the City's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during fiscal 2018. All changes in net position are reported as soon as the underlying event causing the change takes place. Therefore, all of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid (e.g., uncollected taxes and earned but unused vacation leave, etc.).

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

| Major Features of the City of Worcester's Government-Wide and Fund Financial Statements | | | | |
|---|--|--|--|---|
| | Government-Wide | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| <i>Scope</i> | Entire City government, except fiduciary activities such as the employee retirement plan | The activities of the City that are not proprietary or fiduciary, such as police, fire and parks | Activities the City operates like businesses; the water and sewer system and the golf course | Instances in which the City is the trustee or agent for resources belonging to others, such as the employee retirement plan |
| <i>Required financial statements</i> | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues expenditures, and changes in fund balance | <ul style="list-style-type: none"> • Statement of net position • Statement of revenues expenses, and changes in fund net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources measurement focus | Modified accrual accounting and current financial resources measurement focus | Accrual accounting and economic resources measurement focus | Accrual accounting and economic resources measurement focus |
| <i>Type of asset/liability information</i> | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both financial and capital, short-term and long-term |
| <i>Type of inflow/outflow information</i> | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the required liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid | All additions to and deductions from fiduciary net position during the year, regardless of when cash is received or paid |

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

The government-wide financial statements of the City are divided into three categories:

- **Governmental activities** – Governmental activities of the City such as general government, public works, public safety, public roads, sanitation, education, health, recreation, and culture are reported here. Property taxes, state aid, and local fees and charges finance most of these activities.
- **Business-type activities** – The City charges fees to users to help it cover costs of certain services it provides. The City's water, sewer and golf course (nonmajor) operations are included here.
- **Component units** – The government-wide financial statements not only include the governmental and business-type activities (known as the primary government) but also legally separate entities. There are two legally separate component unit entities presented discretely in this report, which are the Worcester Redevelopment Authority and the Upper Blackstone Water Pollution Abatement District. These entities are included because the City is financially accountable for them.

The government-wide financial statements can be found on pages 34 through 36 of this report.

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

Governmental funds – Similar to the governmental activities in the government-wide financial statements, most of the City's basic services are presented here. However, unlike the government-wide financial statements, governmental funds financial statements focus on short-term inflows and outflows of available resources. They also focus on the balances of available resources at the end of the fiscal year. This information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is short-term and government-wide are long-term it is useful to compare similar information presented for governmental funds with governmental activities in the government-wide financial statements. This comparison may demonstrate the long-term implications of short-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 31 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund and the debt service fund both of which is considered major funds and can be found on pages 37 and 39. Data from the 29 other governmental funds are combined into a single aggregated presentation titled "other governmental funds" and the list of these nonmajor governmental funds is provided on pages 148 through 150 and the combining balance sheet and statement of revenue and expenditures are provided on pages 152 through 163.

The City adopts an annual budget for its general fund which is included in the required supplementary information shown on pages 128 through 135. The City also adopts annual budgets for each of its enterprise funds shown in the supplementary schedules on pages 164 through 166.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

Proprietary funds – The City maintains two different 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 uses enterprise funds to account for water, sewer and golf course operations, with the water and sewer considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its self-insured health plan. Because this service benefits predominantly governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Conversely, the internal service fund is shown as a single presentation in the proprietary fund financial statements.

The proprietary fund financial statements can be found on pages 41 through 43.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The City is the trustee, or fiduciary, for its employees' pension plan. It is also responsible for other assets that because of a trust arrangement can be used only for the trust beneficiaries and the agency fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary funds financial statements can be found on pages 44 through 45.

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

The notes to the basic financial statements can be found on pages 46 through 126.

Other required supplementary information – In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information which includes the General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Budgetary Basis and certain pension and other postemployment benefits information.

Other required supplementary information can be found on pages 128 through 147.

Other information – This report also presents other information that is presented for purposes of additional analysis and is not a required part of the financial statements, which includes the introductory section (pages 1 through 8), supplementary statements and schedules (pages 148 through 171) and statistical section (pages 173 through 200). A glossary begins on page 201.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the City's

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

case, liabilities and deferred inflows exceeded assets and deferred outflows by \$674,056 at the close of the most recent fiscal year and are summarized as follows:

Statements of Net Position

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------------|--------------------------------|--------------------|---------------------------------|-----------------|--------------------|--------------------|
| | 2018 | 2017 * | 2018 | 2017 * | 2018 | 2017 * |
| Current and other assets | \$ 292,048 | 296,782 | 47,393 | 39,246 | 339,441 | 336,028 |
| Capital assets | 853,108 | 835,344 | 244,517 | 236,706 | 1,097,625 | 1,072,050 |
| Total assets | <u>1,145,156</u> | <u>1,132,126</u> | <u>291,910</u> | <u>275,952</u> | <u>1,437,066</u> | <u>1,408,078</u> |
| Deferred outflows of resources | 84,366 | 77,973 | 5,010 | 5,023 | 89,376 | 82,996 |
| Long-term liabilities | 1,816,014 | 1,713,727 | 196,692 | 193,792 | 2,012,706 | 1,907,519 |
| Other liabilities | 128,182 | 179,940 | 30,831 | 19,471 | 159,013 | 199,411 |
| Total liabilities | <u>1,944,196</u> | <u>1,893,667</u> | <u>227,523</u> | <u>213,263</u> | <u>2,171,719</u> | <u>2,106,930</u> |
| Deferred inflows of resources | 25,861 | 5,308 | 2,918 | 919 | 28,779 | 6,227 |
| Net position: | | | | | | |
| Net investment in capital assets | 441,004 | 433,725 | 86,281 | 84,896 | 527,285 | 518,621 |
| Restricted | 65,793 | 61,567 | - | - | 65,793 | 61,567 |
| Unrestricted | <u>(1,247,332)</u> | <u>(1,184,168)</u> | <u>(19,802)</u> | <u>(18,103)</u> | <u>(1,267,134)</u> | <u>(1,202,271)</u> |
| Total net position | <u>\$ (740,535)</u> | <u>(688,876)</u> | <u>66,479</u> | <u>66,793</u> | <u>(674,056)</u> | <u>(622,083)</u> |

* As restated (see Note 23)

The largest portion of the City's net position reflects its net investment in capital assets (e.g., land, buildings, improvements other than buildings, equipment and other, rolling equipment, infrastructure and construction in progress). The City uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending.

An additional portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining amount of unrestricted net position shows a deficit balance of (\$1,267,134). However, this balance includes outstanding pension obligation bonds of \$121,025 for which there are no offsetting assets in the governmental funds. General obligation bonds were also issued to finance land acquisition and pollution remediation to make way for a for-profit hospital in the City's downtown as well as for rehabilitation of Union Station, which is owned by the City's redevelopment authority (a component unit). There are also no offsetting assets in the governmental funds for this debt, which had balances of \$2,957 and \$787, respectively, at year-end. Additionally, the City has a note payable of \$1,802 for improvement to neighborhood assets it does not own and also owes \$516 for the 2008 Blackstone Valley Visitors Center, which was destroyed by fire. Also on this list is \$39 debt for the airport, which is no longer owned by the City. Absent the aforementioned debt, there is a balance of (\$1,140,008) of unrestricted net position.

At the end of fiscal 2018, the City is able to report positive balances in water and sewer net positions for business-type activities and all but unrestricted net position in the governmental activities. Long term liabilities

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

at June 30, 2017 were restated upon the implementation of GASB 75 to include total OPEB liabilities as of June 30, 2017. The long-term liabilities increased \$105,187 or 5.5%.

Governmental activities had a net decrease in other liabilities of \$51,758 or 29% as temporary notes or bond anticipation notes (BANS) decreased \$44,118 primarily due to the conversion of CitySquare BANS \$28,545 and public building and energy projects \$26,670 into long-term bonds. Business-type activities had an increase in other liabilities of \$11,360 mostly due to the increase of \$8,222 in BANS outstanding due to an increase in water and sewer construction activities.

Governmental activities capital assets net of depreciation increased by \$17,764 or 2.1% during fiscal 2018; additions to fixed assets totaled \$68,178 and depreciation totaled \$50,414. The largest acquisitions of depreciable assets during fiscal 2018 included school construction projects \$27,034, street and sidewalks \$16,334, parks improvements \$11,363, energy improvement projects \$4,382, and the DCU center improvements including scoreboard, flooring, seating and Wi-Fi \$2,877. The multi-year energy improvement projects continued and the solar array on a capped landfill went into service during the year. School construction concluded on the new elementary school at Nelson Place with progress costs incurred in fiscal 2018 totaling \$7,590. The replacement high school for South High started with construction-in-progress costs incurred in fiscal 2018 totaling \$6,434. Several school buildings took advantage of state funded school repair grants with window and door replacements and other renovations totaling \$13,010.

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

The City's total net position decreased by \$51,973 or 8.4%, summarized as follows:

Statements of Activities

| | Governmental activities | | Business-type activities | | Total | |
|---|-------------------------|------------------|--------------------------|---------------|------------------|------------------|
| | 2018 | 2017 * | 2018 | 2017 * | 2018 | 2017 * |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 35,955 | 38,132 | 73,905 | 73,310 | 109,860 | 111,442 |
| Operating grants and contributions | 393,634 | 387,555 | - | - | 393,634 | 387,555 |
| Capital grants and contributions | 24,198 | 34,946 | 3,814 | 286 | 28,012 | 35,232 |
| General revenues: | | | | | | |
| Property taxes | 288,275 | 275,979 | - | - | 288,275 | 275,979 |
| Motor vehicle excise taxes | 15,702 | 16,281 | - | - | 15,702 | 16,281 |
| Intergovernmental | 42,286 | 40,732 | - | - | 42,286 | 40,732 |
| Other | 20,813 | 16,788 | - | - | 20,813 | 16,788 |
| Total revenues | <u>820,863</u> | <u>810,413</u> | <u>77,719</u> | <u>73,596</u> | <u>898,582</u> | <u>884,009</u> |
| Expenses: | | | | | | |
| General government | 47,038 | 48,401 | - | - | 47,038 | 48,401 |
| Public safety | 171,039 | 277,547 | - | - | 171,039 | 277,547 |
| Health and human services | 14,270 | 22,680 | - | - | 14,270 | 22,680 |
| Education | 527,848 | 792,154 | - | - | 527,848 | 792,154 |
| Public works | 56,693 | 66,303 | - | - | 56,693 | 66,303 |
| Culture and recreation | 28,858 | 31,747 | - | - | 28,858 | 31,747 |
| Community development | 5,975 | 7,028 | - | - | 5,975 | 7,028 |
| Interest on debt | 21,672 | 20,074 | - | - | 21,672 | 20,074 |
| Water | - | - | 28,063 | 33,730 | 28,063 | 33,730 |
| Sewer | - | - | 47,932 | 48,533 | 47,932 | 48,533 |
| Golf course | - | - | 1,392 | 1,452 | 1,392 | 1,452 |
| Total expenses | <u>873,393</u> | <u>1,265,934</u> | <u>77,387</u> | <u>83,715</u> | <u>950,780</u> | <u>1,349,649</u> |
| Change in net position before transfers and contributions | (52,530) | (455,521) | 332 | (10,119) | (52,198) | (465,640) |
| Transfers | 646 | 1,023 | (646) | (1,023) | - | - |
| Contributions | 225 | 160 | - | - | 225 | 160 |
| Change in net position | (51,659) | (454,338) | (314) | (11,142) | (51,973) | (465,480) |
| Net position – beginning (restated) * | (688,876) | (234,538) | 66,793 | 77,935 | (622,083) | (156,603) |
| Net position – ending | <u>\$ (740,535)</u> | <u>(688,876)</u> | <u>66,479</u> | <u>66,793</u> | <u>(674,056)</u> | <u>(622,083)</u> |

* As restated (Note 23)

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

Governmental activities – Governmental activities as shown in the statement of activities decreased the City's net position by \$51,659 for the year ended June 30, 2018 compared to decrease of \$454,338 for the prior year restated for the implementation of GASB 75, total OPEB liability. The decrease in net position in governmental activities is explained by the following.

Total governmental activities program and general revenues were \$820,863 which was a \$10,450 or 1.3% increase over the previous fiscal year.

Governmental Activities Program Revenues

Charges for services totaled \$35,955 and represented 4.4% of total governmental activity revenues and experienced a decrease from the year before of \$2,177 or 5.7%. The largest source is from public safety revenues which totaled \$18,807 or 52% of charges for services and did not change significantly from the year before and included police and fire auxiliary, inspectional service, emergency medical and other public safety fees and fines. Public works totaled \$9,624 or 27% of charges from services and decreased \$964 or 9% due mainly to accrual recognition of special assessments. General government totaled \$2,664 and decreased \$437 or 14% due to a decline in administrative fees charged to federal grants and a decline in revenue from towing contracts. Cultural and recreation totaled \$1,976 and decreased 10% due to a decline in distributable operating surpluses from DCU Center operations. Community development program income was down \$264 due mainly to a one-time receipt in the prior year.

Operating grants and contributions totaled \$393,634 representing 48.0% of total governmental activity revenues and increased \$6,079 or 1.6% over the prior year. The largest portion of operating grants is for educational purposes \$365,559 which increased \$12,123 or 3.3% over the prior year. State aid for schools under Chapter 70 totaled \$245,207 an increase of \$9,805 or 4.2%, state and federal grants for school nutrition and supplementary educational programs totaled \$57,152 an increase of 1.2%, state on-behalf of payments for teachers' net pension expense totaled \$62,890 up 2.8%, and on-behalf pension COLA reimbursement allocated to Education totaled \$310. Other operating grants for community development, recreation, public safety and health and human services totaled \$28,075 a decrease of \$6,044 or 18% from the prior year mainly due to a decrease of \$3,284 in community development grants because of additional grant revenue in the prior year, an expiring health grant \$440, and a decrease in workforce grants \$197.

Capital grants totaled \$24,198 and represented 2.9% of total governmental activity revenues decreasing \$10,748 or 30.8% from the prior year. Educational capital grants for school building repair and replacement receipts totaled \$15,295 a decrease of \$9,188 from the prior year due to timing of the completion of projects and reimbursement of the grants. A new elementary building opened for the school year 2017-2018 while the design work of a new replacement high school started mid-year. Several other school buildings had energy upgrades during the year. Public works received capital grants of \$7,891 for street resurfacing, a decrease of \$1,832 from the prior year due to the timing of a state funded project.

Governmental Activities General Revenues

Property tax revenue totaled \$288,275 and represented 35.1% of total governmental activity revenues and increased \$12,296 or 4.5%. Most of the increase was due to additional commitments for tax increases and new

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

growth. The gross tax levy increased \$4,774 or 1.7% over prior year commitments and taxes on new growth totaled \$6,452 or 2.3% of the prior year total levy.

Other general revenues totaled \$78,801 and represented 9.6% of total governmental activity revenues. This revenue increased \$5,000 or 6.8% over the prior year. Most revenues remained level to the prior year. Motor vehicle excise taxes \$15,702 decreased \$579; intergovernmental revenue including non-educational state aid \$42,286 up \$1,554; and other general revenue totaled \$20,813 up \$4,025 or 24%. The other general revenue includes investment income \$2,219 which declined 31% from fiscal 2017 due to larger investment returns in that year from the permanent trust assets, other taxes and miscellaneous together decreased slightly \$279 and a new category in fiscal 2018 for revenue received from solar energy and building energy rebates totaled \$5,312.

Governmental Activities Expenses

Expenses of governmental activities totaled \$873,393, a decrease over the restated prior year by \$392,541 or 31%. Total prior year expenses were restated to account for the implementation of GASB 75, accounting and financial reporting for OPEB and, as a result of a prior period adjustment, OPEB expense decreased \$434,439 from the restated prior year. Other expenses increased \$41,898. General government other expenses increased \$14,720, public safety other expenses increased \$3,148, health and human services other expenses decreased \$5,830, education other expenses increased \$23,746, public works other expenses increased \$2,176, culture and recreation other expenses increased \$3,393, community development expenses decreased \$1,053, and interest expense increased \$1,598.

General government includes the activities of sixteen departments. General government expenses totaled \$47,038 representing 5.4% of total governmental activities and decreased \$1,363 or 2.8%. OPEB expense totaled \$2,317 under GASB 75 a decrease over the restated fiscal 2017 total by \$16,083. Other expenses increased \$14,720. Other expenses included an increase in legal settlements paid and accrued by \$9,799. The City entered into a fiscal 2018 settlement for \$12,500 related to a contract dispute over the failure by the City to construct a sky bridge connecting a hotel with a city garage. The settlement totaled \$12,500 with annual payments beginning in fiscal 2018 and ending in fiscal 2022.

Public safety expenses including police, fire, inspection, and emergency communications totaled \$171,039 and represented 19.6% of the total governmental activities decreasing \$106,508 from the prior year restated total. OPEB expense totaled \$16,447 under GASB 75 a decrease over the restated fiscal 2017 total by \$109,656. Other expenses increased \$3,148. Police, Inspectional Services and Communications experienced increases for raises and step increases. Fire salaries decreased in total from the prior year due to the multi-year contract settlement of retroactive salaries paid in fiscal 2017. Some grant activity previously classified as health and human services in the prior year was classified in fiscal 2018 as public safety.

Health and human services expenses totaled \$14,270 or 1.6% of total governmental activities decreasing \$8,410 from the prior year restated total. OPEB expense totaled \$225 under GASB 75 a decrease over the restated fiscal 2017 total by \$2,580. Other expenses decreased \$5,830. A multi-year nonrenewable grant terminated and expenses were \$1,033 less than fiscal 2017. Workforce development grant expenses decreased \$1,594 due to a decrease in federal funding due in part to a reduction in the unemployment rate. A reclassification in some grant expenses to public safety accounted for the other changes from the prior year.

CITY OF WORCESTER, MASSACHUSETTS

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June 30, 2018

(In thousands of dollars)

Education expenses include basic education for grades K - 12 as well as pre-K, nutrition and grant supplemental expenses. Education expenses totaled \$527,848 and represented 60.4% of total governmental activity expenses, decreasing \$264,306 from the prior year restated total. OPEB expense totaled \$37,871 under GASB 75 a decrease over the restated fiscal 2017 total by \$288,052. Other education expenses increased \$23,746.

Public Works expenses totaled \$56,693 representing 6.5% of total governmental activities decreasing \$9,610 from the prior year restated total. OPEB expense totaled \$1,599 under GASB 75 a decrease over the restated fiscal 2017 total by \$11,786. Other expenses increased \$2,176. The general budgeted expenses for salaries and ordinary maintenance increased \$1,117; snow and ice removal decreased \$1,245; the estimated future capping costs for landfills increased \$4,885; and there was a net decrease of \$2,581 in other expenses.

Culture and recreation expenses totaled \$28,858 or 3.3% of total governmental activities decreasing \$2,889 from the prior year restated total. OPEB expense totaled \$1,244 under GASB 75 a decrease over the restated fiscal 2017 total by \$6,282. Other expenses increased \$3,393 including budgetary and grant expenses.

Community development expenses totaled \$5,975 or 0.7% of governmental activities and decreased \$1,053 or 15%.

Interest on debt totaled \$21,672 or 2.5% of total governmental activities expenses and increased \$1,598 or 8% over the prior year.

CITY OF WORCESTER, MASSACHUSETTS

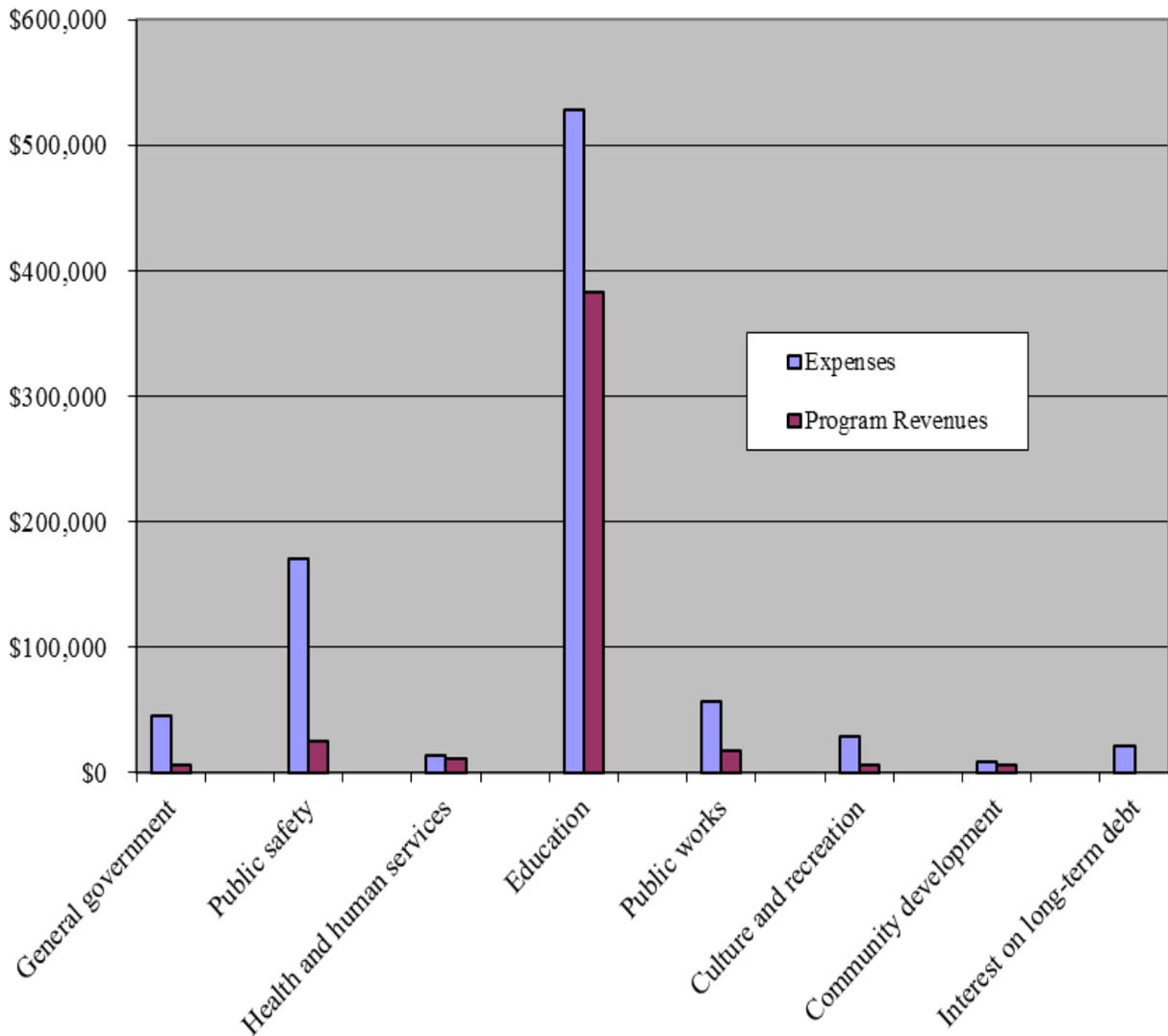
Management's Discussion and Analysis

June 30, 2018

(In thousands of dollars)

Expenses by governmental activities compared with program revenue including charges for services and grants are represented in the following graph. Expenses that exceed program revenues are supported by general revenue.

FY 2018 Expenses and Program Revenues– Governmental Activities



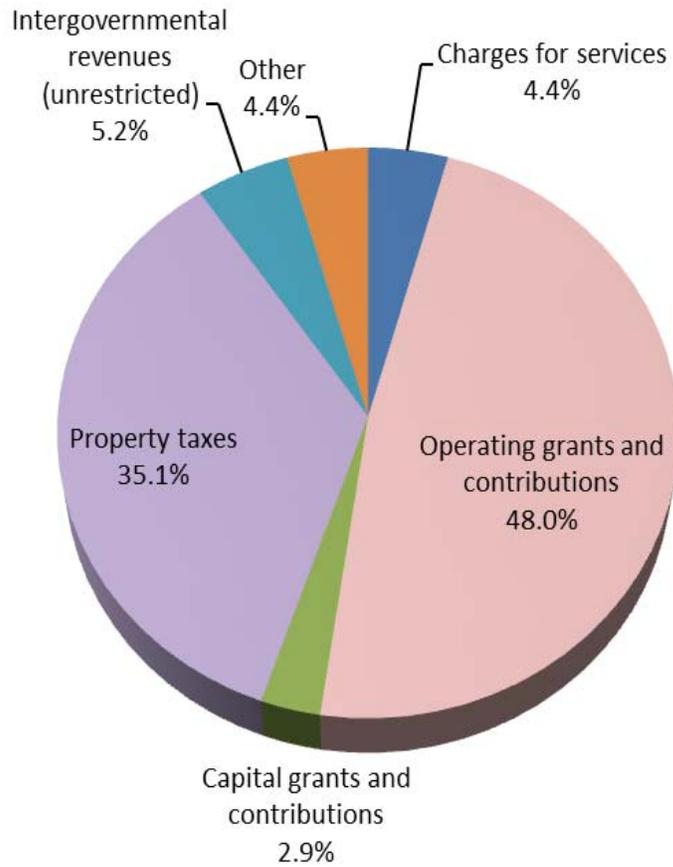
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FY 2018 Revenues by Source – Governmental Activities



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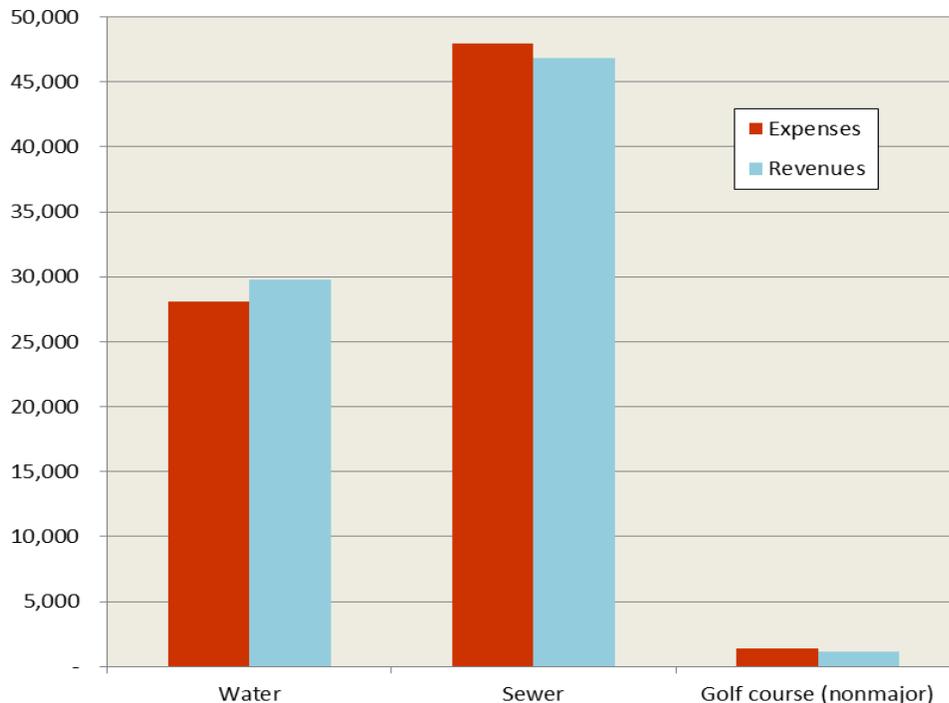
June 30, 2018

(In thousands of dollars)

Business-type activities – Business-type activities decreased the City's net position by \$314.

- The water fund had operating income of \$3,837 and had an increase in net position of \$1,348. This follows the previous year's operating income of \$2,142 with a \$1,024 decrease in net position. Water rates increased 1.9% over the prior year and usage fees decreased \$604 or 2.1%. Salaries and fringes decreased \$71. Ordinary maintenance expenses decreased \$2,617 as the prior year included the extraordinary purchase of water from the state reservoir \$2,942 because of drought conditions. The net investment in capital assets decreased \$961.
- The sewer fund had an operating loss of \$605 and had a decrease in net position of \$1,675. This follows the previous year's operating loss of \$350 with a \$4,299 decrease in net position. Sewer rates increased \$0.16 per 100 cubic feet or 2.3% over the prior year and usage fees increased \$1,183. Salaries and fringes increased \$145. Ordinary maintenance increased \$617 primarily because of the increase in the Upper Blackstone water treatment plant's assessment which increased \$523. Capital grants for sewer projects from the state totaled \$3,634 an increase of \$3,348 over the prior year. The net investment in capital assets increased \$2,427.
- The golf course fund (nonmajor) had an operating loss of \$209 and net position increased by \$13. This follows the previous year's operating loss of \$282 and a decrease in net position of \$19. Revenues increased \$19 from the previous year while salaries and fringe decreased \$13 and ordinary maintenance decreased \$36. The net investment in capital assets decreased \$81. The General Fund subsidized the golf enterprise with transfers of \$300 in fiscal 2018, following \$338 in the prior year.

FY 2018 Expenses and Program Revenues – Business-type Activities



CITY OF WORCESTER, MASSACHUSETTS

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(In thousands of dollars)

Financial Analysis of the City'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 the near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of fiscal 2018, the City's governmental funds reported combined ending fund balances of \$121,237 an increase of \$60,499 or 99.6% from fiscal 2017. Fund balance includes \$15,626 of non-spendable amounts contained in nonexpendable permanent funds and \$42,377 of unassigned general fund balance available for spending at the City's discretion. Deficits of \$31,846 in non-major funds will be funded in future fiscal years through bond proceeds, state and federal grants and other available funds. The remaining fund balance has \$50,964 restricted for specific purposes or by federal or state grants, \$20,757 of funds committed for debt service and \$23,359 of funds committed in reserve for appropriation accounts by state law or City preference.

The general fund is the chief operating fund of the City. At the end of fiscal 2018, unassigned fund balance of the general fund was \$42,377 or 6.7% of total general fund revenues and a restricted fund balance of \$15,009 restricted to fund OPEB. During fiscal 2018, the City's general fund balance increased by \$5,250 or 10.1%. Total revenues exceeded expenditures by \$15,274, while transfers out exceeded transfers in by \$11,674. Equipment in educational expenditures was financed through a capital lease of \$1,650.

The debt service fund had a fund balance of \$20,757 at the end of fiscal 2018, a \$2,732 or 15.2% increase from the previous year. During the year \$2,517 in local meals and hotel tax revenue was received attributable to the DCU special district. There were \$14,458 net transfers in from the general fund. Debt service expenditures were \$14,243. Debt service paid included capital campaign fund \$8,614 which includes debt for construction on the vocational high school, library, and other school improvements; the CitySquare project \$1,759, which is self-funded debt from district improvement financing revenue; North High School debt \$1,328; DCU special district debt \$2,397 currently self-funded debt from special district financing revenue; and other debt \$145 paid from designated debt service funds. A new fund was established with a transfer of \$2,750 in accordance with the financial plan to prefund a debt service account for future bonds associated with the planned construction of two new high schools. The fund balances at June 30, 2018 included; North High \$10,660; DCU \$3,341, CitySquare \$2,272, New High School \$2,750 and other \$1,734.

Other governmental funds had a fund balance of \$43,094 at the end of fiscal 2018, a \$52,517 increase from the previous year as reclassified (see footnote 20). Special revenue funds increased by \$3,755 as revenues of \$101,142 and premiums on issuance of bonds of \$786 exceeded expenditures of \$95,517 and net transfers out of \$2,656. The capital projects funds increased \$48,070 as revenues of \$24,216, bond proceeds and related premiums of \$115,143 and net transfers in from other funds of \$578 exceeded expenditures of \$67,085 and payments to refunded bonds escrow agent of \$24,782. Permanent funds increased \$692 as donations of \$225 and net investment income of \$648 exceeded expenditures of \$122 and net transfers out to other funds of \$59.

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(In thousands of dollars)

Enterprise funds – The City's enterprise funds provide the same type of information found in the government-wide financial statements (business-type activities), but in more detail.

Net position of the enterprise funds at the end of fiscal 2018 totaled \$66,479. There was a \$314 decrease in net position from current year operations. The water fund had an increase of \$1,348 while the sewer fund had a decrease of \$1,675 and the golf course fund (nonmajor) had an increase of \$13. Unrestricted net position consisted of (\$14,940) in the water fund, (\$4,044) in the sewer fund and (\$818) in the golf course fund (nonmajor). Net investment in capital assets consisted of \$54,624 in the water fund, \$31,493 in the sewer fund and \$164 in the golf fund. Other factors concerning the finances of these three funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The City's final general fund revenue budget was \$152 lower than the original estimated revenues. The estimate for property taxes was decreased by \$34 due to a cut in the budget of \$250 offset by an adjustment to intergovernmental charges at the setting of the tax rate of \$216. State aid in the final budget increased \$118 over the original budget.

The final budget for transfers-in increased by \$1,155 over original budget estimates. There were transfers from various special revenue fund accounts; \$680 from premium on loans to cover debt issuance costs; \$209 from real estate sales to cover capital outlays; \$150 from real estate sales to cover debt service costs; \$50 for vehicle insurance settlements; and \$18 from premium sales to cover police overtime. There was also a \$48 transfer from a budgetary basis non-irrevocable trust to fund health costs of airport retirees.

The final general fund expenditure budget was \$2,627 higher than the original budget. The final budgeted amount for court judgements increased \$550 over the original budget due to more funds needed to settle outstanding cases. Treasury's budget increased \$621 mainly for the debt issuance costs that was funded with premiums received. City Manager's budget increased \$451 mainly because of as a result of an increase in capital outlays of \$388 for the acquisition of land for the expansion of the senior center. Energy asset management's budget increased \$740 including increased costs for utilities, maintenance, a feasibility study on building consolidations, and improvements at the senior center. The police department's budget increased \$896 mainly to fund salaries and overtime. The school department's budget including fringe benefits increased \$850 for a free cash appropriation. The original budget for interest expense was decreased \$441 and transferred to other departments. The original budget line for contingencies was \$1,250 and was transferred to other departments. Snow and ice removal original budget decreased \$452.

The final budget for transfers-out increased from the original budget by \$2,980. Subsequent transfers included \$2,762 in additional transfers to the OPEB account; \$54 to the special revenue fund for a summer youth program; \$3 to the special revenue fund for a communications grant; \$11 to the airport debt service account and \$150 to provide additional subsidies to the golf enterprise.

The general fund balance had a budgetary basis increase of \$152 during the year and was better than the budgeted deficit of \$4,604 by \$4,756. By comparison, the net changes in the previous three fiscal years were \$6,933, \$7,435, and (\$2,060). The budgeted deficit of \$4,604 included free cash appropriations from unassigned general fund totaling \$9,208 offset by transfers to the bond rating stabilization fund of \$4,604. The year-end unassigned fund balance on a budgetary basis totaled \$41,034. Revenues did better than estimates in the final

CITY OF WORCESTER, MASSACHUSETTS

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(In thousands of dollars)

budget by \$2,008. Other revenue accounts with positive variances included motor vehicle excise \$884, local option for meals and hotel tax \$782, fees from inspectional services including building permits \$366, inter-governmental revenues from school based Medicaid reimbursements \$412 and miscellaneous revenue \$1,707 which included a new revenue source from the sale of solar renewable energy certificates totaling \$1,718 .

Capital Assets and Debt Administration

Capital assets – The City's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounted to \$1,097,625. This includes land, buildings, improvements other than buildings, equipment and other, rolling equipment, infrastructure and construction in progress, net of depreciation. The net increase in the City's investment in capital assets for the current year was \$25,575 or 2.4%. Governmental activities increased by \$17,764 or 2.1% and business-type activities increased by \$7,811 or 3.3%. Governmental activities fixed asset acquisitions totaled \$68,178 and depreciation for the year totaled \$50,414.

Major capital asset events during the current fiscal year included the following:

- Streets and sidewalks were improved with capitalized costs added to infrastructure totaling \$16,334 including resurfacing projects \$8,738; and other street and sidewalk projects \$7,596.
- Capitalized costs for parks projects totaled \$11,363 during the year including improvements to park buildings, land, and open space acquisitions. Expenditures were paid from sources in capital project funds and special revenue funds.
- Total capitalized costs for school construction were \$27,034 including the new elementary school at Nelson Place that was placed into service with a cost of \$50,710; expenditures for fiscal 2018 totaled \$7,590. The Massachusetts School Building Authority (MSBA) the state agency that supports the construction of public school facilities approved the replacement of South High School with a budget of \$209,971. Expenditures for construction in progress that were incurred in fiscal 2018 including design totaled \$6,434. Other school construction capitalized during the year totaled \$13,010 and included window and door replacement, energy improvements, and other building improvements. Much of the projects were funded through the state's MSBA program for new school construction and the accelerated repair program. Revenues received during the year totaled \$15,295.
- Capitalized costs for improvements to the DCU Center totaled \$2,877 which included a new scoreboard \$1,398 and other improvements and equipment totaling \$1,479.
- Included in capitalized costs for rehabilitation of other public buildings were continued energy improvements for new LED streetlights and solar arrays on top of a capped landfill which came into service in fiscal 2018. Costs incurred in fiscal 2018 for energy improvements were \$4,382. The total cost for this phase of the project including solar arrays and street light and parking garage lighting upgrades totaled \$44,975.
- Other capitalized costs totaled \$6,188 including rolling equipment for DPW and parks , furniture for schools, improvements to the senior center, and other city building and equipment acquisitions.
- Resources were allocated during the year to business-type building, infrastructure and other capital asset additions costing \$25,243. Of this amount, \$16,714 was for sewer projects; \$7,386 was for water

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(In thousands of dollars)

projects; and \$1,143 for construction in progress costs for the golf course including a new driving range and course redesign.

The following table summarizes the City’s capital assets (net of accumulated depreciation):

| | Capital assets (net of accumulated depreciation) | | | | | |
|------------------------------------|---|----------------|-------------------------------------|----------------|------------------|------------------|
| | Governmental activities | | Business-type activities | | Total | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land | \$ 23,077 | 22,631 | 7,298 | 7,000 | 30,375 | 29,631 |
| Buildings | 468,577 | 420,560 | 22,192 | 23,651 | 490,769 | 444,211 |
| Improvements, other than buildings | 179,764 | 131,398 | - | - | 179,764 | 131,398 |
| Equipment and other | 14,893 | 12,566 | 1,009 | 637 | 15,902 | 13,203 |
| Rolling equipment | 6,273 | 7,013 | 3,689 | 3,619 | 9,962 | 10,632 |
| Infrastructure | 153,251 | 148,982 | 208,782 | 201,395 | 362,033 | 350,377 |
| Construction in progress | 7,273 | 92,194 | 1,547 | 404 | 8,820 | 92,598 |
| Total | \$ <u>853,108</u> | <u>835,344</u> | <u>244,517</u> | <u>236,706</u> | <u>1,097,625</u> | <u>1,072,050</u> |

Additional information on the City’s capital assets can be found in note 11 of this report.

Long-term debt – At the end of the current fiscal year the City of Worcester had total long-term debt outstanding of \$666,647, an increase of \$38,478 or 6.1% from the prior fiscal year. General obligation bonds totaling \$650,961 comprises debt backed by the full faith and credit of the City.

| | Long-term debt | | | | | |
|--------------------------|------------------------------------|----------------|-------------------------------------|----------------|----------------|----------------|
| | Governmental activities | | Business-type activities | | Total | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| General obligation bonds | \$ 505,527 | 467,273 | 145,434 | 144,442 | 650,961 | 611,715 |
| Notes payable | 1,802 | 1,947 | 5,038 | 5,309 | 6,840 | 7,256 |
| Capital lease payable | 8,846 | 9,198 | - | - | 8,846 | 9,198 |
| Total | \$ <u>516,175</u> | <u>478,418</u> | <u>150,472</u> | <u>149,751</u> | <u>666,647</u> | <u>628,169</u> |

On January 22, 2018 the City issued \$97,255 in general obligation bonds to provide for current projects. On August 10, 2017 and November 1, 2017 the City issued \$19,400 and \$21,635 of refunding debt, respectively. The proceeds consisted of \$107,602 for governmental activities of which \$23,233 was refunding bonds issued and \$30,688 for business-type activities of which \$17,802 was refunding bonds issued.

In relation to the above debt the City maintained its credit rating of Aa3 from Moody’s Investors Service; AA- by Standard and Poor’s; and AA by Fitch Ratings. All three credit ratings affirmed stable outlooks for the City.

CITY OF WORCESTER, MASSACHUSETTS

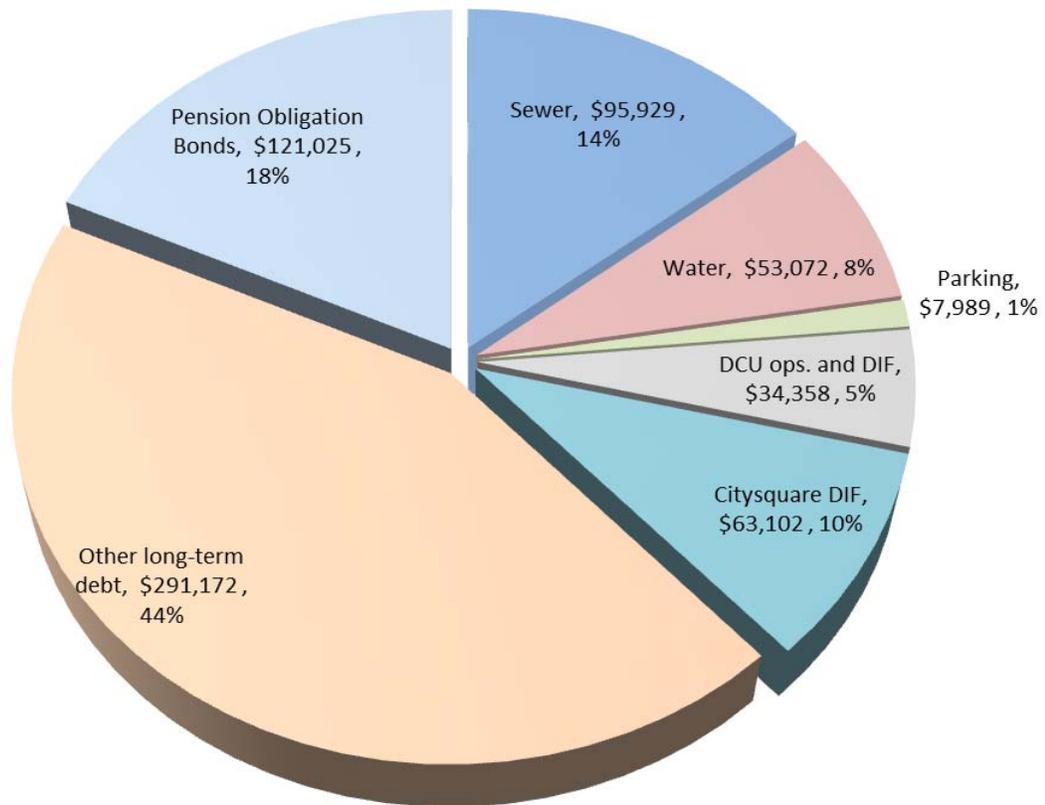
Management's Discussion and Analysis

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(In thousands of dollars)

Massachusetts General Law subjects the City to a dual-level general debt limit: the normal debt limit and double debt limit. Such limits, known as inside debt limit, are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of a board comprised of the state Auditor, state Treasurer, Attorney General and Director of Accounts. Additionally, certain categories of general obligation debt, known as outside debt limit, are exempt from the debt limit but subject to other limitations.

Long-Term Debt



A portion of the long-term debt is supported by fees from water and sewer usage, public parking garages, and DCU Center operating revenue. Debt related to district improvement financing (DIF) capital projects for CitySquare and the DCU Center are supported from new revenue sources generated within or for the designated geographic areas. In the CitySquare DIF tax incremental financing (TIF) on private redevelopment and parking revenue from a new public parking garage finance the related debt service. Excise taxes on hotel occupancy and meals from nearby hotels finance the related debt service of the DCU Center DIF.

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(In thousands of dollars)

The pension obligation bonds issued in 1998 and expiring in 2028 are serviced from the city's and schools' general fund budgets, the enterprise funds, and the Worcester Housing Authority through its share of the retirement contribution.

Other outstanding long-term debt is paid primarily from the general fund. This includes outstanding long-term debt related to schools \$83,314, public buildings \$31,955, energy efficiency and renewable projects \$65,186, streets and sidewalks \$57,574, parks \$24,504, equipment \$15,095, and other \$13,544. Included in the total for school related debt is \$30,562 outstanding for Worcester Technical High built in 2006; future general fund revenue from the state related to this school's debt total \$16,012. North High built in 2011 had outstanding debt of \$16,888. The City's reserve fund related to this school's debt service had a balance of \$10,660.

Additional information on the City's long-term debt can be found in note 14 of this report.

Economic Factors and Next Year's Budget and Rates

The City has a diverse economy that has significant employment in the education and health care sectors, which tend to stand up well during economic downturns. According to the state's Executive Office of Labor and Workforce Development the City's unemployment rate was 4.9% at June 30, 2018, compared with a 5.0% rate that existed a year earlier. This compares with the state unemployment rate of 3.9% at June 30, 2018. According to the U.S. Bureau of Labor Statistics the national unemployment rate was 4.0% at June 30, 2018.

Taxable assessed property values increased 4.1% to \$12,764,649 in fiscal 2018 of which new growth was \$236,218 or 1.9%. Residential real estate totaled \$9,314,530 and increased 5.0% including new growth \$96,796 or 1.1%; commercial and industrial real estate totaled \$2,682,894 and increased 2.3% including new growth \$48,151 or 1.8%; and personal property totaled \$767,225 and decreased 0.9% including new growth \$91,271 or 11.8%.

The fiscal 2019 general fund budget anticipates total revenues of \$649,160 and transfers from other funds of \$2,542 compared with actual results of \$632,735 and \$3,689 respectively in fiscal 2018. It is anticipated that property tax revenue will increase by \$12,583 or 4.4% over the prior year by taxing new growth and increasing the tax levy as allowed under the state's tax limiting law "Proposition 2½". The City also has available an unused tax levy capacity of \$13,650 as of June 30, 2018, which was not used in prior years when the City did not tax up to the annual allowable increase. Additionally, state local aid is anticipated to increase by \$6,317 over 2018 actual primarily because of an increase in educational aid \$4,688 and a net increase in other local aid of \$1,629. Other revenue categories were budgeted at levels slightly under fiscal 2018 actuals by \$2,475.

Fiscal 2019 general fund expenditures were originally budgeted at \$636,112 with transfers out totaling \$15,590 compared with actual results of \$617,644 and \$18,628 in the prior year. Fiscal 2019 expenditure budgets increased over the prior year actuals by \$18,468 or 3.0%, including an increase of \$6,524 or 1.9% for education, \$1,927 or 5.6% for debt service, and \$3,333 or 3.6% for public safety. Additionally, the contingency account was budgeted \$1,300 at the start of the year for employee wage increases.

The original budget plan was for revenues and transfers in to equal expenditures and transfers out. Since then, appropriations are expected to be made from the \$4,298 of certified "Free Cash". In accordance with the City's financial plan 50% of Free Cash or \$2,149 will go to a "Bond Rating Stabilization" account, which is accounted

CITY OF WORCESTER, MASSACHUSETTS

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(In thousands of dollars)

for in the general fund and thus will preserve unassigned fund balance, \$1,289 to an OPEB reserve account, which is not irrevocable and is accounted for as restricted in the general fund, and \$860 for the operating budget.

The City's business-type enterprises are budgeted on a cash basis in accordance with state law. The sewer and water funds are each budgeted to have revenue equal expenditures and transfers out and the golf course is budgeted to need a \$200 transfer from the general fund in order to balance its budget. The sewer fund is budgeted to receive total revenues of \$44,318, \$2,239 more than the prior year actual and water revenue is budgeted at \$26,426, \$2,944 less than the prior year actual. Sewer rates were increased by 4.9% from the prior year and water rates remained unchanged. The golf course anticipates revenues of \$1,369, which is \$244 more than the prior year actual.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Office of the City Auditor, 455 Main Street, Worcester, Massachusetts 01608.

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BASIC FINANCIAL STATEMENTS

CITY OF WORCESTER, MASSACHUSETTS
Statement of Net Position
June 30, 2018

| | Primary government | | | Component units | |
|--|-------------------------|--------------------------|----------------------|---|--|
| | Governmental activities | Business-type activities | Total | Worcester Redevelopment Authority | Upper Blackstone Water Pollution Abatement District |
| | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 158,136,065 | 13,703,999 | 171,840,064 | 16,333 | 8,752,408 |
| Restricted cash and cash equivalents | 49,692,188 | 13,859,485 | 63,551,673 | 159 | - |
| Restricted investments | 35,375,876 | - | 35,375,876 | - | 8,598,253 |
| Receivables (net of allowance for uncollectibles) | 18,247,302 | 17,257,093 | 35,504,395 | 309,826 | 735,567 |
| Intergovernmental receivables | 30,596,338 | 2,572,023 | 33,168,361 | - | 3,545,287 |
| Capital assets, not being depreciated | 30,349,668 | 8,844,490 | 39,194,158 | 2,887,435 | 12,929,027 |
| Capital assets, net of accumulated depreciation | 822,757,984 | 235,672,445 | 1,058,430,429 | 23,510,275 | 150,411,968 |
| Total assets | <u>1,145,155,421</u> | <u>291,909,535</u> | <u>1,437,064,956</u> | <u>26,724,028</u> | <u>184,972,510</u> |
| Deferred outflows of resources: | | | | | |
| Related to pensions | 79,241,043 | 4,682,262 | 83,923,305 | - | 1,816,735 |
| Related to OPEB | 5,125,447 | 328,017 | 5,453,464 | - | - |
| Deferred charge on refunding | - | - | - | - | 449,525 |
| Total deferred outflows of resources | <u>84,366,490</u> | <u>5,010,279</u> | <u>89,376,769</u> | <u>-</u> | <u>2,266,260</u> |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 56,397,844 | 5,888,060 | 62,285,904 | 720,412 | 4,412,352 |
| Accrued liabilities | 14,337,319 | 1,681,553 | 16,018,872 | 3,014,630 | 2,154,701 |
| Retainage payable | 2,780,771 | 920,832 | 3,701,603 | - | - |
| Other liabilities | 9,214,260 | - | 9,214,260 | 20,048 | - |
| Temporary notes payable | 45,452,218 | 22,339,782 | 67,792,000 | - | 4,350,000 |
| Noncurrent liabilities due within one year | 67,874,057 | 12,580,784 | 80,454,841 | 10,177,765 | 17,720,214 |
| Total current liabilities | <u>196,056,469</u> | <u>43,411,011</u> | <u>239,467,480</u> | <u>13,932,855</u> | <u>28,637,267</u> |
| Noncurrent liabilities: | | | | | |
| Net pension liability | 443,463,926 | 25,419,424 | 468,883,350 | - | 8,265,187 |
| Total OPEB liability | 786,865,951 | 15,843,561 | 802,709,512 | - | - |
| Net OPEB liability | - | - | - | - | 907,862 |
| Other noncurrent liabilities due in more than one year | 517,810,032 | 142,848,506 | 660,658,538 | 764,875 | 133,550,236 |
| Total noncurrent liabilities | <u>1,748,139,909</u> | <u>184,111,491</u> | <u>1,932,251,400</u> | <u>764,875</u> | <u>142,723,285</u> |
| Total liabilities | <u>1,944,196,378</u> | <u>227,522,502</u> | <u>2,171,718,880</u> | <u>14,697,730</u> | <u>171,360,552</u> |
| Deferred inflows of resources: | | | | | |
| Related to pensions | 25,860,956 | 2,918,164 | 28,779,120 | - | 406,997 |
| Related to OPEB | - | 24 | 24 | - | 2,789,354 |
| Total deferred inflows of resources | <u>25,860,956</u> | <u>2,918,188</u> | <u>28,779,144</u> | <u>-</u> | <u>3,196,351</u> |
| Net position: | | | | | |
| Net investment in capital assets | 441,004,196 | 86,281,524 | 527,285,720 | 22,234,560 | 13,038,147 |
| Restricted for: | | | | | |
| Nonexpendable permanent funds: | | | | | |
| Libraries | 7,006,200 | - | 7,006,200 | - | - |
| Hope Cemetery | 4,239,910 | - | 4,239,910 | - | - |
| Health and human services | 2,681,633 | - | 2,681,633 | - | - |
| Other nonexpendable permanent funds | 1,698,209 | - | 1,698,209 | - | - |
| Expendable permanent funds: | | | | | |
| Libraries | 3,250,507 | - | 3,250,507 | - | - |
| Hope Cemetery | 488,895 | - | 488,895 | - | - |
| Health and human services | 537,862 | - | 537,862 | - | - |
| Other nonexpendable permanent funds | 703,515 | - | 703,515 | - | - |
| OPEB reserve fund | 15,009,004 | - | 15,009,004 | - | - |
| State and federal grants | 6,249,566 | - | 6,249,566 | - | - |
| Culture & recreation grants | 1,208,989 | - | 1,208,989 | - | - |
| General government grants | 4,509,382 | - | 4,509,382 | - | - |
| Health and human services grants | 676,563 | - | 676,563 | - | - |
| Library grants | 1,176,447 | - | 1,176,447 | - | - |
| Public safety grants | 6,046,581 | - | 6,046,581 | - | - |
| Public works grants | 3,872,943 | - | 3,872,943 | - | - |
| Educational grants | 6,436,526 | - | 6,436,526 | - | - |
| Unrestricted (deficit) | (1,247,332,351) | (19,802,400) | (1,267,134,751) | (10,208,262) | (356,280) |
| Total net position | <u>\$ (740,535,423)</u> | <u>66,479,124</u> | <u>(674,056,299)</u> | <u>12,026,298</u> | <u>12,681,867</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year Ended June 30, 2018

| Functions/programs | Expenses | Program revenues | | Net (expense)/ revenue | |
|---|-----------------------|-------------------------|--|------------------------------|--|
| | | Charges for services | Operating grants and contributions | | Capital grants and contributions |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 47,038,382 | 2,664,321 | 3,119,285 | - | (41,254,776) |
| Public safety | 171,039,156 | 18,807,852 | 6,095,983 | - | (146,135,321) |
| Health and human services | 14,270,447 | 952,918 | 9,964,581 | - | (3,352,948) |
| Education | 527,848,353 | 1,878,709 | 365,558,581 | 15,295,059 | (145,116,004) |
| Public works | 56,693,333 | 9,624,063 | 199,995 | 7,890,957 | (38,978,318) |
| Culture and recreation | 28,857,714 | 1,975,709 | 2,884,978 | 1,012,353 | (22,984,674) |
| Community development | 5,974,508 | 51,480 | 5,810,536 | - | (112,492) |
| Interest on debt | 21,671,700 | - | - | - | (21,671,700) |
| Total governmental activities | <u>873,393,593</u> | <u>35,955,052</u> | <u>393,633,939</u> | <u>24,198,369</u> | <u>(419,606,233)</u> |
| Business-type activities: | | | | | |
| Water | 28,062,260 | 29,587,535 | - | 180,000 | 1,705,275 |
| Sewer | 47,931,864 | 43,192,426 | - | 3,634,154 | (1,105,284) |
| Golf course (nonmajor) | 1,392,358 | 1,124,751 | - | - | (267,607) |
| Total business-type activities | <u>77,386,482</u> | <u>73,904,712</u> | <u>-</u> | <u>3,814,154</u> | <u>332,384</u> |
| Total primary government | <u>\$ 950,780,075</u> | <u>109,859,764</u> | <u>393,633,939</u> | <u>28,012,523</u> | <u>(419,273,849)</u> |
| Component units: | | | | | |
| Worcester Redevelopment Authority | \$ 2,869,218 | 396,807 | - | 721,947 | (1,750,464) |
| Upper Blackstone Water Pollution Abatement District | 26,292,393 | 28,319,698 | 686,687 | - | 2,713,992 |
| Total component units | <u>\$ 29,161,611</u> | <u>28,716,505</u> | <u>686,687</u> | <u>721,947</u> | <u>963,528</u> |

(Continued)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year Ended June 30, 2018

| | Primary Government | | | Component Units | |
|--|-------------------------|--------------------------|---------------|-----------------------------------|---|
| | Governmental Activities | Business-Type Activities | Total | Worcester Redevelopment Authority | Upper Blackstone Water Pollution Abatement District |
| Changes in net position: | | | | | |
| Net (expense) revenue (from previous page) | \$ (419,606,233) | 332,384 | (419,273,849) | (1,750,464) | 2,713,992 |
| General revenues: | | | | | |
| Property taxes | 288,275,098 | - | 288,275,098 | - | - |
| Motor vehicle excise taxes | 15,702,438 | - | 15,702,438 | - | - |
| Other taxes and in-lieu payments | 7,624,569 | - | 7,624,569 | - | - |
| Penalties and interest on taxes | 2,048,604 | - | 2,048,604 | - | - |
| Intergovernmental (unrestricted) | 42,286,311 | - | 42,286,311 | - | - |
| Investment earnings | 2,219,258 | - | 2,219,258 | 114 | 87,657 |
| Gain (loss) on sale of capital assets | - | - | - | 27,300 | - |
| Energy sales and rebates | 5,311,700 | - | 5,311,700 | - | - |
| Miscellaneous | 3,607,667 | - | 3,607,667 | - | - |
| Transfers (net) | 646,373 | (646,373) | - | - | - |
| Total general revenues and transfers (net) | 367,722,018 | (646,373) | 367,075,645 | 27,414 | 87,657 |
| Contributions to permanent funds | 225,394 | - | 225,394 | - | - |
| Sub-total | 367,947,412 | (646,373) | 367,301,039 | 27,414 | 87,657 |
| Change in net position | (51,658,821) | (313,989) | (51,972,810) | (1,723,050) | 2,801,649 |
| Net position - beginning, as restated | (688,876,602) | 66,793,113 | (622,083,489) | 13,749,348 | 9,880,218 |
| Net position - ending | \$ (740,535,423) | 66,479,124 | (674,056,299) | 12,026,298 | 12,681,867 |

(Concluded)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Balance Sheet

Governmental Funds

June 30, 2018

| | <u>General</u> | <u>Debt Service</u> | <u>Other governmental funds</u> | <u>Total governmental funds</u> |
|--|-----------------------|-------------------------|---|---|
| Assets: | | | | |
| Cash and cash equivalents | \$ 90,468,725 | 20,757,789 | 23,358,898 | 134,585,412 |
| Restricted cash and cash equivalents | - | - | 49,692,188 | 49,692,188 |
| Restricted investments | 15,009,004 | - | 20,366,872 | 35,375,876 |
| Due from other funds | 4,639,333 | - | - | 4,639,333 |
| Receivables (net of allowance for uncollectibles) | 16,050,084 | - | 1,607,500 | 17,657,584 |
| Intergovernmental receivables | 19,313,134 | - | 11,283,204 | 30,596,338 |
| Total assets | <u>\$ 145,480,280</u> | <u>20,757,789</u> | <u>106,308,662</u> | <u>272,546,731</u> |
| Liabilities: | | | | |
| Accounts payable | \$ 50,545,046 | - | 5,689,417 | 56,234,463 |
| Due to general fund | - | - | 4,639,333 | 4,639,333 |
| Due to internal service fund | 871,086 | - | - | 871,086 |
| Retainage payable | - | - | 2,780,771 | 2,780,771 |
| Temporary loans | - | - | 45,452,218 | 45,452,218 |
| Other liabilities | 6,168,571 | - | 3,045,689 | 9,214,260 |
| Total liabilities | <u>57,584,703</u> | <u>-</u> | <u>61,607,428</u> | <u>119,192,131</u> |
| Deferred inflows of resources: | | | | |
| Unavailable revenue-school construction reimbursement | 17,401,800 | - | - | 17,401,800 |
| Unavailable revenue-property taxes | 5,744,895 | - | - | 5,744,895 |
| Unavailable revenue-other | 7,363,043 | - | 1,607,500 | 8,970,543 |
| Total deferred inflows of resources | <u>30,509,738</u> | <u>-</u> | <u>1,607,500</u> | <u>32,117,238</u> |
| Fund balances: | | | | |
| Nonspendable | - | - | 15,625,952 | 15,625,952 |
| Restricted | 15,009,004 | - | 35,955,172 | 50,964,176 |
| Committed | - | 20,757,789 | 23,358,898 | 44,116,687 |
| Unassigned | 42,376,835 | - | (31,846,288) | 10,530,547 |
| Total fund balances | <u>57,385,839</u> | <u>20,757,789</u> | <u>43,093,734</u> | <u>121,237,362</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 145,480,280</u> | <u>20,757,789</u> | <u>106,308,662</u> | <u>272,546,731</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 June 30, 2018

| | |
|--|-------------------------|
| Total governmental fund balances (Exhibit 3) | \$ 121,237,362 |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore are not reported in the governmental funds. | 853,107,652 |
| Other assets are not available to pay for current period expenditures and, therefore are deferred inflows in the governmental funds. | 32,117,238 |
| An internal service fund is used by management to charge the costs of self-insured health insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. | 19,236,717 |
| In the statement of net position, interest is accrued on outstanding long-term debt and temporary notes, whereas in the governmental funds interest is not reported until due. | (8,725,960) |
| Deferred outflows and inflows of resources of the pension plan are not reported in government funds. | 53,380,087 |
| Deferred outflows and inflows of resources of OPEB are not reported in government funds. | 5,125,447 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds: | |
| Bonds and notes payable, net of unamortized premiums | (528,840,557) |
| Capital lease payable | (8,846,183) |
| Net pension liability | (443,463,926) |
| Total OPEB liability | (786,865,951) |
| Judgments and claims | (22,175,592) |
| Compensated absences | (13,535,757) |
| Landfill closure costs and post closure costs | <u>(12,286,000)</u> |
| Net position of governmental activities (Exhibit 1) | <u>\$ (740,535,423)</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2018

| | General | Debt Service | Other governmental funds | Total governmental funds |
|--|---------------------|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Property taxes | \$ 289,195,116 | - | - | 289,195,116 |
| Motor vehicle excise taxes | 16,138,899 | - | - | 16,138,899 |
| Other taxes and in-lieu payments | 5,818,227 | 2,517,426 | - | 8,335,653 |
| Penalties and interest on taxes | 2,048,604 | - | - | 2,048,604 |
| Licenses and permits | 6,943,316 | - | - | 6,943,316 |
| Intergovernmental | 301,850,246 | - | 95,101,248 | 396,951,494 |
| Charges for services | 5,931,917 | - | 20,165,524 | 26,097,441 |
| Fines and forfeitures | 2,501,097 | - | - | 2,501,097 |
| Investment earnings (losses) | 1,570,431 | - | 648,827 | 2,219,258 |
| Donations | - | - | 5,588,729 | 5,588,729 |
| Contributions to permanent funds | - | - | 225,394 | 225,394 |
| Energy sales and rebates | 1,718,265 | - | 3,593,435 | 5,311,700 |
| Miscellaneous | 2,699,183 | - | 908,484 | 3,607,667 |
| Total revenues | 636,415,301 | 2,517,426 | 126,231,641 | 765,164,368 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 22,634,473 | - | 8,925,132 | 31,559,605 |
| Public safety | 93,490,649 | - | 16,090,582 | 109,581,231 |
| Health and human services | 3,599,295 | - | 8,560,584 | 12,159,879 |
| Education | 279,177,009 | - | 78,779,929 | 357,956,938 |
| Public works | 22,441,845 | - | 21,661,275 | 44,103,120 |
| Culture and recreation | 11,860,480 | - | 18,063,116 | 29,923,596 |
| Fringe benefits | 105,265,090 | - | - | 105,265,090 |
| Community development | - | - | 5,916,858 | 5,916,858 |
| State and regional charges | 31,704,326 | - | - | 31,704,326 |
| Debt service: | | | | |
| Principal | 33,251,135 | 9,490,176 | 3,001,530 | 45,742,841 |
| Interest | 17,717,095 | 4,752,843 | 1,725,485 | 24,195,423 |
| Total expenditures | 621,141,397 | 14,243,019 | 162,724,491 | 798,108,907 |
| Excess (deficiency) of revenues over expenditures | 15,273,904 | (11,725,593) | (36,492,850) | (32,944,539) |
| Other financing sources (uses): | | | | |
| Transfers in | 3,640,915 | 14,958,187 | 9,885,954 | 28,485,056 |
| Transfers out | (15,315,474) | (500,000) | (12,023,209) | (27,838,683) |
| Premium on issuance of bonds and notes | - | - | 6,778,405 | 6,778,405 |
| Issuance of bonds | - | - | 84,369,033 | 84,369,033 |
| Premium on issuance of refunding bonds | - | - | 1,548,862 | 1,548,862 |
| Issuance of refunding bonds | - | - | 23,232,820 | 23,232,820 |
| Payment to refunded bonds escrow agent | - | - | (24,781,682) | (24,781,682) |
| Capital lease | 1,650,273 | - | - | 1,650,273 |
| Total other financing sources (uses) | (10,024,286) | 14,458,187 | 89,010,183 | 93,444,084 |
| Net change in fund balances | 5,249,618 | 2,732,594 | 52,517,333 | 60,499,545 |
| Fund balances – beginning | 52,136,221 | 18,025,195 | (9,423,599) | 60,737,817 |
| Fund balances – ending | \$ 57,385,839 | 20,757,789 | 43,093,734 | 121,237,362 |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

| | |
|---|------------------------|
| Net change in fund balances - total governmental funds (Exhibit 5) | \$ 60,499,545 |
| <p>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. This is the amount by which capital outlays exceeded depreciation in the current period:</p> | |
| Capital outlays | 68,177,772 |
| Depreciation | (50,414,500) |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the net change in deferred inflows of resources.</p> | |
| | (6,966,130) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of certain issuance costs, premiums, discounts and similar items when debt is first issued, whereas certain of these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period:</p> | |
| Issuance of bonds | (107,601,853) |
| New capital leases | (1,650,273) |
| Bond and note maturities | 69,492,227 |
| Capital lease principal payments | 2,001,920 |
| Net deferrals and amortization of bond premiums | (4,607,930) |
| <p>In the statement of activities, interest is accrued on outstanding long-term debt whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.</p> | |
| | 185,066 |
| <p>An internal service fund is used by management to charge the cost of self-insured health insurance to individual funds. The activity of the internal service fund is reported with governmental funds.</p> | |
| | (6,694,470) |
| <p>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 governmental funds. These amounts represent the net change:</p> | |
| Pension expense | (22,449,895) |
| OPEB expense | (36,990,318) |
| Judgments and claims | (8,287,138) |
| Compensated absences | (66,844) |
| Landfill closure and post closure care | (6,286,000) |
| | <u>(51,658,821)</u> |
| Change in net position of governmental activities (Exhibit 2) | <u>\$ (51,658,821)</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
Statement of Net Position
Proprietary Funds
June 30, 2018

| | Business-type activities | | | | Governmental activities |
|--|--------------------------|----------------------|--------------------|----------------------|-------------------------|
| | Major | | Nonmajor | Totals | Internal Service Fund |
| | Water | Sewer | Golf Course | | |
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 10,948,387 | 2,652,295 | 103,317 | 13,703,999 | 23,550,653 |
| Restricted cash and cash equivalents | 5,073,040 | 8,658,535 | 127,910 | 13,859,485 | - |
| Due from General Fund | - | - | - | - | 871,086 |
| Receivables (net) | 3,419,409 | 13,837,684 | - | 17,257,093 | 589,718 |
| Total current assets | <u>19,440,836</u> | <u>25,148,514</u> | <u>231,227</u> | <u>44,820,577</u> | <u>25,011,457</u> |
| Noncurrent assets: | | | | | |
| Capital assets: | | | | | |
| Land | 7,180,948 | 116,500 | - | 7,297,448 | - |
| Construction-in-progress | - | - | 1,547,042 | 1,547,042 | - |
| Buildings | 43,904,652 | 5,459,258 | 965,493 | 50,329,403 | - |
| Infrastructure | 173,748,927 | 242,872,353 | 1,709,731 | 418,331,011 | - |
| Equipment and other | 1,661,576 | 515,745 | - | 2,177,321 | - |
| Rolling equipment | 3,533,465 | 9,234,771 | - | 12,768,236 | - |
| Less accumulated depreciation | <u>(118,900,942)</u> | <u>(127,384,414)</u> | <u>(1,648,170)</u> | <u>(247,933,526)</u> | <u>-</u> |
| Capital assets, net | <u>111,128,626</u> | <u>130,814,213</u> | <u>2,574,096</u> | <u>244,516,935</u> | <u>-</u> |
| Due from intergovernmental | 180,000 | 2,392,023 | - | 2,572,023 | - |
| Total noncurrent assets | <u>111,308,626</u> | <u>133,206,236</u> | <u>2,574,096</u> | <u>247,088,958</u> | <u>-</u> |
| Total assets | <u>130,749,462</u> | <u>158,354,750</u> | <u>2,805,323</u> | <u>291,909,535</u> | <u>25,011,457</u> |
| Deferred outflows of resources: | | | | | |
| Related to pensions | 3,183,329 | 1,409,513 | 89,420 | 4,682,262 | - |
| Related to OPEB | 288,545 | 39,472 | - | 328,017 | - |
| Total deferred outflows of resources | <u>3,471,874</u> | <u>1,448,985</u> | <u>89,420</u> | <u>5,010,279</u> | <u>-</u> |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 1,022,155 | 4,738,388 | 127,517 | 5,888,060 | 163,381 |
| Accrued liabilities | 642,509 | 1,002,961 | 36,083 | 1,681,553 | 5,611,359 |
| Retainage payable | 44,330 | 807,980 | 68,522 | 920,832 | - |
| Judgments and claims | 260,475 | 51,186 | - | 311,661 | - |
| Compensated absences | 411,407 | 191,037 | 10,356 | 612,800 | - |
| Temporary loans | 8,584,902 | 12,713,051 | 1,041,829 | 22,339,782 | - |
| Other | 176,730 | 276,538 | 14,635 | 467,903 | - |
| Bonds and notes payable | 5,191,335 | 5,802,649 | 194,436 | 11,188,420 | - |
| Total current liabilities | <u>16,333,843</u> | <u>25,583,790</u> | <u>1,493,378</u> | <u>43,411,011</u> | <u>5,774,740</u> |
| Noncurrent liabilities: | | | | | |
| Judgments and claims | 640,276 | 163,124 | - | 803,400 | - |
| Compensated absences | 96,418 | 34,744 | 11,837 | 142,999 | - |
| Net pension liability | 16,901,177 | 8,053,857 | 464,390 | 25,419,424 | - |
| Total OPEB liability | 9,733,960 | 5,861,664 | 247,937 | 15,843,561 | - |
| Other | 872,651 | 1,721,774 | 23,603 | 2,618,028 | - |
| Bonds and notes payable | 47,880,298 | 90,126,774 | 1,277,007 | 139,284,079 | - |
| Total noncurrent liabilities | <u>76,124,780</u> | <u>105,961,937</u> | <u>2,024,774</u> | <u>184,111,491</u> | <u>-</u> |
| Total liabilities | <u>92,458,623</u> | <u>131,545,727</u> | <u>3,518,152</u> | <u>227,522,502</u> | <u>5,774,740</u> |
| Deferred inflows of resources: | | | | | |
| Related to pensions | 2,078,145 | 809,317 | 30,702 | 2,918,164 | - |
| Related to OPEB | - | - | 24 | 24 | - |
| Total deferred inflows of resources | <u>2,078,145</u> | <u>809,317</u> | <u>30,726</u> | <u>2,918,188</u> | <u>-</u> |
| Net position (deficit): | | | | | |
| Net investment in capital assets | 54,624,424 | 31,492,566 | 164,534 | 86,281,524 | - |
| Unrestricted | <u>(14,939,856)</u> | <u>(4,043,875)</u> | <u>(818,669)</u> | <u>(19,802,400)</u> | <u>19,236,717</u> |
| Total net position (deficit) | <u>\$ 39,684,568</u> | <u>27,448,691</u> | <u>(654,135)</u> | <u>66,479,124</u> | <u>19,236,717</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

| | Business-type activities | | | | Governmental activities |
|--|---------------------------------|--------------------|--------------------|--------------------|--------------------------------|
| | Major | | Nonmajor | Totals | Internal Service Fund |
| | Water | Sewer | Golf Course | | |
| Operating revenues: | | | | | |
| Charges for services | \$ 28,075,523 | 42,197,185 | - | 70,272,708 | - |
| Employer contributions | - | - | - | - | 62,871,572 |
| Employee contributions | - | - | - | - | 20,809,701 |
| Fees | - | - | 1,094,842 | 1,094,842 | - |
| Miscellaneous | 1,512,012 | 995,241 | 29,909 | 2,537,162 | - |
| Total operating revenues | 29,587,535 | 43,192,426 | 1,124,751 | 73,904,712 | 83,681,273 |
| Operating expenses: | | | | | |
| Salaries and benefits | 11,743,782 | 6,772,217 | 404,544 | 18,920,543 | - |
| Benefit payments | - | - | - | - | 90,723,313 |
| Ordinary maintenance | 4,053,730 | 23,707,377 | 785,901 | 28,547,008 | - |
| Indirect costs | 2,313,991 | 3,636,756 | 30,954 | 5,981,701 | - |
| Depreciation | 7,638,871 | 9,681,414 | 112,018 | 17,432,303 | - |
| Total operating expenses | 25,750,374 | 43,797,764 | 1,333,417 | 70,881,555 | 90,723,313 |
| Operating income (loss) | 3,837,161 | (605,338) | (208,666) | 3,023,157 | (7,042,040) |
| Nonoperating revenues (expenses): | | | | | |
| Investment income | - | - | - | - | 347,570 |
| Interest expense | (2,311,886) | (4,134,100) | (58,941) | (6,504,927) | - |
| Total nonoperating revenues (expenses) | (2,311,886) | (4,134,100) | (58,941) | (6,504,927) | 347,570 |
| Income (loss) before capital grants and transfers | 1,525,275 | (4,739,438) | (267,607) | (3,481,770) | (6,694,470) |
| Capital grants and donations | 180,000 | 3,634,154 | - | 3,814,154 | - |
| Transfers in | 386,500 | - | 300,453 | 686,953 | - |
| Transfers out | (743,706) | (569,595) | (20,025) | (1,333,326) | - |
| Change in net position | 1,348,069 | (1,674,879) | 12,821 | (313,989) | (6,694,470) |
| Total net position – beginning, as restated | 38,336,499 | 29,123,570 | (666,956) | 66,793,113 | 25,931,187 |
| Total net position – ending | \$ 39,684,568 | 27,448,691 | (654,135) | 66,479,124 | 19,236,717 |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

| | Business-type activities | | | | Governmental activities |
|--|--------------------------|---------------------|------------------|---------------------|-------------------------|
| | Major | | Nonmajor | Totals | Internal Service Fund |
| | Water | Sewer | Golf Course | | |
| Cash flows from operating activities: | | | | | |
| Receipts from customers | \$ 29,370,182 | 42,078,994 | 1,124,751 | 72,573,927 | 82,810,187 |
| Payments for interfund service provided | - | - | - | - | (88,913,007) |
| Payments to suppliers | (6,122,024) | (24,428,124) | (1,063,529) | (31,613,677) | - |
| Payments to employees | (10,661,670) | (6,167,838) | (364,293) | (17,193,801) | - |
| Net cash provided (used) by operating activities | <u>12,586,488</u> | <u>11,483,032</u> | <u>(303,071)</u> | <u>23,766,449</u> | <u>(6,102,820)</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Transfers in | 386,500 | - | 300,453 | 686,953 | - |
| Transfers (out) | (743,706) | (569,595) | (20,025) | (1,333,326) | - |
| Net cash provided (used) by noncapital financing activities | <u>(357,206)</u> | <u>(569,595)</u> | <u>280,428</u> | <u>(646,373)</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Intergovernmental subsidies and grants | - | 1,273,512 | - | 1,273,512 | - |
| Issuance of capital debt (long & short) | 18,820,542 | 35,028,457 | 1,844,357 | 55,693,356 | - |
| Acquisition and construction of capital assets | (7,521,273) | (16,230,704) | (1,075,007) | (24,826,984) | - |
| Principal paid on capital debt | (15,640,326) | (27,489,624) | (954,491) | (44,084,441) | - |
| Interest paid on capital debt | (2,480,434) | (4,370,623) | (49,063) | (6,900,120) | - |
| Net cash provided (used) by capital and related financing activities | <u>(6,821,491)</u> | <u>(11,788,982)</u> | <u>(234,204)</u> | <u>(18,844,677)</u> | <u>-</u> |
| Cash flows from investing activities: | | | | | |
| Investment income | - | - | - | - | 347,570 |
| Net increase (decrease) in cash and cash equivalents | 5,407,791 | (875,545) | (256,847) | 4,275,399 | (5,755,250) |
| Cash and cash equivalents at beginning of year (includes \$3,683,717, \$8,182,212 and \$375,338 reported as restricted in the Water, Sewer and Golf Course [nonmajor] funds) | <u>10,613,636</u> | <u>12,186,375</u> | <u>488,074</u> | <u>23,288,085</u> | <u>29,305,903</u> |
| Cash and cash equivalents at end of year (includes \$5,073,040, \$8,658,535 and \$127,910 reported as restricted in the Water, Sewer and Golf Course [nonmajor] funds) | <u>\$ 16,021,427</u> | <u>11,310,830</u> | <u>231,227</u> | <u>27,563,484</u> | <u>23,550,653</u> |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | | | |
| Operating income (loss) | \$ 3,837,161 | (605,338) | (208,666) | 3,023,157 | (7,042,040) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Changes in assets and liabilities not requiring current expenditure of cash: | | | | | |
| Depreciation expense | 7,638,871 | 9,681,414 | 112,018 | 17,432,303 | - |
| Net deferred outflows | 11,484 | 2,083 | (1,034) | 12,533 | - |
| Total OPEB liability | 673,309 | 305,098 | 16,187 | 994,594 | - |
| Net deferred inflows | 1,555,940 | 423,231 | 20,281 | 1,999,452 | - |
| Effect of changes in assets and liabilities requiring current expenditure of cash: | | | | | |
| Due from General Fund | - | - | - | - | (871,086) |
| Accounts receivable | (217,353) | (1,113,432) | - | (1,330,785) | 2,498,511 |
| Accounts payable | 72,948 | 2,931,314 | (246,840) | 2,757,422 | (466,624) |
| Accrued liabilities | - | - | - | - | (221,581) |
| Judgments and claims payable | 186,656 | (10,040) | - | 176,616 | - |
| Compensated absences payable | 4,959 | 8,775 | 434 | 14,168 | - |
| Net pension liability | (1,177,487) | (140,073) | 4,549 | (1,313,011) | - |
| Total adjustments | <u>8,749,327</u> | <u>12,088,370</u> | <u>(94,405)</u> | <u>20,743,292</u> | <u>939,220</u> |
| Net cash provided (used) by operating activities | <u>\$ 12,586,488</u> | <u>11,483,032</u> | <u>(303,071)</u> | <u>23,766,449</u> | <u>(6,102,820)</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Fiduciary Net Position

June 30, 2018

| | Pension Trust Fund (As of December 31, 2017) | Agency Fund |
|--|---|-----------------------------|
| | <u> </u> | <u> </u> |
| Assets: | | |
| Cash and cash equivalents | \$ 4,148,258 | 434,855 |
| Investments, at fair value: | | |
| Equities | 12,009,334 | - |
| Fixed income | 107,001,932 | - |
| Pooled equities | 360,948,097 | - |
| Pooled fixed income | 78,402,215 | - |
| External Investment Pool | 193,302,393 | - |
| Real estate | 83,265,374 | - |
| Alternative investments | 116,885,774 | - |
| Total investments | <u>951,815,119</u> | <u>-</u> |
| Receivables: | | |
| Accrued interest and dividends | 580,031 | - |
| Due from Commonwealth of Massachusetts and other systems | 1,277,114 | - |
| Receivable for securities sold | 319,915 | - |
| Other receivables | 94,478 | - |
| Total receivables | <u>2,271,538</u> | <u>-</u> |
| Securities lending collateral | 11,633,420 | - |
| Total assets | <u>969,868,335</u> | <u>434,855</u> |
| Liabilities: | | |
| Accounts payable and accrued expenses | 288,418 | 1,929 |
| Due to student groups | - | 432,926 |
| Due to Commonwealth of Massachusetts and other systems | 3,148,155 | - |
| Payable for securities purchased | 2,354,271 | - |
| Collateral held on securities lending transactions | 11,633,420 | - |
| Total liabilities | <u>17,424,264</u> | <u>434,855</u> |
| Net position: | | |
| Net position restricted for pensions | \$ <u>952,444,071</u> | <u>-</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2018

| | Pension Trust Fund (Year ended December 31, 2017) |
|--|--|
| | <u> </u> |
| Additions: | |
| Contributions from: | |
| Employers | \$ 46,188,470 |
| Plan members | 19,327,093 |
| | <u> </u> |
| Total contributions | 65,515,563 |
| | <u> </u> |
| Investment earnings: | |
| Interest and dividends | 14,540,025 |
| Securities lending income | 20,061 |
| Net realized and unrealized gains | 124,732,994 |
| Less: management fees | (4,633,537) |
| Less: borrower rebates and fees under securities lending program | (12,728) |
| | <u> </u> |
| Net investment income | 134,646,815 |
| | <u> </u> |
| Other | 1,766,916 |
| | <u> </u> |
| Total additions | <u>201,929,294</u> |
| | <u> </u> |
| Deductions: | |
| Benefit payments to plan members and beneficiaries | 80,516,026 |
| Reimbursements to other systems | 3,148,303 |
| Refunds and transfers of plan member accounts to other systems | 2,582,201 |
| Administrative expenses | 583,404 |
| | <u> </u> |
| Total deductions | 86,829,934 |
| | <u> </u> |
| Net increase (decrease) in net position | 115,099,360 |
| Net position restricted for pensions – beginning | <u>837,344,711</u> |
| Net position restricted for pensions – ending | <u>\$ 952,444,071</u> |

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

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CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the City of Worcester (the City) are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

(a) *Financial Reporting Entity*

The City's basic financial statements present the City (the primary government) and its component units. The component units, discussed below, are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Primary Government

The City operates under the Council-Manager form of government. Legislative authority is vested in an eleven-member City Council (the Council), of which six members are elected at-large and five are elected from districts, all of which are elected biennially. The School Committee, whose members are elected biennially, has exclusive jurisdiction over the City's public school system and appoints a superintendent to administer the system's day-to-day affairs.

The City provides a variety of public services. All funds of the City are included in the basic financial statements. The financial condition and results of operations of the City's funds are presented as of and for the fiscal year ended June 30, 2018, except for the City of Worcester Contributory Retirement System (WRS), which is presented as of and for the fiscal year ended December 31, 2017.

Fiduciary Fund Component Unit

WRS provides services almost entirely to the City. While legally separate, WRS is presented as if it were part of the primary government.

WRS is a cost-sharing, multiple-employer defined benefit pension plan established by the City on June 12, 1944 under Chapter 32 of the Massachusetts General Laws (MGL) and is regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). WRS covers certain eligible employees of the City and the Worcester Housing Authority.

WRS is administered by a five-member Retirement Board comprised of the City Auditor, who serves as *ex-officio*; two members elected by participants in or retired from service under WRS; a fourth member appointed by the City Manager; and a fifth member appointed by the other members. WRS is accounted for as a pension trust fund and is omitted from the government-wide financial statements. Complete audited financial statements for WRS are publicly available and can be obtained from the Retirement Office, 455 Main Street, Room 103, Worcester, Massachusetts 01608.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Discretely Presented Component Units

These component units are reported in separate columns to emphasize that they are legally separate from the City but are included in the City's reporting entity because the City is financially accountable for them. The City is financially accountable for, and is able to impose its will on these organizations. The City appoints a voting majority of each organization's governing body and there is a potential for each organization either to provide specific financial benefits or to impose specific financial burdens on the City. The notes to the basic financial statements pertain to the primary government, unless otherwise indicated. A description of the discretely presented component units and their relationship with the City follows:

- The **Upper Blackstone Water Pollution Abatement District** (the District) is a special-purpose municipal corporation whose primary responsibility is to provide sewage treatment services to participating municipalities. The District was established under Chapter 752 of the Acts of 1968 of the Commonwealth. The District's area of potential service includes the City of Worcester, the Towns of Auburn, Boylston, Holden, Leicester, Millbury, Oxford, Paxton, Rutland, Shrewsbury, and West Boylston and all the sewer districts representing a portion of any of the above towns. The City of Worcester and the Towns of Auburn, Holden, Millbury, Rutland, West Boylston, and the Cherry Valley Sewer District of Leicester are the members of the District. The District is governed by a board of directors comprised of residents of the member governments. Each member government appoints one board member, with the City appointing a sufficient number of board members to have a majority vote. Complete financial statements for the District can be obtained from the District's administrative offices at Route 20, Millbury, Massachusetts 01527.
- The **Worcester Redevelopment Authority** (WRA) was organized under state law as a body corporate and politic having the authority to oversee and direct the City's redevelopment activities. WRA exercises its redevelopment powers through a five-member board, of which four members are appointed without restriction by the City Manager. Complete financial statements can be obtained from the Office of Budget and Operational Analysis, Chief Financial Officer, Worcester Redevelopment Authority, 455 Main Street, Worcester, Massachusetts 01608.

Joint Venture

Municipal joint ventures pool resources to share the costs, risks, and rewards of providing services to their participants, the general public or others. The City is a participant in a joint venture to operate the Worcester Regional Transit Authority (WRTA), a component unit of the Commonwealth. Created in 1974 as a body corporate and politic and political subdivision of the Commonwealth, WRTA provides rapid transit and other mass transportation services to the City and 35 other municipalities within its jurisdiction. Each participating municipality is represented by one member on WRTA's governing board. The City's representative is appointed by the City Manager. While the level of service provided to each member affects the weight of each member's vote, the City's vote

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

does not constitute a voting majority. The City is indirectly liable for debt and other expenses incurred by WRTA. The City's paid assessment from WRTA for fiscal 2018 amounted to \$3,314, which represented approximately 68.46% of the total of such assessments on all participating cities and towns. Complete financial statements for WRTA can be obtained from WRTA's administrative offices at 60 Foster Street, Worcester, Massachusetts 01608.

Related Organization

The City Manager is responsible for appointing four out of five board members to the Worcester Housing Authority subject to confirmation by the City Council. However, the City's accountability for this organization does not extend beyond making these appointments.

(b) Implementation of New Accounting Principles

For the year ending June 30, 2018, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*

The implementation of GASB Statements No. 81, 85, and 86 had no significant reporting impact for the City.

The implementation of GASB Statement No. 75 resulted in, among other things, the establishment of the total other postemployment benefit (OPEB) liability in the Statement of Net Position and enhanced disclosures related to the OPEB.

(c) Government-Wide and Fund Financial Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its discretely presented component units. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely for the most part on fees and charges for support. Likewise, the primary government is reported separately from legally separate component units for which the primary government is financially accountable.

The statement of activities presents both the gross and net cost per functional category. Direct expenses are those that are clearly identifiable with a specific function and program revenues must be directly associated with that function. Program revenues include charges to customers or

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

applicants who purchase goods, services, or privileges as well as grants and contributions that are restricted to meeting operational or capital requirements of the function. Other revenue sources, such as taxes and investment earnings not properly included among program revenues, are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. However, fiduciary funds are not included in government-wide statements since these assets are held for the benefit of private parties and pension participants and cannot be used to satisfy obligations of the primary government. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

(d) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements and the proprietary, fiduciary, and component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Except for the agency fund (a fiduciary fund), revenues are recorded when earned and expenses are recognized when incurred. Agency funds do not present the results of operations or have a measurement focus. 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 have been met.

Employer contributions to the pension trust fund are recognized as revenue and recorded as a receivable when appropriated by the participating employers. Member and other contributions are recognized when due. Benefits and refunds to plan members and beneficiaries are recognized as expenses when due and payable in accordance with the terms of the plan.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues not considered available are recorded as deferred inflows of resources.

The City also reports proprietary funds. The focus in proprietary funds is upon determination of operating income, changes in net position, financial position, and cash flows. The City's discretely presented component units, along with the water, sewer and golf course (nonmajor) enterprises, fit into this category. The accounting principles used are similar to those used for private sector businesses.

The City applies the susceptible-to-accrual criteria to intergovernmental revenues. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible-to-accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

Property taxes and motor vehicle excise taxes are recorded as revenue in the year for which the taxes have been levied, provided they are collected within 60 days after year-end. Investment income is recorded as earned. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

Expenditures are recorded when the liability is incurred except for (1) interest on general obligation debt, which is recorded when due; and (2) claims and judgments (including self-insurance), compensated absences and landfill closure and post closure care costs, all of which are recorded as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources.

The City reports the following major governmental funds:

- **General Fund** – The general fund is the general operating fund of the City and is used to account for and report all financial resources not accounted for and reported in another fund.
- **Debt Service Fund** – The debt service fund was established to reduce the impact of debt service costs on future budgets. The original funding source was from the Massachusetts School Building Authority (MSBA) from retroactive reimbursement for school construction costs, and has since been expanded to include CitySquare District Improvement Financing (DIF), North High School debt service, DCU DIF fund, construction of two new future high schools and other debt service.

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

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

The City reports the following major enterprise funds:

- **Water Fund** – The water fund is used to account for the utility that purifies and distributes water to city users.
- **Sewer Fund** – The sewer fund is used to account for the utility that treats sewerage and storm water run-off in the city.

Additionally, the City reports the following fund types:

- **Pension Trust Fund** – The pension trust fund is used to account for the activities of WRS, which accumulates resources for pension benefit payments to qualified employees.
- **Agency Fund** – The agency fund is used to account for student activity funds.

The City also uses an internal service fund to account for self-insured health costs. Although the fund is presented in a separate column in the accompanying financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the water, sewer, and golf course (nonmajor) functions and other functions. These charges are reflected as charges to the proprietary funds and expense credits to the servicing functions.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues are those that cannot be associated directly with program activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for services, fees, facility rental, and miscellaneous operating revenues. Operating expenses of these funds are salaries and benefits, ordinary maintenance, indirect costs, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(e) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents consist of highly liquid financial instruments with original maturities of three months or less.

Basis of Investment Valuation

Investments are stated at fair value, which are based on quotations from a national securities exchange except for alternative investments and real estate funds, for which fair value is determined through estimates by fund managers.

The City's alternative investments are recorded at fair market value as determined in good faith by the general partners of the alternative investment firms. The City's investments in real estate funds are recorded at fair value, based on independent third party appraisals as reported by the investment managers of the funds. As there is no readily available market for these investments, estimated values may differ significantly from the values that may be realized upon liquidation.

Basis of Investment Transactions

Purchases and sales of investments are recorded on the trade date. Transactions unsettled as of year-end are recorded as payables for securities purchased and as receivables for securities sold.

Property Taxes

Real and personal property taxes are based on values levied (assessed) and liened as of each January 1 in accordance with Massachusetts General Laws. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Once levied, these taxes are recorded as receivables, net of estimated uncollectibles. In the governmental funds financial statements property tax revenues have been recorded using the modified accrual basis of accounting, which is described in note 1(d). The government-wide financial statements recognize property tax revenue when taxes are levied net of estimated uncollectibles.

The City bills and collects its property taxes on a quarterly basis. Taxes must be billed at least 30 days prior to their due date. The scheduled due dates for quarterly tax billings are August 1, November 1, February 1 and May 1. Overdue property taxes are subject to interest and penalties. The City has an ultimate right to foreclose on properties for which taxes have not been paid.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the City. A secondary limitation is that no levy in any fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a City-wide referendum vote.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Inventory

The cost of supplies and other inventoriable items for governmental funds are recorded as an expenditure at the time of purchase (purchase method). The cost of supplies and other inventoriable items for enterprise funds are valued using the first-in/first-out (FIFO) method. No significant inventory balances were on hand at June 30, 2018, and therefore are not reported.

Capital Assets

Capital assets, which include land, construction in progress, buildings, improvements other than buildings, rolling equipment, equipment and other, treatment facilities and infrastructure assets (e.g., roads, bridges, curbs, gutters, streets, sidewalks, and drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$50 and an estimated useful life in excess of two years. The WRA and District define capital assets as assets with an estimated useful life in excess of one year, with no minimum capitalization threshold dollar value. These assets are valued at cost or estimated historical cost if actual cost is not available. Cost includes not only purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Net interest costs related to construction projects, for business-type activities, is capitalized during the construction period if material. Such costs were not considered material during fiscal 2018. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. Capital assets held by the discretely presented component units are accounted for in the applicable component unit. Depreciation is provided by the City on a straight-line basis over the estimated useful lives of the assets, which are 5 to 10 years for vehicles and equipment, 20 to 40 years for facilities and 20 to 50 years for infrastructure. Depreciation is provided by the WRA on a straight-line basis over the estimated useful lives of the assets, which are 10 to 20 years for land improvements, 39 years for buildings and improvements and 3 to 5 years for equipment. Depreciation is provided by the District on a straight-line basis over the estimated useful lives of the assets, which are 3 to 20 years for equipment and other and 20 to 50 years for facilities.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, eligible employees are compensated for unused sick and vacation leave (subject to certain limitations) at specified payment rates established by contract, regulation, or policy. The cost of compensated absences for employees is recorded as earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if it has matured (i.e., come due for payment). To the extent it is probable that unused sick days will result in termination payments, a liability based on established payment rates and the City's past

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

experience in making such termination payments, adjusted for other current factors and expectations, has been recorded.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet 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 primary government has two items that qualify for reporting in this category. Deferred outflows related to pensions and OPEB are reported in the government-wide and proprietary funds financial statements in accordance with GASB Statement No. 68.

In addition to liabilities, the statement of net position and/or balance sheet 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 primary government has three types of items that qualify for reporting in this category. Deferred inflows related to pensions and OPEB are reported in the government-wide and proprietary funds financial statements in accordance with GASB Statement No. 68 and 75, respectively. The primary government also has deferred inflows which arise under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources; school construction reimbursement; property taxes, and other unavailable revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position and Fund Balances

Net position is reported as restricted when amounts are specified by outside parties for a specific future use. The City reports the following net position restrictions:

“Nonexpendable permanent funds” represents amounts held in trust for which only investment earnings may be expended. Separate restrictions are reported for funds related to libraries, the Hope Cemetery, health and human services and other.

“Expendable permanent funds” represents amounts held in trust whereby expenditures are subject to various trust agreements. Separate restrictions are reported for funds related to libraries, the Hope Cemetery, health and human services and other.

“OPEB reserve fund” represents amounts held in a non-irrevocable trust for other post-employment benefits.

“State and federal grants” represents restrictions placed on assets from state and federal granting agencies.

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Net position restrictions are also reported for non-federal and non-state grants related to culture and recreation, general government, health and human services, library, public safety, public works and education.

The following fund balance classifications describe the relative strength of the spending constraints:

“Nonspendable” — represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

“Restricted” — represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

“Committed” — represents amounts that can be used only for specific purposes determined by a formal action of the government’s highest level of decision-making authority as allowed under Massachusetts state law such as for the creation of a debt service stabilization fund to defease certain debt or funds reserving the receipts of ongoing activities for later appropriation such as parking and sewer connection fees. The governing City Council is the highest level of decision-making authority for the City. The formal action that can be taken by the City Council to commit fund balance is to vote to adopt what is called an “Order”. An Order voted and adopted by the City Council prior to the end of the fiscal year is the formal action that can commit fund balance. Once adopted, the limitation imposed by the order remains in place until a similar action is taken (the adoption of another order) to remove or revise the limitation.

“Assigned” — represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. The governing City Council has the authority to assign fund balance (by adoption of an order) as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated 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. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

“Unassigned” – represents the residual classification for the General Fund and the negative residual fund balance of any other governmental fund.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed and unassigned.

The City adopted a general fund balance policy in November 2006 and updated it in 2017. It is the City’s policy to maintain unassigned general fund balance on a budgetary basis of accounting equal to 10-percent of general fund revenues.

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Securities Lending Transactions

Collateral received on securities lending transactions is reported as an asset with a corresponding liability to the borrower. The underlying securities lent to the borrower under these transactions are reported as investments. Borrower rebates and administrative fees are reported as expenses; interest and dividends on the underlying securities and related collateral are reported as revenues.

Landfill Closure and Post Closure Care Costs

State and federal regulations require the City to place final covers on its municipal solid waste landfill (MSWLF) sites when such sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. The City determines its liability related to closure and post closure care for all MSWLFs based on landfill capacity used to date. At June 30, 2018, 100% of the City's expected MSWLF capacity had been used and none of the sites had accepted solid waste for several years. The City has covered, is in the process of covering, or plans to cover each of its MSWLFs in accordance with applicable laws and regulations.

The liability for closure and post closure care is estimated based on current cost, which is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. This estimate is subject to changes due to inflation, deflation, technology or applicable laws, and regulations. Such costs are recognized as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources; the remaining liability is reported in the governmental activities statement of net position. Expenditures related to MSWLF closure and post closure care in fiscal 2018 were \$257.

Judgments and Claims

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers' compensation. In the governmental funds financial statements, expenditures for judgments and claims (other than workers' compensation and condemnation proceedings) are recorded on the basis of whether the liability has matured in the current period. Expenditures for workers' compensation are recorded when paid. Settlements relating to condemnation proceedings are reported when the liability is estimable. In the proprietary and government-wide financial statements the estimated liability for all judgments and claims is recorded as a liability and as an expense.

Long-Term Liabilities

For long-term liabilities, only that portion, which is matured, is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide statement of net position and proprietary funds statement of net position. Long-term liabilities expected to be financed from discretely presented component unit operations are accounted for in those component unit financial statements.

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Investment Income

Except for the permanent funds, investment income derived from governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law. Except for investment income of the internal service fund, investment income from proprietary funds is voluntarily assigned to the general fund. Investment income from fiduciary funds is retained by the funds.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

(2) Property Taxes

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 and also constitute that amount, which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all nonproperty tax revenue and transfers projected to be received by the City, including available surplus funds.

(3) Stewardship, Compliance and Accountability

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the City adopts an annual budget for all general fund functions as well as for those enterprise funds for which the provisions of Chapter 44, Section 53F 1/2 have been adopted.

All portions of the annual budget, except for that of public schools, are prepared under the direction of the City Manager. The School Department budget is prepared under the direction of the Superintendent. The budget must be approved by the City Council, which may reduce or reject any item in the budget but may

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not increase or add items without the recommendation of the City Manager. The level of expenditure may not legally exceed appropriations for each department or undertaking in the categories of salaries and wages, ordinary maintenance and capital outlays.

Once adopted, budgets within the above categories may not be amended by management without seeking City Council approval.

In fiscal 2018, the original general fund expenditure budget, excluding intergovernmental charges, was increased by \$2,279. In fiscal 2018, expenditures exceeded budgetary estimates for intergovernmental expenditures by \$157.

(4) Deposits, Investments, and Securities Lending

The Massachusetts General Laws (MGL) place limitations on the nature of deposits and investments that is available to the City. Deposits in any one financial institution may not exceed certain prescribed levels without collateralization or insurance protection by the financial institution involved. Investments can be made in securities unconditionally guaranteed by the U.S. Government with maturities of less than one year from the date of purchase, or in repurchase agreements having maturities of 90 days or less, which are collateralized by such securities. The City also has the authority to purchase units in the Massachusetts Municipal Depository Trust (MMDT), a pooled fund managed for the Commonwealth.

The City's pension trust fund and certain other trust funds have expanded investment powers, including the ability to invest in equity securities, corporate bonds, and other specified investments. The composition of the City's deposits and investments fluctuates throughout the year depending primarily on the timing of property tax receipts, water and sewer revenues, proceeds from borrowings, collections of state and federal aid, and capital outlays.

(a) Deposits and Investments of the City (excluding component units)

Deposits - Custodial Credit Risk (City)

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be recovered. The City's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$250 of deposits held at each financial institution and augment the coverage with banks that participate in private insurance such as the Depository Insurer's Fund, and to collateralize certain bank accounts. As of June 30, 2018, \$218,040 of the City's bank balance of \$218,729 was insured and collateralized with securities held by pledging financial institutions, and \$689 was uninsured and uncollateralized.

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Investments Summary (City)

The City's investments at June 30, 2018, are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| <u>Investment Type</u> | <u>Total Amount</u> | <u>Less Than 1</u> | <u>1 - 5</u> | <u>6 - 10</u> | <u>More Than 10</u> |
|--------------------------------|-------------------------|------------------------|----------------|---------------|-------------------------|
| <u>Debt Securities:</u> | | | | | |
| U.S. Treasuries..... | \$ 224 | 55 | 169 | - | - |
| U.S. Agencies..... | 1 | 1 | - | - | - |
| Corporate bonds..... | 125 | - | 10 | 68 | 47 |
| Money market mutual funds..... | 5,735 | 5,735 | - | - | - |
| Fixed income securities..... | 6,531 | 6,531 | - | - | - |
| External investment pools..... | <u>40,943</u> | <u>40,943</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total debt securities..... | <u>53,559</u> | <u>53,265</u> | <u>179</u> | <u>68</u> | <u>47</u> |
| <u>Other investments:</u> | | | | | |
| Equity mutual funds..... | <u>13,486</u> | | | | |
| Total investments..... | \$ <u>67,045</u> | | | | |

Investments - Interest Rate Risk of Debt Securities (City)

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. Except for certain trust funds, the City does not have a policy for interest rate risk of debt securities since MGL limit the City's investments to U.S. backed securities that mature no more than one year from the initial investment date. Policies regarding interest rate risk for certain trust fund investments are identified in the individual trust agreements.

Investments - Custodial Credit Risk (City)

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the City. As of June 30, 2018, none of the City's investments were exposed to custodial credit risk.

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Investments - Credit Risk of Debt Securities (City)

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. Except for certain trust funds, the City does not have a policy for credit risk of debt securities since MGL limits the City’s investments to U.S. backed securities or AAA rated money market mutual funds. Certain trust funds can invest in securities that are rated below AAA. Policies regarding credit risk for certain trust fund investments are identified in the individual trust agreements. As of June 30, 2018, the credit quality ratings (per Standard & Poor’s, a national credit rating organization) of the City’s investment in debt securities (including implicitly-guaranteed investments in U.S. Agencies) are as follows:

| Quality Ratings * | Investment Type | | | | | Total Amount |
|-------------------|-----------------|-----------------|---------------------------|-------------------------|--------------------------|---------------|
| | U.S. Agencies | Corporate Bonds | Money Market Mutual Funds | Fixed Income Securities | External Investment Pool | |
| AA+..... | \$ 1 | 10 | - | - | - | 11 |
| A+..... | - | 4 | - | - | - | 4 |
| A-..... | - | 25 | - | - | - | 25 |
| BBB+..... | - | 17 | - | - | - | 17 |
| BBB..... | - | 43 | - | - | - | 43 |
| BBB-..... | - | 26 | - | - | - | 26 |
| Unrated..... | - | - | 5,735 | 6,531 | 40,943 | 53,209 |
| Total..... | \$ 1 | 125 | 5,735 | 6,531 | 40,943 | 53,335 |

Investments – Fair Value Measurements (City)

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. 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.

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| Investments by Fair Value Level | Fair Value | 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) |
| <u>Debt Securities:</u> | | | | |
| U.S. Treasuries..... | \$ 224 | 224 | - | - |
| U.S. Agencies..... | 1 | 1 | - | - |
| Corporate bonds..... | 125 | 125 | - | - |
| Fixed income securities..... | <u>6,531</u> | <u>6,531</u> | - | - |
| Total debt securities..... | <u>6,881</u> | <u>6,881</u> | - | - |
| <u>Equity Securities:</u> | | | | |
| Equity mutual funds..... | <u>13,486</u> | <u>13,486</u> | - | - |
| Total investments by fair value level..... | <u>20,367</u> | <u>20,367</u> | - | - |
| Total investments measured at fair value..... | \$ <u>20,367</u> | | | |

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

(b) Deposits and Investments of the Worcester Retirement System (WRS)

Deposits and investments made by the WRS are governed by the MGL Chapter 32. The WRS has the ability to invest in equity securities, corporate bonds, annuities and other specified investments in accordance with state laws and regulations.

Deposits - Custodial Credit Risk (WRS)

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the WRS's deposits may not be recovered. The WRS's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage for the first \$250 of deposits held at each financial institution. As of December 31, 2017, the WRS's bank balance of \$1,417 was not exposed to custodial credit risk.

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Investments Summary (WRS)

The WRS's investments at December 31, 2017 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| Investment Type | Total Amount | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 |
|---|-------------------|----------------|---------------|---------------|-----------------|
| <u>Debt Securities:</u> | | | | | |
| U.S. Treasuries..... | \$ 50,842 | 285 | 21,880 | 21,698 | 6,979 |
| U.S. Agencies..... | 19,093 | - | 926 | - | 18,167 |
| Corporate bonds..... | 21,877 | 447 | 6,415 | 7,098 | 7,917 |
| Money market mutual funds..... | 4,012 | 4,012 | - | - | - |
| Securities lending short-term collateral investment pool..... | 11,634 | 11,634 | - | - | - |
| External investment pool..... | 193,302 | 193,302 | - | - | - |
| Fixed income mutual funds..... | 78,402 | 78,402 | - | - | - |
| Mortgage backed securities..... | 6,463 | - | - | - | 6,463 |
| Asset backed securities..... | 8,727 | - | 4,750 | 279 | 3,698 |
| Total debt securities..... | <u>394,352</u> | <u>288,082</u> | <u>33,971</u> | <u>29,075</u> | <u>43,224</u> |
| <u>Other investments:</u> | | | | | |
| Equity securities..... | 12,009 | | | | |
| Equity mutual funds..... | 360,948 | | | | |
| Real estate investments..... | 83,265 | | | | |
| Alternative investments..... | <u>116,886</u> | | | | |
| Total other investments..... | <u>573,108</u> | | | | |
| Total investments..... | \$ <u>967,460</u> | | | | |

Investments - Interest Rate Risk of Debt Securities (WRS)

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The WRS's policies for interest rate risk intend that the average duration of investments remain fairly stable over time and be focused in the intermediate range. The WRS's debt security managers are not permitted to make large-scale changes in portfolio duration in an attempt to anticipate interest rate changes. However, they are permitted to shift portfolio duration within a limited range (defined by their guidelines) in an effort to enhance performance.

Investments - Custodial Credit Risk (WRS)

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the WRS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The WRS's policy for custodial credit risk of investments intends that all

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investments are either insured and/or registered in the name of the WRS. As of December 31, 2017, the WRS was not exposed to custodial credit risk.

Investments - Credit Risk of Debt Securities (WRS)

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The WRS does not have a policy for credit risk of debt securities. As of December 31, 2017, the credit quality ratings of the WRS's debt securities are as follows:

| Quality Ratings * | Investment Type | | | | | | | | Total Amount |
|-------------------|-----------------|-----------------|---------------------------|-------------------------|---------------------------|--------------------------|----------------------------|-------------------------|--------------|
| | U.S. Agencies | Corporate Bonds | Money Market Mutual Funds | Securities Lending Pool | Fixed Income Mutual Funds | External Investment Pool | Mortgage Backed Securities | Asset Backed Securities | |
| AAA..... | \$ - | 321 | - | - | - | - | 1,035 | 2,389 | 3,745 |
| AA+..... | - | 647 | - | - | - | - | - | - | 647 |
| AA..... | 1,311 | 709 | - | - | - | - | - | - | 2,020 |
| AA-..... | - | 2,040 | - | - | - | - | - | - | 2,040 |
| A..... | - | 3,409 | - | - | - | - | - | - | 3,409 |
| A-..... | - | 3,465 | - | - | - | - | - | - | 3,465 |
| BB+..... | - | 282 | - | - | - | - | - | - | 282 |
| BBB+..... | - | 6,857 | - | - | - | - | - | - | 6,857 |
| BBB..... | - | 3,149 | - | - | - | - | - | - | 3,149 |
| BBB-..... | - | 998 | - | - | - | - | - | - | 998 |
| Unrated..... | 15,586 | - | 4,012 | 11,634 | 78,402 | 193,303 | 5,428 | 6,338 | 314,703 |
| Total..... | \$ 16,897 | 21,877 | 4,012 | 11,634 | 78,402 | 193,303 | 6,463 | 8,727 | 341,315 |

* Per the rating scale of Standard & Poor's, a national credit rating organization

Deposits and Investments – Foreign Currency Risk (WRS)

Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or a deposit. The WRS's policy is to limit investments in non-U.S. dollar-denominated securities to not exceed 10% of the total market value of investments at all times. As of December 31, 2017, the WRS had no exposure to foreign currency risk.

Investments – Concentration of Credit Risk (WRS)

Concentration of credit risk is the risk of loss attributed to the magnitude of the WRS's investment in a single issuer. The WRS's policy for concentration of credit risk instructs investment managers not to invest more than 5% of their portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. U.S. Treasury, U.S. government agency, mutual fund and pooled fund investments are exempted from this restriction. As of December 31, 2017, the WRS was not exposed to concentration of credit risk.

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Investments – Fair Value (WRS)

WRS categorizes its fair value measurements within 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 market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. WRS has the following recurring fair value measurements as of December 31, 2017:

| Investments by Fair Value Level | Fair Value | 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) |
| <u>Debt Securities:</u> | | | | |
| U.S. Treasuries..... | \$ 50,842 | 50,842 | - | - |
| U.S. Agencies..... | 19,093 | 19,093 | - | - |
| Corporate bonds..... | 21,877 | 21,877 | - | - |
| Fixed income mutual funds..... | 78,402 | 78,402 | - | - |
| Mortgage backed securities..... | 6,463 | 6,463 | - | - |
| Asset backed securities..... | 8,727 | 8,727 | - | - |
| Total debt securities..... | <u>185,404</u> | <u>185,404</u> | <u>-</u> | <u>-</u> |
| <u>Equity Securities:</u> | | | | |
| Equity securities..... | 12,009 | 12,010 | - | - |
| Equity mutual funds..... | 267,042 | 267,042 | - | - |
| Total equity securities..... | <u>279,051</u> | <u>279,052</u> | <u>-</u> | <u>-</u> |
| Total investments by fair value level..... | <u>464,455</u> | <u>464,456</u> | <u>-</u> | <u>-</u> |
| <u>Investments measured at the net asset value (NAV)</u> | | | | |
| Private equities..... | 94,622 | | | |
| Macro allocation collective investment fund..... | 19,577 | | | |
| Real estate..... | 83,265 | | | |
| External investment pool (PRIT)..... | 193,302 | | | |
| Pooled international equities fund (PRIT)..... | 93,906 | | | |
| Other pooled funds (PRIT)..... | 2,687 | | | |
| Investments measured at the net asset value (NAV)..... | <u>487,359</u> | | | |
| Total investments measured at fair value..... | \$ <u>951,814</u> | | | |

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Debt and equity securities in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--|-------------------|-------------------------|-------------------------|--------------------------------|
| Private equities (1)..... | 94,622 | 55,129 | N/A ⁽¹⁾ | N/A ⁽¹⁾ |
| Macro allocation collective investment fund (2)..... | 19,577 | - | N/A ⁽²⁾ | N/A ⁽²⁾ |
| Real estate (3)..... | 83,265 | 1,687 | N/A ⁽³⁾ | N/A ⁽³⁾ |
| External investment pool (PRIT) (4)..... | 193,302 | - | N/A ⁽⁴⁾ | N/A ⁽⁴⁾ |
| Pooled international equities fund (PRIT) (5)..... | 93,906 | - | N/A ⁽⁵⁾ | N/A ⁽⁵⁾ |
| Other pooled funds (PRIT) (6)..... | 2,687 | 30,302 | N/A ⁽⁶⁾ | N/A ⁽⁶⁾ |
| Total investments measured at NAV..... | \$ <u>487,359</u> | | | |

- (1) *Private equities* - This investment type includes investments in 37 private equity funds that invest primarily in private domestic and international companies of diversified industries. The fair value measurements of this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. Approximately 22 percent of these investments can be redeemed quarterly with 90 days' notice. The remaining investments are illiquid. Distributions from each fund will be received as the underlying investments of the funds are liquidated. For approximately 21 percent of the investments it is expected that the underlying assets of the funds will be liquidated over the next 1 to 5 years. For the remaining investments, it is expected that the underlying assets of the funds will be liquidated over the next 5 to 10 years.
- (2) *Macro Allocation Collective Investment Fund* – This investment type consists of one fund that seeks to maximize its long-term risk adjusted total return through investments in equity, fixed income, commodities, real estate, and currencies. These investments can be redeemed daily.
- (3) *Real estate* - This investment type includes investments in 7 funds that invest primarily in real estate and North American timberlands. The fair value measurements of this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. Approximately 70 percent of these investments can be redeemed on the first business day of the month following one day's notice. The remaining investments are illiquid. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 6 years.
- (4) *External investment pool (PRIT)* - The System is a participating retirement system in the PRIT fund. The System owns units, or shares in the PRIT fund, which is a pooled investment trust. The investments made by the System are governed by Chapter 32 of the MGL. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership in the pool. The investments can be redeemed monthly on the first day of the month with one day's notice.

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- (5) *Pooled international equities fund (PRIT)* - This investment type consists of pooled international equities of emerging and frontier market securities portfolios. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership in the pool. The investments can be redeemed monthly on the first day of the month with one day's notice.
- (6) *Other pooled funds (PRIT)* – This investment type consists one fund of pooled private equities and venture capital investments diversified by region, industry, and sector. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership in the pool. The investments are illiquid. Distributions from the fund will be received as the underlying investments of the fund are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.

(c) Deposits and Investments of the Upper Blackstone Water Pollution Abatement District (The District)

Deposits – Custodial Credit Risk (The District)

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial credit risk of deposits is to rely on FDIC insurance coverage at each financial institution and collateralization of the balance by depository institution's investments.

Short Term Investment (The District)

The District invests in units in the Massachusetts Municipal Depository Trust (MMDT). At June 30, 2018, the District's deposits with MMDT totaled \$5,177. The MMDT was established to provide a short-term external investment pool entirely separate from other financial activities of the Commonwealth of Massachusetts. The investment pool measures its investments at amortized cost and there are no restrictions on withdrawals. The State Treasurer serves as the Trustee, and has sole authority pertaining to rules, regulations, and operations of the Trust. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. The MMDT is not rated by any independent fund rating institution and the weighted average maturity of its investments in its Cash Portfolio is less than one year. For a complete copy of MMDT's separately issued financial statements, the Cash Management Department of the State Treasurer's Office should be contracted.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Investments Summary (The District)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2018:

Level 1 – Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using process quoted in active markets for those securities.

Level 2 – Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based upon the securities relationship to benchmark quoted process.

Level 3 – Unobservable inputs where there is little, if any, market activity.

| | <u>June 30, 2018</u> | <u>Fair Value Measurement Listing</u> | | |
|--|----------------------|---------------------------------------|----------------|----------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>Investments by Fair Value Level</u> | | | | |
| Debt securities: | | | | |
| U.S. Agency Obligations | \$ 3,624 | 3,624 | - | - |
| Total Debt Securities | <u>3,624</u> | <u>3,624</u> | <u>-</u> | <u>-</u> |
| Equity securities: | | | | |
| Industrials | 411 | 411 | - | - |
| Consumer discretionary | 206 | 206 | - | - |
| Consumer staples | 1,052 | 1,052 | - | - |
| Health care | 1,177 | 1,177 | - | - |
| Financial services | 608 | 608 | - | - |
| Other | 857 | 857 | - | - |
| Total equity securities | <u>4,311</u> | <u>4,311</u> | <u>-</u> | <u>-</u> |
| Total investments by fair value | 7,935 | <u>7,935</u> | <u>-</u> | <u>-</u> |
| Cash | <u>663</u> | | | |
| Total Investments | \$ <u>8,598</u> | | | |

At June 30, 2018, the District had a net unrealized gain of \$716 on its investments.

CITY OF WORCESTER, MASSACHUSETTS

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June 30, 2018

(in thousands of dollars)

Investments - Interest Rate Risk of Debt Securities (*The District*)

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment although the maturity value is unaffected. The District's policies for interest rate risk permit the investment manager discretion to recommend assets with lives that are pegged at Barclay's 1-3 Year Government Index. The portfolio's asset lives may be shorter or longer than the benchmark depending upon the investment manager's interest rate forecast. The index duration currently averages 1.91 years.

Investments - Custodial Credit Risk (*The District*)

Custodial credit risk for investments is the risk that, in the event of the failure by the custodian, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's securities are in the custody of Fidelity Investments at June 30, 2018. The District's securities are protected under Securities and Exchange Commission Rule 15c3-3 and additional insurance by the custodian of its securities. As of June 30, 2018, none of the District's investments were subject to custodial credit risk.

Investments - Credit Risk of Debt Securities (*The District*)

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will default on its obligations. The District's policy for credit risk of debt securities restricts investment to debt obligations maintaining an Aaa rating by Moody's rating service or are full faith obligations of the U.S. Treasury. As of June 30, 2018, the credit quality ratings of the District's debt securities are as follows:

| <u>Quality Rating</u> | <u>U.S. Agencies</u> |
|-----------------------|----------------------|
| Aaa | \$ 3,624 |

Investments – Concentration of Credit Risk (*The District*)

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Currently, the District instructs its investment managers not to invest more than 5% of the portfolio at market value in a single security, or in the securities of a single issuer or its subsidiaries. Obligations of the U.S. Treasury, U.S. government agencies and money market funds are exempted from this restriction. As of June 30, 2018, the District had no investments with a single issuer that represented 5 percent or more of the District's total investments.

Investments recorded as current assets are available for operating purposes. Investments recorded as noncurrent assets have been designated as reserved for plant replacement, pollution insurance claims and a special reserve for other post-employment benefits.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(in thousands of dollars)

(d) Deposits of the WRA

State and local statutes place certain limitations on the nature of deposits and investments available to the WRA.

Deposits - Custodial Credit Risk (WRA)

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the WRA's deposits may not be recovered. The WRA does not have a policy for custodial credit risk of deposits. As of June 30, 2018, none of the WRA's bank balance of \$16 was uninsured and uncollateralized.

(e) Securities Lending (WRS)

The Massachusetts Division of Public Employee Retirement Administration Commission (PERAC) has issued supplemental regulations that permit WRS to engage in securities lending transactions. These transactions are conducted by one of WRS's brokers, who lend certain securities owned by WRS to other broker-dealers and banks pursuant to a form of loan agreement. WRS and the borrowers maintain the right to terminate all securities lending transactions on demand.

The custodian lends, at the direction of the lending agent, WRS's securities and cash received (including both U.S. and foreign currency), U.S. Government securities, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. The lending agent does not have the ability to pledge or sell collateral securities delivered unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 105% of the market value of foreign securities on loan and 102% of the market value if domestic securities on loan (Required Collateral Level). If at any time the market value of the collateral for any loan decreases to 100% or less of the market value of the loaned securities borrowers are required to provide additional collateral sufficient to increase the market value of the collateral to at least the Required Collateral Level.

WRS does not impose any restrictions on the amount of securities lent on its behalf by the lending agent. There were no failures by any borrowers to return loaned securities or pay distributions thereon, nor were there any losses from default of the borrowers or the lending agent for the year ended December 31, 2017. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which WRS could not determine.

At December 31, 2017, WRS had no credit risk exposure to borrowers because the amounts WRS owed the borrowers exceeded the amounts owed to WRS. The cash and non-cash collateral held and the fair value of securities on loan for WRS at December 31, 2017 were \$11,883 and \$11,633, respectively. Borrower rebates and fees paid to the broker were \$13 for the year ended December 31, 2017.

CITY OF WORCESTER, MASSACHUSETTS

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(in thousands of dollars)

(5) City of Worcester Contributory Retirement System (WRS or the Plan)

(a) Plan Description, Basis of Accounting, Valuation of Investments and Membership (WRS)

The City provides pension benefits to certain employees administered by the WRS, a cost-sharing, multiple-employer public employee retirement system regulated by PERAC. WRS is a defined benefit pension plan that covers eligible employees of the City (which includes the Worcester Redevelopment Authority) and the Worcester Housing Authority.

Membership in WRS is mandatory immediately upon commencement of employment for all permanent, full-time employees working at least 20 hours weekly, except for (1) employees eligible to participate in the Massachusetts Teachers' Retirement System (as discussed in note 6); and (2) employees of the District, who are covered by the state Retirement System. Disclosures applicable to the District's retirement plan are located in Note 7.

WRS issues a separate publicly available stand-alone financial report available at <http://www.worcesterma.gov/e-services/document-center/retirement>, or a copy may be obtained by submitting a request to the System at Worcester City Hall Room 103, 455 Main Street, Worcester, Massachusetts 01608. The WRS' fiduciary net position has been determined on the same basis used by the WRS. The WRS' financial statements are presented on the accrual basis of accounting. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Membership in WRS was as follows at December 31, 2017:

| | |
|--|--------------|
| Active employees | 3,455 |
| Pensioners and beneficiaries | 2,707 |
| Inactive employees not entitled to or not receiving benefits | 632 |
| Inactive employees entitled to or receiving benefits | 95 |
| Total members | <u>6,889</u> |
| Number of participating employers | <u>2</u> |

WRS is governed by a five member board comprised of the City Auditor (ex-officio), an appointee of the City Manager, two members elected by the active and inactive retired members of WRS, and one member appointed by the other four members. The WRS issues a publicly available financial report that includes the applicable financial statements and required supplementary information for the plan. That report may be obtained at the retirement office at City Hall.

(b) Benefits Provided (WRS)

Benefit provisions and contribution requirements of WRS are established by state law. Members of WRS become vested after 10 years of creditable service. Normal retirement occurs at age 65 (age 67

CITY OF WORCESTER, MASSACHUSETTS

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(in thousands of dollars)

if hired on or after April 2, 2012), except for special situations and the City's police officers and firefighters, whose normal retirement age is 55 (age 57 if hired on or after April 2, 2012).

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's highest possible average of annual regular compensation in any three consecutive years of creditable service or rates earned during the period or periods, whether or not consecutive, which constitute the last three years of creditable service preceding retirement multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. Assuming normal retirement at age 65, this percentage is 2.5%, which is reduced for individuals who retire prior to age 65 to reflect the longer pay out period.

For employees hired on or after April 2, 2012, the annual amount of the retirement allowance is based on the member's highest possible average of annual regular compensation in any five consecutive years of creditable service or rates earned during the period or periods, whether or not consecutive, which constitute the last five years of creditable service preceding retirement multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. Assuming normal retirement at age 67, this percentage is 2.5%.

Employees hired prior to April 2, 2012 may elect early retirement after 20 years of service or at any time after attaining age 55 with 10 years of eligible service. Employees hired on or after April 2, 2012 may elect early retirement after attaining age 60 with 10 years of eligible service. Plan members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. The amount of benefits to be received depends on several factors, including the member's age, compensation, veteran status, years of creditable service, and whether or not the disability is work-related. In addition, certain death benefits exist for beneficiaries of employees who die in active service.

Under MGL c.32 Section 3(8)(c), members leaving the City's employment to work for other Massachusetts governmental units requires the WRS transfer their accumulated account balances and creditable service to the retirement system of their new employer. Other such retirement systems are in turn required to make comparable transfers to the WRS for employees coming to work at the City or the Worcester Housing Authority. Per statute, the PERAC actuary shall consider length of service as well as acceptance of military service credit and salary cap provisions if applicable in calculating the liability.

Benefits and refunds are recognized as deductions when incurred and administrative expenses are funded through investment earnings.

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(in thousands of dollars)

(c) Contributions (WRS)

Chapter 32 of MGL governs and establishes the contribution requirements of plan members and the City and such requirements may only be amended by state law. Participation in the plan requires that members contribute a fixed percentage of their gross regular compensation (either 5%, 7%, 8% or 9%) each pay period. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30. Employees hired after April 2, 2012 with 30 years of creditable service or greater will pay a base contribution rate of 6%. These deductions earn interest at a rate determined by PERAC that vests based upon years of service. Employers are required to pay into WRS its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements.

Member employers are required to contribute the remaining amounts necessary to finance benefits, except for certain cost-of-living adjustments (COLAs) granted between 1982 and 1997, which are reimbursed by the Commonwealth. The amount of these on-behalf payments from the Commonwealth totaled \$976 for the fiscal year ended June 30, 2018 and, accordingly, are reported in the general fund as intergovernmental revenues and fringe benefits.

For the year ended December 31, 2017, active member contributions totaled \$19,327 and employer contributions totaled \$46,188. Contributions to WRS from the City were \$42,471 for the year ended June 30, 2018.

(d) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (WRS)

The components of the net pension liability of the WRS at December 31, 2017, were as follows:

| | | |
|--|----|------------------|
| Total pension liability | \$ | 1,462,371 |
| Plan fiduciary net position | | <u>(952,444)</u> |
| Net pension liability | \$ | <u>509,927</u> |
| Plan fiduciary net position as a percentage of the total pension liability | | 65.13% |

At June 30, 2018, the City reported a liability of \$468,883 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. The City's proportion of the net pension liability is the proportionate share of employer contributions to WRS for the year ended December 31, 2017, actuarially determined. At

CITY OF WORCESTER, MASSACHUSETTS

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June 30, 2018

(in thousands of dollars)

December 31, 2017, the City's proportion was 91.95 percent, which was 0.2 percent higher than the proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$65,947. At June 30, 2018, the City reported deferred outflows (inflows) of resources of \$55,144 related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Deferred outflows (inflows) of resources related to pensions | | |
| Changes of assumptions | \$ 82,060 | - |
| Net difference between projected and actual earnings on WRS investments | - | 22,213 |
| Change in proportion and differences between employer contributions and proportionate share of contributions | 1,863 | 3,205 |
| Differences between expected and actual experience | - | 3,361 |
| Total | <u>\$ 83,923</u> | <u>28,779</u> |

The following schedule reflects the amortization of the net balance of remaining deferred outflows/ (inflows) of resources at June 30, 2018 that will be recognized in pension expense as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|------------------|
| 2019 | \$ 21,099 |
| 2020 | 16,142 |
| 2021 | 375 |
| 2022 | (1,616) |
| 2023 | 9,572 |
| 2024 | 9,572 |
| | <u>\$ 55,144</u> |

(e) Actuarial Assumptions and Methods (WRS)

The total pension liability was determined by an actuarial valuation as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method Entry Age Normal Actuarial Cost Method

CITY OF WORCESTER, MASSACHUSETTS

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June 30, 2018

(in thousands of dollars)

| | |
|---|--|
| Amortization method | Level payments on the 2002 and 2010 ERI liability; total appropriation increases 4.0% per year in fiscal 2018 and 5.85% per year beginning with the fiscal year 2019 payment. |
| Remaining amortized period (period is closed) | 3 years for the 2010 ERI liability 16 years for the remaining unfunded liability 16 years is the equivalent single amortization period (ESAP) |
| Asset valuation method | Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and expected return on a market value basis, and is recognized over a five-year period, further adjusted, if necessary, to be within 10% of the market value. |
| Discount rate/investment rate of return | 7.0%, net of pension plan investment expense, including inflation. |
| Projected salary increases | 3.50% per year for 2018 and 2019, with an allowance for inflation of 2.5% and 4.5% per year thereafter, with an allowance for inflation of 3.5%. |
| Rate of inflation | 2.5% for 2017 and 3.50% per year thereafter. |
| Cost of living adjustments | 3.0% of the first \$13 of retirement income. |
| Mortality rates: | Pre-Retirement is based on RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017. Healthy retiree is based on RP-2014 Blue Collar Healthy Annuitant Mortality Table projected generationally with Scale MP-2017. Disabled retiree is based on RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017. |

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2017. Changes of assumptions that affected measurement of the total pension liability since the prior measurement date primarily included a change in the discount rate/investment rate of return from 7.375% to 7.0%.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(in thousands of dollars)

(f) Investment Policies and Rates of Return (WRS)

Deposits and investments made by the WRS are governed by Chapter 32 of the MGL. The WRS Board is responsible for the adoption of a formal asset allocation policy, the selection of professional investment managers to execute the investment policies, and the appointment of an investment consultant to assist with the evaluation of investment manager performance. All investment activities of the WRS Board are subject to oversight by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC).

The WRS's Board has the authority for establishing and amending investment policy decisions by majority vote. Asset allocation policies allocate investments across those asset classes that, based on historical and expected returns and risks, provide the highest likelihood of meeting the WRS's investment objectives. The WRS's Board has specifically indicated those asset classes that may be utilized when investing the WRS's assets. The WRS's Board specifies a long-term target allocation for each class of permissible assets expressed as a percentage of the WRS's overall market value, surrounded by a band of permissible variation resulting from market forces. On at least an annual basis, if any strategic allocation is outside the specified target range, assets will be shifted to return the strategy to the target range. The specific plan for rebalancing will identify those assets that can be shifted at the lowest possible risk and cost, if the rebalancing cannot be accomplished solely by allocating contributions and withdrawals. Permanent changes in the WRS's target asset allocation will take place only in response to significant changes in the objectives and constraints of the WRS, or in response to material changes in the fundamental nature or appropriateness of the asset classes themselves. The following was the asset allocation policy as of December 31, 2017:

| Asset Class | Target Allocation (%) | Range % |
|--|--------------------------|---------|
| Domestic equity | 14.0 | 9-19 |
| International developed markets equity | 8.0 | 4-12 |
| International emerging markets equity | 8.0 | 4-12 |
| Core fixed income | 10.0 | 5-15 |
| Value-add fixed income | 4.0 | 2-6 |
| Real estate | 6.0 | 4-8 |
| Private equity | 7.0 | 4-10 |
| PRIT general allocation (CORE) fund | 35.0 | 0-50 |
| Natural resources and timber | 3.0 | 1-5 |
| Infrastructure | 5.0 | 2-8 |
| Cash | 0.0 | <5 |
| | 100.0 | |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(in thousands of dollars)

For the year ended December 31, 2017, the annual money-weighted rate of return on WRS investments, net of investment expense, was 16.54%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Long-Term Expected Rate of Return

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 arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017 are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return (%)</u> |
|---|---|
| Domestic equity | 6.2 |
| International developed markets equity | 7.1 |
| International emerging markets equity | 9.4 |
| Core fixed income | 1.7 |
| High-yield fixed income | 4.1 |
| Real estate | 4.9 |
| Commodities | 4.7 |
| Hedge fund, global tactical asset allocation, risk parity | 3.9 |
| Private equity | 10.3 |

(g) ***Discount Rate (WRS)***

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that WRS's contributions will be made at rates equal to the actuarially determined contribution rates. 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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(in thousands of dollars)

(h) Sensitivity of the Net Pension Liability to Changes in the Discount Rate (WRS)

The following presents the net pension liability of WRS calculated using the discount rate of 7.0 percent, as well as what WRS's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

| | 1% Decrease (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|--------------------------------|-----------------------|---------------------------------------|-----------------------|
| System's net pension liability | \$ 677,979 | \$ 509,927 | \$ 368,055 |

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

| | 1% Decrease (6.0%) | Current Discount Rate (7.0%) | 1% Increase (8.0%) |
|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
| City's share of net pension liability | \$ 623,409 | \$ 468,883 | \$ 338,431 |

(i) Legally Required Reserve Accounts (WRS)

The balance in WRS's legally required reserves as of December 31, 2017 are as follows:

| <u>Description</u> | <u>Amount</u> | <u>Purpose</u> |
|-----------------------|-------------------|---|
| Annuity Savings Fund | \$ 196,741 | Active members' contribution balance |
| Annuity Reserve Fund | 61,847 | Retired members' contribution account |
| Military Service Fund | 188 | Members' contribution account while on military leave |
| Pension Reserve Fund | 691,061 | Amounts appropriated to fund future retirement benefits |
| Pension Fund | <u>2,607</u> | Remaining net position |
| Total | <u>\$ 952,444</u> | |

All reserve accounts are funded at levels required by state law.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(6) Massachusetts Teachers' Retirement System (MTRS)

(a) Plan Description and Benefits (MTRS)

Public school teachers and certain administrators are provided with pensions through the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Massachusetts Teachers' Retirement Board. The MTRS is part of the Commonwealth of Massachusetts' (Commonwealth) reporting entity and does not issue a stand-alone audited financial report. The MTRS is reported as a Pension Trust Fund in the Commonwealth's audited financial statements that can be obtained at <http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html>.

Benefits provided - MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit requirements. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature. Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

(b) Contributions (MTRS)

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Member contributions for MTRS vary depending on the most recent date of membership, ranging from 5-11% of regular compensation. Members hired in 1979 or subsequent contribute an additional 2% of regular compensation in excess of \$30.

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. 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 contributing entity in MTRS.

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(in thousands of dollars)

(c) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (MTRS)

Since the City does not contribute directly to MTRS, the City does not report a proportionate share of the net pension liability of the MTRS at June 30, 2018. The Commonwealth's net pension liability associated with the City was \$602,553.

The MTRS' net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

For the year ended June 30, 2017, the City recognized pension expense of \$62,890 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

(d) Actuarial assumptions (MTRS)

The MTRS' total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

| | |
|---------------------------|---|
| Investment rate of return | 7.5% |
| Salary increases | Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service. |
| Mortality rates: | Pre-retirement - reflects RP-2014 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct). Post-retirement - reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct). |
| | Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years. |
| Other | 3.5% interest rate credited to the annuity savings fund 3.0% cost of living increase per year on the first \$13,000 per year. |

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Notes to the Basic Financial Statements

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(in thousands of dollars)

(e) Investment Policies and Rates of Return (MTRS)

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

| Asset Class | Target Allocation (%) | Long-Term Expected Real Rate of Return (%) |
|---------------------------------|--------------------------|---|
| Global Equity | 40.0 | 5.0 |
| Portfolio completion strategies | 13.0 | 3.6 |
| Core fixed income | 12.0 | 1.1 |
| Private equity | 11.0 | 6.6 |
| Value Added Fixed Income | 10.0 | 3.8 |
| Real estate | 10.0 | 3.6 |
| Timber/Natural Resources | 4.0 | 3.2 |
| Hedge funds | 0.0 | 3.6 |
| | 100.0 | |

(f) Discount rate (MTRS)

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

(g) Pension plan fiduciary net position (MTRS)

Detailed information about the MTRS' fiduciary net position is available in the Commonwealth's audited financial statements.

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(7) Pension Plan (*The District*)

(a) Plan Description (*The District*)

The Massachusetts State Employees' Retirement System (MSERS) is a public employee retirement system (PERS), that administers a cost-sharing multi-employer defined benefit plan as defined by Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of MSERS upon the creation of MassDOT. Other employees who transferred to MassDOT had been, and remain, members of MSERS. The assets and liabilities of the former MTA have been transferred to MSERS. MSERS is part of the Commonwealth's reporting entity and does not issue a stand-alone audited financial report.

Management of MSERS is vested in the Massachusetts State Retirement Board (the MSRB) which consists of five members-two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chair of the MSRB.

(b) Benefits (*The District*)

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

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

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

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(c) **Contributions (The District)**

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

| Hire Date | % of Compensation |
|---------------------|--|
| Prior to 1975 | 5% of regular compensation |
| 1975 - 1983 | 7% of regular compensation |
| 1984 to 6/30/1996 | 8% of regular compensation |
| 7/1/1996 to present | 9% of regular compensation except for State Police which is 12% of regular compensation |
| 1979 to present | An additional 2% of regular compensation in excess of \$30 |

(d) **Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (The District)**

At June 30, 2018, the District reported a liability of \$8,265 for its proportionate share of the net pension liability. The net position was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. The District's proportion of the net pension liability was based on the District's share of actual contributions to the pension plan relative to the actual contributions of all participating governmental entities, adjusted for any nonemployer contributions. At June 30, 2017, the District's proportion was 0.06445 percent, which was a decrease of 0.00072 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$1,096. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Difference between expected and actual experience | \$ 320 | 225 |
| Changes in assumptions | 860 | - |
| Net difference between projected and actual earnings on plan investments | - | 98 |
| Changes in proportionate share of contributions | 226 | 84 |
| District contributions subsequent to the measurement date | 411 | - |
| Total | <u>\$ 1,817</u> | <u>407</u> |

The \$411 of deferred outflows of resources resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the Plan year

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ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| <u>Year Ended June 30</u> | |
|---------------------------|---------------|
| 2018 | \$ 319 |
| 2019 | 598 |
| 2020 | 259 |
| 2021 | (170) |
| 2022 | (7) |
| | <u>\$ 999</u> |

(e) **Actuarial Assumptions (The District)**

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

1. (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females.
 - Post-retirement – reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females.
 - Disability – reflects a mortality rate is assumed to be in accordance with RP-2000 Healthy Annuitant Table projected generationally with a Scale BB and a base year of 2015 (gender distinct).
5. Experience studies were performed as follows:
 - Dated February 27, 2014 and encompasses the period January 1, 2006 to December 2011.

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(f) Long-Term Expected Rate of Return (The District)

Investment assets of MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

| Asset Class | Target Allocation (%) | Long-Term Expected Real Rate of Return (%) |
|---------------------------------|-----------------------|--|
| Global Equity | 40.0 | 5.0 |
| Core fixed income | 12.0 | 1.1 |
| Hedge funds | 0.0 | 3.6 |
| Private equity | 11.0 | 6.6 |
| Real estate | 10.0 | 3.6 |
| Value Added Fixed Income | 10.0 | 3.8 |
| Timber/Natural Resources | 4.0 | 3.2 |
| Portfolio completion strategies | 13.0 | 3.6 |
| | <u>100.0</u> | |

(g) Discount Rate

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

(h) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

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| | 1% Decrease <u>(6.5%)</u> | Current Discount Rate <u>(7.5%)</u> | 1% Increase <u>(8.5%)</u> |
|--|------------------------------|--|------------------------------|
| District's proportionate share of the net pension liability | \$ 11,257 | \$ 8,265 | \$ 5,856 |

(8) Other Postemployment Benefits - OPEB (City)

(a) Plan Description - City

In addition to the pension benefits described in notes 5 and 6, the City provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries through a single-employer defined benefit plan (hereinafter referred to as the "Plan") in accordance with MGL Chapter 32B. Specific benefit provisions and contribution rates are established by collective-bargaining agreements, state law, and City ordinance. All benefits are provided through third-party insurance carriers and health maintenance organizations that administer, assume, and pay all claims for specific plans, while the City partially self-funds the claims for the remaining plans. The Plan does not issue a standalone financial report since there are no assets in a trust legally segregated for the sole purpose of paying benefits under the Plan.

The number of employees covered by the benefit terms as of June 30, 2018, the latest actuarial valuation, is as follows:

| | |
|---|---------------------|
| Inactive employees currently receiving benefit payments | 3,964 |
| Inactive employees entitled to but not yet receiving benefit payments | - |
| Active employees | <u>5,489</u> |
| Total | <u><u>9,453</u></u> |

(b) Funding Policy - City

The contribution requirements of Plan members and the City are established and may be amended by the City. Twenty-five percent of the calculated contribution is paid by the retirees through pension benefit deductions. The remainder of such cost is funded by the City. The City contributes 50% towards a \$5 term life insurance premium with coverage through age seventy. The City currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the City.

(c) Methods and Assumptions - City

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the

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time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The projection of benefits does not explicitly incorporate the potential effects of legal or contractual funding limitations. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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 total OPEB liability of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of changes to the total OPEB liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the total OPEB liability and related ratios are increasing or decreasing over time.

The significant methods and assumptions used to measure the total OPEB liability as of the latest actuarial valuation are as follows:

| | |
|-------------------------------------|---|
| Measurement date: | June 30, 2018 |
| Valuation date: | June 30, 2018 |
| Actuarial cost method: | Entry Age Normal |
| Discount rate: | 3.62% |
| Prior year discount rate | N/A |
| Inflation rate: | 3.00% |
| Salary scale: | 3.00% |
| Healthcare/Medical cost trend rate: | 6.0% for the next twenty-seven years, decreasing to an ultimate level of 4.6% after fifty-eight years. |
| Stop loss trend | 8.0% increase for the next twenty-seven years, decreasing to an ultimate level of 6.6% after fifty-eight years. |
| Pre-Retirement Mortality: | Teachers: RPH-2014 white collar employee mortality table, generational with projection scale MP-2018. General & public safety employees: RPH-2014 employee mortality table, generational with projection scale MP-2018 |
| Post-Retirement Mortality: | Teachers: RPH-2014 white collar healthy annuitant mortality table, generational with projection scale MP-2018. |

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| | |
|-----------------------------|--|
| Post-disablement mortality: | General & public safety employees: RPH-2014 healthy annuitant mortality table, generational with projection scale MP-2018. |
| | RPH-2014 disabled retiree mortality table, Generational with projection scale MP-2018. |

Discount rate (City) –The discount rate used to measure the total OPEB liability was 3.62 percent and equal to the expected yield or index rate for 20-year, tax-exempt obligation municipal bonds with an average rating of AA/Aa or higher determined as of the measurement date or June 30, 2018.

(d) Total OPEB Liability (City)

The City’s total OPEB liability of \$802,710 was measured as of June 30, 2018 for the year ended June 30, 2018 and was determined by an actuarial valuation as of June 30, 2018.

Changes in the total OPEB liability are as follows:

| | |
|--|--------------------------|
| Balance at June 30, 2017 | \$ <u>759,599</u> |
| Changes for the year: | |
| Service cost | 31,604 |
| Interest | 28,218 |
| Differences between expected and actual experience | 6,665 |
| Changes in assumptions/inputs | - |
| Changes in benefit terms | - |
| Benefit payments | (23,376) |
| Administrative expense | <u>-</u> |
| Net changes | <u>43,111</u> |
| Balance June 30, 2018 | \$ <u><u>802,710</u></u> |

(e) Sensitivity of the Total OPEB Liability to Changes in the Discount Rate (City)

The following presents the Total OPEB Liability calculated using the discount rate of 3.62%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

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| | Discount Rate | | |
|----------------------|---------------|--------------|--------------|
| | 1% decrease | No change | 1% increase |
| | <u>2.62%</u> | <u>3.62%</u> | <u>4.62%</u> |
| Total OPEB liability | \$ 951,291 | 802,710 | 685,585 |

(f) Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates (City)

The following presents the Total OPEB Liability calculated using the healthcare cost trend rate of 6.0% for the next twenty six years and then decreasing for the next 30 years until an ultimate rate of 4.6% as well as what the Total OPEB Liability would be if it were calculated using a rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | Healthcare Trend | | |
|----------------------|--------------------|------------------|--------------------|
| | 1% decrease | No change | 1% increase |
| | <u>1% decrease</u> | <u>No change</u> | <u>1% increase</u> |
| Total OPEB liability | \$ 671,242 | 802,710 | 974,774 |

(g) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (City)

For the year ended June 30, 2018, the City recognized OPEB expense of \$61,033.

| | | |
|---|----|----------------------|
| OPEB Expense | | |
| Service cost | \$ | 31,604 |
| Interest on the Total OPEB Liability (TOL) | | 28,218 |
| Projected earnings on plan investments | | - |
| Expensed portion of current-period differences between expected & actual experience in the TOL | | <u>1,211</u> |
| Total OPEB expense | \$ | <u><u>61,033</u></u> |

At June 30, 2018, the City reported net deferred outflows and inflows (inflows reported are less than \$1) of resources related to OPEB of \$5,453 from the differences between actual and expected experience. The amounts reported as deferred outflows and inflows related to OPEB will be recognized in OPEB expense as follows:

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| | | |
|-----------------------------|----|-------|
| For the year ended June 30: | | |
| 2019 | \$ | 1,211 |
| 2020 | | 1,211 |
| 2021 | | 1,211 |
| 2022 | | 1,211 |
| 2023 | | 609 |
| Thereafter | | - |

(9) Other Postemployment Benefits – OPEB (The District)

(a) Plan Description – The District

The District provides health and life insurance benefits to retired employees and their survivors through the Commonwealth’s Group Insurance Commission (GIC), a cost-sharing multiple employer plan (hereinafter referred to as the “Plan”). Specific benefit provisions and contribution rates are established by GIC. All benefits are provided through third-party insurance carriers and health maintenance organizations that administer, assume, and pay all claims for specific plans. The Plan does not issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of June 30, 2018, the latest actuarial valuation, is as follows:

| | |
|---------------------------------|------------------|
| Active employees | 56 |
| Retired employees and survivors | <u>11</u> |
| Total | <u><u>67</u></u> |

(b) Funding Policy – The District

The contribution requirements of Plan members and the District are established and may be amended by the GIC. Retirees, depending on retirement date, pay either 10% or 15% of the cost. At the end of fiscal 2018, the District established an Other Postemployment Benefits (OPEB) Trust and deposited \$1,587 into that trust. The costs of administering the Plan are paid by the District.

(c) Investment Policy – The District

The assets of the Trust will be invested in a manner consistent with prudent investor standards, set forth on M.G.L. c203C Sec 2. The assets of the Trust will be managed by a professional investment manager approved by the Board of Directors. A diversified investment portfolio will be constructed that is both prudent and appropriate given the District’s actuarial assumed discount rate, target rate of return, investment objective, and risk tolerance. The following is the intended asset allocation:

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| Category | Target or Range |
|------------------------|------------------------|
| Domestic common stocks | 30% to 70% |
| Domestic bonds | 30% to 70% |
| Mutual funds | 0% to 30% |
| Money market funds | 0% to 30% |

The initial deposit of funds near the end of fiscal 2018 was placed in a money market fund. As such, there was no investment return in fiscal 2018.

(d) Actuarial Methods and Assumptions – The District

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

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

- Interest – unfunded, 7.25% per year net of investment expenses
- Actuarial cost method – entry age normal
- Medical care inflation – 4.5% for 2018 and thereafter
- Amortization period – 30 year level percent of pay assuming 4.0% increasing, closed basis for prefunding

The mortality rates used for the healthy were the RP-2000 Combined Healthy Table – Projected to 2015 using scale AA and for the disabled, the RP-2000 Combined Healthy Table set forward 2 years.

(e) Discount rate – The District

The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine to the total OPEB liability.

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(f) Net OPEB Liability – The District

The components of the net OPEB liability at June 30, 2018, were as follows:

| | |
|-----------------------------|----------|
| Total OPEB liability | \$ 2,495 |
| Plan fiduciary net position | 1,587 |
| Net OPEB liability | \$ 908 |

Changes in Net OPEB liability:

| | |
|---|------------|
| Total OPEB Liability | |
| Service cost | \$ 224 |
| Interest on liability and service cost | 194 |
| Experience (gain) and loss | (1,209) |
| Change in assumptions | (1,983) |
| Benefit payments | (81) |
| Net change in total OPEB liability | (2,855) |
| Total OPEB liability - beginning | 5,350 |
| Total OPEB liability - ending (a) | \$ 2,495 |
| Plan fiduciary net position | |
| Contributions - employer | \$ 1,668 |
| Benefits payments | (81) |
| Net change in the plan fiduciary net position | 1,587 |
| Plan fiduciary net position - beginning | - |
| Plan fiduciary net position - ending(b) | \$ 1,587 |
| District's net OPEB liability (a) - (b) | \$ 908 |

(g) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate–The District

The following presents the net OPEB liability of the plan calculated using the discount rate of 7.25% as well as what the plan's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate. The plan fiduciary net position as a percentage of the total OPEB liability is 63.61%.

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| | Discount Rate | | |
|--------------------|------------------------|----------------------|------------------------|
| | 1% decrease (6.25%) | No change (7.25%) | 1% increase (8.25%) |
| Net OPEB liability | \$ 1,221 | \$ 908 | \$ 647 |

(h) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate–The District

The following presents the net OPEB liability of the plan calculated using the current trend rates, as well as what the plan’s net OPEB liability would be if it were calculated using trend rates 1-percentage-point lower for all years or 1-percentage-point higher than the current rates.

| | Healthcare Trend | | |
|--------------------|------------------|-----------|-------------|
| | 1% decrease | No Change | 1% increase |
| Net OPEB liability | \$ 607 | \$ 908 | \$ 1,275 |

(i) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related To OPEB–The District

For the year ended June 30, 2018, the District recognized OPEB expense of \$15. At June 30, 2018, the District reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred outflows of resources | Deferred inflows of resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 1,732 |
| Changes in assumptions | - | 1,057 |
| Total | \$ - | \$ 2,789 |

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | | |
|------------|----|----------------|
| 2020 | \$ | (403) |
| 2021 | | (403) |
| 2022 | | (403) |
| 2023 | | (402) |
| 2024 | | (402) |
| Thereafter | | (776) |
| | \$ | <u>(2,789)</u> |

(10) Accounts Receivable

At June 30, 2018, receivables for the individual major governmental funds and nonmajor governmental, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>Gross Amount</u> | <u>Allowance for Uncollectibles</u> | <u>Net Amount</u> |
|-----------------------------|-------------------------|---|-----------------------|
| <u>Receivables:</u> | | | |
| Governmental Funds | | | |
| Property taxes | \$ 14,890 | (9,269) | 5,621 |
| Tax liens | 3,409 | - | 3,409 |
| Motor vehicle excise taxes | 7,520 | (5,148) | 2,372 |
| Special assessments | 3,107 | - | 3,107 |
| Departmental and other | 5,973 | (2,824) | 3,149 |
| | <u>34,899</u> | <u>(17,241)</u> | <u>17,658</u> |
| Intergovernmental | 30,596 | - | 30,596 |
| Total governmental funds | <u>65,495</u> | <u>(17,241)</u> | <u>48,254</u> |
| Internal Service Fund | | | |
| Self-insured health plan | 590 | - | 590 |
| Total internal service fund | <u>590</u> | <u>-</u> | <u>590</u> |
| Fiduciary Fund | | | |
| Departmental and other | 1,560 | - | 995 |
| Intergovernmental | 712 | - | 1,277 |
| Total fiduciary funds | <u>2,272</u> | <u>-</u> | <u>2,272</u> |
| Total receivables | \$ <u>68,357</u> | <u>(17,241)</u> | <u>51,116</u> |

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At June, 30, 2018, receivables for the enterprise funds are as follows:

| | Gross | Allowance | |
|------------------------|------------------|-----------------------|---------------|
| | Amount | for | Net |
| | <u>Amount</u> | <u>Uncollectibles</u> | <u>Amount</u> |
| <u>Receivables:</u> | | | |
| Charges for services | \$ 15,043 | - | 15,043 |
| Utility liens | 1,491 | - | 1,491 |
| Special assessments | <u>723</u> | <u>-</u> | <u>723</u> |
| | 17,257 | - | 17,257 |
| Intergovernmental | <u>2,572</u> | <u>-</u> | <u>2,572</u> |
| Total enterprise funds | \$ <u>19,829</u> | <u>-</u> | <u>19,829</u> |

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

| | General | Other | |
|---|------------------|---------------------|---------------|
| | Fund | Governmental | Total |
| | <u>Fund</u> | <u>Funds</u> | <u>Total</u> |
| <u>Deferred Inflows of Resources Type:</u> | | | |
| Unavailable revenue-school construction reimbursement | | | |
| Intergovernmental (school construction) | \$ <u>17,402</u> | <u>-</u> | <u>17,402</u> |
| Unavailable revenue-property taxes | | | |
| Property taxes | 2,605 | - | 2,605 |
| Tax liens | <u>3,140</u> | <u>-</u> | <u>3,140</u> |
| | 5,745 | - | 5,745 |
| Unavailable revenue-other | | | |
| Special assessments | 3,107 | - | 3,107 |
| Departmental and other | 1,542 | 1,608 | 3,150 |
| Motor vehicle excise tax | 1,294 | - | 1,294 |
| Intergovernmental (other state) | <u>1,420</u> | <u>-</u> | <u>1,420</u> |
| | 7,363 | 1,608 | 8,971 |
| Total deferred inflows of resources | \$ <u>30,510</u> | <u>1,608</u> | <u>32,118</u> |

CITY OF WORCESTER, MASSACHUSETTS

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June 30, 2018

(in thousands of dollars)

The Commonwealth has approved school construction assistance to the City through the Massachusetts School Building Authority (MSBA). The assistance program provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2018, \$5,662 of such assistance was received. Approximately \$20,797 will be received in future fiscal years. Of this amount, \$3,395 represents reimbursement of long-term interest costs, and \$17,402 represents reimbursement of approved construction costs. Accordingly, a \$17,402 intergovernmental receivable and corresponding deferred inflow of resources have been reported in the governmental funds financial statements. The deferred inflow of resources has been recognized as revenue in the conversion to the government-wide financial statements.

(11) Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

Primary Government

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 22,631 | 446 | - | 23,077 |
| Construction in progress | 92,194 | 17,790 | 102,711 | 7,273 |
| Total capital assets not being depreciated | <u>114,825</u> | <u>18,236</u> | <u>102,711</u> | <u>30,350</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 724,235 | 72,333 | - | 796,568 |
| Improvements other than buildings | 158,579 | 57,638 | - | 216,217 |
| Rolling equipment | 34,575 | 1,032 | - | 35,607 |
| Equipment and other | 34,036 | 5,316 | - | 39,352 |
| Infrastructure | 302,304 | 16,334 | - | 318,638 |
| | <u>1,253,729</u> | <u>152,653</u> | <u>-</u> | <u>1,406,382</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 303,675 | 24,316 | - | 327,991 |
| Improvements other than buildings | 27,181 | 9,272 | - | 36,453 |
| Rolling equipment | 27,562 | 1,772 | - | 29,334 |
| Equipment and other | 21,470 | 2,989 | - | 24,459 |
| Infrastructure | 153,322 | 12,065 | - | 165,387 |
| | <u>533,210</u> | <u>50,414</u> | <u>-</u> | <u>583,624</u> |
| Total capital assets being depreciated, net | <u>720,519</u> | <u>102,239</u> | <u>-</u> | <u>822,758</u> |
| Governmental capital assets, net | \$ <u>835,344</u> | <u>120,475</u> | <u>102,711</u> | <u>853,108</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

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

Governmental activities:

| | |
|---|-------------------------|
| General government | \$ 644 |
| Public safety | 2,607 |
| Health and human services | 320 |
| Education | 16,543 |
| Public works | 21,022 |
| Culture and recreation | 9,220 |
| Community development | <u>58</u> |
| Total depreciation expense – governmental activities | \$ <u><u>50,414</u></u> |

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Business-type activities: | | | | |
| Water: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 6,883 | 298 | - | 7,181 |
| Total capital assets, not being depreciated | <u>6,883</u> | <u>298</u> | <u>-</u> | <u>7,181</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 43,905 | - | - | 43,905 |
| Rolling equipment | 3,481 | 53 | - | 3,534 |
| Infrastructure | 167,311 | 6,438 | - | 173,749 |
| Equipment and other | <u>1,064</u> | <u>597</u> | <u>-</u> | <u>1,661</u> |
| Total capital assets, being depreciated | <u>215,761</u> | <u>7,088</u> | <u>-</u> | <u>222,849</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 23,525 | 1,209 | - | 24,734 |
| Rolling equipment | 2,537 | 201 | - | 2,738 |
| Infrastructure | 84,682 | 6,033 | - | 90,715 |
| Equipment and other | <u>518</u> | <u>196</u> | <u>-</u> | <u>714</u> |
| Total accumulated depreciation | <u>111,262</u> | <u>7,639</u> | <u>-</u> | <u>118,901</u> |
| Total capital assets, being depreciated, net | <u>104,499</u> | <u>(551)</u> | <u>-</u> | <u>103,948</u> |
| Water capital assets, net | <u>111,382</u> | <u>(253)</u> | <u>-</u> | <u>111,129</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Sewer: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | 117 | - | - | 117 |
| Total capital assets, not being depreciated | <u>117</u> | <u>-</u> | <u>-</u> | <u>117</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 5,459 | - | - | 5,459 |
| Rolling equipment | 8,349 | 885 | - | 9,234 |
| Infrastructure | 227,043 | 15,829 | - | 242,872 |
| Equipment and other | 516 | - | - | 516 |
| Total capital assets, being depreciated | <u>241,367</u> | <u>16,714</u> | <u>-</u> | <u>258,081</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,707 | 208 | - | 2,915 |
| Rolling equipment | 5,674 | 667 | - | 6,341 |
| Infrastructure | 108,897 | 8,777 | - | 117,674 |
| Equipment and other | 425 | 29 | - | 454 |
| Total accumulated depreciation | <u>117,703</u> | <u>9,681</u> | <u>-</u> | <u>127,384</u> |
| Total capital assets, being depreciated, net | <u>123,664</u> | <u>7,033</u> | <u>-</u> | <u>130,697</u> |
| Sewer capital assets, net | <u>123,781</u> | <u>7,033</u> | <u>-</u> | <u>130,814</u> |
| Golf course (nonmajor): | | | | |
| Capital assets, not being depreciated | | | | |
| Construction in progress | 404 | 1,143 | - | 1,547 |
| Total capital assets, not being depreciated | <u>404</u> | <u>1,143</u> | <u>-</u> | <u>1,547</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 966 | - | - | 966 |
| Infrastructure | 1,710 | - | - | 1,710 |
| Total capital assets, being depreciated | <u>2,676</u> | <u>-</u> | <u>-</u> | <u>2,676</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 447 | 42 | - | 489 |
| Infrastructure | 1,090 | 70 | - | 1,160 |
| Total accumulated depreciation | <u>1,537</u> | <u>112</u> | <u>-</u> | <u>1,649</u> |
| Total capital assets, being depreciated, net | <u>1,139</u> | <u>(112)</u> | <u>-</u> | <u>1,027</u> |
| Golf capital assets, net | <u>1,543</u> | <u>1,031</u> | <u>-</u> | <u>2,574</u> |
| Business-type activities capital assets, net | <u>\$ 236,706</u> | <u>7,811</u> | <u>-</u> | <u>244,517</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

| | <u>Beginning balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Discretely presented component units - The District: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 702 | - | - | 702 |
| Construction in progress | 2,446 | 9,948 | 167 | 12,227 |
| Total capital assets, not being depreciated | <u>3,148</u> | <u>9,948</u> | <u>167</u> | <u>12,929</u> |
| Capital assets, being depreciated: | | | | |
| Treatment facilities | 254,342 | 67 | - | 254,409 |
| Equipment and other | 9,592 | 836 | - | 10,428 |
| Total capital assets, being depreciated | <u>263,934</u> | <u>903</u> | <u>-</u> | <u>264,837</u> |
| Less accumulated depreciation for: | | | | |
| Treatment facilities | 101,250 | 7,258 | - | 108,508 |
| Equipment and other | 5,381 | 536 | - | 5,917 |
| Total accumulated depreciation | <u>106,631</u> | <u>7,794</u> | <u>-</u> | <u>114,425</u> |
| Total capital assets, being depreciated, net | <u>157,303</u> | <u>(6,891)</u> | <u>-</u> | <u>150,412</u> |
| The District's capital assets, net | \$ <u>160,451</u> | <u>3,057</u> | <u>167</u> | <u>163,341</u> |

| | | | | |
|---|------------------|----------------|-----------|---------------|
| Discretely presented component units - WRA: | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 1,128 | - | 74 | 1,054 |
| Construction in progress | 1,027 | 806 | - | 1,833 |
| Total capital assets, not being depreciated | <u>2,155</u> | <u>806</u> | <u>74</u> | <u>2,887</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 40,501 | 3 | - | 40,504 |
| Equipment and other | 220 | 8 | - | 228 |
| Total capital assets, being depreciated | <u>40,721</u> | <u>11</u> | <u>-</u> | <u>40,732</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 16,040 | 1,039 | - | 17,079 |
| Equipment and other | 136 | 6 | - | 142 |
| Total accumulated depreciation | <u>16,176</u> | <u>1,045</u> | <u>-</u> | <u>17,221</u> |
| Total capital assets, being depreciated, net | <u>24,545</u> | <u>(1,034)</u> | <u>-</u> | <u>23,511</u> |
| WRA capital assets, net | \$ <u>26,700</u> | <u>(228)</u> | <u>74</u> | <u>26,398</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Construction Commitments

The City has active construction projects as of June 30, 2018. The projects include land improvements, infrastructure and building improvements. At year-end, the City's commitments with contractors are as follows:

| <u>Project</u> | <u>Spent through June 30, 2018</u> | <u>Remaining commitment</u> |
|-----------------------------|--|---------------------------------|
| Building improvements | \$ 51,784 | 1,777 |
| Infrastructure improvements | 65,130 | 10,561 |
| Land improvements | 11,992 | 2,025 |
| Total | <u>\$ 128,906</u> | <u>14,363</u> |

The commitments for the aforementioned projects are being funded by general obligation bonds.

(12) Net Investment in Capital Assets

Net investment in capital assets at June 30, 2018 is summarized as follows:

Governmental Activities

| | |
|--|-------------------|
| Capital assets | \$ 1,436,732 |
| Less accumulated depreciation | (583,624) |
| Less outstanding long-term debt (including capital leases) | (516,176) |
| Less outstanding temporary debt | (45,452) |
| Add outstanding debt that is not capital related | 127,126 |
| Add unspent proceeds of capital related debt | <u>22,398</u> |
| Net investment in capital assets | <u>\$ 441,004</u> |

Business-Type Activities

| | <u>Water</u> | <u>Sewer</u> | <u>Golf Course (Nonmajor)</u> | <u>Total Enterprise Funds/ Business-Type Activities</u> |
|--|------------------|---------------|---------------------------------------|---|
| Capital assets | \$ 230,030 | 258,198 | 4,223 | 492,451 |
| Less accumulated depreciation | (118,901) | (127,384) | (1,649) | (247,934) |
| Less outstanding long-term debt | (53,072) | (95,929) | (1,471) | (150,472) |
| Less outstanding temporary debt | (8,585) | (12,713) | (1,042) | (22,340) |
| Add unspent proceeds of capital related debt | <u>5,152</u> | <u>9,321</u> | <u>104</u> | <u>14,577</u> |
| Net investment in capital assets | <u>\$ 54,624</u> | <u>31,493</u> | <u>165</u> | <u>86,282</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(13) Lease Obligations

(a) Capital Leases

The City entered into a lease agreement as lessee for financing the acquisition of computer equipment for schools valued at \$5,609. The equipment has a five-year estimated useful life. This year, \$1,122 was included in depreciation expense. The net book value of the equipment is \$1,561. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

| | <u>Amount</u> |
|---|---------------|
| Year ending June 30: | |
| 2019 | \$ 604 |
| Total minimum lease payments | 604 |
| Less: amount representing interest | <u>(7)</u> |
| Present value of minimum lease payments | <u>\$ 597</u> |

The portion of the capital lease that is due within one year is \$597.

The City entered into a lease agreement as lessee for financing the acquisition of communication equipment for public safety valued at \$7,671. The equipment has a fifteen-year estimated useful life. This year, \$511 was included in depreciation expense. The net book value of the equipment is \$6,393. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

| | <u>Amount</u> |
|---|-----------------|
| Year ending June 30: | |
| 2019 | \$ 695 |
| 2020 | 695 |
| 2021 | 695 |
| 2022 | 695 |
| 2023 | 695 |
| 2024 - 2030 | <u>5,564</u> |
| Total minimum lease payments | 9,039 |
| Less: amount representing interest | <u>(2,015)</u> |
| Present value of minimum lease payments | <u>\$ 7,024</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

The portion of the capital lease that is due within one year is \$426 and amounts due in more than one year total \$6,598.

The City entered into a lease agreement as lessee for financing the acquisition of computer equipment for schools valued at \$244. The equipment has a five-year estimated useful life. This year, \$24 was included in depreciation expense. The net book value of the equipment is \$219. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

| | <u>Amount</u> |
|---|---------------|
| Year ending June 30: | |
| 2019 | \$ 84 |
| 2020 | <u>84</u> |
| Total minimum lease payments | 168 |
| Less: amount representing interest | <u>(4)</u> |
| Present value of minimum lease payments | <u>\$ 164</u> |

The portion of the capital lease that is due within one year is \$81 and amounts due in more than one year total \$83.

The City entered into a lease agreement as lessee for financing the acquisition of computer equipment for schools valued at \$1,406. The equipment has a five-year estimated useful life. This year, \$141 was included in depreciation expense. The net book value of the equipment is \$1,266. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

| | <u>Amount</u> |
|---|-----------------|
| Year ending June 30: | |
| 2019 | \$ 362 |
| 2020 | 362 |
| 2021 | <u>362</u> |
| Total minimum lease payments | 1,086 |
| Less: amount representing interest | <u>(25)</u> |
| Present value of minimum lease payments | <u>\$ 1,061</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

The portion of the capital lease that is due within one year is \$349 and amounts due in more than one year total \$712.

(b) Operating Leases

The City currently conducts part of its student transportation operations from a leased facility and bus yard under a non-cancelable operating lease. Total costs for the lease was \$186 for the year ended June 30, 2018, including \$161 for the lease and \$25 for utilities and other. Future minimum lease payments for the lease are as follows:

| | <u>Amount</u> |
|----------------------|---------------|
| Year ending June 30: | |
| 2019 | \$ 198 |
| 2020 | <u>198</u> |
| Total | <u>\$ 396</u> |

The City currently leases premises for use as a public school facility for approximately 100 students of the City's alternative school program under a non-cancelable operating lease. Total costs for the lease was \$55 for the year ended June 30, 2018.

Future minimum lease payments for the lease are as follows:

| | <u>Amount</u> |
|----------------------|---------------|
| Year ending June 30: | |
| 2019 | \$ 54 |
| 2020 | <u>54</u> |
| Total | <u>\$ 108</u> |

The City currently leases ten thousand square feet of premises for use as a public school facility. Total cost for the lease was \$204 for the year ended June 30, 2018. Future minimum lease payments for the lease are as follows:

| | <u>Amount</u> |
|----------------------|---------------|
| Year ending June 30: | |
| 2019 | \$ 204 |
| Total | <u>\$ 204</u> |

The City currently leases premises for use of gymnasium and parking spaces by a public school under a non-cancelable operating lease. Total cost for the lease was \$47 for the year ended June 30, 2018. Future minimum lease payments for the lease are as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

| | <u>Amount</u> |
|----------------------|---------------|
| Year ending June 30: | |
| 2019 | \$ 48 |
| 2020 | <u>49</u> |
| Total | <u>\$ 97</u> |

The City currently leases land for the purpose of installing and operating an emergency communications radio tower. The lease is for ten years with an option to extend for an additional ten years. Total costs for the lease was \$24 for the year ended June 30, 2018. Future minimum lease payments for the lease are as follows:

| | <u>Amount</u> |
|------------------------------|---------------|
| Year ending June 30: | |
| 2019 | \$ 24 |
| 2020 | 24 |
| 2021 | 24 |
| 2022 | 24 |
| 2023 | 24 |
| 2024-25 | <u>48</u> |
| Total minimum lease payments | <u>\$ 168</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(14) Long-Term Obligations

(a) Changes in Long Term Obligations - Primary Government

Governmental Activities

The following is a summary of changes in noncurrent governmental bond principal and other long-term obligations, including portions due within one year, as reported in the statement of net position.

| | Outstanding beginning of year | Additions | Reductions | Outstanding end of year | Due within one year |
|--|-------------------------------------|----------------|---------------|-------------------------------|------------------------|
| General obligation bonds: | | | | | |
| Inside debt limit | \$ 185,029 | 53,261 | 31,773 | 206,517 | 24,067 |
| Outside debt limit | 282,244 | 54,341 | 37,575 | 299,010 | 24,308 |
| Notes payable – HUD Sec 108 | 1,947 | - | 145 | 1,802 | 84 |
| Capital lease payable | 9,198 | 1,650 | 2,002 | 8,846 | 1,454 |
| Judgments and claims | 13,889 | 13,823 | 5,536 | 22,176 | 5,575 |
| Compensated absences | 13,468 | 9,003 | 8,935 | 13,536 | 9,185 |
| Landfill closure and post closure care costs | 6,000 | 6,543 | 257 | 12,286 | - |
| Net pension liability | 440,298 | 3,166 | - | 443,464 | - |
| Total OPEB liability * | 744,750 | 42,116 | - | 786,866 | - |
| Deferred amounts on bond premium | 16,903 | 8,327 | 3,719 | 21,511 | 3,201 |
| | <u>\$ 1,713,726</u> | <u>192,230</u> | <u>89,942</u> | <u>1,816,014</u> | <u>67,874</u> |

* Beginning total OPEB liability restated
(see Note 23) with enactment of GASB 75

For governmental activities, bonds and notes payable are liquidated by the general fund, debt service fund and various other governmental funds. All other long-term obligations typically have been liquidated in prior years by the general fund.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Business-Type Activities

The following is a summary of changes in noncurrent business-type bond principal and other long-term obligations, including portions due within one year as reported in the statement of net position.

| | Outstanding beginning of year | Additions | Reductions | Outstanding end of year | Due within one year |
|----------------------------------|--|------------------|-------------------|--|--------------------------------|
| General obligation bonds: | | | | | |
| Inside debt limit | \$ 9,591 | 2,456 | 2,081 | 9,966 | 1,470 |
| Outside debt limit | 134,851 | 28,232 | 27,615 | 135,468 | 9,443 |
| MCWT notes payable | 5,309 | - | 271 | 5,038 | 275 |
| Judgments and claims | 938 | 401 | 224 | 1,115 | 312 |
| Compensated absences | 742 | 605 | 591 | 756 | 613 |
| Net pension liability | 26,732 | - | 1,313 | 25,419 | - |
| Total OPEB liability * | 14,849 | 995 | - | 15,844 | - |
| Deferred amounts on bond premium | 780 | 2,665 | 359 | 3,086 | 468 |
| | <u>\$ 193,792</u> | <u>35,354</u> | <u>32,454</u> | <u>196,692</u> | <u>12,581</u> |

* Beginning total OPEB liability restated
(see Note 23) with enactment of GASB 75

On January 22, 2018 the City issued \$97,255 for current projects. On August 10, 2017 and November 1, 2017 the City issued \$19,400 and \$21,635 of refunding debt, respectively. The proceeds consisted of \$107,602 for governmental activities of which \$23,233 was refunding bonds issued and \$30,688 for business-type activities of which \$17,802 was refunding bonds issued.

(b) Detail of Individual Long-Term Debt Issues – Primary Government

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and a pension funding loan in 1998. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 30 years. General obligation bonds of the primary government outstanding at June 30, 2018 are as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Governmental Activities

| Purpose/Type | Original Borrowing | Interest Rates to Maturity | Final Maturity | Outstanding June 30, 2018 |
|--|-----------------------|-------------------------------|-------------------|------------------------------|
| 1998 General Obligation Bonds, Pension Funding Loan | \$ 220,979 | 6.25% | 2028 | \$ 121,025 |
| 2001 General Obligation Bonds | 26,685 | 5.25% to 5.41% | 2021 | 1,065 |
| 2002 General Obligation Bonds, Series A | 18,365 | 4.00% to 5.00% | 2023 | 2,792 |
| 2002 General Obligation Bonds, Series B | 8,000 | 4.25% to 4.625% | 2021 | 1,040 |
| 2003 General Obligation Bonds, Series C | 17,670 | 3.30% to 4.00% | 2024 | 1,636 |
| 2003 General Obligation Bonds, Series D | 5,965 | 4.125% to 5.80% | 2023 | 1,490 |
| 2004 General Obligation Bonds | 43,110 | 4.50% to 5.25% | 2025 | 9,560 |
| 2005 General Obligation Refunding Bonds, Series A | 34,067 | 4.05% to 5.00% | 2021 | 7,247 |
| 2005 General Obligation Refunding Bonds, Series B | 22,198 | 5.00% | 2019 | 2,461 |
| 2005 General Obligation Bonds, Series C | 46,125 | 4.00% to 4.125% | 2026 | 12,463 |
| 2006 General Obligation Bonds | 29,090 | 4.00% to 4.25% | 2027 | 4,045 |
| 2007 General Obligation Bonds, Parking Garage | 4,750 | 5.28% to 5.45% | 2019 | 520 |
| 2007 General Obligation Bonds | 23,110 | 3.625% to 4.00% | 2028 | 2,227 |
| 2010 General Obligation Bonds, Series A | 19,850 | 3.00% to 4.25% | 2036 | 715 |
| 2010 DCU Special Improvement District Bonds, Series B | 5,050 | 5.75% to 6.75% | 2035 | 4,220 |
| 2011 General Obligation School Bond | 10,000 | 2.00% | 2041 | 7,667 |
| 2011 General Obligation Refunding | 7,585 | 2.50% to 3.00% | 2022 | 2,070 |
| 2011 General Obligation Bonds, Series A | 21,057 | 3.00% to 4.25% | 2037 | 7,698 |
| 2011 General Obligation Bonds, Series B DCU Special District | 1,005 | 3.75% to 5.00% | 2029 | 835 |
| 2011 General Obligation Bonds, Series B Foley Stadium | 961 | 3.75% to 5.00% | 2029 | 380 |
| 2012 District Improvement Financing Bonds | 6,485 | 3.00% to 5.00% | 2040 | 6,480 |
| 2012 General Obligation Bonds | 48,150 | 3.00% to 4.00% | 2038 | 32,417 |
| 2013 General Obligation Refunding | 3,016 | 3.00% to 5.00% | 2024 | 1,566 |
| 2013 General Obligation Bonds | 52,492 | 3.00% to 5.00% | 2039 | 38,282 |
| 2014 General Obligation Bonds, Series A | 27,609 | 3.00% to 5.00% | 2040 | 20,217 |
| 2014 DCU Special Improvement District Bonds, Series B | 13,979 | 3.125% to 4.25% | 2039 | 12,785 |
| 2014 General Obligation Refunding Bonds, Series C | 3,195 | 2.00% to 5.00% | 2025 | 1,956 |
| 2014 General Obligation Refunding Bonds, Series A | 4,212 | 2.00% to 5.00% | 2040 | 2,912 |
| 2015 General Obligation Bonds, Series A | 26,895 | 3.00% to 5.00% | 2041 | 22,089 |
| 2015 General Obligation Bonds, Series B | 17,386 | 2.95% to 5.00% | 2033 | 16,980 |
| 2015 General Obligation Refunding Bonds, Series C | 9,439 | 2.00% to 5.00% | 2027 | 7,308 |
| 2016 General Obligation Bonds, Series A | 38,677 | 3.00% to 5.00% | 2042 | 35,792 |
| 2016 General Obligation Refunding Bonds, Series B | 8,892 | 3.00% to 5.00% | 2028 | 7,986 |
| 2017 General Obligation Refunding Bonds (Aug. 2017) | 13,038 | 2.125% to 5.00% | 2037 | 13,038 |
| 2017 General Obligation Refunding Bonds (Nov. 2017) | 10,195 | 2.25% to 5.00% | 2036 | 10,194 |
| 2018 General Obligation Bonds, Series A | 55,824 | 3.125% to 5.00% | 2043 | 55,824 |
| 2018 General Obligation Bonds, Series B | 28,545 | 3.25% to 4.00% | 2043 | 28,545 |
| | | | | \$ <u>505,527</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Business-Type Activities

| Purpose/Type | Original Borrowing | Interest Rates to Maturity | Final Maturity | Outstanding June 30, 2018 |
|---|-----------------------|-------------------------------|-------------------|------------------------------|
| 2002 General Obligation Bonds, Series A | 7,325 | 4.00% to 5.00% | 2023 | \$ 2,258 |
| 2003 General Obligation Bonds, Series C | 7,945 | 3.30% to 4.00% | 2024 | 14 |
| 2005 General Obligation Refunding Bonds, Series A | 34,067 | 4.05% to 5.00% | 2021 | 1,433 |
| 2005 General Obligation Refunding Bonds, Series B | 22,198 | 5.00% | 2019 | 684 |
| 2005 General Obligation Bonds, Series C | 11,550 | 4.00% to 4.125% | 2026 | 12 |
| 2006 General Obligation Bonds | 17,680 | 4.00% to 4.25% | 2027 | 40 |
| 2007 General Obligation Bonds | 15,987 | 3.625% to 4.00% | 2028 | 23 |
| 2010 General Obligation Bonds, Series A | 12,805 | 3.00% to 4.25% | 2036 | 2,355 |
| 2011 General Obligation Refunding | 9,170 | 2.50% to 3.00% | 2022 | 1,430 |
| 2011 General Obligation Bonds, Series A | 10,240 | 3.00% to 4.25% | 2037 | 2,292 |
| 2012 General Obligation Bonds | 23,983 | 3.00% to 4.00% | 2038 | 18,828 |
| 2013 General Obligation Refunding | 3,444 | 3.00% to 5.00% | 2024 | 2,179 |
| 2013 General Obligation Bonds | 14,995 | 3.00% to 5.00% | 2039 | 12,653 |
| 2014 General Obligation Bonds, Series A | 18,420 | 2.00% to 5.00% | 2040 | 15,863 |
| 2014 General Obligation Refunding Bonds Series C | 3,575 | 2.00% to 5.00% | 2025 | 7,358 |
| 2014 General Obligation Refunding Bonds, Series A | 9,248 | 2.00% to 5.00% | 2040 | 2,574 |
| 2015 General Obligation Bonds, Series A | 14,598 | 3.00% to 5.00% | 2041 | 13,036 |
| 2015 General Obligation Refunding Bonds, Series C | 11,216 | 2.00% to 5.00% | 2027 | 9,552 |
| 2016 General Obligation Bonds, Series A | 17,097 | 3.00% to 5.00% | 2042 | 16,398 |
| 2016 General Obligation Refunding Bonds, Series B | 6,198 | 3.00% to 5.00% | 2028 | 5,764 |
| 2017 General Obligation Refunding Bonds (Aug. 2017) | 6,362 | 2.125% to 5.00% | 2037 | 6,362 |
| 2017 General Obligation Refunding Bonds (Nov. 2017) | 11,440 | 2.25% to 5.00% | 2036 | 11,440 |
| 2018 General Obligation Bonds, Series A | 12,886 | 3.125% to 5.00% | 2043 | 12,886 |
| | | | | \$ <u>145,434</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Notes Payable

The City has a guaranteed loan agreement with the U.S. Department of Housing and Urban Development Section 108 to fund the Gardner, Kilby and Hammond Streets rehabilitation in the amount of \$1,802. The City also has loan agreements with the Massachusetts Clean Water Trust (MCWT) to fund the Southbridge Street sewer separation project and water pollution abatement projects in the amount of \$5,038.

Governmental Activities – Loans Payable HUD Section 108

| | | | | |
|----------------------|----------|-----------------|------|------------------------|
| 2015 - A series loan | \$ 2,030 | 2.635% to 2.85% | 2025 | \$ <u>1,802</u> |
| | | | | \$ <u><u>1,802</u></u> |

Business-Type Activities – Loans payable MCWT

| | | | | |
|--|--------|-------|------|------------------------|
| 2006 clean water loan to sewer enterprise fund | \$ 949 | 4.90% | 2024 | \$ 404 |
| 2014 clean water loan to sewer enterprise fund | 851 | 2.00% | 2033 | 699 |
| 2015 clean water loan to sewer enterprise fund | 562 | 2.00% | 2035 | 492 |
| 2016 clean water loan to sewer enterprise fund | 1,048 | 2.00% | 2036 | 962 |
| 2017 clean water loan to sewer enterprise fund | 2,671 | 2.00% | 2037 | <u>2,481</u> |
| | | | | \$ <u><u>5,038</u></u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(c) ***Maturity of Bond Indebtedness-Primary Government***

Bond indebtedness outstanding at June 30, 2018 matures as follows:

| | <u>Governmental activities</u> | | <u>Business-type activities</u> | | | |
|----------------------|--------------------------------|-----------------|---------------------------------|-----------------|------------------|-----------------|
| | <u>Governmental Funds</u> | | <u>Water</u> | | <u>Sewer</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| Year ending June 30: | | | | | | |
| 2019 | \$ 48,375 | 22,680 | 5,191 | 2,063 | 5,528 | 3,426 |
| 2020 | 44,395 | 20,454 | 4,250 | 1,843 | 4,911 | 3,199 |
| 2021 | 42,528 | 18,331 | 4,090 | 1,659 | 5,040 | 2,976 |
| 2022 | 37,724 | 16,305 | 3,812 | 1,479 | 4,800 | 2,745 |
| 2023 | 37,081 | 14,453 | 3,647 | 1,309 | 4,827 | 2,529 |
| 2024-2028 | 171,374 | 46,238 | 13,863 | 4,430 | 22,517 | 9,675 |
| 2029-2033 | 60,817 | 17,556 | 7,681 | 2,590 | 17,175 | 6,226 |
| 2034-2038 | 43,754 | 7,939 | 7,748 | 1,289 | 18,047 | 3,200 |
| 2039-2043 | 19,479 | 1,838 | 2,790 | 208 | 8,046 | 641 |
| | <u>\$ 505,527</u> | <u>165,794</u> | <u>53,072</u> | <u>16,870</u> | <u>90,891</u> | <u>34,617</u> |

| | <u>Business-type activities</u> | | <u>Business-type</u> | |
|----------------------|---------------------------------|-----------------|--------------------------|-----------------|
| | <u>Golf course (nonmajor)</u> | | <u>activities totals</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| Year ending June 30: | | | | |
| 2019 | \$ 194 | 58 | 10,913 | 5,547 |
| 2020 | 197 | 50 | 9,358 | 5,092 |
| 2021 | 100 | 44 | 9,230 | 4,679 |
| 2022 | 92 | 39 | 8,704 | 4,263 |
| 2023 | 94 | 35 | 8,568 | 3,873 |
| 2024-2028 | 453 | 110 | 36,833 | 14,215 |
| 2029-2033 | 218 | 41 | 25,074 | 8,857 |
| 2034-2038 | 78 | 15 | 25,873 | 4,504 |
| 2039-2043 | 45 | 4 | 10,881 | 853 |
| | <u>\$ 1,471</u> | <u>396</u> | <u>145,434</u> | <u>51,883</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Scheduled loan principal and interest repayments and related anticipated subsidies of the Section 108 and MCWT loans as of June 30, 2018 are as follows:

| | <u>Governmental activities</u> | | | | | |
|----------------------|--------------------------------|-----------------|---------------------------------|-----------------|--|------------------|
| | <u>General fund</u> | | | | | |
| | <u>Principal</u> | <u>Interest</u> | | | | |
| Year ending June 30: | | | | | | |
| 2019 | \$ 84 | 47 | | | | |
| 2020 | 88 | 46 | | | | |
| 2021 | 92 | 44 | | | | |
| 2022 | 97 | 42 | | | | |
| 2023 | 102 | 39 | | | | |
| 2024-2028 | 1,339 | 54 | | | | |
| | <u>\$ 1,802</u> | <u>272</u> | | | | |
| | | | <u>Business-type activities</u> | | | |
| | | | <u>Sewer</u> | | <u>Business-type activities totals (net)</u> | |
| | | | | | | |
| | | | <u>Principal</u> | <u>Interest</u> | <u>Anticipated subsidy</u> | <u>Principal</u> |
| | | | | | <u>Interest</u> | <u>Interest</u> |
| Year ending June 30: | | | | | | |
| 2019 | \$ 275 | 94 | - | 11 | 275 | 83 |
| 2020 | 284 | 90 | - | 10 | 284 | 80 |
| 2021 | 289 | 86 | 1 | 8 | 288 | 78 |
| 2022 | 298 | 82 | 2 | 6 | 296 | 76 |
| 2023 | 308 | 80 | 4 | 4 | 304 | 76 |
| 2024-2028 | 1,325 | 305 | 5 | - | 1,320 | 305 |
| 2029-2033 | 1,394 | 173 | - | - | 1,394 | 173 |
| 2034-2038 | 865 | 41 | - | - | 865 | 41 |
| | <u>\$ 5,038</u> | <u>951</u> | <u>12</u> | <u>39</u> | <u>5,026</u> | <u>912</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(d) Authorized and Unissued Debt

Certain debt described in the statutes as inside debt limit is subject to a dual-level general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively; of the valuation of taxable property in the City as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Municipal Finance Oversight Board. Additionally, certain categories of general obligation debt are exempt from the debt limit described in the statutes as outside the debt limit and subject to other statutory limitations.

Authorized and unissued debt at June 30, 2018 is as follows:

| | | |
|----------------------------------|----|----------------|
| Inside debt limit: | | |
| Building rehabilitation | \$ | 58,276 |
| Street and sidewalk construction | | 47,863 |
| Off-street parking | | 42,796 |
| Parks improvements | | 36,588 |
| Departmental equipment | | 20,955 |
| Worcester Public Schools | | 8,884 |
| ESCO building projects | | 7,867 |
| Urban renewal | | 5,648 |
| Wayfinding | | 3,000 |
| Sewer reconstruction | | 2,670 |
| Other redevelopment | | 2,272 |
| Sky bridge | | 1,850 |
| Union station | | 1,526 |
| Greenhill golf course | | 1,308 |
| Other | | 3,660 |
| Total inside debt limit | | <u>245,163</u> |

(continued)

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(continued)

Outside debt limit:

| | |
|-------------------------------------|-------------------|
| South High School | 208,789 |
| Sewer | 96,913 |
| Water | 70,516 |
| Nelson Place Elementary | 45,707 |
| School - MSBA other | 34,377 |
| DCU Center improvements | 26,829 |
| CitySquare | 22,858 |
| Dam improvements | 6,399 |
| North High | 4,504 |
| Doherty High | 2,000 |
| Greenhill Golf Course | 1,030 |
| Other | <u>725</u> |
| Total outside debt limit | <u>520,647</u> |
| Total inside and outside debt limit | <u>\$ 765,810</u> |

At June 30, 2018, in addition to debt authorized but unissued, the City may issue \$203,828 of additional inside debt under the normal debt (5%) limit. The City had \$434,478 of outstanding debt exempt from or outside the debt limit.

(e) Advanced Refunding

On November 1, 2017, the City issued \$21,635 in advanced refunding bonds by placing proceeds of \$21,635 in an irrevocable trust to provide for \$21,675 of future debt service. The advanced refunding included \$21,635 of refunding bonds with a true interest cost of 2.73% to redeem \$8,260 of 2011 General Obligation Bonds with average remaining coupons of 4.17%, \$9,660 of 2010 General Obligation Bonds with average remaining coupons of 4.04%, and \$3,755 of DCU Special District 2010 Bonds Series B with average remaining coupons of 6.59%. As a result of this refunding, the City will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$3,283 and will realize an economic gain of approximately \$2,507.

(f) Current Refunding

On August 10, 2017, the City issued \$19,400 in current refunding bonds to redeem \$20,400 of previously issued and outstanding bonds. The current refunding included \$19,400 of refunding bonds with a true interest cost of 2.51% (inclusive of premium) to redeem \$20,400 of 2009 General Obligation Bonds with average remaining coupons of 4.5%. The net proceeds from the current

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

refunding, including premiums received from the sale, were used to redeem the outstanding bonds and the related accrued interest. As a result of this refunding, the City will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$3,575 and will realize an economic gain of approximately \$2,918.

(g) Outstanding Defeased Debt

Proceeds of the November 1, 2017 advanced refunding and advanced refunding bonds issued in prior years will be used to defease certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2018, \$39,950 of bonds outstanding is considered defeased.

(h) Discretely Presented Component Units (The District)

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital assets.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. The bonds are generally issued as 20-30 year serial bonds with varying amounts of principal maturing each year. The District's last bond rating was AA3.

The District long-term obligations consisted of the following at June 30, 2018:

| | |
|--|--------|
| 1999 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts at an average coupon rate of 5.253% with a final payment due February 1, 2020. | \$ 140 |
| 2001 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts at an average coupon rate of 5.098% with a final payment due February 1, 2021. | 95 |
| 2004 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts at an average coupon rate of 2.48% with a final payment due August 1, 2034. The bonds were advance refunded by the Trust during 2007. | 32,129 |
| 2007 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts with interest at 2.345% with a final payment due July 15, 2034. | 4,251 |
| 2007 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts with interest at 2.302% with a final payment due July 15, 2036. | 18,642 |
| 2007 General Obligation Refunding Bonds payable in varying principal amounts starting August 1, 2009 until August 1, 2019 at an average coupon rate of 3.934%. | 1,705 |
| 2007 General Obligation Bonds issued to the MCWT. The bonds are payable in varying principal amounts with interest at 2.414% with a final payment due July 15, 2037. | 8,934 |

(continued)

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(continued)

| | |
|---|-------------------|
| 2009 General Obligation Bonds issued to the MCWT. The bonds are in varying principal payable amounts with interest at 2.421% with a final payment due July 15, 2038. | 17,834 |
| 2011 General Obligation Bonds issued to the MCWT. The bonds are payable in varying annual installments with interest at 2.40% with a final payment due May 1, 2040. | 18,041 |
| 2011 General Obligation Bonds issued to the MCWT. The bonds are payable in varying annual installments with interest at 2.40% with a final payment due May 1, 2040. | 6,013 |
| 2012 General Obligation Bonds issued to the MCWT. The bonds are payable in varying annual installments with interest at 2.00% with a final payment due July 15, 2032. | 15,690 |
| 2012 General Obligation Bonds payable in varying principal amounts at an average coupon rate of 3.666% with a final payment due April 15, 2032. | 3,055 |
| 2016 General Obligation refunding Bonds payable in varying principal amounts starting March 15, 2017 until March 15, 2023 with interest at 5.00%. | 3,310 |
| 2016 General Obligation refunding Bonds payable in varying principal amounts starting May 1, 2019 until May 1, 2028 at an average coupon rate of 2.331%. | 4,990 |
| 2016 General Obligation Bonds payable in varying principal amounts starting May 1, 2017 until May 1, 2036 at an average coupon rate of 2.782%. | 4,580 |
| Total bonds payable | <u>139,409</u> |
| Interim loan payable - MCWT, gross available \$25,000, interest at 0%, matures December 31, 2018. The District draws the funds down as eligible costs are incurred. During fiscal 2018, the Massachusetts Clean Water Trust, under its Affordability Program, granted the District a forgiveness of debt of \$1,158 on the first \$10,000 of the loan to go to bond which occurred on September 12, 2018. | 10,014 |
| Unamortized bond premiums | 1,584 |
| Net pension liability | 8,265 |
| Net OPEB obligation | 908 |
| Accrued sick leave | 263 |
| Total long-term obligations | <u>160,443</u> |
| Less portion due within one year | <u>(17,720)</u> |
| Amount due in more than one year | <u>\$ 142,723</u> |

As part of the borrowing arrangements with the Massachusetts Clean Water Trust, a political subdivision of the Commonwealth of Massachusetts, the Trust will grant, if funds are available, a loan subsidy to reduce actual repayment of debt. The trust granted loan subsidies for the year ended June 30, 2018 in the amount of \$687; with subsidies of principal totaling \$27 and interest subsidies totaling \$660.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Scheduled bond principal and interest repayments and related anticipated subsidies are as follows:

| Year ending June 30: | <u>Gross payments</u> | | | <u>Anticipated subsidy</u> | <u>Net payments</u> |
|----------------------|-----------------------|-----------------|----------------|--------------------------------|-------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> | | |
| 2019 | \$ 7,447 | 4,066 | 11,513 | 674 | 10,839 |
| 2020 | 7,672 | 3,820 | 11,492 | 652 | 10,840 |
| 2021 | 6,929 | 3,584 | 10,513 | 611 | 9,902 |
| 2022 | 7,102 | 3,358 | 10,460 | 578 | 9,882 |
| 2023 | 7,307 | 3,137 | 10,444 | 559 | 9,885 |
| 2024-2027 | 35,709 | 12,298 | 48,007 | 2,523 | 45,484 |
| 2028-2032 | 37,631 | 6,339 | 43,970 | 1,911 | 42,059 |
| 2033-2037 | 24,603 | 1,785 | 26,388 | 672 | 25,716 |
| 2038-2041 | 5,009 | 156 | 5,165 | - | 5,165 |
| | <u>\$ 139,409</u> | <u>38,543</u> | <u>177,952</u> | <u>8,180</u> | <u>169,772</u> |

(i) *Discretely Presented Component Units (WRA)*

On March 24, 1997, the WRA and City entered into a Cooperation Agreement (Agreement) concerning funding initiatives of the WRA. On December 14, 2000, the WRA voted to authorize the execution of any legal document in any effort to secure the repayment to the City of any funds the City may provide to finance the WRA's initiatives. Pursuant to the Agreement and the vote of the WRA on December 14, 2000, the WRA and City have executed several amendments to the Agreement whereby the City has agreed to loan the WRA various amounts at varying interest rates (ranging from 2.89% to 4.90%) and maturity dates (ranging from June 30, 2019 through June 30, 2020).

Details related to notes payable to the City at June 30, 2018, are as follows:

| <u>Project</u> | <u>Outstanding at June 30, 2017</u> | <u>Additions</u> | <u>Reductions</u> | <u>Outstanding at June 30, 2018</u> |
|----------------------------------|---|------------------|-------------------|---|
| Union Station - Building Fit Out | \$ 3,471 | 208 | (101) | 3,578 |
| Union Station - Operating | 5,752 | 646 | - | 6,398 |
| Union Station - Bus Ports | 484 | - | - | 484 |
| General and Administrative | 79 | - | - | 79 |
| Urban renewal | 249 | 36 | - | 285 |
| Total | <u>\$ 10,035</u> | <u>890</u> | <u>(101)</u> | <u>10,824</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

Debt service requirements in future fiscal years are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|------------------|-----------------|---------------|
| 2019 | \$ 10,178 | 3,153 | 13,331 |
| 2020 | 646 | 20 | 666 |
| Total | \$ <u>10,824</u> | <u>3,173</u> | <u>13,997</u> |

In addition to notes payable of \$10,824, the WRA also has accrued interest payable due in fiscal year 2020 of \$119 and total noncurrent liabilities of \$10,943.

(15) Temporary Borrowings

(a) Primary Government

Under state law and by authorization of the City Council, the City is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through the issuance of revenue or tax anticipation notes (RANs or TANs);
- Special revenue, capital project, and enterprise fund costs incurred prior to obtaining permanent financing through the issuance of bond anticipation notes (BANs); and
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through the issuance of federal and state aid anticipation notes (FAANs and SAANs).

Temporary loans are general obligations of the City and carry maturity dates limited by statute. Interest expenditures/expenses on temporary borrowings for the year ended June 30, 2018 in the general fund, debt service fund, nonmajor governmental funds, and enterprise funds were \$3,514.

At June 30, 2018, BANS totaling \$67,792 with interest rates of 3.00% to 4.00% and maturing January 31, 2019 were outstanding. The following is a summary of changes in temporary loans:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

| | | Outstanding as of June 30, 2017 | Additions | Reductions | Outstanding as of June 30, 2018 |
|----------------------------------|----|--|------------------|-------------------|--|
| Bond anticipation notes payable: | | | | | |
| General | \$ | 89,570 | 46,188 | 90,306 | 45,452 |
| Water | | 3,920 | 8,585 | 3,920 | 8,585 |
| Sewer | | 9,758 | 12,713 | 9,758 | 12,713 |
| Golf | | 440 | 1,042 | 440 | 1,042 |
| Total | \$ | <u>103,688</u> | <u>68,528</u> | <u>104,424</u> | <u>67,792</u> |

(b) Discretely Presented Component Units – The District

The District issues bond anticipation notes payable as preliminary financing for major capital additions. BAN activity for the year ended June 30, 2018 was as follows:

| | | Outstanding as of June 30, 2017 | Additions | Reductions | Outstanding as of June 30, 2018 |
|------------------------|----|--|------------------|-------------------|--|
| Bond Anticipation Note | \$ | <u>-</u> | <u>4,350</u> | <u>-</u> | <u>4,350</u> |

(16) Interfund Receivables, Payables and Transfers

At June 30, 2018, there was a receivable and payable between the general fund and nonmajor governmental funds and internal service funds and general fund, respectively, in the amounts of \$4,639 and \$871, for temporary cash advances.

Transfers and their purposes during the year ended June 30, 2018 were as follows:

| | Governmental Funds | | | Proprietary Funds | | |
|--|--------------------|-------------------|---------------------|-------------------|--------------|----------------------|
| | General Fund | Debt Service Fund | Other Gov'tal Funds | Water Fund | Sewer Fund | Golf Fund (Nonmajor) |
| Original budget | | | | | | |
| General fund - to fund debt payments | \$ (14,948) | 14,948 | - | - | - | - |
| Debt service fund - to promote tourism | 500 | (500) | - | - | - | - |
| Chapter 90 - to fund DPW engineering and street ops. | 521 | - | (521) | - | - | - |
| General fund - tax levy subsidy of golf fund | (150) | - | - | - | - | 150 |
| Sewer connection fees - to fund DPW engineering | 119 | - | (119) | - | - | - |
| Trust fund to general fund for cemetery debt service | 59 | - | (59) | - | - | - |
| Golf fund - to fund pension obligation bonds | 20 | - | - | - | - | (20) |
| Sewer fund - to fund pension obligation bonds | 570 | - | - | - | (570) | - |
| Water fund - to fund pension obligation bonds | 744 | - | - | (744) | - | - |
| Sub-total | <u>(12,565)</u> | <u>14,448</u> | <u>(699)</u> | <u>(744)</u> | <u>(570)</u> | <u>130</u> |

(continued)

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(continued)

| | Governmental Funds | | | Proprietary Funds | | |
|--|--------------------|-------------------|----------------------|-------------------|------------|----------------------|
| | General Fund | Debt Service Fund | Other Gov't'al Funds | Water Fund | Sewer Fund | Golf Fund (Nonmajor) |
| Subsequent transfers: | | | | | | |
| General fund - to fund debt payments | (10) | 10 | - | - | - | - |
| Land sales to general fund for capital outlays | 210 | - | (210) | - | - | - |
| Premium on loans to general fund for police OT | 18 | - | (18) | - | - | - |
| Land sales to finance debt in general fund | 150 | - | (150) | - | - | - |
| General fund - to special revenue grants | (57) | - | 57 | - | - | - |
| General fund - to fund golf operations | (150) | - | - | - | - | 150 |
| Insurance settlement fund - fire and park vehicles | 50 | - | (50) | - | - | - |
| Insurance settlement fund - WPS vehicles | - | - | 4 | - | - | - |
| Insurance settlement fund - WPS vehicles | - | - | (4) | - | - | - |
| Premium on loans to fund bond issuance costs | 680 | - | (680) | - | - | - |
| Premium on loans to capital project fund for tech | - | - | 694 | - | - | - |
| Premium on loans to capital project fund for tech. serv. | - | - | (694) | - | - | - |
| Premium on loans to capital project fund for fire equip | - | - | 63 | - | - | - |
| Premium on loans to capital project fund for fire equip | - | - | (63) | - | - | - |
| Premium on loans to capital project fund other | - | - | 467 | - | - | - |
| Premium on loans to capital project fund other | - | - | (467) | - | - | - |
| Insurance settlement fund - Capital project | - | - | 15 | - | - | - |
| Insurance settlement fund - Capital project | - | - | (15) | - | - | - |
| PEG access - transfer from revolving fund to reserve receipt for appropriation | - | - | 3,173 | - | - | - |
| PEG access - transfer from revolving fund to reserve receipt for appropriation | - | - | (3,173) | - | - | - |
| Parking receipts to fund off-street parking | - | - | 3,611 | - | - | - |
| Parking receipts to fund off-street parking | - | - | (3,611) | - | - | - |
| Transfer among capital project nonmajor funds | - | - | 271 | - | - | - |
| Transfer among capital project nonmajor funds | - | - | (271) | - | - | - |
| Transfer capital project to water capital project | - | - | (387) | 387 | - | - |
| Greenwood St reserve-for Glodis Field capital project | - | - | 220 | - | - | - |
| Greenwood St reserve-for Glodis Field capital project | - | - | (220) | - | - | - |
| Greenwood St reserve-for Quinsigamond Village Ec. Dev. façade project | - | - | 63 | - | - | - |
| Greenwood St reserve-for Quinsigamond Village Ec. Dev. façade project | - | - | (63) | - | - | - |
| Capital project to special revenue QV facade project | - | - | 75 | - | - | - |
| Capital project to special revenue QV facade project | - | - | (75) | - | - | - |
| CSX community fund for East Park project | - | - | 80 | - | - | - |
| CSX community fund for East Park project | - | - | (80) | - | - | - |
| CSX community fund for pedestrian lights on Shrewsbury St | - | - | 22 | - | - | - |
| CSX community fund for pedestrian lights on Shrewsbury St | - | - | (22) | - | - | - |
| Greenwood St reserve-environmental monitoring | - | - | 692 | - | - | - |
| Greenwood St reserve-environmental monitoring | - | - | (692) | - | - | - |
| Transfer from spendable trust funds for expenditures | - | - | 67 | - | - | - |
| Transfer from spendable trust funds for expenditures | - | - | (67) | - | - | - |
| Special revenue PEG fund to educational access fund | - | - | 312 | - | - | - |
| Special revenue PEG fund to educational access fund | - | - | (312) | - | - | - |
| Total transfers, net | \$ (11,674) | 14,458 | (2,137) | (357) | (570) | 280 |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(17) Environmental Remediation (The District)

The District is currently complying with the terms of a May 1, 2014 Administrative Consent Order (AOC) with the EPA. The AOC is primarily focused on improvements to reduce effluent nitrogen and phosphorus levels. In fiscal 2016, the District completed a Nutrient Facilities Plan and the City of Worcester submitted an Integrated Planning Report for Wet Weather Management. Based on the findings of these studies, the District proposed AOC modifications that were accepted by EPA in fiscal 2017. The revised plan includes a three-phase Nutrient Upgrade project for compliance with NPDES limits for all *dry-weather* flows extending to 2027, and the possibility to adjust the AOC schedule as part of the overall City of Worcester Integrated Water Resources Management Plan. The first of the three-phase projects, Phase A, is currently under construction at a cost of approximately \$25,000, with completion expected in early fiscal 2020. The second project, Phase B, is under design with construction to begin in 2021. The total cost of the upgrades for nutrient facilities was estimated in the Nutrient Facilities Plan at \$140,000 to \$160,000. The outcome of the Worcester integrated planning should include proposed projects associated costs and a prioritized schedule for implementation based on environmental benefit and ratepayer affordability.

(18) Risk Management

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment, and employee health and life insurance claims.

Certain City buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$500 per incident. All City buildings have boiler and machinery insurance. The City is self-insured for other types of general liability; however, Chapter 258 of Massachusetts General Laws limits the City's liability to a maximum of \$100 per claimant in all matters except actions relating to federal civil rights, eminent domain, and breach of contract. The City is also self-insured for unemployment and workers' compensation.

The City provides a variety of health insurance benefits to employees including Blue Cross/Blue Shield Blue Choice (BCBS) and BCBS Medex as well as Fallon Direct, Advantage and Senior plans and Tufts Medicare supplementary plans. The partially self-insured BCBS, Fallon and Medex plans are paid through an established internal service fund based on total claims, while the Fallon Senior and Tufts Medicare plans are based on premiums. Specific stop loss insurance is purchased for claims that exceed \$250 for each participating member of the self-insured health plans. 25% employee contributions are made. The remainder of such costs is funded by the City. The City offers \$5 of term life insurance benefits to its employees and pays 50% of the premiums. The City also provides health and life insurance benefits to certain retirees, as discussed in note 8.

Liabilities for self-insured judgments and claims are recorded in the basic financial statements if it is probable that a loss has been incurred and the amount can be reasonably estimated. The City accounts for its self-insurance costs that have matured in the general fund in the fund-basis statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

The City has established a liability for health claims based on actual amounts paid two months subsequent to year-end (provided by a third-party administrator) and an estimate of future claims based on historical trends.

The City has established a liability for judgments and claims based on a case-by-case review of all known claims, estimates of losses incurred but not reported, incremental costs incurred only because of claims, historical trends of previous years, and attorneys' estimates of pending matters and lawsuits in which the City is involved.

Changes in the self-insurance liability for health claims (which are reported as accrued liabilities in the internal service fund) for the years ended June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|--|-----------------|-----------------|
| Health claims, beginning of year | \$ 5,833 | 7,672 |
| Incurred claims | 88,265 | 87,452 |
| Payments of claims attributable to events of the current and prior fiscal years | <u>(88,487)</u> | <u>(89,291)</u> |
| Health claims, end of year | <u>\$ 5,611</u> | <u>5,833</u> |

Changes in judgments and claims liability for the years ended June 30, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|--|------------------|----------------|
| Judgments and claims, beginning of year | \$ 14,827 | 15,211 |
| Additions to estimated claims liability | 14,224 | 5,543 |
| Payments of claims attributable to events of the current and prior fiscal years, and reductions to previous estimated liabilities: | | |
| Court judgments and legal settlements | (2,449) | (2,390) |
| Workers' compensation | <u>(3,311)</u> | <u>(3,537)</u> |
| Judgments and claims, end of year | <u>\$ 23,291</u> | <u>14,827</u> |

Judgments and claims consisted of the following at June 30:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------------|------------------|---------------|
| Workers' compensation | \$ 11,316 | 10,877 |
| Court judgments and legal settlements | 11,975 | 3,950 |
| | <u>\$ 23,291</u> | <u>14,827</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

The fiscal 2018 liability for judgments and claims consist of governmental and business-type activities in the amount of \$22,176 and \$1,115, respectively.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The liability for workers' compensation is reported at net present value using a discount rate of 5.5%.

There are various other pending matters and lawsuits in which the City is involved. The City and its legal counsel estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the City's financial position.

(19) Fund Balances

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

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Other governmental funds</u> | <u>Total Governmental Funds</u> |
|------------------------------|-------------------------|----------------------------------|---|---|
| Nonspendable: | | | | |
| Permanent fund principal.... | \$ - | - | 15,626 | <u>15,626</u> |
| Restricted: | | | | |
| OPEB reserve fund..... | 15,009 | - | - | 15,009 |
| DCU Center operations..... | - | - | 303 | 303 |
| School lunch..... | - | - | 3,103 | 3,103 |
| Off-street parking..... | - | - | 1,302 | 1,302 |
| City revolving funds..... | - | - | 6,867 | 6,867 |
| School grants..... | - | - | 2,825 | 2,825 |
| School revolving funds..... | - | - | 2,634 | 2,634 |
| Community development.... | - | - | 50 | 50 |
| Workforce Central..... | - | - | 1,388 | 1,388 |
| City grants..... | - | - | 11,705 | 11,705 |
| Capital..... | - | - | 797 | 797 |
| Permanent fund expendable. | - | - | 4,981 | <u>4,981</u> |
| Sub-total - Restricted.... | <u>15,009</u> | - | <u>35,955</u> | <u>50,964</u> |
| Committed: | | | | |
| Debt service..... | - | 20,757 | - | 20,757 |
| Receipts reserved..... | - | - | 23,359 | <u>23,359</u> |
| Sub-total - Committed... | - | <u>20,757</u> | <u>23,359</u> | <u>44,116</u> |
| Unassigned..... | <u>42,377</u> | - | <u>(31,846)</u> | <u>10,531</u> |
| Total fund balances..... | \$ <u>57,386</u> | <u>20,757</u> | <u>43,094</u> | <u>121,237</u> |

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(20) Prior Period Reclassifications of Major and Nonmajor Funds

The beginning fund balances of the CitySquare construction fund, the rehabilitation of public buildings fund and nonmajor governmental funds have been restated from (\$28,301), (\$32,647) and \$51,525, respectively, to zero, zero and (\$9,423) respectively, to reflect the reclassification of the CitySquare construction fund and the rehabilitation of public buildings fund from major governmental funds to nonmajor funds.

(21) Fund Deficits

The following funds had deficits at June 30, 2018. These deficits will be funded in future fiscal years via long-term bond issues, charges for services and intergovernmental revenues.

Nonmajor Funds

Special Revenue Funds:

| | | |
|------------------|----|-----|
| Police auxiliary | \$ | 321 |
|------------------|----|-----|

Capital Projects Funds:

| | |
|--------------------------|--------|
| DCU Center construction | 2,795 |
| Street and sidewalk | 2,481 |
| Capital equipment | 1,307 |
| Rehab of public building | 6,493 |
| School construction | 14,291 |
| Parks improvements | 3,026 |
| Union Station garage | 4 |
| CitySquare construction | 1,128 |

Proprietary Funds:

| | |
|------------------------|-----|
| Golf course enterprise | 654 |
|------------------------|-----|

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(22) Tax Abatements

The City of Worcester enters into property tax abatement agreements with local businesses under two state programs: the Massachusetts Housing Development Incentive Program (HDIP), and the Massachusetts Economic Development Incentive Program (EDIP). The Massachusetts Housing Development Incentive Program (HDIP) allows companies to receive state and local tax incentives in order to increase residential growth, expand diversity of housing stock, support economic development, and promote neighborhood stabilization in designated areas. Similarly, the Massachusetts Economic Development Incentive Program (EDIP) gives companies state and local tax incentives in order to foster job creation and stimulate business growth throughout the City.

Worcester negotiates property tax abatement agreements on an individual basis. As of June 30, 2018, Worcester had tax abatement agreements with twenty entities with sixteen of those entities receiving abatements in fiscal year 2018 and four entities whose abatement will begin after fiscal year 2018 upon completion of the projects. The City's policy is to disclose individual tax abatement agreements in which the amount abated in fiscal year 2018 exceeded 10% of the total abatements made by the City in fiscal year 2018. In fiscal year 2018, Worcester abated property taxes totaling \$3,885. Detailed below are the tax abatement agreements that each exceed 10% of the total amount abated:

- 1 Mercantile St – an 84% property tax abatement to an insurance company for constructing a 198,974 square foot office building and relocate approximately 600 full-time employees. The abatement totals \$709, which accounts for 18% of total abatements in fiscal year 2018. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's Economic Opportunity Area approved by the Economic Assistance Coordinating Council (EACC).
- 125 Front St – a 64% property tax abatement given to a company constructing a 34,000 square foot 200 room hotel in downtown and 100 full-time jobs. The abatement totals \$611, which accounts for 16% of total abatements in fiscal 2018. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's EACC.
- 35 Major Taylor – a 48% property tax abatement given to a company constructing a 34,000 square foot 200 room hotel in downtown and 100 full-time jobs. The abatement totals \$468, which accounts for 12% of total abatements in fiscal 2018. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's EACC.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

(23) Prior Period Adjustment

During the year ended June 30, 2018, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. This pronouncement requires the restatement of the June 30, 2017 net position of the governmental activities, business-type activities and enterprise funds as shown as follows:

| | Primary government | | | | | Total primary government |
|---|------------------------------------|---------------------------------|----------------|--------------|----------------|---|
| | Governmental activities | Business-type activities | | | Total | |
| | | Water | Sewer | Golf | | |
| Net position - beginning - prior to adjustment | \$ (248,797) | 41,579 | 31,671 | (658) | 72,592 | (176,205) |
| Cumulative affect of the application of GASB 75 | <u>(440,079)</u> | <u>(3,243)</u> | <u>(2,547)</u> | <u>(9)</u> | <u>(5,799)</u> | <u>(445,878)</u> |
| Net position - beginning, as restated | \$ <u>(688,876)</u> | <u>38,336</u> | <u>29,124</u> | <u>(667)</u> | <u>66,793</u> | <u>(622,083)</u> |

During the year ended June 30, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. This pronouncement requires the restatement of the June 30, 2017 net position as follows:

| | The District |
|--|---------------------|
| Net position - beginning - prior to adjustment | \$ 12,423 |
| Cumulative affect of application of GASB 75 | <u>(2,543)</u> |
| Net position - beginning (as restated) | \$ <u>9,880</u> |

(24) Subsequent Event

Subsequent to year end the City and the AAA affiliate of the Boston Red Sox entered into a letter of intent to construct a 10,000 seat minor league ballpark in an urban setting for a cost of approximately \$100,000 and opening in 2021. Simultaneously the City entered into a letter of intent with a private developer offering tax incremental financing (TIF) to the developer who will construct two hotels, restaurants, a retail and a residential apartment building on land adjacent to the ballpark. State grants are expected to improve streets and roadways and used to construct a new garage. The public-private development is expected to cost \$240 million. The City intends to use district improvement financing (DIF) that will allow the new sources of revenue including the rent from the ballpark lease, property taxes on the new development, parking revenue, advertising, and hotel and meal excise taxes to finance the debt service. The Worcester Redevelopment Authority (WRA) amended the Downtown Urban Revitalization Plan (Plan) including expanding the Plan's area to include the development of the ballpark. The cooperation agreement between

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2018

(in thousands of dollars)

the WRA and the City was amended subsequent to year end to authorize the WRA \$94,500 for the purpose of implementing and financing the Plan's activities including the development of the ballpark.

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**REQUIRED SUPPLEMENTARY INFORMATION AND
SUPPLEMENTARY STATEMENTS AND SCHEDULES**

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2018
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|--------------------------------------|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$ 289,532,719 | 289,498,758 | 286,486,989 | (3,011,769) |
| Motor vehicle excise taxes | 15,250,000 | 15,250,000 | 16,134,089 | 884,089 |
| Penalties and interest on taxes: | | | | |
| Property taxes | 1,064,612 | 1,064,612 | 757,820 | (306,792) |
| Tax titles | 94,391 | 94,391 | 47,471 | (46,920) |
| Motor vehicle excise | 925,842 | 925,842 | 1,072,860 | 147,018 |
| Special assessments | 140,155 | 140,155 | 170,453 | 30,298 |
| | <u>2,225,000</u> | <u>2,225,000</u> | <u>2,048,604</u> | <u>(176,396)</u> |
| Other taxes and in-lieu payments: | | | | |
| In lieu of taxes | 810,000 | 810,000 | 774,776 | (35,224) |
| Special assessments | 481,125 | 481,125 | 711,084 | 229,959 |
| Meals tax | 2,542,382 | 2,542,382 | 3,060,540 | 518,158 |
| Hotel/motel tax | 1,007,618 | 1,007,618 | 1,271,827 | 264,209 |
| | <u>4,841,125</u> | <u>4,841,125</u> | <u>5,818,227</u> | <u>977,102</u> |
| Licenses and permits: | | | | |
| Clerk | 246,670 | 246,670 | 247,187 | 517 |
| Inspectional Services | 4,179,800 | 4,179,800 | 4,546,285 | 366,485 |
| Fire | 223,250 | 223,250 | 244,450 | 21,200 |
| Health | 654,410 | 654,410 | 651,682 | (2,728) |
| License Commission: | | | | |
| Liquor & common victualer | 796,580 | 796,580 | 842,125 | 45,545 |
| Other | 71,520 | 71,520 | 67,602 | (3,918) |
| Police | 101,170 | 101,170 | 105,157 | 3,987 |
| Public Works | 276,600 | 276,600 | 238,828 | (37,772) |
| | <u>6,550,000</u> | <u>6,550,000</u> | <u>6,943,316</u> | <u>393,316</u> |
| Intergovernmental: | | | | |
| State local aid | 291,209,987 | 291,091,888 | 290,939,020 | (152,868) |
| State school construction aid | 5,662,268 | 5,662,261 | 5,662,261 | - |
| State school busing assistance | - | - | 179,468 | 179,468 |
| School based Federal Medicaid | 3,067,952 | 3,067,952 | 3,479,762 | 411,810 |
| Federal indirect cost reimbursements | 782,048 | 782,048 | 613,898 | (168,150) |
| | <u>300,722,255</u> | <u>300,604,149</u> | <u>300,874,409</u> | <u>270,260</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2018
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------|---------------------------|---------------------------|---------------------------|---|
| | Original | Final | | |
| Fines and forfeitures: | | | | |
| Parking fines | \$ 1,553,528 | 1,553,528 | 1,680,783 | 127,255 |
| Court fines | 796,783 | 796,783 | 820,314 | 23,531 |
| | <u>2,350,311</u> | <u>2,350,311</u> | <u>2,501,097</u> | <u>150,786</u> |
| Investment earnings | <u>1,003,000</u> | <u>1,003,000</u> | <u>1,579,736</u> | <u>576,736</u> |
| Charges for services: | | | | |
| Airport land lease | 80,000 | 80,000 | 91,667 | 11,667 |
| Assessor | 5,795 | 5,795 | 6,530 | 735 |
| Clerk | 449,305 | 449,305 | 558,981 | 109,676 |
| Communications | 494 | 494 | 360 | (134) |
| Elder Affairs | 69,530 | 69,530 | 73,332 | 3,802 |
| Fire | 274,270 | 274,270 | 302,007 | 27,737 |
| Health | 16,368 | 16,368 | 14,854 | (1,514) |
| Hope Cemetery | 500,000 | 500,000 | 375,555 | (124,445) |
| Library | 56,200 | 56,200 | 45,485 | (10,715) |
| Parks | 78,000 | 78,000 | 77,069 | (931) |
| Planning | 109,909 | 109,909 | 122,279 | 12,370 |
| Police | 649,583 | 649,583 | 639,934 | (9,649) |
| Public Works | - | - | 1,879 | 1,879 |
| Contracted towing revenue | 300,000 | 300,000 | 183,489 | (116,511) |
| Schools | - | - | 12,635 | 12,635 |
| Trailer coach park | 3,521 | 3,521 | 2,748 | (773) |
| Trash bags | 3,100,000 | 3,100,000 | 3,403,631 | 303,631 |
| Treasurer | 1,390 | 1,390 | 19,482 | 18,092 |
| | <u>5,694,365</u> | <u>5,694,365</u> | <u>5,931,917</u> | <u>237,552</u> |
| Miscellaneous | <u>2,710,735</u> | <u>2,710,735</u> | <u>4,417,448</u> | <u>1,706,713</u> |
| Total revenues | <u>630,879,510</u> | <u>630,727,443</u> | <u>632,735,832</u> | <u>2,008,389</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2018
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------|------------------|------------------|------------------|---|
| | Original | Final | | |
| EXPENDITURES | | | | |
| General government: | | | | |
| Council: | | | | |
| Salaries | \$ 339,091 | 346,391 | 346,360 | 31 |
| Ordinary maintenance | 24,300 | 24,300 | 23,152 | 1,148 |
| | <u>363,391</u> | <u>370,691</u> | <u>369,512</u> | <u>1,179</u> |
| Mayor's staff: | | | | |
| Salaries | 123,497 | 125,978 | 125,975 | 3 |
| Ordinary maintenance | 10,700 | 10,690 | 10,521 | 169 |
| | <u>134,197</u> | <u>136,668</u> | <u>136,496</u> | <u>172</u> |
| City Manager: | | | | |
| Salaries | 1,003,519 | 1,019,356 | 1,019,343 | 13 |
| Ordinary maintenance | 158,850 | 205,850 | 184,415 | 21,435 |
| Capital outlay | - | 388,000 | 387,620 | 380 |
| | <u>1,162,369</u> | <u>1,613,206</u> | <u>1,591,378</u> | <u>21,828</u> |
| Economic Development: | | | | |
| Salaries | 1,558,064 | 1,593,165 | 1,499,018 | 94,147 |
| Ordinary maintenance | 396,385 | 397,412 | 381,268 | 16,144 |
| Capital outlay | - | 62,148 | 62,145 | 3 |
| | <u>1,954,449</u> | <u>2,052,725</u> | <u>1,942,431</u> | <u>110,294</u> |
| Promotion of Tourism: | | | | |
| Ordinary maintenance | 500,000 | 500,000 | 500,000 | - |
| | <u>500,000</u> | <u>500,000</u> | <u>500,000</u> | <u>-</u> |
| Auditor: | | | | |
| Salaries and overtime | 493,813 | 504,471 | 496,319 | 8,152 |
| Ordinary maintenance | 92,030 | 92,030 | 91,395 | 635 |
| | <u>585,843</u> | <u>596,501</u> | <u>587,714</u> | <u>8,787</u> |
| Administration & Finance: | | | | |
| Salaries | 538,812 | 587,293 | 579,623 | 7,670 |
| Ordinary maintenance | 44,295 | 31,295 | 29,197 | 2,098 |
| Capital outlay | - | 6,000 | 5,681 | 319 |
| | <u>583,107</u> | <u>624,588</u> | <u>614,501</u> | <u>10,087</u> |
| Treasurer and Collector: | | | | |
| Salaries and overtime | 1,030,070 | 990,139 | 981,312 | 8,827 |
| Ordinary maintenance | 709,769 | 1,370,986 | 1,368,012 | 2,974 |
| | <u>1,739,839</u> | <u>2,361,125</u> | <u>2,349,324</u> | <u>11,801</u> |
| Assessor: | | | | |
| Salaries and overtime | 595,995 | 573,549 | 570,227 | 3,322 |
| Ordinary maintenance | 156,700 | 156,700 | 156,266 | 434 |
| | <u>752,695</u> | <u>730,249</u> | <u>726,493</u> | <u>3,756</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2018
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|----------------------------|------------|------------|------------|---|
| | Original | Final | | |
| License Commission: | | | | |
| Ordinary maintenance | \$ 1,200 | 1,200 | 800 | 400 |
| | 1,200 | 1,200 | 800 | 400 |
| Law: | | | | |
| Salaries | 929,926 | 965,215 | 961,933 | 3,282 |
| Ordinary maintenance | 168,450 | 158,450 | 140,257 | 18,193 |
| Casualty insurance | 119,948 | 119,948 | 115,052 | 4,896 |
| Court judgments | 3,500,000 | 4,050,000 | 4,028,837 | 21,163 |
| | 4,718,324 | 5,293,613 | 5,246,079 | 47,534 |
| City Clerk: | | | | |
| Salaries and overtime | 576,103 | 585,617 | 575,049 | 10,568 |
| Ordinary maintenance | 36,025 | 36,025 | 34,688 | 1,337 |
| | 612,128 | 621,642 | 609,737 | 11,905 |
| Energy & Asset Management: | | | | |
| Salaries and overtime | 298,293 | 367,874 | 365,451 | 2,423 |
| Ordinary maintenance | 1,112,177 | 1,567,953 | 1,552,184 | 15,769 |
| Capital outlay | - | 215,000 | 133,579 | 81,421 |
| | 1,410,470 | 2,150,827 | 2,051,214 | 99,613 |
| Election Commission: | | | | |
| Salaries and overtime | 565,986 | 489,628 | 476,022 | 13,606 |
| Ordinary maintenance | 139,325 | 139,325 | 138,325 | 1,000 |
| | 705,311 | 628,953 | 614,347 | 14,606 |
| Purchasing: | | | | |
| Salaries | 214,349 | 210,456 | 209,329 | 1,127 |
| Ordinary maintenance | 14,688 | 14,188 | 13,956 | 232 |
| | 229,037 | 224,644 | 223,285 | 1,359 |
| Technical services: | | | | |
| Salaries and overtime | 2,302,911 | 2,425,799 | 2,398,398 | 27,401 |
| Ordinary maintenance | 1,357,219 | 1,427,219 | 1,422,611 | 4,608 |
| | 3,660,130 | 3,853,018 | 3,821,009 | 32,009 |
| Human Resources: | | | | |
| Salaries and overtime | 973,097 | 946,448 | 934,776 | 11,672 |
| Ordinary maintenance | 354,766 | 351,766 | 315,377 | 36,389 |
| | 1,327,863 | 1,298,214 | 1,250,153 | 48,061 |
| Total general government | 20,440,353 | 23,057,864 | 22,634,473 | 423,391 |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2018
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Public safety: | | | | |
| Police: | | | | |
| Salaries and overtime | \$ 45,265,526 | 46,098,536 | 45,972,359 | 126,177 |
| Ordinary maintenance | 2,721,850 | 2,705,850 | 2,658,714 | 47,136 |
| Capital outlay | 30,000 | 108,500 | 107,496 | 1,004 |
| | <u>48,017,376</u> | <u>48,912,886</u> | <u>48,738,569</u> | <u>174,317</u> |
| Fire: | | | | |
| Salaries and overtime | 36,962,617 | 36,819,473 | 36,377,603 | 441,870 |
| Ordinary maintenance | 1,296,213 | 1,518,785 | 1,515,932 | 2,853 |
| Capital outlay | 40,000 | 259,737 | 249,650 | 10,087 |
| | <u>38,298,830</u> | <u>38,597,995</u> | <u>38,143,185</u> | <u>454,810</u> |
| Inspectional services: | | | | |
| Salaries and overtime | 3,433,200 | 3,526,848 | 3,438,126 | 88,722 |
| Ordinary maintenance | 323,799 | 323,799 | 285,889 | 37,910 |
| Capital outlay | - | 50,426 | 50,426 | - |
| | <u>3,756,999</u> | <u>3,901,073</u> | <u>3,774,441</u> | <u>126,632</u> |
| Communications: | | | | |
| Salaries and overtime | 2,053,486 | 1,765,146 | 1,656,483 | 108,663 |
| Ordinary maintenance | 1,117,768 | 1,183,017 | 1,171,520 | 11,497 |
| Capital outlay | - | 6,451 | 6,451 | - |
| | <u>3,171,254</u> | <u>2,954,614</u> | <u>2,834,454</u> | <u>120,160</u> |
| Total public safety | <u>93,244,459</u> | <u>94,366,568</u> | <u>93,490,649</u> | <u>875,919</u> |
| Health and human services: | | | | |
| Public Health | | | | |
| Salaries and overtime | 375,645 | 438,373 | 435,909 | 2,464 |
| Ordinary maintenance | 69,500 | 94,334 | 69,521 | 24,813 |
| | <u>445,145</u> | <u>532,707</u> | <u>505,430</u> | <u>27,277</u> |
| Health and Human Services | | | | |
| Salaries | 521,264 | 548,560 | 542,418 | 6,142 |
| Ordinary maintenance | 2,146,250 | 2,146,250 | 1,951,096 | 195,154 |
| | <u>2,667,514</u> | <u>2,694,810</u> | <u>2,493,514</u> | <u>201,296</u> |
| Elder Affairs: | | | | |
| Salaries | 367,294 | 374,577 | 365,919 | 8,658 |
| Ordinary maintenance | 134,890 | 134,890 | 134,432 | 458 |
| | <u>502,184</u> | <u>509,467</u> | <u>500,351</u> | <u>9,116</u> |
| Workforce Development Board: | | | | |
| Salaries | 50,000 | 50,000 | 50,000 | - |
| Ordinary maintenance | 50,000 | 50,000 | 50,000 | - |
| | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> | <u>-</u> |
| Total health and human services | <u>3,714,843</u> | <u>3,836,984</u> | <u>3,599,295</u> | <u>237,689</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

General Fund

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - Budgetary Basis

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Education: | | | | |
| Public Schools, Net School Spending (excluding fringe benefits): | | | | |
| Salaries and overtime | \$ 212,317,414 | 215,076,540 | 215,076,540 | - |
| Ordinary maintenance | 36,760,631 | 41,768,534 | 41,768,534 | - |
| Capital outlay | 250,000 | 515,425 | 515,425 | - |
| | <u>249,328,045</u> | <u>257,360,499</u> | <u>257,360,499</u> | <u>-</u> |
| Public Schools, Non Net School Spending (excluding fringe benefits): | | | | |
| Salaries and overtime | 3,828,194 | 3,949,863 | 3,949,863 | - |
| Ordinary maintenance | 16,184,747 | 16,219,438 | 16,216,374 | 3,064 |
| | <u>20,012,941</u> | <u>20,169,301</u> | <u>20,166,237</u> | <u>3,064</u> |
| Total education (excluding fringes) | <u>269,340,986</u> | <u>277,529,800</u> | <u>277,526,736</u> | <u>3,064</u> |
| Public works: | | | | |
| Department of Public Works: | | | | |
| Salaries and overtime | 5,881,950 | 6,653,889 | 6,653,430 | 459 |
| Ordinary maintenance | 7,159,683 | 7,498,683 | 7,462,310 | 36,373 |
| Capital outlay | - | 26,000 | 26,000 | - |
| Snow and ice removal | 6,000,000 | 5,548,433 | 5,548,432 | 1 |
| Street lighting | 1,952,828 | 2,132,828 | 2,105,855 | 26,973 |
| | <u>20,994,461</u> | <u>21,859,833</u> | <u>21,796,027</u> | <u>63,806</u> |
| Union Station (WRA): | | | | |
| Ordinary maintenance | 444,276 | 645,818 | 645,818 | - |
| Total public works | <u>21,438,737</u> | <u>22,505,651</u> | <u>22,441,845</u> | <u>63,806</u> |
| Culture and recreation: | | | | |
| Parks and Cemetery: | | | | |
| Salaries and overtime | 3,634,280 | 4,014,897 | 3,911,122 | 103,775 |
| Ordinary maintenance | 1,894,500 | 2,007,797 | 2,007,371 | 426 |
| Capital outlay | - | 143,218 | 143,218 | - |
| | <u>5,528,780</u> | <u>6,165,912</u> | <u>6,061,711</u> | <u>104,201</u> |
| Public Library: | | | | |
| Salaries and overtime | 3,830,178 | 3,823,520 | 3,798,912 | 24,608 |
| Ordinary maintenance | 1,740,752 | 1,865,752 | 1,846,076 | 19,676 |
| | <u>5,570,930</u> | <u>5,689,272</u> | <u>5,644,988</u> | <u>44,284</u> |
| Auditorium: | | | | |
| Ordinary maintenance | 101,300 | 156,300 | 153,781 | 2,519 |
| Total culture and recreation | <u>11,201,010</u> | <u>12,011,484</u> | <u>11,860,480</u> | <u>151,004</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2018
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|-----------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Intergovernmental: | | | | |
| Health insurance - retirees | \$ 3,604 | 3,604 | 3,604 | - |
| Regional planning | 49,349 | 49,349 | 49,349 | - |
| Regional Transit Authority | 3,151,781 | 3,151,781 | 3,151,781 | - |
| Air pollution control | 42,966 | 42,966 | 42,966 | - |
| Charter Schools | 24,503,674 | 24,851,912 | 25,003,003 | (151,091) |
| School choice | 2,795,409 | 2,795,409 | 2,828,325 | (32,916) |
| Special education - Chapter 766 | 259,131 | 259,131 | 232,338 | 26,793 |
| Registry parking ticket surcharge | 392,960 | 392,960 | 392,960 | - |
| Total intergovernmental | 31,198,874 | 31,547,112 | 31,704,326 | (157,214) |
| Debt service: | | | | |
| Principal | 24,711,135 | 24,711,135 | 24,711,135 | - |
| Interest | 10,085,341 | 9,644,513 | 9,619,283 | 25,230 |
| Pension obligation bond: | | | | |
| Municipal departments (P&I) | 10,209,733 | 10,403,733 | 10,403,272 | 461 |
| Enterprise funds (P&I) | 1,333,326 | 1,333,326 | 1,333,326 | - |
| Public schools (P&I) | 5,094,754 | 4,901,214 | 4,901,214 | - |
| Total debt service | 51,434,289 | 50,993,921 | 50,968,230 | 25,691 |
| Fringe benefits: | | | | |
| Retirement: | | | | |
| Contributory pensions: | | | | |
| Municipal departments | 26,122,901 | 26,122,901 | 26,062,868 | 60,033 |
| Public Schools | 11,916,227 | 12,097,420 | 12,097,420 | - |
| Noncontributory pensions: | | | | |
| Municipal departments | 33,243 | 33,244 | 28,339 | 4,905 |
| Public Schools | 36,000 | 24,550 | 24,550 | - |
| | 38,108,371 | 38,278,115 | 38,213,177 | 64,938 |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS
 Required Supplementary Information
 For the Fiscal Year Ended June 30, 2018
 General Fund

Schedule of Revenues, Expenditures and Changes in
 Fund Balance - Budget and Actual - Budgetary Basis

| | Budget | | Actual | Variance with Final Budget Positive (Negative) |
|---|----------------------------|----------------------------|----------------------------|---|
| | Original | Final | | |
| Workers' and unemployment comp.: | | | | |
| Workers' compensation: | | | | |
| Municipal departments | \$ 1,358,973 | 1,358,973 | 1,153,762 | 205,211 |
| Public Schools | 393,700 | 796,522 | 796,522 | - |
| Public safety injured on duty | 658,235 | 658,235 | 635,544 | 22,691 |
| Unemployment compensation: | | | | |
| Municipal departments | 110,000 | 110,000 | 54,332 | 55,668 |
| Public Schools | 318,226 | 418,256 | 418,256 | - |
| | <u>2,839,134</u> | <u>3,341,986</u> | <u>3,058,416</u> | <u>283,570</u> |
| Group insurance: | | | | |
| Municipal departments | 26,383,698 | 23,570,121 | 22,794,145 | 775,976 |
| Public Schools | 47,170,602 | 39,352,428 | 39,352,428 | - |
| | <u>73,554,300</u> | <u>62,922,549</u> | <u>62,146,573</u> | <u>775,976</u> |
| Total fringe benefits | <u>114,501,805</u> | <u>104,542,650</u> | <u>103,418,166</u> | <u>1,124,484</u> |
| Contingency | <u>1,250,000</u> | - | - | - |
| Total expenditures | <u>617,765,356</u> | <u>620,392,034</u> | <u>617,644,200</u> | <u>2,747,834</u> |
| Excess of revenues over expenditures | <u>13,114,154</u> | <u>10,335,409</u> | <u>15,091,632</u> | <u>4,756,223</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 2,533,256 | 3,688,517 | 3,688,517 | - |
| Transfers out | (15,647,410) | (18,627,797) | (18,627,797) | - |
| Total other financing sources (uses) | <u>(13,114,154)</u> | <u>(14,939,280)</u> | <u>(14,939,280)</u> | <u>-</u> |
| Net changes in fund balance | - | (4,603,871) | 152,352 | 4,756,223 |
| Budgetary fund balance - beginning | 40,881,239 | 40,881,239 | 40,881,239 | - |
| Budgetary fund balance - ending | <u>\$ 40,881,239</u> | <u>36,277,368</u> | <u>41,033,591</u> | <u>4,756,223</u> |

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2018

Pension Plan Schedules

The following schedules provide information related to the WRS as a whole, for which the City is one participating employer:

Schedule of Changes in Employers' Net Pension Liability and Related Ratios (WRS)*

| | 2018 | 2017 | 2016 | 2015 |
|--|-------------------------|----------------------|----------------------|----------------------|
| <u>Total pension liability</u> | | | | |
| Service cost | \$ 28,844,823 | 27,155,573 | 26,309,138 | 24,977,553 |
| Interest | 98,349,284 | 95,556,357 | 92,787,477 | 89,852,374 |
| Differences between expected and actual experience | (1,005,891) | (2,523,911) | (1,619,304) | (901,542) |
| Changes of assumptions | 73,039,312 | 19,119,320 | 16,825,451 | 16,436,189 |
| Benefit payments, including refunds of member contributions | <u>(83,122,621)</u> | <u>(79,940,830)</u> | <u>(75,957,945)</u> | <u>(72,435,430)</u> |
| Net change in total pension liability | 116,104,907 | 59,366,509 | 58,344,817 | 57,929,144 |
| Total pension liability - beginning | <u>1,346,266,105</u> | <u>1,286,899,596</u> | <u>1,228,554,779</u> | <u>1,170,625,635</u> |
| Total pension liability - ending (a) | \$ <u>1,462,371,012</u> | <u>1,346,266,105</u> | <u>1,286,899,596</u> | <u>1,228,554,779</u> |
| <u>Plan fiduciary net position</u> | | | | |
| Contributions - employer | \$ 46,188,470 | 44,411,990 | 42,703,837 | 41,200,578 |
| Contributions - member | 19,327,093 | 17,797,519 | 17,409,182 | 16,320,772 |
| Net investment income | 134,646,815 | 58,737,894 | (10,490,024) | 34,950,210 |
| Benefit payments, including refunds of member contributions | (83,122,621) | (79,940,830) | (75,957,945) | (72,435,430) |
| Administrative expense | (583,404) | (565,669) | (572,743) | (587,157) |
| Other | <u>(1,356,993)</u> | <u>(926,263)</u> | <u>(895,410)</u> | <u>(806,081)</u> |
| Net change in plan fiduciary net position | 115,099,360 | 39,514,641 | (27,803,103) | 18,642,892 |
| Plan fiduciary net position - beginning | <u>837,344,711</u> | <u>797,830,070</u> | <u>825,633,173</u> | <u>806,990,281</u> |
| Plan fiduciary net position - ending (b) | \$ <u>952,444,071</u> | <u>837,344,711</u> | <u>797,830,070</u> | <u>825,633,173</u> |
| WRS's net pension liability - ending (a) - (b) | \$ <u>509,926,941</u> | <u>508,921,394</u> | <u>489,069,526</u> | <u>402,921,606</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 65.13% | 62.20% | 62.00% | 67.20% |
| Covered-employee payroll | \$ 182,832,183 | 175,910,160 | 173,759,691 | 168,856,039 |
| Net pension liability as a percentage of covered-employee payroll | 278.90% | 289.31% | 281.46% | 238.62% |

*Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2018

**Schedule of Employer Contributions (WRS)
Last Ten Fiscal Years**

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Statutorily determined contribution | \$ 46,188,470 | 44,411,990 | 42,703,837 | 41,200,578 | 38,148,683 |
| Contributions in relation to the statutorily determined contribution | <u>46,188,470</u> | <u>44,411,990</u> | <u>42,703,837</u> | <u>41,200,578</u> | <u>38,148,683</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Covered-employee payroll | \$ 182,832,183 | 175,910,160 | 173,759,691 | 168,856,039 | 166,094,906 |
| Contributions as a percentage of covered-employee payroll | 25.26% | 25.25% | 24.58% | 24.40% | 22.97% |
| | | | | | (continued) |
| | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
| Statutorily determined contribution | \$ 35,409,140 | 32,706,347 | 29,770,499 | 28,505,066 | 24,947,158 |
| Contributions in relation to the statutorily determined contribution | <u>35,409,140</u> | <u>32,706,347</u> | <u>30,196,904</u> | <u>28,505,066</u> | <u>24,947,158</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | <u>-</u> | <u>(426,405)</u> | <u>-</u> | <u>-</u> |
| Covered-employee payroll | \$ 159,669,859 | 157,720,871 | 166,392,075 | 166,050,095 | 156,585,326 |
| Contributions as a percentage of covered-employee payroll | 22.18% | 20.74% | 18.15% | 17.17% | 15.93% |
| | | | | | (concluded) |

Schedule of Investment Returns (WRS) *

| | <u>2018 **</u> | <u>2017 **</u> | <u>2016 **</u> | <u>2015 **</u> |
|--|----------------|----------------|----------------|----------------|
| Annual money-weighted rate of return, net of investment expense | 16.54% | 7.87% | -1.46% | 4.96% |

*Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

** The amounts presented were determined as of December 31, 2017, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2018

The following schedules provide information on the City's portion of the WRS:

Schedule of City's Proportionate Share of the Net Pension Liability (WRS) *

| | <u>2018**</u> | <u>2017**</u> | <u>2016**</u> | <u>2015**</u> |
|---|----------------|---------------|---------------|---------------|
| City's proportion of the net pension liability | 91.951084% | 91.768757% | 92.066769% | 92.730893% |
| City's proportionate share of the net pension liability | \$ 468,883,350 | 467,030,837 | 450,270,511 | 373,632,802 |
| City's covered-employee payroll | 168,116,175 | 161,430,567 | 159,974,933 | 156,581,713 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 278.90% | 289.31% | 281.46% | 238.62% |
| Plan fiduciary net position as a percentage of the total pension liability | 65.13% | 62.20% | 62.00% | 67.20% |

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

** The amounts presented were determined as of December 31, 2017, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2018

**Schedule of City's Contributions (WRS)
Last Ten Fiscal Years**

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Statutorily determined contribution | \$ 42,470,799 | 40,756,331 | 39,316,043 | 38,205,664 | 35,084,000 |
| Contributions in relation to the statutorily determined contribution | <u>42,470,799</u> | <u>40,756,331</u> | <u>39,316,043</u> | <u>38,205,664</u> | <u>35,084,000</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Covered-employee payroll | \$ 168,116,175 | 161,430,567 | 159,974,933 | 156,581,713 | 154,955,555 |
| Contributions as a percentage of covered-employee payroll | 25.26% | 25.25% | 24.58% | 24.40% | 22.64% |
| | | | | | (continued) |
| | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
| Statutorily determined contribution | \$ 32,246,000 | 29,720,000 | 27,277,000 | 26,117,000 | 22,742,000 |
| Contributions in relation to the statutorily determined contribution | <u>32,246,000</u> | <u>29,720,000</u> | <u>27,703,405</u> | <u>26,117,000</u> | <u>22,742,000</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | <u>-</u> | <u>(426,405)</u> | <u>-</u> | <u>-</u> |
| Covered-employee payroll | \$ 148,961,412 | 147,143,135 | 155,232,794 | 154,913,750 | 146,083,747 |
| Contributions as a percentage of covered-employee payroll | 21.65% | 20.20% | 17.85% | 16.86% | 15.57% |
| | | | | | (concluded) |

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2018

The following schedules provide information on the City's association with the MTRS:

Schedule of City's Proportionate Share of the Net Pension Liability (MTRS) *

| | 2018** | 2017** | 2016** | 2015** |
|---|----------------|-------------|-------------|-------------|
| City's proportion of the net pension liability | 0.00% | 0.00% | 0.00% | 0.00% |
| City's proportionate share of the net pension liability | \$ - | - | - | - |
| Commonwealth's proportionate share of the net pension liability associated with the City | 602,552,506 | 599,739,073 | 550,242,570 | 435,996,868 |
| Total | \$ 602,552,506 | 599,739,073 | 550,242,570 | 435,996,868 |
| City's covered-employee payroll | \$ 188,012,690 | 178,781,000 | 176,442,000 | 172,700,000 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | N/A | N/A | N/A | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | 54.25% | 52.73% | 55.38% | 61.64% |

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

**The amounts presented were determined as of June 30, 2017, 2016, 2015 and 2014.

Schedule of City's Contributions (MTRS) *

| | 2018** | 2017** | 2016** | 2015** |
|--|----------------|-------------|-------------|-------------|
| Contractually required contribution | \$ - | - | - | - |
| Contributions in relation to the contractually required contribution | - | - | - | - |
| Contribution deficiency (excess) | \$ - | - | - | - |
| City's covered-employee payroll | \$ 188,012,690 | 178,781,000 | 176,442,000 | 172,700,000 |
| Contributions as a percentage of covered-employee payroll | N/A | N/A | N/A | N/A |

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

**The amounts presented were determined as of June 30, 2017, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2018

The following schedules provide information related to the Upper Blackstone Water Pollution Abatement District (District):

Schedule of District's Proportionate Share of the Net Pension Liability*

| | 2018** | 2017** | 2016** | 2015** |
|--|--------------|-----------|-----------|-----------|
| District's proportion of the net pension liability | 0.06445% | 0.06517% | 0.06237% | 0.06291% |
| District's proportionate share of the net pension liability | \$ 8,265,187 | 8,986,634 | 7,099,775 | 4,670,154 |
| District's covered-employee payroll | 3,678,070 | 3,630,096 | 3,413,667 | 3,245,825 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 224.72% | 247.56% | 207.98% | 143.88% |
| Plan fiduciary net position as a percentage of the total pension liability | 67.21% | 63.48% | 67.87% | 76.32% |

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

**The amounts presented were determined as of June 30, 2017, 2016, 2015 and 2014.

Schedule of District's Contributions*

| | 2018** | 2017** | 2016** | 2015** |
|--|--------------|-----------|-----------|-----------|
| Contractually required contribution | \$ 419,300 | 413,831 | 389,158 | 370,024 |
| Contributions in relation to the contractually required contribution | 419,300 | 413,831 | 389,158 | 370,024 |
| Contribution deficiency (excess) | \$ - | - | - | - |
| District's covered-employee payroll | \$ 3,678,070 | 3,630,096 | 3,413,667 | 3,245,825 |
| Contributions as a percentage of covered-employee payroll | 11.40% | 11.40% | 11.40% | 11.40% |

* Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

**The amounts presented were determined as of June 30, 2017, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2018

OPEB Schedules (City)

The following schedule provides information related to the City's OPEB plan:

Schedules of Changes in the Total OPEB Liability and Related Ratios*

| | <u>Year Ended</u> <u>June 30, 2018</u> |
|---|---|
| Changes for the year: | |
| Service cost | \$ 31,603,603 |
| Interest | 28,218,425 |
| Differences between expected and actual experience | 6,664,810 |
| Changes in assumptions/inputs | - |
| Changes in benefit terms | - |
| Benefit payments | (23,376,480) |
| Administrative expense | - |
| Net changes | <u>43,110,358</u> |
| Total OPEB liability, beginning of the fiscal year | <u>759,599,154</u> |
| Total OPEB liability, end of the fiscal year | <u>\$ 802,709,512</u> |
| | |
| Covered employee payroll | \$ 350,441,877 |
| | |
| Total OPEB liability as a percentage of covered employee payroll | 229.1% |
| | |
| Discount Rate | 3.62% |

*Data is presented for the years in which applicable data is available. This table will ultimately contain 10 years of data in the future.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2018

OPEB Schedules (District)

The following schedule provides information related to the District's OPEB plan:

Schedules of Changes in Net OPEB Liability and Related Ratios

| | Year Ended <u>June 30, 2018</u> |
|---|------------------------------------|
| Total OPEB liability (District) | |
| Changes for the year: | |
| Service cost | \$ 223,862 |
| Interest | 193,683 |
| Differences between expected and actual experience | (1,209,396) |
| Changes in assumptions/inputs | (1,982,462) |
| Changes in benefit terms | - |
| Benefit payments | (81,305) |
| Administrative expense | - |
| Net changes in total OPEB liability | <u>(2,855,618)</u> |
| Total OPEB Liability, beginning of the fiscal year | <u>5,350,253</u> |
| Total OPEB Liability, end of the fiscal year (a) | <u><u>\$ 2,494,635</u></u> |
| Plan Fiduciary Net Position (District) | |
| Contributions - employer | \$ 1,668,078 |
| Benefit payments | <u>(81,305)</u> |
| Net change in plan fiduciary net position | 1,586,773 |
| Plan fiduciary net position - beginning | - |
| Plan fiduciary net position - ending (b) | <u><u>\$ 1,586,773</u></u> |
| District's Net OPEB Liability (a) - (b) | <u><u>\$ 907,862</u></u> |
| Total OPEB liability | \$ 2,494,635 |
| Plan fiduciary net position | <u>1,586,773</u> |
| Net OPEB liability | <u><u>\$ 907,862</u></u> |
| Covered employee payroll | \$ 3,707,317 |
| Net OPEB Liability as a percentage of covered employee payroll | 24.5% |
| Discount Rate | 7.25% |

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2018

Budgetary Basis of Accounting

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the City adopts an annual budget for all general fund functions as well as for those enterprise funds for which the provisions of Chapter 44, Section 53F 1/2 have been adopted.

All portions of the annual budget, except for that of public schools, are prepared under the direction of the City Manager. The School Department budget is prepared under the direction of the Superintendent. The budget must be approved by the City Council, which may reduce or reject any item in the budget but may not increase or add items without the recommendation of the City Manager. The level of expenditure may not legally exceed appropriations for each department or undertaking in the categories of salaries and wages, ordinary maintenance and capital outlays. Once adopted, budgets within the above categories may not be amended by management without seeking City Council approval.

In fiscal 2018, the original general fund expenditure budget, excluding intergovernmental charges, was increased by \$2,279. In fiscal 2018, revenues and other financial sources exceeded estimates by \$2,008 and expenditures were less than budgetary estimates by \$2,748.

The City’s annual budget is prepared on a basis other than GAAP. The “actual” results columns of the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - Budgetary Basis are presented on a “budgetary basis” to provide a meaningful comparison with the budgets. The following reconciliation summarizes the differences between budgetary and GAAP-basis accounting principles for the year ended June 30, 2018:

| | <u>Revenues</u> | <u>Expenditures</u> | <u>Other Financing Sources (Uses)</u> | <u>Net Change in Fund Balance</u> |
|--|-----------------------|---------------------|---|---------------------------------------|
| General fund: | | | | |
| As reported on a budgetary basis | \$ 632,735 | 617,644 | (14,939) | 152 |
| Reclassify OPEB reserve transactions | (9) | - | 3,265 | 3,256 |
| Capital leases | - | 1,650 | 1,650 | - |
| COLA on-behalf payments | 976 | 976 | - | - |
| Adjustment for accrued health insurance exp. | - | 871 | - | (871) |
| Adjustment of revenues to a modified basis | <u>2,713</u> | <u>-</u> | <u>-</u> | <u>2,713</u> |
| As reported on a GAAP basis | <u>\$ 636,415</u> | <u>621,141</u> | <u>(10,024)</u> | <u>5,250</u> |

The major differences between the budgetary basis and the GAAP basis are OPEB reserve funds are reported in the general fund on a GAAP basis only; revenues are recorded when cash is received (budgetary), as opposed to when susceptible to accrual (GAAP); claims and certain other expenditures are recorded as expenditures when paid (budgetary), as opposed to a liability when incurred (GAAP); and COLA on-behalf payments are recorded on a GAAP basis only.

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2018

Changes of Assumptions (WRS)

The investment return assumption was lowered from 8.50% to 8.25% as of January 1, 2006. As of January 1, 2011, it was lowered to 8.00%. As of January 1, 2013, it was lowered to 7.75%. As of January 1, 2015 it was lowered to 7.625%. As of January 1, 2016 it was lowered to 7.5%. As of January 1, 2017 it was lowered to 7.375%. As of January 1, 2018 it was lowered to 7.0%.

The salary increase assumption was lowered as of January 1, 2011 from 5.00% to 4.75%. As of January 1, 2013, it was lowered to 4.5%. As of January 1, 2014, a select and ultimate assumption of 3.5% for 2014 and 2015 and 4.5% thereafter was used. As of January 1, 2015, a select and ultimate assumption of 3.5% for 2015 and 2016 and 4.5% thereafter was used. As of January 1, 2016, a select and ultimate assumption of 3.5% for 2016 and 2017 and 4.5% thereafter was used. As of January 1, 2018, a select and ultimate assumption of 3.5% for 2018 and 2019 and 4.5% thereafter was used.

As of January 1, 2009, the actuarial value of assets was changed from market value of assets to a five-year smoothing method. As of January 1, 2010, the actuarial value of assets was changed from being within 20% of the market value of assets to being within 10% of the market value of assets.

The mortality assumption for healthy participants was changed from the 1994 Group Annuity Mortality Table to the RP-2000 Combined Healthy Mortality Table projected 12 years using Scale AA as of January 1, 2012. As of January 1, 2013, the pre-retirement mortality assumption was changed to the RP-2000 Employee Mortality Table projected 20 years using Scale AA. As of January 1, 2014, the pre-retirement mortality assumption was changed to the RP-2000 Employee Mortality Table projected generationally using Scale AA. As of January 1, 2016, the pre-retirement mortality assumption was changed to the RP-2000 Employee Mortality Table projected generationally using Scale BB2D from 2009. As of January 1, 2018, the pre-retirement mortality assumption was changed to the RP-2014 Blue Collar Employee Mortality Table projected generationally with Scale MP-2017.

The mortality assumption for healthy retirees was changed from the RP-2000 Combined Healthy Mortality Table projected 12 years using Scale AA to the RP-2000 Healthy Annuitant Mortality Table projected 15 years using Scale AA as of January 1, 2013. As of January 1, 2014, the mortality assumption for non-disabled retirees was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale AA. As of January 1, 2016, the mortality assumption for non-disabled retirees was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2009. As of January 1, 2018, the mortality assumption for non-disabled retirees was changed to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Table projected generationally with Scale MP-2017.

The mortality assumption for disabled participants was changed from the 1994 Group Annuity Mortality Table set forward 10 years to the 1994 Group Annuity Mortality Table set forward 7 years, as of January 1, 2010. As of January 1, 2011, the table was changed to the 1994 Group Annuity Mortality Table set forward 5 years. As of January 1, 2012, the assumption was changed to the RP-2000 Combined Healthy Mortality Table set forward 5 years projected 12 years using Scale AA. As of January 1, 2013, the assumption was changed to the RP-2000 Healthy Annuitant Mortality Table projected 5 years using Scale AA with a 3-year set forward for males. As of January 1, 2014, the assumption was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale AA from 2010 with a 3-year set forward for males. As of January 1, 2015, the assumption was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale AA with a 3-year set forward for males. As of January 1, 2016, the assumption was changed to the RP-2000 Healthy Annuitant Mortality Table projected generationally using Scale BB2D from 2015 with a 3-year set

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2018

forward for males. As of January 1, 2018, the assumption was changed to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017.

Methods and Assumptions Used in Calculations of Statutorily Determined Contributions (WRS)

The statutorily determined contribution rates in the schedule of employer contributions (WRS) are calculated by an actuarial valuation as of January 1, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

| | |
|---|--|
| Actuarial cost method (2008-2017): | Entry Age Normal |
| Amortization method (2008): | Payment increases 4.50% per year |
| Amortization method (2009 - 2014): | Payment increases 4.00% per year |
| Amortization method (2015): | Payment increases 4.00% in 2018 and 5.85% thereafter |
| Amortization method (2016): | Payment increases 4.00% in 2019 and 6.30% thereafter |
| Amortization method (2017): | Payment increases 6.3% in 2019 and 6.33% thereafter with a 5.97% increase in 2034. |
| Remaining amortization period (2008): | 21 years |
| Remaining amortization period (2009): | 30 years |
| Remaining amortization period (2010): | 24 years |
| Remaining amortization period (2011): | 23 years |
| Remaining amortization period (2012): | 19 years |
| Remaining amortization period (2013, 2015): | 17 years |
| Remaining amortization period (2014): | 18 years |
| Remaining amortization period (2016, 2017): | 16 years |
| Asset valuation method (2008-2017): | 5-year smoothed fair value |
| Inflation (2008-2009): | 4.00% |
| Inflation (2010-2011): | 3.75% |
| Inflation (2012): | 3.50% |
| Inflation (2013-2014): | 3.00% for the next 2 years; 4.00% thereafter |
| Inflation (2015-2017): | 2.50% for the next year; 3.50% thereafter |
| Salary increases (2008): | 3.00% for the next 2 years; 5.00% thereafter |
| Salary increases (2009): | 5.00% |
| Salary increases (2010-2011): | 4.75% |
| Salary increases (2012): | 4.50% |
| Salary increases (2013 – 2015, 2017): | 3.50% for the next two years; 4.50% thereafter |
| Salary increases (2016): | 3.50% for the next year; 4.50% thereafter |
| Investment rate of return (2008-2009): | 8.25% |
| Investment rate of return (2010-2011): | 8.00% |
| Investment rate of return (2012-2013): | 7.75% |
| Investment rate of return (2014): | 7.625% |
| Investment rate of return (2015): | 7.50% |
| Investment rate of return (2016): | 7.375% |
| Investment rate of return (2017): | 7.0% |

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2018

Other Postemployment Benefits (OPEB) – (City)

The plan is funded on a pay-as-you-go basis and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

See Notes to the Financial Statements for summary of significant actuarial methods and assumptions.

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. This is the first year under the new GASB 75 requirements, so there are no changes from the prior valuation to disclose.

Other Postemployment Benefits (OPEB) – (District)

In fiscal 2018, the District changed the discount rate to 7.25% from 3.5% that was used in fiscal 2017 due to establishment of a trust and the level of pre-funding that was made.

See Notes to the Financial Statements for summary of significant actuarial methods and assumptions.

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2018

Nonmajor Governmental Funds - A combining balance sheet and combining statement of revenues, expenditures and changes in fund balances is provided for other (nonmajor) governmental funds.

Special Revenue

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than capital projects.

DCU Center Operations– accounts for the operations of the City’s civic center and arena.

School Lunch – accounts for the operations of the public school lunch program.

Police Auxiliary – accounts for police off-duty details.

Off-Street Parking – accounts for the operation of the City’s parking garages, on-street meters and off-street parking lots.

City Revolving – accounts for City activities that are allowed, by an act of the state legislature, to use program revenues for operating expenditures.

School Grants – accounts for school programs funded by grants.

School Revolving – accounts for school activities that are allowed, by an act of the state legislature, to use program revenues for operating expenditures.

Receipts Reserved – accounts for revenues reserved for appropriation that have been segregated by law or administrative action.

Community Development – accounts for grants received from the U.S. Department of Housing and Urban Development and program related income.

Workforce Central – accounts for revenue received from the U.S. Department of Labor to assist individuals to become productive members of the labor force.

City Grants – accounts for various grants received from the federal and state governments for programs administered by City departments.

Capital Projects

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

DCU Center Construction– accounts for the construction and improvement of the DCU Center.

Street and Sidewalk – accounts for the construction and improvement of streets and sidewalks.

Capital Equipment – accounts for the acquisition of equipment.

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2018

Rehabilitation of Public Buildings– The rehabilitation of public buildings fund accounts for improvements to City owned buildings.

School Construction – accounts for the construction and rehabilitation of school buildings.

Parks Improvements – accounts for grants and bond proceeds used for parks improvements.

Union Station Garage – accounts for financial resources used for the Union Station Garage construction.

CitySquare Fund – The CitySquare fund was established to account for the City’s share of the financial resources including state and federal grants and the proceeds from the issuance of bonds used for the construction of the CitySquare project.

Other – accounts for various small construction projects.

Permanent Funds

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government’s programs and benefit the government or its citizenry.

Hope Cemetery – accounts for funds used for the perpetual care of the municipal cemetery.

Health Department – accounts for funds used for public health purposes.

Libraries – accounts for funds held in trust for the City’s public libraries.

Schools – accounts for funds held in trust to provide scholarships for qualified students.

Parks – accounts for funds held in trust to improve the City’s parks.

Police – accounts for funds held in trust to beautify the landscape at the police headquarters building.

Public Works – accounts for funds held in trust to provide street lighting.

Memorial – accounts for funds held in trust to maintain various monuments and fountains.

Welfare – accounts for expenditures from welfare type trusts.

Enterprise Funds - Separate schedules of revenues, expenditures and changes in fund balance – budget and actual – budgetary basis are provided for the golf course (nonmajor), sewer and water enterprise funds. The “actual” results columns of the Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - Budgetary Basis are presented on a “budgetary basis” to provide a meaningful comparison with the budgets. Actual amounts can vary from GAAP amounts.

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2018

Capital Assets - Two separate schedules are provided for capital assets used in the operation of governmental activities.

Agency Funds - The agency fund is a fiduciary fund used to account for assets held in a custodial capacity.

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CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

| | Special Revenue Funds | | | | |
|--|----------------------------------|-------------------------|-----------------------------|-------------------------------|---------------------------|
| | DCU Center Operations | School Lunch | Police Auxiliary | Off-Street Parking | City Revolving |
| Assets: | | | | | |
| Cash and cash equivalents | \$ - | - | - | - | - |
| Restricted cash and cash equivalents | 3,288,813 | 3,103,199 | - | 1,307,061 | 6,867,447 |
| Restricted investments | - | - | - | - | - |
| Receivables, net | - | - | 1,272,109 | - | 158,788 |
| Intergovernmental receivables | - | - | - | - | - |
| Total assets | \$ 3,288,813 | 3,103,199 | 1,272,109 | 1,307,061 | 7,026,235 |
| Liabilities: | | | | | |
| Accounts payable | \$ - | - | - | 4,551 | - |
| Due to general fund | - | - | 321,414 | - | - |
| Retainage payable | - | - | - | - | - |
| Temporary loans | - | - | - | - | - |
| Other liabilities | 2,986,100 | - | - | - | - |
| Total liabilities | 2,986,100 | - | 321,414 | 4,551 | - |
| Deferred inflows of resources: | | | | | |
| Unavailable revenue-other | - | - | 1,272,109 | - | 158,788 |
| Total deferred inflows of resources | - | - | 1,272,109 | - | 158,788 |
| Fund balances: | | | | | |
| Nonspendable | - | - | - | - | - |
| Restricted | 302,713 | 3,103,199 | - | 1,302,510 | 6,867,447 |
| Committed | - | - | - | - | - |
| Unassigned | - | - | (321,414) | - | - |
| Total fund balances | 302,713 | 3,103,199 | (321,414) | 1,302,510 | 6,867,447 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 3,288,813 | 3,103,199 | 1,272,109 | 1,307,061 | 7,026,235 |

Special Revenue Funds

| School Grants | School Revolving | Receipts Reserved | Community Development | Workforce Central | City Grants | Subtotal |
|------------------|------------------|-------------------|-----------------------|-------------------|-------------------|-------------------|
| - | - | 23,358,898 | - | - | - | 23,358,898 |
| - | 2,645,735 | - | - | 1,376,835 | 11,344,624 | 29,933,714 |
| - | - | - | - | - | - | - |
| - | - | 176,603 | - | - | - | 1,607,500 |
| 7,023,058 | 9,143 | - | 50,957 | 18,753 | 468,686 | 7,570,597 |
| <u>7,023,058</u> | <u>2,654,878</u> | <u>23,535,501</u> | <u>50,957</u> | <u>1,395,588</u> | <u>11,813,310</u> | <u>62,470,709</u> |
| 12,574 | 20,394 | - | - | 7,883 | 108,608 | 154,010 |
| 4,185,964 | - | - | 1,240 | - | - | 4,508,618 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 2,986,100 |
| <u>4,198,538</u> | <u>20,394</u> | <u>-</u> | <u>1,240</u> | <u>7,883</u> | <u>108,608</u> | <u>7,648,728</u> |
| - | - | 176,603 | - | - | - | 1,607,500 |
| - | - | 176,603 | - | - | - | 1,607,500 |
| - | - | - | - | - | - | - |
| 2,824,520 | 2,634,484 | - | 49,717 | 1,387,705 | 11,704,702 | 30,176,997 |
| - | - | 23,358,898 | - | - | - | 23,358,898 |
| - | - | - | - | - | - | (321,414) |
| <u>2,824,520</u> | <u>2,634,484</u> | <u>23,358,898</u> | <u>49,717</u> | <u>1,387,705</u> | <u>11,704,702</u> | <u>53,214,481</u> |
| <u>7,023,058</u> | <u>2,654,878</u> | <u>23,535,501</u> | <u>50,957</u> | <u>1,395,588</u> | <u>11,813,310</u> | <u>62,470,709</u> |

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CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

| | Capital Projects Funds | | | |
|--|------------------------------------|--------------------------------|------------------------------|---|
| | DCU Center Construction | Street and Sidewalk | Capital Equipment | Rehabilitation of Public Buildings |
| Assets: | | | | |
| Cash and cash equivalents | \$ - | - | - | - |
| Restricted cash and cash equivalents | 251,793 | 6,092,641 | 1,756,341 | 3,724,756 |
| Restricted investments | - | - | - | - |
| Receivables, net | - | - | - | - |
| Intergovernmental receivables | - | 1,106,897 | - | - |
| Total assets | \$ 251,793 | 7,199,538 | 1,756,341 | 3,724,756 |
| Liabilities: | | | | |
| Accounts payable | \$ 144,342 | 912,371 | 114,821 | 1,049,647 |
| Due to general fund | - | - | - | - |
| Retainage payable | - | 213,204 | - | 1,783,191 |
| Temporary loans | 2,901,622 | 8,555,383 | 2,948,334 | 7,384,408 |
| Other liabilities | - | - | - | - |
| Total liabilities | 3,045,964 | 9,680,958 | 3,063,155 | 10,217,246 |
| Deferred inflows of resources: | | | | |
| Unavailable revenue-other | - | - | - | - |
| Total deferred inflows of resources | - | - | - | - |
| Fund balances: | | | | |
| Nonspendable | - | - | - | - |
| Restricted | - | - | - | - |
| Committed | - | - | - | - |
| Unassigned | (2,794,171) | (2,481,420) | (1,306,814) | (6,492,490) |
| Total fund balances | (2,794,171) | (2,481,420) | (1,306,814) | (6,492,490) |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 251,793 | 7,199,538 | 1,756,341 | 3,724,756 |

Capital Projects Funds

| School Construction | Parks Improvements | Union Station Garage | CitySquare Construction | Other | Subtotal |
|---------------------|--------------------|----------------------|-------------------------|------------------|---------------------|
| - | - | - | - | - | - |
| - | 5,320,746 | 292,195 | 654,990 | 1,365,564 | 19,459,026 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 2,570,370 | 35,340 | - | - | - | 3,712,607 |
| <u>2,570,370</u> | <u>5,356,086</u> | <u>292,195</u> | <u>654,990</u> | <u>1,365,564</u> | <u>23,171,633</u> |
| 2,209,388 | 775,743 | 255,075 | 74,020 | - | 5,535,407 |
| 130,715 | - | - | - | - | 130,715 |
| 263,575 | 479,666 | 41,135 | - | - | 2,780,771 |
| 14,257,965 | 7,127,239 | - | 1,709,099 | 568,168 | 45,452,218 |
| - | - | - | - | - | - |
| <u>16,861,643</u> | <u>8,382,648</u> | <u>296,210</u> | <u>1,783,119</u> | <u>568,168</u> | <u>53,899,111</u> |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | 797,396 | 797,396 |
| - | - | - | - | - | - |
| (14,291,273) | (3,026,562) | (4,015) | (1,128,129) | - | (31,524,874) |
| <u>(14,291,273)</u> | <u>(3,026,562)</u> | <u>(4,015)</u> | <u>(1,128,129)</u> | <u>797,396</u> | <u>(30,727,478)</u> |
| <u>2,570,370</u> | <u>5,356,086</u> | <u>292,195</u> | <u>654,990</u> | <u>1,365,564</u> | <u>23,171,633</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

| | Permanent Funds | | | | |
|--|--------------------------|------------------------------|-------------------|----------------|----------------|
| | Hope Cemetery | Health Department | Libraries | Schools | Parks |
| Assets: | | | | | |
| Cash and cash equivalents | \$ - | - | - | - | - |
| Restricted cash and cash equivalents | 48,076 | 57,305 | 55,883 | 15,888 | 7,001 |
| Restricted investments | 4,740,318 | 3,162,190 | 10,200,824 | 870,885 | 573,908 |
| Receivables, net | - | - | - | - | - |
| Intergovernmental receivables | - | - | - | - | - |
| Total assets | \$ 4,788,394 | 3,219,495 | 10,256,707 | 886,773 | 580,909 |
| Liabilities: | | | | | |
| Accounts payable | \$ - | - | - | - | - |
| Due to general fund | - | - | - | - | - |
| Retainage payable | - | - | - | - | - |
| Temporary loans | - | - | - | - | - |
| Other liabilities | 59,589 | - | - | - | - |
| Total liabilities | 59,589 | - | - | - | - |
| Deferred inflows of resources: | | | | | |
| Unavailable revenue-other | - | - | - | - | - |
| Total deferred inflows of resources | - | - | - | - | - |
| Fund balances: | | | | | |
| Nonspendable | 4,239,910 | 2,681,633 | 7,006,200 | 658,687 | 437,333 |
| Restricted | 488,895 | 537,862 | 3,250,507 | 228,086 | 143,576 |
| Committed | - | - | - | - | - |
| Unassigned | - | - | - | - | - |
| Total fund balances | 4,728,805 | 3,219,495 | 10,256,707 | 886,773 | 580,909 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 4,788,394 | 3,219,495 | 10,256,707 | 886,773 | 580,909 |

| Permanent Funds | | | | | Total Nonmajor Governmental Funds |
|------------------------|---------------------|-----------------|----------------|-------------------|--|
| Police | Public Works | Memorial | Welfare | Subtotal | |
| - | - | - | - | - | 23,358,898 |
| 119 | 6,418 | 107,406 | 1,352 | 299,448 | 49,692,188 |
| 11,683 | 439,560 | 360,709 | 6,795 | 20,366,872 | 20,366,872 |
| - | - | - | - | - | 1,607,500 |
| - | - | - | - | - | 11,283,204 |
| <u>11,802</u> | <u>445,978</u> | <u>468,115</u> | <u>8,147</u> | <u>20,666,320</u> | <u>106,308,662</u> |
| - | - | - | - | - | 5,689,417 |
| - | - | - | - | - | 4,639,333 |
| - | - | - | - | - | 2,780,771 |
| - | - | - | - | - | 45,452,218 |
| - | - | - | - | 59,589 | 3,045,689 |
| - | - | - | - | 59,589 | 61,607,428 |
| - | - | - | - | - | 1,607,500 |
| - | - | - | - | - | 1,607,500 |
| 4,721 | 377,214 | 216,278 | 3,976 | 15,625,952 | 15,625,952 |
| 7,081 | 68,764 | 251,837 | 4,171 | 4,980,779 | 35,955,172 |
| - | - | - | - | - | 23,358,898 |
| - | - | - | - | - | (31,846,288) |
| <u>11,802</u> | <u>445,978</u> | <u>468,115</u> | <u>8,147</u> | <u>20,606,731</u> | <u>43,093,734</u> |
| <u>11,802</u> | <u>445,978</u> | <u>468,115</u> | <u>8,147</u> | <u>20,666,320</u> | <u>106,308,662</u> |

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2018

| | <u>Special Revenue Funds</u> | | | | |
|--|----------------------------------|-------------------------|-----------------------------|-------------------------------|---------------------------|
| | <u>DCU Center Operations</u> | <u>School Lunch</u> | <u>Police Auxiliary</u> | <u>Off-Street Parking</u> | <u>City Revolving</u> |
| Revenues: | | | | | |
| Intergovernmental | \$ - | 15,977,692 | - | - | 65,000 |
| Investment earnings | - | - | - | - | - |
| Charges for services | 1,195,760 | 26,920 | 9,413,342 | 24,779 | 1,635,924 |
| Donations | - | - | - | - | - |
| Contributions to permanent fund | - | - | - | - | - |
| Energy sales and rebates | - | - | - | - | 1,456,519 |
| Miscellaneous | - | - | - | - | - |
| Total revenues | <u>1,195,760</u> | <u>16,004,612</u> | <u>9,413,342</u> | <u>24,779</u> | <u>3,157,443</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | - | - | - | - | 105,000 |
| Public safety | - | - | 9,532,662 | - | 618,216 |
| Health and human services | - | - | - | - | 386,192 |
| Education | - | 13,780,561 | - | - | - |
| Public works | - | - | - | 1,976,327 | 84,424 |
| Culture and recreation | 919,537 | - | - | - | - |
| Community development | - | - | - | - | - |
| Debt service: | | | | | |
| Principal | 399,410 | - | - | 1,283,691 | 864,229 |
| Interest | 92,794 | - | - | 330,819 | - |
| Total expenditures | <u>1,411,741</u> | <u>13,780,561</u> | <u>9,532,662</u> | <u>3,590,837</u> | <u>2,058,061</u> |
| Excess (deficiency) of revenues over expenditures | <u>(215,981)</u> | <u>2,224,051</u> | <u>(119,320)</u> | <u>(3,566,058)</u> | <u>1,099,382</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | - | - | - | 3,611,375 | 138,159 |
| Transfers out | - | - | - | - | - |
| Premium on issuance of bonds and notes | - | - | - | - | - |
| Issuance of bonds | - | - | - | - | - |
| Premium on issuance of refunding bonds | - | - | - | - | - |
| Issuance of refunding bonds | - | - | - | - | - |
| Payment to refunded bonds escrow agent | - | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,611,375</u> | <u>138,159</u> |
| Net change in fund balances | <u>(215,981)</u> | <u>2,224,051</u> | <u>(119,320)</u> | <u>45,317</u> | <u>1,237,541</u> |
| Fund balances – beginning | <u>518,694</u> | <u>879,148</u> | <u>(202,094)</u> | <u>1,257,193</u> | <u>5,629,906</u> |
| Fund balances – ending | <u>\$ 302,713</u> | <u>3,103,199</u> | <u>(321,414)</u> | <u>1,302,510</u> | <u>6,867,447</u> |

Special Revenue Funds

| School Grants | School Revolving | Receipts Reserved | Community Development | Workforce Central | City Grants | Subtotal |
|--------------------|------------------|--------------------|-----------------------|-------------------|--------------------|--------------------|
| 33,874,521 | 521,195 | - | 3,648,608 | 4,912,587 | 11,885,513 | 70,885,116 |
| - | - | - | - | - | 409 | 409 |
| 510,947 | 1,307,281 | 5,983,356 | 43,222 | 23,993 | - | 20,165,524 |
| 360,013 | - | - | - | - | 5,228,716 | 5,588,729 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 2,136,916 | 3,593,435 |
| - | - | 710,127 | - | - | 198,357 | 908,484 |
| <u>34,745,481</u> | <u>1,828,476</u> | <u>6,693,483</u> | <u>3,691,830</u> | <u>4,936,580</u> | <u>19,449,911</u> | <u>101,141,697</u> |
| - | - | - | - | - | 3,141,026 | 3,246,026 |
| - | - | - | - | - | 5,542,406 | 15,693,284 |
| - | - | - | - | 4,619,269 | 3,544,164 | 8,549,625 |
| 38,078,521 | 1,311,515 | - | - | - | - | 53,170,597 |
| - | - | - | - | - | 291,635 | 2,352,386 |
| - | - | - | - | - | 2,106,250 | 3,025,787 |
| - | - | - | 3,504,301 | - | 2,412,557 | 5,916,858 |
| - | - | - | 145,000 | - | 309,200 | 3,001,530 |
| - | - | - | 48,154 | - | 89,538 | 561,305 |
| <u>38,078,521</u> | <u>1,311,515</u> | <u>-</u> | <u>3,697,455</u> | <u>4,619,269</u> | <u>17,436,776</u> | <u>95,517,398</u> |
| <u>(3,333,040)</u> | <u>516,961</u> | <u>6,693,483</u> | <u>(5,625)</u> | <u>317,311</u> | <u>2,013,135</u> | <u>5,624,299</u> |
| 311,952 | 4,200 | 3,172,758 | - | - | 749,034 | 7,987,478 |
| - | - | (7,056,993) | - | - | (3,586,228) | (10,643,221) |
| - | - | 786,091 | - | - | - | 786,091 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| <u>311,952</u> | <u>4,200</u> | <u>(3,098,144)</u> | <u>-</u> | <u>-</u> | <u>(2,837,194)</u> | <u>(1,869,652)</u> |
| <u>(3,021,088)</u> | <u>521,161</u> | <u>3,595,339</u> | <u>(5,625)</u> | <u>317,311</u> | <u>(824,059)</u> | <u>3,754,647</u> |
| <u>5,845,608</u> | <u>2,113,323</u> | <u>19,763,559</u> | <u>55,342</u> | <u>1,070,394</u> | <u>12,528,761</u> | <u>49,459,834</u> |
| <u>2,824,520</u> | <u>2,634,484</u> | <u>23,358,898</u> | <u>49,717</u> | <u>1,387,705</u> | <u>11,704,702</u> | <u>53,214,481</u> |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2018

| | Capital Projects Funds | | | |
|--|------------------------------------|--------------------------------|------------------------------|---|
| | DCU Center Construction | Street and Sidewalk | Capital Equipment | Rehabilitation of Public Buildings |
| Revenues: | | | | |
| Intergovernmental | \$ - | 7,890,957 | - | - |
| Investment earnings | - | - | - | - |
| Charges for services | - | - | - | - |
| Donations | - | - | - | - |
| Contributions to permanent fund | - | - | - | - |
| Energy sales and rebates | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total revenues | - | 7,890,957 | - | - |
| Expenditures: | | | | |
| Current: | | | | |
| General government | - | - | 976,316 | 4,702,790 |
| Public safety | - | - | 277,514 | 119,784 |
| Health and human services | - | - | 8,941 | - |
| Education | - | - | 341,465 | - |
| Public works | - | 16,185,447 | 439,430 | 1,544,635 |
| Culture and recreation | 3,075,441 | - | 696,300 | 391,490 |
| Community development | - | - | - | - |
| Debt service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Total expenditures | 3,075,441 | 16,185,447 | 2,739,966 | 6,758,699 |
| Excess (deficiency) of revenues over expenditures | (3,075,441) | (8,294,490) | (2,739,966) | (6,758,699) |
| Other financing sources (uses): | | | | |
| Transfers in | 9,966 | - | 1,293,446 | - |
| Transfers out | - | (540,398) | (917) | (48,079) |
| Premium on issuance of bonds and notes | 48,379 | 117,117 | 27,442 | 4,450,108 |
| Issuance of bonds | 1,675,500 | 7,750,000 | 2,895,570 | 28,511,589 |
| Premium on issuance of refunding bonds | 325,725 | 36,563 | - | 342,272 |
| Issuance of refunding bonds | 5,592,000 | 537,000 | - | 5,186,820 |
| Payment to refunded bonds escrow agent | (5,917,725) | (573,563) | - | (5,529,092) |
| Total other financing sources (uses) | 1,733,845 | 7,326,719 | 4,215,541 | 32,913,618 |
| Net change in fund balances | (1,341,596) | (967,771) | 1,475,575 | 26,154,919 |
| Fund balances – beginning | (1,452,575) | (1,513,649) | (2,782,389) | (32,647,409) |
| Fund balances – ending | \$ (2,794,171) | (2,481,420) | (1,306,814) | (6,492,490) |

Capital Projects Funds

| School Construction | Parks Improvements | Union Station Garage | CitySquare Construction | Other | Subtotal |
|---------------------|--------------------|----------------------|-------------------------|-------------|--------------|
| 15,295,059 | 1,012,353 | - | - | 17,763 | 24,216,132 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 15,295,059 | 1,012,353 | - | - | 17,763 | 24,216,132 |
| - | - | - | - | - | 5,679,106 |
| - | - | - | - | - | 397,298 |
| - | - | - | - | - | 8,941 |
| 25,252,517 | - | - | - | - | 25,593,982 |
| - | - | 296,210 | 302,316 | 536,213 | 19,304,251 |
| - | 10,721,025 | - | - | 53,160 | 14,937,416 |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | 1,164,180 | - | 1,164,180 |
| 25,252,517 | 10,721,025 | 296,210 | 1,466,496 | 589,373 | 67,085,174 |
| (9,957,458) | (9,708,672) | (296,210) | (1,466,496) | (571,610) | (42,869,042) |
| 69,440 | 458,382 | - | - | - | 1,831,234 |
| - | - | (250,000) | - | (413,763) | (1,253,157) |
| 996,161 | 251,761 | - | 94,664 | 6,682 | 5,992,314 |
| 11,454,374 | 3,335,000 | - | 28,545,000 | 202,000 | 84,369,033 |
| 14,145 | 90,118 | - | 618,606 | 121,433 | 1,548,862 |
| 245,000 | 1,521,000 | - | 8,317,000 | 1,834,000 | 23,232,820 |
| (259,145) | (1,611,118) | - | (8,935,606) | (1,955,433) | (24,781,682) |
| 12,519,975 | 4,045,143 | (250,000) | 28,639,664 | (205,081) | 90,939,424 |
| 2,562,517 | (5,663,529) | (546,210) | 27,173,168 | (776,691) | 48,070,382 |
| (16,853,790) | 2,636,967 | 542,195 | (28,301,297) | 1,574,087 | (78,797,860) |
| (14,291,273) | (3,026,562) | (4,015) | (1,128,129) | 797,396 | (30,727,478) |

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2018

| | Permanent Funds | | | | |
|--|--------------------------|------------------------------|-------------------|----------------|----------------|
| | Hope Cemetery | Health Department | Library | Schools | Parks |
| Revenues: | | | | | |
| Intergovernmental | \$ - | - | - | - | - |
| Investment earnings (losses) | 95,467 | 62,562 | 442,384 | 18,585 | 11,993 |
| Charges for services | - | - | - | - | - |
| Donations | - | - | - | - | - |
| Contributions to permanent fund | 106,077 | 6,812 | 108,493 | 4,012 | - |
| Energy sales and rebates | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - |
| Total revenues | 201,544 | 69,374 | 550,877 | 22,597 | 11,993 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | - | - | - | - | - |
| Public safety | - | - | - | - | - |
| Health and human services | - | 2,018 | - | - | - |
| Education | - | - | - | 15,350 | - |
| Public works | - | - | - | - | - |
| Culture and recreation | - | - | 99,913 | - | - |
| Community development | - | - | - | - | - |
| Debt service: | | | | | |
| Principal | - | - | - | - | - |
| Interest | - | - | - | - | - |
| Total expenditures | - | 2,018 | 99,913 | 15,350 | - |
| Excess (deficiency) of revenues over expenditures | 201,544 | 67,356 | 450,964 | 7,247 | 11,993 |
| Other financing sources (uses): | | | | | |
| Transfers in | - | 400 | 44,950 | 15,350 | - |
| Transfers out | (59,589) | (400) | (44,950) | (9,350) | - |
| Premium on issuance of bonds and notes | - | - | - | - | - |
| Issuance of bonds | - | - | - | - | - |
| Premium on issuance of refunding bonds | - | - | - | - | - |
| Issuance of refunding bonds | - | - | - | - | - |
| Payment to refunded bonds escrow agent | - | - | - | - | - |
| Total other financing sources (uses) | (59,589) | - | - | 6,000 | - |
| Net change in fund balances | 141,955 | 67,356 | 450,964 | 13,247 | 11,993 |
| Fund balances – beginning | 4,586,850 | 3,152,139 | 9,805,743 | 873,526 | 568,916 |
| Fund balances – ending | \$ 4,728,805 | 3,219,495 | 10,256,707 | 886,773 | 580,909 |

| Permanent Funds | | | | | Total Nonmajor Governmental Funds |
|-----------------|--------------|----------|---------|------------|--|
| Police | Public Works | Memorial | Welfare | Subtotal | |
| - | - | - | - | - | 95,101,248 |
| 244 | 9,466 | 7,576 | 141 | 648,418 | 648,827 |
| - | - | - | - | - | 20,165,524 |
| - | - | - | - | - | 5,588,729 |
| - | - | - | - | 225,394 | 225,394 |
| - | - | - | - | - | 3,593,435 |
| - | - | - | - | - | 908,484 |
| 244 | 9,466 | 7,576 | 141 | 873,812 | 126,231,641 |
| - | - | - | - | - | 8,925,132 |
| - | - | - | - | - | 16,090,582 |
| - | - | - | - | 2,018 | 8,560,584 |
| - | - | - | - | 15,350 | 78,779,929 |
| - | 4,638 | - | - | 4,638 | 21,661,275 |
| - | - | - | - | 99,913 | 18,063,116 |
| - | - | - | - | - | 5,916,858 |
| - | - | - | - | - | 3,001,530 |
| - | - | - | - | - | 1,725,485 |
| - | 4,638 | - | - | 121,919 | 162,724,491 |
| 244 | 4,828 | 7,576 | 141 | 751,893 | (36,492,850) |
| - | 6,542 | - | - | 67,242 | 9,885,954 |
| - | (6,542) | (6,000) | - | (126,831) | (12,023,209) |
| - | - | - | - | - | 6,778,405 |
| - | - | - | - | - | 84,369,033 |
| - | - | - | - | - | 1,548,862 |
| - | - | - | - | - | 23,232,820 |
| - | - | - | - | - | (24,781,682) |
| - | - | (6,000) | - | (59,589) | 89,010,183 |
| 244 | 4,828 | 1,576 | 141 | 692,304 | 52,517,333 |
| 11,558 | 441,150 | 466,539 | 8,006 | 19,914,427 | (9,423,599) |
| 11,802 | 445,978 | 468,115 | 8,147 | 20,606,731 | 43,093,734 |

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Golf Course Enterprise Fund (nonmajor)
 Schedule of Revenues, Expenditures and
 Changes in Fund Balance –
 Budget and Actual – Budgetary Basis
 For the Fiscal Year Ended June 30, 2018

| | <u>Original budget</u> | <u>Final budget</u> | <u>Actual</u> | <u>Variance with final budget positive (negative)</u> |
|--|----------------------------|-------------------------|------------------|---|
| Revenues: | | | | |
| Fees | \$ 1,285,736 | 1,285,736 | 1,094,842 | (190,894) |
| Miscellaneous | 10,000 | 10,000 | 29,909 | 19,909 |
| Total revenues | <u>1,295,736</u> | <u>1,295,736</u> | <u>1,124,751</u> | <u>(170,985)</u> |
| Expenditures: | | | | |
| Salaries and benefits | 320,661 | 373,661 | 364,127 | 9,534 |
| Ordinary maintenance | 848,000 | 795,000 | 785,901 | 9,099 |
| Debt service | 226,096 | 226,096 | 224,197 | 1,899 |
| Indirect costs | 30,954 | 30,954 | 30,954 | - |
| Total expenditures | <u>1,425,711</u> | <u>1,425,711</u> | <u>1,405,179</u> | <u>20,532</u> |
| Excess (deficiency) of revenues over expenditures | <u>(129,975)</u> | <u>(129,975)</u> | <u>(280,428)</u> | <u>(150,453)</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 150,000 | 150,000 | 300,453 | 150,453 |
| Transfers (out) for pension bond assessment | (20,025) | (20,025) | (20,025) | - |
| Total other financing sources (uses) | <u>129,975</u> | <u>129,975</u> | <u>280,428</u> | <u>150,453</u> |
| Net changes in fund balance | - | - | - | - |
| Budgetary fund balance – beginning | - | - | - | - |
| Budgetary fund balance – ending | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Reconciliation to GAAP-basis:

| | <u>Expenses</u> | <u>Transfers (Net)</u> | <u>Net Change in Fund Balance/ Net Position</u> |
|-------------------------------------|---------------------|------------------------|---|
| As reported on a budgetary basis | \$ 1,405,179 | 280,428 | - |
| Net change in net pension liability | 23,796 | - | (23,796) |
| Net change in OPEB liability | 16,187 | - | (16,187) |
| Net change in compensated absences | 434 | - | (434) |
| Debt service principal | (172,491) | - | 172,491 |
| Interest paid on refunded debt | (2,643) | - | 2,643 |
| Amortization of premium interest | (13,343) | - | 13,343 |
| Net change in accrued interest | 23,221 | - | (23,221) |
| Depreciation | <u>112,018</u> | <u>-</u> | <u>(112,018)</u> |
| As reported on a GAAP basis | <u>\$ 1,392,358</u> | <u>280,428</u> | <u>12,821</u> |

CITY OF WORCESTER, MASSACHUSETTS

Sewer Enterprise Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance –
Budget and Actual – Budgetary Basis
For the Fiscal Year Ended June 30, 2018

| | <u>Original budget</u> | <u>Final budget</u> | <u>Actual</u> | Variance with final budget positive (negative) |
|--|----------------------------|-------------------------|--------------------|---|
| Revenues: | | | | |
| Charges for services | \$ 42,759,731 | 42,759,731 | 41,083,753 | (1,675,978) |
| Miscellaneous | 1,060,000 | 1,060,000 | 995,241 | (64,759) |
| Total revenues | <u>43,819,731</u> | <u>43,819,731</u> | <u>42,078,994</u> | <u>(1,740,737)</u> |
| Expenditures: | | | | |
| Salaries and benefits | 6,583,920 | 6,383,920 | 6,173,104 | 210,816 |
| Ordinary maintenance | 23,283,909 | 23,483,909 | 23,436,341 | 47,568 |
| Capital | 24,500 | 24,500 | 13,423 | 11,077 |
| Debt service | 9,721,051 | 9,721,051 | 9,681,790 | 39,261 |
| Indirect costs | 3,636,756 | 3,636,756 | 3,636,756 | - |
| Total expenditures | <u>43,250,136</u> | <u>43,250,136</u> | <u>42,941,414</u> | <u>308,722</u> |
| Excess of revenues over expenditures | <u>569,595</u> | <u>569,595</u> | <u>(862,420)</u> | <u>(1,432,015)</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | - | - |
| Transfers (out) for pension bond assessment | (569,595) | (569,595) | (569,595) | - |
| Total other financing sources (uses) | <u>(569,595)</u> | <u>(569,595)</u> | <u>(569,595)</u> | <u>-</u> |
| Net changes in fund balance | <u>-</u> | <u>-</u> | <u>(1,432,015)</u> | <u>(1,432,015)</u> |
| Budgetary fund balance – beginning | 3,475,521 | 3,475,521 | 3,475,521 | - |
| Budgetary fund balance – ending | <u>\$ 3,475,521</u> | <u>3,475,521</u> | <u>2,043,506</u> | <u>(1,432,015)</u> |

Reconciliation to GAAP-basis:

| | <u>Revenues</u> | <u>Expenses</u> | <u>Capital Grants & Transfers (Net)</u> | <u>Net Change in Fund Balance/ Net Position</u> |
|-------------------------------------|----------------------|-------------------|---|---|
| As reported on a budgetary basis | \$ 42,078,994 | 42,941,414 | (569,595) | (1,432,015) |
| Net change in accrued receivables | 1,113,432 | - | - | 1,113,432 |
| Net change in net pension liability | - | 285,240 | - | (285,240) |
| Net change in OPEB liability | - | 305,098 | - | (305,098) |
| Net change in compensated absences | - | 8,775 | - | (8,775) |
| Net change in claims and judgments | - | (10,040) | - | 10,040 |
| Capital grants | - | - | 3,634,154 | 3,634,154 |
| Capital projects expenses | - | 267,653 | - | (267,653) |
| Debt service principal | - | (5,764,573) | - | 5,764,573 |
| Interest paid on refunded debt | - | 453,406 | - | (453,406) |
| Amortization of premium interest | - | (204,451) | - | 204,451 |
| Net change in accrued interest | - | (32,072) | - | 32,072 |
| Depreciation | - | 9,681,414 | - | (9,681,414) |
| As reported on a GAAP basis | <u>\$ 43,192,426</u> | <u>47,931,864</u> | <u>3,064,559</u> | <u>(1,674,879)</u> |

CITY OF WORCESTER, MASSACHUSETTS

Water Enterprise Fund

Schedule of Revenues, Expenditures and
Changes in Fund Balance –
Budget and Actual – Budgetary Basis
For the Fiscal Year Ended June 30, 2018

| | <u>Original budget</u> | <u>Final budget</u> | <u>Actual</u> | Variance with final budget positive (negative) |
|--|----------------------------|-------------------------|-------------------|---|
| Revenues: | | | | |
| Charges for services | \$ 25,153,938 | 25,153,938 | 27,858,169 | 2,704,231 |
| Miscellaneous | 1,128,000 | 1,128,000 | 1,512,013 | 384,013 |
| Total revenues | <u>26,281,938</u> | <u>26,281,938</u> | <u>29,370,182</u> | <u>3,088,244</u> |
| Expenditures: | | | | |
| Salaries and benefits | 11,509,498 | 11,109,498 | 10,675,577 | 433,921 |
| Ordinary maintenance | 3,595,150 | 3,995,150 | 3,695,477 | 299,673 |
| Capital | 25,000 | 25,000 | 10,932 | 14,068 |
| Debt service | 8,094,593 | 8,094,593 | 8,015,218 | 79,375 |
| Indirect costs | 2,313,991 | 2,313,991 | 2,313,991 | - |
| Total expenditures | <u>25,538,232</u> | <u>25,538,232</u> | <u>24,711,195</u> | <u>827,037</u> |
| Excess of revenues over expenditures | <u>743,706</u> | <u>743,706</u> | <u>4,658,987</u> | <u>3,915,281</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | - | - |
| Transfers (out) for pension bond assessment | (743,706) | (743,706) | (743,706) | - |
| Total other financing sources (uses) | <u>(743,706)</u> | <u>(743,706)</u> | <u>(743,706)</u> | <u>-</u> |
| Net changes in fund balance | - | - | 3,915,281 | 3,915,281 |
| Budgetary fund balance – beginning | <u>6,419,937</u> | <u>6,419,937</u> | <u>6,419,937</u> | <u>-</u> |
| Budgetary fund balance – ending | <u>\$ 6,419,937</u> | <u>6,419,937</u> | <u>10,335,218</u> | <u>3,915,281</u> |

Reconciliation to GAAP-basis:

| | <u>Revenues</u> | <u>Expenses</u> | <u>Capital Grants & Transfers (Net)</u> | <u>Net Change in Fund Balance/ Net Position</u> |
|---|----------------------|-------------------|---|---|
| As reported on a budgetary basis | \$ 29,370,182 | 24,711,195 | (743,706) | 3,915,281 |
| Net change in accrued receivables | 217,353 | - | - | 217,353 |
| Net change in net pension liability | - | 389,937 | - | (389,937) |
| Net change in OPEB liability | - | 673,309 | - | (673,309) |
| Net change in compensated absences | - | 4,959 | - | (4,959) |
| Net change in claims and judgments | - | 186,656 | - | (186,656) |
| Capital grants | - | - | 180,000 | 180,000 |
| Transfers in from capital projects fund | - | - | 386,500 | 386,500 |
| Capital projects expenses | - | 160,665 | - | (160,665) |
| Debt service principal | - | (5,703,797) | - | 5,703,797 |
| Interest paid on refunded debt | - | 169,013 | - | (169,013) |
| Amortization of premium interest | - | (141,616) | - | 141,616 |
| Net change in accrued interest | - | (26,932) | - | 26,932 |
| Depreciation | - | 7,638,871 | - | (7,638,871) |
| As reported on a GAAP basis | <u>\$ 29,587,535</u> | <u>28,062,260</u> | <u>(177,206)</u> | <u>1,348,069</u> |

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CITY OF WORCESTER, MASSACHUSETTS

Capital Assets Used in the Operation of Governmental Activities
Schedule by Function and Activity

June 30, 2018

| <u>Function and activity</u> | <u>Land</u> | <u>Buildings</u> | <u>Improvements other than buildings</u> |
|---|----------------------|--------------------|--|
| General government: | | | |
| Manager | \$ 7,813,131 | 4,161,978 | 294,758 |
| Elections | - | - | - |
| Technical Services | - | 1,855,094 | - |
| Total general government | <u>7,813,131</u> | <u>6,017,072</u> | <u>294,758</u> |
| Public safety: | | | |
| Police | 514,500 | 1,422,616 | 154,547 |
| Fire | 1,074,600 | 10,638,684 | - |
| Inspectional Services | 209,905 | 514,377 | - |
| Communications | - | 5,115,851 | - |
| Total public safety | <u>1,799,005</u> | <u>17,691,528</u> | <u>154,547</u> |
| Health and human services: | | | |
| Health | - | 44,734 | - |
| Workforce investment board | - | - | - |
| Veteran's Services | - | - | 180,693 |
| Elder Affairs | 385,000 | 1,685,401 | 15,836 |
| Total health and human services | <u>385,000</u> | <u>1,730,135</u> | <u>196,529</u> |
| Public works | <u>3,489,339</u> | <u>75,873,136</u> | <u>117,930,156</u> |
| Education | <u>3,358,537</u> | <u>298,235,055</u> | <u>5,623,477</u> |
| Community development | <u>-</u> | <u>94,183</u> | <u>566,386</u> |
| Culture and recreation: | | | |
| Library | 305,000 | 12,539,248 | - |
| Auditorium | 150,000 | 880,726 | - |
| DCU Center | 263,000 | 50,464,643 | - |
| Hope Cemetery | 290,000 | 1,067,854 | 170,828 |
| Parks | 5,224,177 | 3,983,026 | 54,826,911 |
| Total culture and recreation | <u>6,232,177</u> | <u>68,935,497</u> | <u>54,997,739</u> |
| Total governmental activities capital assets | <u>\$ 23,077,189</u> | <u>468,576,606</u> | <u>179,763,592</u> |

| Rolling equipment | Equipment and other | Infrastructure | Construction in progress | Total |
|------------------------------|--------------------------------|-----------------------|-------------------------------------|--------------|
| - | 41,881 | - | - | 12,311,748 |
| - | 138,660 | - | - | 138,660 |
| - | 1,080,311 | - | - | 2,935,405 |
| - | 1,260,852 | - | - | 15,385,813 |
| 47,588 | 107,078 | - | - | 2,246,329 |
| 2,847,194 | 191,298 | 566,810 | - | 15,318,586 |
| - | - | - | - | 724,282 |
| - | 6,758,849 | - | - | 11,874,700 |
| 2,894,782 | 7,057,225 | 566,810 | - | 30,163,897 |
| - | - | - | - | 44,734 |
| - | 67,286 | - | - | 67,286 |
| - | - | - | - | 180,693 |
| - | 27,800 | - | - | 2,114,037 |
| - | 95,086 | - | - | 2,406,750 |
| 1,787,414 | 498,908 | 151,258,344 | - | 350,837,297 |
| 372,051 | 3,274,077 | - | 7,272,478 | 318,135,675 |
| - | 75,490 | - | - | 736,059 |
| - | 324,954 | - | - | 13,169,202 |
| - | - | - | - | 1,030,726 |
| 107,992 | 2,127,131 | - | - | 52,962,766 |
| 102,493 | - | - | - | 1,631,175 |
| 1,009,821 | 179,097 | 1,425,260 | - | 66,648,292 |
| 1,220,306 | 2,631,182 | 1,425,260 | - | 135,442,161 |
| 6,274,553 | 14,892,820 | 153,250,414 | 7,272,478 | 853,107,652 |

CITY OF WORCESTER, MASSACHUSETTS

Capital Assets Used in the Operation of Governmental Activities
Schedule of Changes by Function and Activity

For the Fiscal Year Ended June 30, 2018

| <u>Function and activity</u> | <u>Governmental activities capital assets July 1, 2017</u> | <u>Additions</u> | <u>Deductions</u> | <u>Governmental activities capital assets June 30, 2018</u> |
|---|--|--------------------|--------------------|---|
| General government: | | | | |
| Manager | \$ 53,068,158 | 4,785,541 | 45,541,951 | 12,311,748 |
| Elections | 194,124 | - | 55,464 | 138,660 |
| Information Services | 2,149,903 | 1,058,684 | 273,182 | 2,935,405 |
| Total general government | <u>55,412,185</u> | <u>5,844,225</u> | <u>45,870,597</u> | <u>15,385,813</u> |
| Public safety: | | | | |
| Police | 2,566,142 | 52,874 | 372,687 | 2,246,329 |
| Fire | 16,629,869 | 76,580 | 1,387,863 | 15,318,586 |
| Inspectional Services | 765,604 | - | 41,322 | 724,282 |
| Communications | 12,591,909 | 87,807 | 805,016 | 11,874,700 |
| Total public safety | <u>32,553,524</u> | <u>217,261</u> | <u>2,606,888</u> | <u>30,163,897</u> |
| Health and human services: | | | | |
| Health | 47,290 | - | 2,556 | 44,734 |
| Workforce investment board | 94,200 | - | 26,914 | 67,286 |
| Veteran's Services | - | 185,327 | 4,634 | 180,693 |
| Elder Affairs | 1,771,341 | 628,102 | 285,406 | 2,114,037 |
| Total health and human svc | <u>1,912,831</u> | <u>813,429</u> | <u>319,510</u> | <u>2,406,750</u> |
| Public works | <u>308,098,747</u> | <u>64,558,716</u> | <u>21,820,166</u> | <u>350,837,297</u> |
| Education | <u>307,644,992</u> | <u>83,625,592</u> | <u>73,134,909</u> | <u>318,135,675</u> |
| Community development | <u>485,321</u> | <u>308,388</u> | <u>57,650</u> | <u>736,059</u> |
| Culture and recreation: | | | | |
| Library | 13,411,662 | 430,686 | 673,146 | 13,169,202 |
| Auditorium | 1,231,279 | - | 200,553 | 1,030,726 |
| DCU Center | 54,275,787 | 2,877,147 | 4,190,168 | 52,962,766 |
| Hope Cemetery | 1,410,184 | 289,089 | 68,098 | 1,631,175 |
| Parks | 58,907,868 | 11,925,136 | 4,184,712 | 66,648,292 |
| Total culture and recreation | <u>129,236,780</u> | <u>15,522,058</u> | <u>9,316,677</u> | <u>135,442,161</u> |
| Total governmental activities capital assets | <u>\$ 835,344,380</u> | <u>170,889,669</u> | <u>153,126,397</u> | <u>853,107,652</u> |

CITY OF WORCESTER, MASSACHUSETTS
 Agency Fund
 Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2018

| | <u>Balance</u> <u>July 1, 2017</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2018</u> |
|---------------------------------------|---------------------------------------|------------------|-------------------|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 439,862 | 457,098 | (462,105) | 434,855 |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ 28,163 | 1,929 | (28,163) | 1,929 |
| Due to student groups | 411,699 | 455,169 | (433,942) | 432,926 |
| Total liabilities | \$ 439,862 | 457,098 | (462,105) | 434,855 |

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STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Worcester’s Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

Table of Contents

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|---|-------------|
| Financial Trends | 174 |
| These tables contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time. | |
| Revenue Capacity | 184 |
| These tables contain information to help the reader assess the City’s most significant local revenue source, the property tax. | |
| Debt Capacity | 193 |
| These tables contain information to help the reader assess the affordability of the City’s current level of outstanding debt and the City’s ability to issue additional debt in the future. | |
| Demographic and Economic Information | 196 |
| These tables offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place. | |
| Operating Information | 199 |
| These tables contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs. | |

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

CITY OF WORCESTER, MASSACHUSETTS

Net Position by Component (1)

Accrual Basis of Accounting

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 (2) | 2015 | 2016 | 2017 (3) | 2018 |
|--|-------------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|
| Governmental activities: | | | | | | | | | | |
| Net investment in capital assets (1) | \$ 201,247 | 236,864 | 280,669 | 288,776 | 310,299 | 333,718 | 361,677 | 402,433 | 433,725 | 441,004 |
| Restricted | 42,371 | 29,804 | 42,290 | 40,376 | 43,534 | 54,995 | 56,178 | 56,244 | 61,567 | 65,793 |
| Unrestricted | (175,323) | (208,915) | (230,791) | (232,785) | (254,054) | (608,267) | (640,192) | (693,216) | (1,184,168) | (1,247,332) |
| Total governmental activities net position | \$ <u>68,295</u> | <u>57,753</u> | <u>92,168</u> | <u>96,367</u> | <u>99,779</u> | <u>(219,554)</u> | <u>(222,337)</u> | <u>(234,539)</u> | <u>(688,876)</u> | <u>(740,535)</u> |
| Business-type activities: | | | | | | | | | | |
| Net investment in capital assets (1) | \$ 121,480 | 120,990 | 87,708 | 87,856 | 86,123 | 86,648 | 88,675 | 90,920 | 84,896 | 86,281 |
| Restricted | - | - | 1,601 | - | - | - | - | - | - | - |
| Unrestricted | 10,026 | 7,978 | 8,344 | 10,776 | 11,024 | (10,304) | (12,425) | (12,985) | (18,103) | (19,802) |
| Total business-type net position | \$ <u>131,506</u> | <u>128,968</u> | <u>97,653</u> | <u>98,632</u> | <u>97,147</u> | <u>76,344</u> | <u>76,250</u> | <u>77,935</u> | <u>66,793</u> | <u>66,479</u> |
| Primary government: | | | | | | | | | | |
| Net investment in capital assets (1) | \$ 322,727 | 357,854 | 368,377 | 376,632 | 396,422 | 420,366 | 450,352 | 493,353 | 518,621 | 527,285 |
| Restricted | 42,371 | 29,804 | 43,891 | 40,376 | 43,534 | 54,995 | 56,178 | 56,244 | 61,567 | 65,793 |
| Unrestricted | (165,297) | (200,937) | (222,447) | (222,009) | (243,030) | (618,571) | (652,617) | (706,201) | (1,202,271) | (1,267,134) |
| Total primary government net position | \$ <u>199,801</u> | <u>186,721</u> | <u>189,821</u> | <u>194,999</u> | <u>196,926</u> | <u>(143,210)</u> | <u>(146,087)</u> | <u>(156,604)</u> | <u>(622,083)</u> | <u>(674,056)</u> |

(1) Net position and net investment in capital assets terminology per GASB #63 is being utilized.

(2) Net pension liability (and related) per GASB #68 is reported starting in fiscal year 2014.

(3) Net other postemployment benefits (OPEB) liability (and related) per GASB #75 is reported starting in fiscal year 2017.

Table 2

CITY OF WORCESTER, MASSACHUSETTS

Changes in Net Position (1)

Accrual Basis of Accounting

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 (2) | 2015 (3) | 2016 | 2017 (4) | 2018 |
|---|------------|---------|---------|---------|---------|-----------|----------|---------|-----------|---------|
| Expenses | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 23,416 | 20,862 | 21,026 | 21,552 | 24,652 | 49,096 | 23,721 | 29,353 | 48,401 | 47,038 |
| Public safety | 130,554 | 126,546 | 123,114 | 126,488 | 129,490 | 302,717 | 160,408 | 156,918 | 277,547 | 171,039 |
| Health and human services | 21,229 | 23,994 | 25,033 | 20,597 | 18,396 | 32,756 | 16,650 | 19,262 | 22,680 | 14,270 |
| Education | 421,160 | 425,765 | 432,824 | 435,526 | 451,582 | 548,011 | 424,350 | 480,201 | 792,154 | 527,848 |
| Public works | 41,457 | 33,387 | 37,435 | 39,584 | 40,387 | 57,769 | 47,280 | 41,955 | 66,303 | 56,693 |
| Culture and recreation | 16,475 | 20,018 | 17,528 | 21,535 | 21,756 | 35,211 | 27,461 | 26,351 | 31,747 | 28,858 |
| Community development | 4,942 | 6,118 | 7,926 | 4,399 | 1,820 | 4,256 | 4,063 | 6,562 | 7,028 | 5,975 |
| Interest on debt | 24,534 | 25,351 | 22,573 | 23,968 | 25,873 | 26,555 | 21,806 | 20,883 | 20,074 | 21,672 |
| Total governmental activities expenses | 683,767 | 682,041 | 687,459 | 693,649 | 713,956 | 1,056,371 | 725,739 | 781,485 | 1,265,934 | 873,393 |
| Business-type activities: | | | | | | | | | | |
| Water | 25,669 | 25,638 | 24,911 | 24,388 | 25,734 | 39,096 | 27,391 | 26,785 | 33,730 | 28,063 |
| Sewer | 31,134 | 32,742 | 33,737 | 35,284 | 37,991 | 45,563 | 39,972 | 42,018 | 48,533 | 47,932 |
| Airport | 5,082 | 5,047 | 1,417 | - | - | - | - | - | - | - |
| Golf course (nonmajor) | 1,148 | 1,122 | 1,238 | 1,246 | 1,293 | 1,713 | 1,429 | 1,386 | 1,452 | 1,392 |
| Total business-type expenses | 63,033 | 64,549 | 61,303 | 60,918 | 65,018 | 86,372 | 68,792 | 70,189 | 83,715 | 77,387 |
| Total primary government expenses | \$ 746,800 | 746,590 | 748,762 | 754,567 | 778,974 | 1,142,743 | 794,531 | 851,674 | 1,349,649 | 950,780 |
| Program Revenues | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Public safety | \$ 11,813 | 13,536 | 13,775 | 15,935 | 14,969 | 16,118 | 17,444 | 20,844 | 18,835 | 18,808 |
| Public works | 11,078 | 10,970 | 10,986 | 11,917 | 9,920 | 11,356 | 8,823 | 9,369 | 10,588 | 9,624 |
| Other activities | 7,383 | 8,443 | 9,738 | 8,823 | 8,752 | 8,770 | 8,623 | 8,579 | 8,709 | 7,523 |
| Operating grants and contributions | 345,103 | 348,563 | 368,157 | 363,538 | 365,227 | 374,157 | 342,932 | 363,557 | 387,555 | 393,634 |
| Capital grants and contributions | 23,187 | 28,084 | 32,916 | 10,691 | 23,252 | 15,562 | 24,528 | 29,007 | 34,946 | 24,198 |
| Total governmental activities program revenues | 398,564 | 409,596 | 435,572 | 410,904 | 422,120 | 425,963 | 402,350 | 431,356 | 460,633 | 453,787 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water | 24,993 | 24,102 | 25,946 | 27,002 | 26,838 | 28,243 | 28,360 | 29,278 | 30,250 | 29,588 |
| Sewer | 28,939 | 29,247 | 31,320 | 34,443 | 34,066 | 36,262 | 38,951 | 40,550 | 41,954 | 43,192 |
| Airport | 862 | 1,015 | 152 | - | - | - | - | - | - | - |
| Golf course (nonmajor) | 1,048 | 987 | 1,035 | 1,127 | 1,058 | 1,096 | 1,090 | 1,206 | 1,106 | 1,125 |
| Operating grants and contributions | 1,395 | 1,413 | 1,282 | - | 385 | - | - | - | - | - |
| Capital grants and contributions | 14,821 | 3,514 | 641 | 2,691 | 2,106 | 386 | - | 330 | 286 | 3,814 |
| Total business-type activities program revenues | 72,058 | 60,278 | 60,376 | 65,263 | 64,453 | 65,987 | 68,401 | 71,364 | 73,596 | 77,719 |
| Total primary government program revenues | \$ 470,622 | 469,874 | 495,948 | 476,167 | 486,573 | 491,950 | 470,751 | 502,720 | 534,229 | 531,506 |

(continued)

CITY OF WORCESTER, MASSACHUSETTS

Changes in Net Position (1)

(Accrual Basis of Accounting)

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 (2) | 2015 (3) | 2016 | 2017 (4) | 2018 |
|--|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net (expense)/revenue | | | | | | | | | | |
| Governmental activities | \$ (285,203) | (272,445) | (251,887) | (282,745) | (291,836) | (630,408) | (323,389) | (350,129) | (805,301) | (419,606) |
| Business-type activities | 9,025 | (4,271) | (927) | 4,345 | (565) | (20,385) | (391) | 1,175 | (10,119) | 332 |
| Total primary government net (expense)/ revenue | \$ (276,178) | (276,716) | (252,814) | (278,400) | (292,401) | (650,793) | (323,780) | (348,954) | (815,420) | (419,274) |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Property taxes | \$ 197,472 | 205,558 | 215,511 | 225,460 | 233,206 | 247,313 | 257,423 | 271,801 | 275,979 | 288,275 |
| Motor vehicle excise taxes | 11,393 | 11,050 | 11,519 | 11,866 | 12,720 | 13,075 | 14,305 | 15,554 | 16,281 | 15,702 |
| Intergovernmental | 48,493 | 37,476 | 36,220 | 36,298 | 36,039 | 36,974 | 37,844 | 39,096 | 40,732 | 42,286 |
| Other | 6,269 | 9,505 | 12,809 | 9,886 | 11,730 | 13,227 | 11,244 | 11,883 | 16,788 | 15,501 |
| Transfers (net) | 96 | (1,733) | 13,250 | 3,366 | 920 | 418 | (297) | (510) | 1,023 | 646 |
| Gain on sale of capital assets | 296 | - | - | - | 564 | - | - | - | - | - |
| Donations | 58 | 47 | 48 | 68 | 69 | 68 | 87 | 103 | 160 | 225 |
| Energy sales and rebates | - | - | - | - | - | - | - | - | - | 5,312 |
| Extraordinary item - transfer of airport debt | - | - | (3,055) | - | - | - | - | - | - | - |
| Total governmental activities | 264,077 | 261,903 | 286,302 | 286,944 | 295,248 | 311,075 | 320,606 | 337,927 | 350,963 | 367,947 |
| Business-type activities | | | | | | | | | | |
| Transfers (net) | (96) | 1,733 | (13,250) | (3,366) | (920) | (418) | 297 | 510 | (1,023) | (646) |
| Loss on airport disposal | - | - | (20,193) | - | - | - | - | - | - | - |
| Extraordinary item - transfer of airport debt to governmental activities | - | - | 3,055 | - | - | - | - | - | - | - |
| Total business-type activities | (96) | 1,733 | (30,388) | (3,366) | (920) | (418) | 297 | 510 | (1,023) | (646) |
| Total primary government | \$ 263,981 | 263,636 | 255,914 | 283,578 | 294,328 | 310,657 | 320,903 | 338,437 | 349,940 | 367,301 |
| Changes in Net Position | | | | | | | | | | |
| Governmental activities | \$ (21,126) | (10,542) | 34,415 | 4,199 | 3,412 | (319,333) | (2,783) | (12,202) | (454,338) | (51,659) |
| Business-type activities | 8,929 | (2,538) | (31,315) | 979 | (1,485) | (20,803) | (94) | 1,685 | (11,142) | (314) |
| Total primary government | \$ (12,197) | (13,080) | 3,100 | 5,178 | 1,927 | (340,136) | (2,877) | (10,517) | (465,480) | (51,973) |

(1) Net position terminology per GASB #63 is being utilized.

(2) Expenses in fiscal 2014 reflect the initial measurement of the net pension liability (and related) per GASB #68.

(3) OPEB expense was reallocated among departments in fiscal 2015.

MTRS in-kind pension expense decreased \$29,508 upon implementation of GASB #68.

(4) Expenses in fiscal 2017 reflect the initial measurement of the total OPEB liability (and related) per GASB #75.

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Governmental Activities - Tax Revenues by Source

Accrual Basis of Accounting

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| Fiscal Year | Property Tax | Motor Vehicle Excise Tax | Hotel/Motel Tax | Meals Tax | Sales Tax | In Lieu of Tax Payments (1) | Total |
|-------------|--------------|--------------------------|-----------------|-----------|-----------|-----------------------------|---------|
| 2009 | \$ 197,472 | 11,393 | 1,483 | 327 | 30 | - | 210,705 |
| 2010 | 205,558 | 11,050 | 1,422 | 1,431 | 31 | - | 219,492 |
| 2011 | 215,511 | 11,519 | 1,787 | 2,450 | 32 | - | 231,299 |
| 2012 | 225,460 | 11,866 | 1,939 | 2,568 | 32 | - | 241,865 |
| 2013 | 233,206 | 12,720 | 1,940 | 2,686 | 45 | - | 250,597 |
| 2014 | 247,313 | 13,075 | 2,005 | 2,816 | 48 | 966 | 266,223 |
| 2015 | 257,423 | 14,305 | 2,153 | 3,186 | 53 | 805 | 277,925 |
| 2016 | 271,801 | 15,554 | 2,322 | 3,466 | 27 | 875 | 294,045 |
| 2017 | 275,979 | 16,281 | 2,636 | 3,600 | 77 | 734 | 299,307 |
| 2018 | 288,275 | 15,702 | 2,837 | 3,988 | 25 | 775 | 311,602 |

(1) In lieu of tax payments are reported in this table starting in fiscal year 2014.

CITY OF WORCESTER, MASSACHUSETTS

Fund Balances of Governmental Funds

Modified Accrual Basis of Accounting

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| | 2009 | 2010 | 2011 (1) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------------|-----------|--------|----------|----------|----------|----------|----------|----------|----------|----------|
| General fund: | | | | | | | | | | |
| Reserved | \$ - | - | - | - | - | - | - | - | - | - |
| Unreserved | 6,107 | 12,029 | - | - | - | - | - | - | - | - |
| Restricted | - | - | 1,070 | 1,444 | 2,652 | 7,020 | 8,425 | 8,896 | 11,753 | 15,009 |
| Unassigned | - | - | 17,758 | 25,520 | 27,869 | 27,870 | 26,823 | 34,652 | 40,383 | 42,377 |
| Total general fund | \$ 6,107 | 12,029 | 18,828 | 26,964 | 30,521 | 34,890 | 35,248 | 43,548 | 52,136 | 57,386 |
| All other governmental funds: | | | | | | | | | | |
| Reserved | \$ 34,077 | 24,963 | - | - | - | - | - | - | - | - |
| Unreserved, reported in: | | | | | | | | | | |
| Special revenue funds | 17,974 | 18,098 | - | - | - | - | - | - | - | - |
| Capital projects funds | 8,215 | 4,752 | - | - | - | - | - | - | - | - |
| Permanent funds | 79 | 89 | - | - | - | - | - | - | - | - |
| Nonspendable | - | - | 14,215 | 13,918 | 15,579 | 11,961 | 12,935 | 13,062 | 15,686 | 15,626 |
| Restricted | - | - | 37,287 | 31,849 | 32,228 | 38,863 | 39,153 | 37,378 | 38,880 | 35,955 |
| Committed | - | - | 22,673 | 29,057 | 35,896 | 39,734 | 40,025 | 38,925 | 37,788 | 44,116 |
| Unassigned | - | - | (11,518) | (35,686) | (38,492) | (41,479) | (36,088) | (53,372) | (83,752) | (31,846) |
| Total all other governmental funds | \$ 60,345 | 47,902 | 62,657 | 39,138 | 45,211 | 49,079 | 56,025 | 35,993 | 8,602 | 63,851 |

(1) Fund balances were redefined by GASB Statement #54 starting in fiscal 2011.

CITY OF WORCESTER, MASSACHUSETTS

Changes in Fund Balances of Governmental Funds

Modified Accrual Basis of Accounting

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| REVENUES | | | | | | | | | | |
| Property taxes | \$ 197,777 | 204,832 | 216,370 | 225,501 | 233,327 | 246,742 | 256,652 | 271,977 | 276,746 | 289,195 |
| Motor vehicle excise taxes | 11,370 | 11,551 | 11,311 | 11,888 | 12,843 | 13,281 | 14,265 | 15,346 | 16,027 | 16,139 |
| Other taxes and in-lieu payments | 4,941 | 5,539 | 6,365 | 6,015 | 6,064 | 6,559 | 6,872 | 7,303 | 7,596 | 8,336 |
| Penalties and interest on taxes | 2,605 | 2,272 | 2,285 | 2,872 | 2,532 | 2,440 | 2,107 | 2,530 | 2,315 | 2,049 |
| Licenses and permits | 4,402 | 4,890 | 4,865 | 5,210 | 4,992 | 5,274 | 5,795 | 6,388 | 6,713 | 6,943 |
| Intergovernmental (1) | 411,424 | 423,208 | 445,106 | 417,838 | 425,047 | 434,696 | 380,721 | 392,272 | 407,424 | 396,952 |
| Charges for services | 21,055 | 22,847 | 23,539 | 24,988 | 24,106 | 24,123 | 24,137 | 28,418 | 25,746 | 26,097 |
| Fines and forfeitures | 3,137 | 3,190 | 2,806 | 2,845 | 2,594 | 3,151 | 3,097 | 2,584 | 2,406 | 2,501 |
| Investment earnings (losses) | (929) | 1,598 | 2,543 | (35) | 2,116 | 3,107 | 567 | 930 | 3,228 | 2,219 |
| Donations | 2,468 | 3,633 | 5,528 | 4,677 | 11,396 | 5,997 | 5,059 | 5,120 | 4,753 | 5,589 |
| Contributions to permanent funds | 58 | 47 | 48 | 68 | 69 | 69 | 87 | 103 | 160 | 225 |
| Energy sales and rebates | - | - | - | - | - | - | - | - | - | 5,312 |
| Miscellaneous | 1,246 | 1,621 | 89 | 1,723 | 1,452 | 1,845 | 2,259 | 1,733 | 4,197 | 3,608 |
| Total revenues | 659,554 | 685,228 | 720,855 | 703,590 | 726,538 | 747,284 | 701,618 | 734,704 | 757,311 | 765,165 |
| EXPENDITURES | | | | | | | | | | |
| General government | 16,644 | 15,308 | 15,936 | 28,650 | 31,911 | 25,559 | 24,574 | 39,609 | 53,943 | 31,560 |
| Public safety (2) | 92,323 | 89,308 | 90,395 | 94,006 | 93,314 | 96,604 | 97,773 | 114,414 | 109,885 | 109,581 |
| Health and human services | 18,172 | 21,118 | 22,499 | 17,788 | 15,547 | 14,872 | 13,619 | 15,810 | 18,355 | 12,160 |
| Education (3) | 285,359 | 297,701 | 302,392 | 299,134 | 296,957 | 316,669 | 313,239 | 337,664 | 351,885 | 357,957 |
| Public works | 39,126 | 39,087 | 53,773 | 55,072 | 61,137 | 53,607 | 61,059 | 62,248 | 49,887 | 44,103 |
| Culture and recreation | 16,753 | 20,952 | 17,402 | 16,758 | 26,590 | 35,534 | 22,027 | 19,826 | 19,364 | 29,924 |
| Fringe benefits (1) | 124,318 | 138,899 | 147,319 | 143,722 | 148,073 | 157,319 | 103,581 | 105,732 | 109,888 | 105,265 |
| Community development | 4,942 | 6,118 | 7,926 | 4,399 | 1,820 | 4,256 | 4,064 | 7,153 | 7,273 | 5,917 |
| State & regional charges | 26,102 | 26,865 | 28,255 | 29,526 | 31,243 | 30,627 | 30,659 | 31,166 | 31,102 | 31,704 |
| Debt service: | | | | | | | | | | |
| Principal | 34,761 | 36,637 | 38,813 | 36,747 | 36,746 | 37,922 | 54,979 | 46,974 | 45,917 | 45,743 |
| Interest | 26,098 | 24,827 | 24,023 | 26,890 | 27,269 | 27,964 | 23,825 | 23,583 | 22,677 | 24,196 |
| Total expenditures | 684,598 | 716,820 | 748,733 | 752,692 | 770,607 | 800,933 | 749,399 | 804,179 | 820,176 | 798,110 |
| Excess of revenues (under) expenditures | (25,044) | (31,592) | (27,878) | (49,102) | (44,069) | (53,649) | (47,781) | (69,475) | (62,865) | (32,945) |

(continued)

CITY OF WORCESTER, MASSACHUSETTS

Changes in Fund Balances of Governmental Funds

(Modified Accrual Basis of Accounting)

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------------|----------------|---------------|-----------------|---------------|---------------|---------------|-----------------|-----------------|---------------|
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | |
| Transfers in | \$ 23,452 | 21,954 | 51,549 | 27,305 | 27,117 | 25,473 | 33,917 | 41,360 | 22,520 | 28,485 |
| Transfers (out) | (23,356) | (23,686) | (38,299) | (23,832) | (26,197) | (25,055) | (34,215) | (41,870) | (21,497) | (27,839) |
| Premium on issuance of bonds and notes | 651 | 820 | 804 | 479 | 3,789 | 3,366 | 4,081 | 3,988 | 4,362 | 6,778 |
| Sale of capital assets | 325 | 29 | 478 | - | 840 | - | - | - | - | - |
| Premium from issuance of refunding bonds | - | - | - | - | 300 | - | 2,305 | 2,314 | 612 | 1,549 |
| Issuance of refunding bonds | 542 | - | - | 7,422 | 3,015 | - | 7,407 | 9,439 | 8,892 | 23,233 |
| Issuance of bonds and notes | - | 25,955 | 34,900 | 29,867 | 48,150 | 52,492 | 41,589 | 44,280 | 38,677 | 84,369 |
| Payment to refunded bond escrow agent | (535) | - | - | (7,521) | (3,315) | - | - | (9,439) | (9,504) | (24,781) |
| Capital lease | - | - | - | - | - | 5,609 | - | 7,671 | - | 1,650 |
| Total other financing sources (uses), net | <u>1,079</u> | <u>25,072</u> | <u>49,432</u> | <u>33,720</u> | <u>53,699</u> | <u>61,885</u> | <u>55,084</u> | <u>57,743</u> | <u>44,062</u> | <u>93,444</u> |
| Net change in fund balances | \$ <u>(23,965)</u> | <u>(6,520)</u> | <u>21,554</u> | <u>(15,382)</u> | <u>9,630</u> | <u>8,236</u> | <u>7,303</u> | <u>(11,732)</u> | <u>(18,803)</u> | <u>60,499</u> |
| Debt service as a percentage of noncapital expenditures | 9.3% | 9.3% | 9.2% | 9.2% | 9.1% | 9.1% | 11.4% | 10.1% | 9.6% | 9.6% |

(1) Starting in fiscal 2015, on behalf revenue and expense for MTRS contributions are not reported upon implementation of GASB # 68.

(2) Public safety in fiscal 2016 includes an adjustment to expenditures for radio equipment acquired under a capital lease in the amount of \$7,671.

(3) In fiscal year 2014 and 2018, expenditure includes acquisition of capital assets with a capital lease totaling \$5,609 and \$1,650, respectively.

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Governmental Funds Tax Revenues by Source

Modified Accrual Basis of Accounting

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| Fiscal Year | Property Tax | Motor Vehicle Excise Tax | Hotel/Motel Tax | Meals Tax | Sales Tax | In Lieu of Tax Payments (1) | Special Assessments (1) | Total |
|-------------|--------------|--------------------------|-----------------|-----------|-----------|-----------------------------|-------------------------|---------|
| 2009 | \$197,777 | 11,370 | 1,483 | 327 | 30 | - | - | 210,630 |
| 2010 | 204,832 | 11,550 | 1,422 | 1,431 | 31 | - | - | 219,266 |
| 2011 | 216,370 | 11,311 | 1,787 | 2,450 | 32 | - | - | 231,950 |
| 2012 | 225,501 | 11,888 | 1,939 | 2,568 | 32 | - | - | 241,928 |
| 2013 | 233,328 | 12,843 | 1,940 | 2,686 | 45 | - | - | 250,842 |
| 2014 | 246,742 | 13,281 | 2,005 | 2,816 | 48 | 966 | 724 | 266,582 |
| 2015 | 256,652 | 14,265 | 2,153 | 3,186 | 53 | 805 | 674 | 277,788 |
| 2016 | 271,977 | 15,346 | 2,322 | 3,466 | 27 | 875 | 613 | 294,626 |
| 2017 | 276,746 | 16,027 | 2,636 | 3,600 | 77 | 734 | 549 | 300,369 |
| 2018 | 289,195 | 16,139 | 2,837 | 3,988 | 25 | 775 | 711 | 313,670 |

(1) In lieu of tax payments and special assessments are reported in this table starting in fiscal year 2014.

CITY OF WORCESTER, MASSACHUSETTS

Graph 1

General Fund Expenditures
Modified Accrual Basis of Accounting
Year Ended June 30, 2018

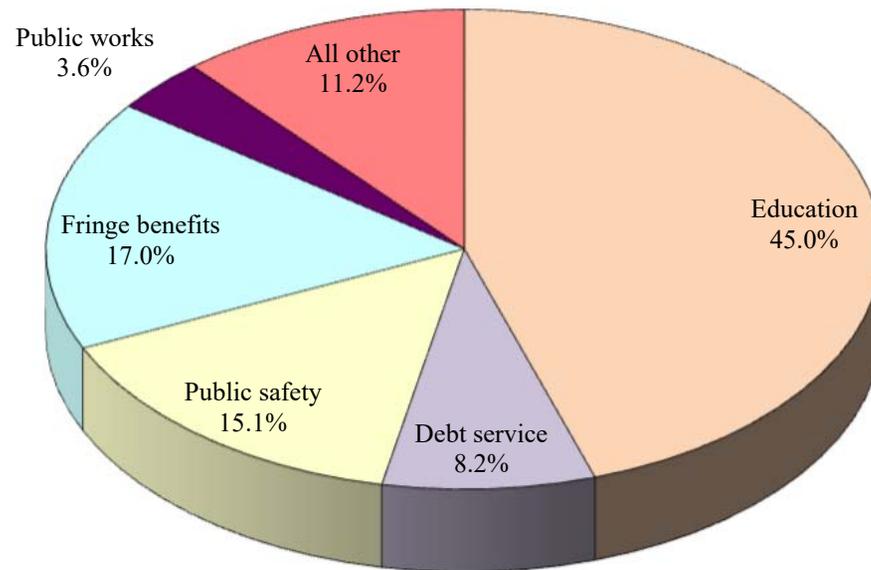


Table 7

CITY OF WORCESTER, MASSACHUSETTS

General Fund Expenditures

Modified Accrual Basis of Accounting

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|----------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| General government | \$ 13,981 | 12,749 | 13,730 | 14,598 | 15,570 | 16,809 | 17,930 | 18,396 | 19,374 | 22,634 |
| Public safety (1) | 79,656 | 76,689 | 74,931 | 77,812 | 80,413 | 82,546 | 83,930 | 95,321 | 93,297 | 93,491 |
| Health and human services (2) | 2,639 | 575 | 675 | 764 | 926 | 730 | 860 | 3,196 | 3,652 | 3,599 |
| Education (3) | 199,840 | 198,001 | 205,918 | 222,923 | 235,106 | 250,819 | 247,223 | 259,527 | 260,466 | 279,177 |
| Public works | 22,491 | 18,096 | 18,255 | 18,030 | 18,995 | 19,740 | 20,758 | 18,673 | 22,755 | 22,442 |
| Culture and recreation | 9,016 | 7,955 | 7,807 | 8,123 | 8,467 | 8,951 | 9,385 | 9,714 | 10,445 | 11,861 |
| Fringe benefits (4) | 124,318 | 138,899 | 147,319 | 143,722 | 148,073 | 157,319 | 103,581 | 105,732 | 109,888 | 105,265 |
| State and regional charges | 26,102 | 26,865 | 28,254 | 29,526 | 31,243 | 30,627 | 30,659 | 31,166 | 31,102 | 31,704 |
| Debt service | 45,523 | 46,853 | 47,095 | 47,067 | 47,510 | 48,996 | 52,677 | 52,672 | 50,749 | 50,968 |
| Totals | \$ <u>523,566</u> | <u>526,682</u> | <u>543,984</u> | <u>562,565</u> | <u>586,303</u> | <u>616,537</u> | <u>567,003</u> | <u>594,397</u> | <u>601,728</u> | <u>621,141</u> |

(1) Public safety in fiscal 2016 includes an adjustment to expenditures for radio equipment acquired under a capital lease in the amount of \$7,671.

(2) Starting in fiscal 2016, the Veteran's Department was moved from general government to health and human services.

(3) Education in fiscal 2018 includes an adjustment to expenditures for equipment acquired under a capital lease in the amount of \$1,650.

(4) Starting in fiscal 2015, on behalf expense for MTRS contributions are not reported upon implementation of GASB # 68.

General Fund Revenues
Modified Accrual Basis of Accounting
Year Ended June 30, 2018

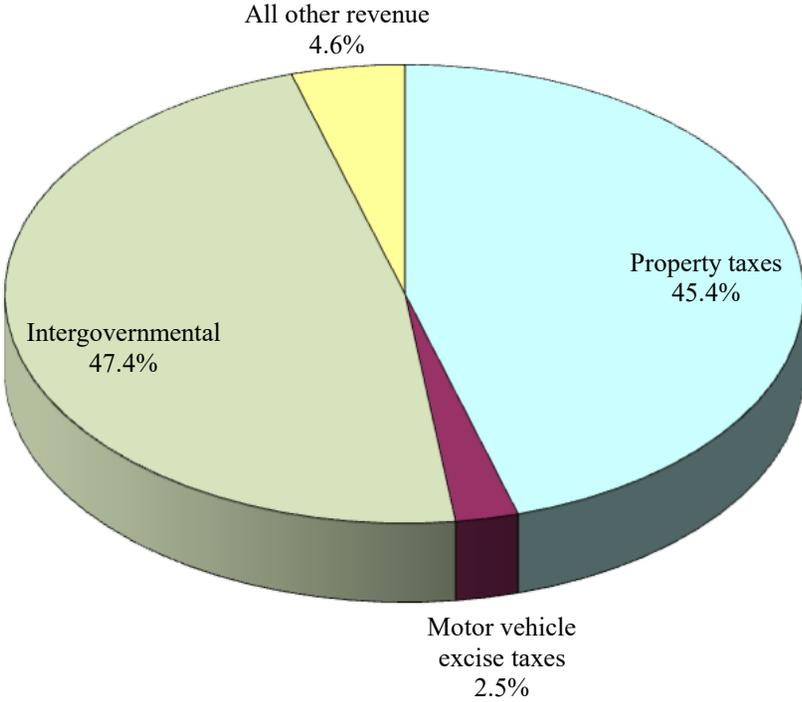


Table 8

CITY OF WORCESTER, MASSACHUSETTS

General Fund Revenues

Modified Accrual Basis of Accounting

Last Ten Fiscal Years

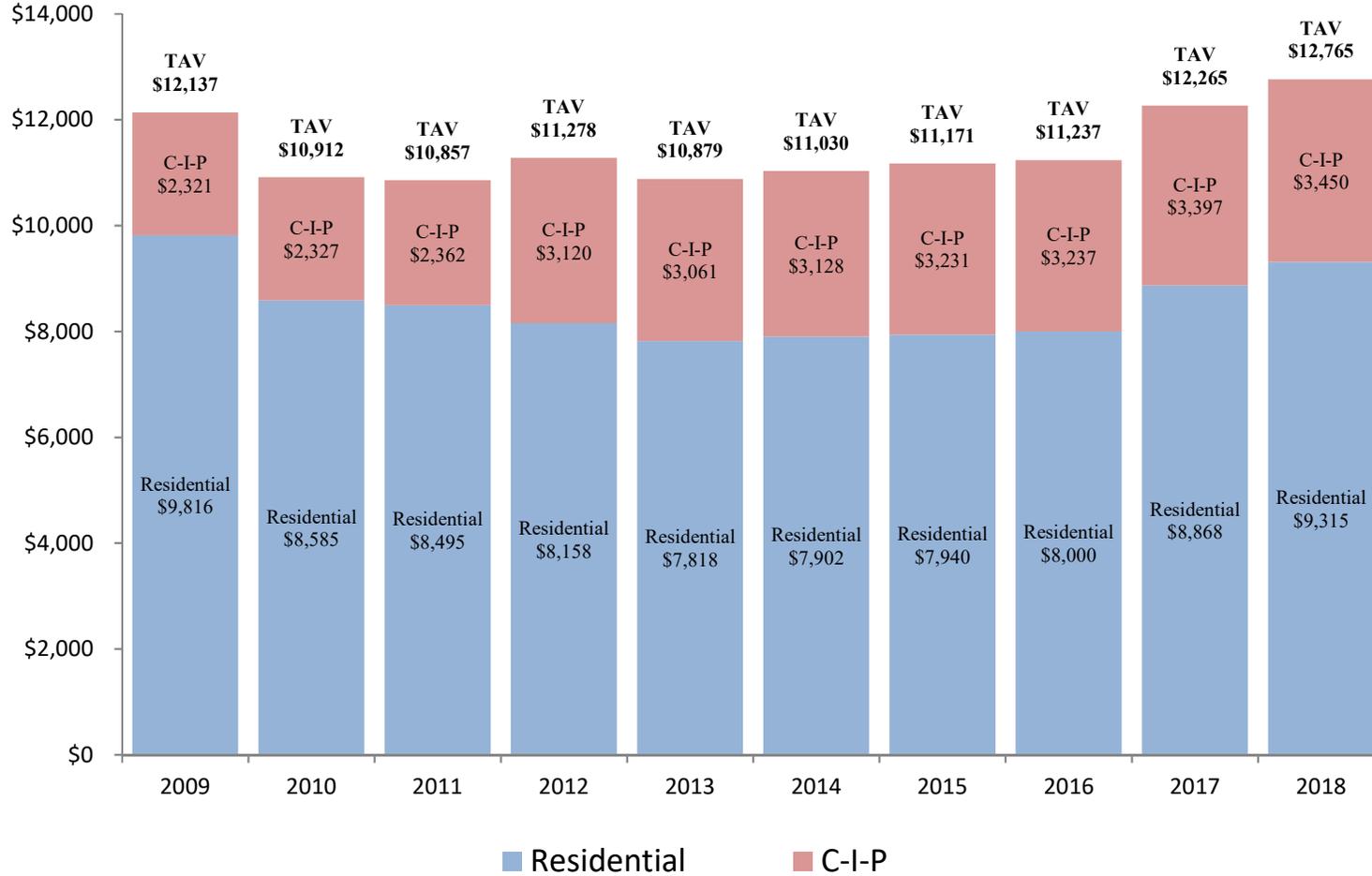
(amounts expressed in *thousands*)

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|----------------------------------|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Property taxes | \$ 197,777 | 204,832 | 216,370 | 225,501 | 233,328 | 246,742 | 256,652 | 271,977 | 276,746 | 289,195 |
| Motor vehicle excise taxes | 11,370 | 11,550 | 11,311 | 11,888 | 12,843 | 13,281 | 14,265 | 15,346 | 16,027 | 16,139 |
| Other taxes and in-lieu payments | 2,529 | 3,208 | 4,934 | 4,440 | 4,413 | 4,804 | 4,777 | 5,083 | 5,270 | 5,818 |
| Penalties and interest on taxes | 2,605 | 2,272 | 2,285 | 2,872 | 2,532 | 2,440 | 2,107 | 2,530 | 2,316 | 2,049 |
| Licenses and permits | 4,402 | 4,890 | 4,865 | 5,210 | 4,992 | 5,274 | 5,795 | 6,388 | 6,713 | 6,944 |
| Intergovernmental (1) | 295,327 | 303,512 | 306,267 | 321,719 | 332,726 | 342,950 | 278,742 | 291,662 | 297,397 | 301,850 |
| Charges for services | 5,918 | 5,909 | 5,939 | 5,814 | 5,746 | 5,683 | 5,566 | 5,800 | 5,866 | 5,932 |
| Fines and forfeitures | 3,137 | 3,190 | 2,806 | 2,845 | 2,594 | 3,151 | 3,097 | 2,584 | 2,406 | 2,501 |
| Investment earnings | 462 | 105 | 68 | 100 | 318 | 484 | 554 | 1,005 | 1,097 | 1,570 |
| Energy sales and rebates | - | - | - | - | - | - | - | - | - | 1,718 |
| Miscellaneous | 790 | 1,438 | 1,429 | 1,318 | 1,112 | 1,246 | 1,727 | 1,368 | 2,998 | 2,699 |
| Totals | \$ <u>524,317</u> | <u>540,906</u> | <u>556,274</u> | <u>581,707</u> | <u>600,604</u> | <u>626,055</u> | <u>573,282</u> | <u>603,743</u> | <u>616,836</u> | <u>636,415</u> |

(1) Starting in fiscal 2015, on behalf revenue for MTRS contributions are not reported upon implementation of GASB # 68.

Taxable Assessed Valuations (TAV)

Last Ten Fiscal Years
(amounts expressed in *millions*)



C-I-P = Commercial, Industrial, Pers. Prop.

CITY OF WORCESTER, MASSACHUSETTS

Assessed Value and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years

(Amounts expressed in *thousands*, except for total direct tax rate)

| Fiscal Year | Assessed value | | | | Total Direct tax Rate (1) | State Equalized Value | Ratio of Assessed to Equalized Value | Tax Exempt Real Property | Total Assessed Value | Ratio of Exempt property To total Assessed value |
|-------------|----------------------|------------------------------------|-------------------|------------------------------|---------------------------|-----------------------|--------------------------------------|--------------------------|----------------------|--|
| | Residential Property | Commercial and Industrial Property | Personal Property | Total Taxable Assessed Value | | | | | | |
| 2009 | \$ 9,816,042 | 1,933,249 | 387,967 | 12,137,258 | 16.41 | 13,827,180 | 87.78 | \$ 3,004,042 | 15,141,300 | 19.84% |
| 2010 | 8,585,028 | 1,916,902 | 410,012 | 10,911,942 | 19.02 | 11,928,304 | 78.92 | 2,996,065 | 13,908,007 | 21.54 |
| 2011 | 8,495,190 | 1,936,409 | 425,263 | 10,856,862 | 20.10 | 11,928,304 | 91.02 | 2,960,659 | 13,817,521 | 21.43 |
| 2012 | 8,157,509 | 2,527,779 | 592,328 | 11,277,616 | 20.32 | 12,173,645 | 92.64 | 4,460,004 | 15,737,620 | 28.34 |
| 2013 | 7,817,607 | 2,477,244 | 584,005 | 10,878,856 | 22.03 | 12,173,645 | 89.36 | 4,419,631 | 15,298,487 | 28.89 |
| 2014 | 7,902,180 | 2,535,314 | 592,517 | 11,030,011 | 22.74 | 11,615,944 | 94.96 | 4,920,225 | 15,950,236 | 30.85 |
| 2015 | 7,940,489 | 2,529,870 | 700,912 | 11,171,271 | 23.44 | 11,615,944 | 96.17 | 4,945,157 | 16,116,428 | 30.68 |
| 2016 | 8,000,021 | 2,483,143 | 753,717 | 11,236,881 | 24.46 | 12,237,662 | 91.82 | 4,948,796 | 16,185,677 | 30.58 |
| 2017 | 8,868,132 | 2,622,986 | 774,345 | 12,265,463 | 23.02 | 12,237,662 | 100.23 | 5,621,707 | 17,887,170 | 31.43 |
| 2018 | 9,314,530 | 2,682,894 | 767,225 | 12,764,649 | 23.00 | 13,309,480 | 95.91 | 5,691,420 | 18,456,069 | 30.84 |

(1) Per \$1,000 of assessed value

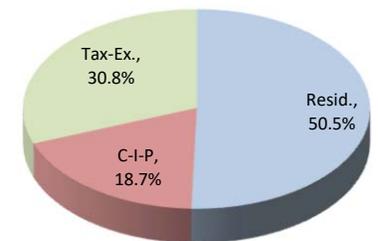


Table 10

CITY OF WORCESTER, MASSACHUSETTS

Direct Property Tax Rates (1) (2)

Last Ten Fiscal Years

| Fiscal Year | | Residential Real Property | Commercial and Industrial Real Property | Personal Property | Total Direct (3) |
|--------------------|----|----------------------------------|--|--------------------------|-------------------------|
| 2009 | \$ | 13.50 | 28.72 | 28.72 | 16.41 |
| 2010 | | 15.15 | 33.28 | 33.28 | 19.02 |
| 2011 | | 16.06 | 34.65 | 34.65 | 20.10 |
| 2012 | | 16.98 | 29.07 | 29.07 | 20.32 |
| 2013 | | 18.58 | 30.85 | 30.85 | 22.03 |
| 2014 | | 19.54 | 30.83 | 30.83 | 22.74 |
| 2015 | | 20.07 | 31.73 | 31.73 | 23.44 |
| 2016 | | 20.61 | 33.98 | 33.98 | 24.46 |
| 2017 | | 19.22 | 32.93 | 32.93 | 23.02 |
| 2018 | | 18.91 | 34.03 | 34.03 | 23.00 |

Source: Assessing Department

(1) Rates are applicable to each \$1,000 of assessed value.

(2) Per the initiatives of Proposition 2 1/2 adopted by the Commonwealth of Massachusetts, the City cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property (Levy Ceiling). The City's levy is also limited in that it cannot increase more than 2.5 percent from the prior year, with certain exceptions for new growth or through overrides and exclusions adopted by City voters.

(3) Calculated by dividing the net tax levy by total assessed value divided by 1,000.

Table 11

CITY OF WORCESTER, MASSACHUSETTS

Property Tax Levies and Collections

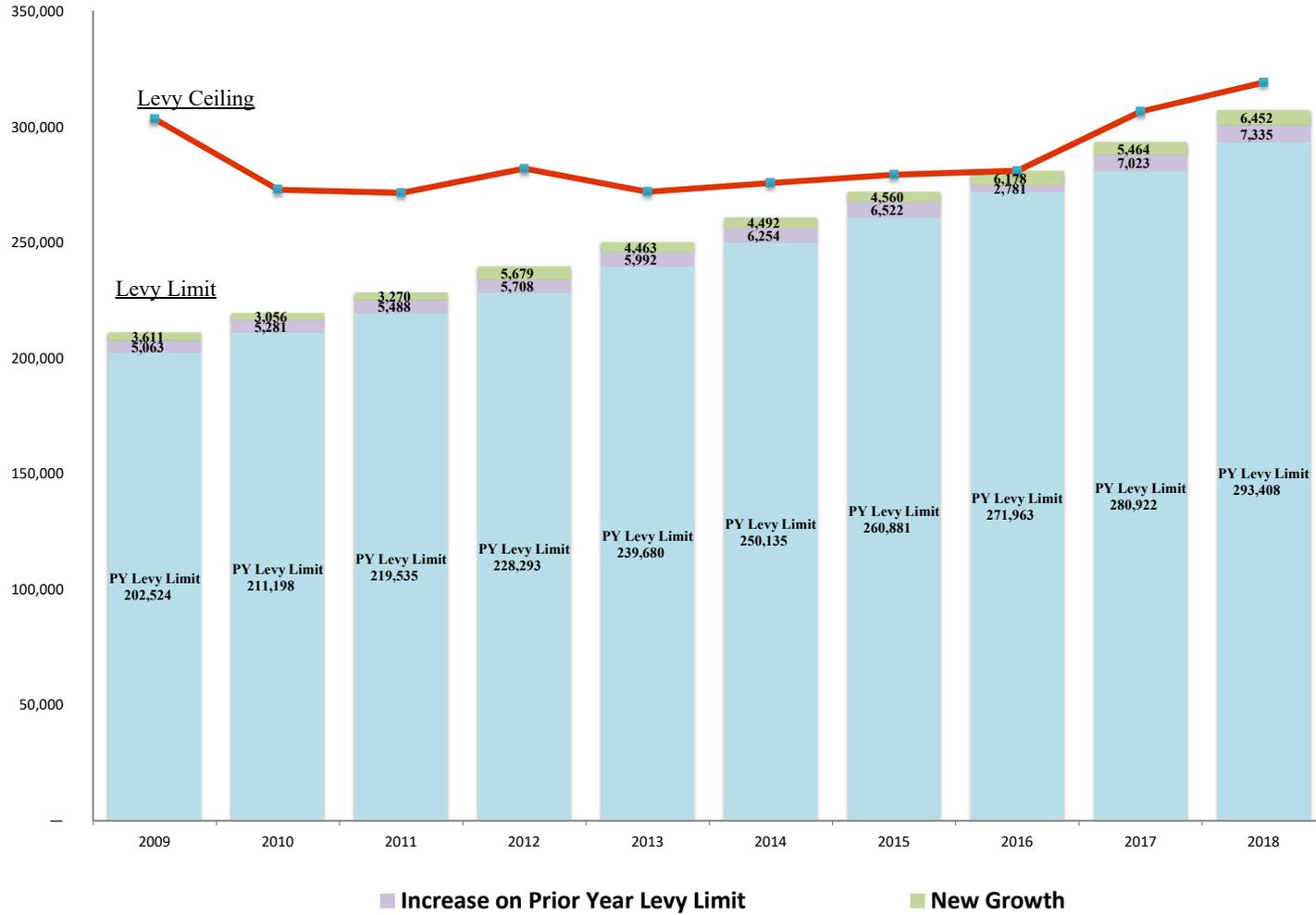
Last Ten Fiscal Years

(amounts expressed in *thousands*)

| Fiscal Year | Tax levy net of exemptions and abatements | Collected within the Fiscal year of the levy | | Net collections in subsequent years | Total collections to date | |
|----------------|---|---|-----------------------|---|---------------------------|-----------------------|
| | | Amount | Percentage of levy | | Amount | Percentage of levy |
| 2009 | \$ 196,863 | 191,590 | 97.32 % | \$ 5,273 | 196,863 | 100.00% |
| 2010 | 205,046 | 199,535 | 97.31 | 5,511 | 205,046 | 100.00 |
| 2011 | 215,790 | 210,277 | 97.45 | 5,260 | 215,537 | 99.88 |
| 2012 | 223,247 | 220,352 | 98.70 | 2,028 | 222,380 | 99.61 |
| 2013 | 236,254 | 230,540 | 97.58 | 3,865 | 234,405 | 99.22 |
| 2014 | 247,022 | 241,606 | 97.81 | 3,636 | 245,242 | 99.28 |
| 2015 | 256,871 | 252,256 | 98.20 | 4,548 | 256,804 | 99.97 |
| 2016 | 272,367 | 267,287 | 98.13 | 3,803 | 271,090 | 99.53 |
| 2017 | 279,510 | 273,712 | 97.93 | 3,925 | 277,637 | 99.33 |
| 2018 | 290,283 | 284,772 | 98.10 | - | 284,772 | 98.10 |

Increase in the Levy Limit

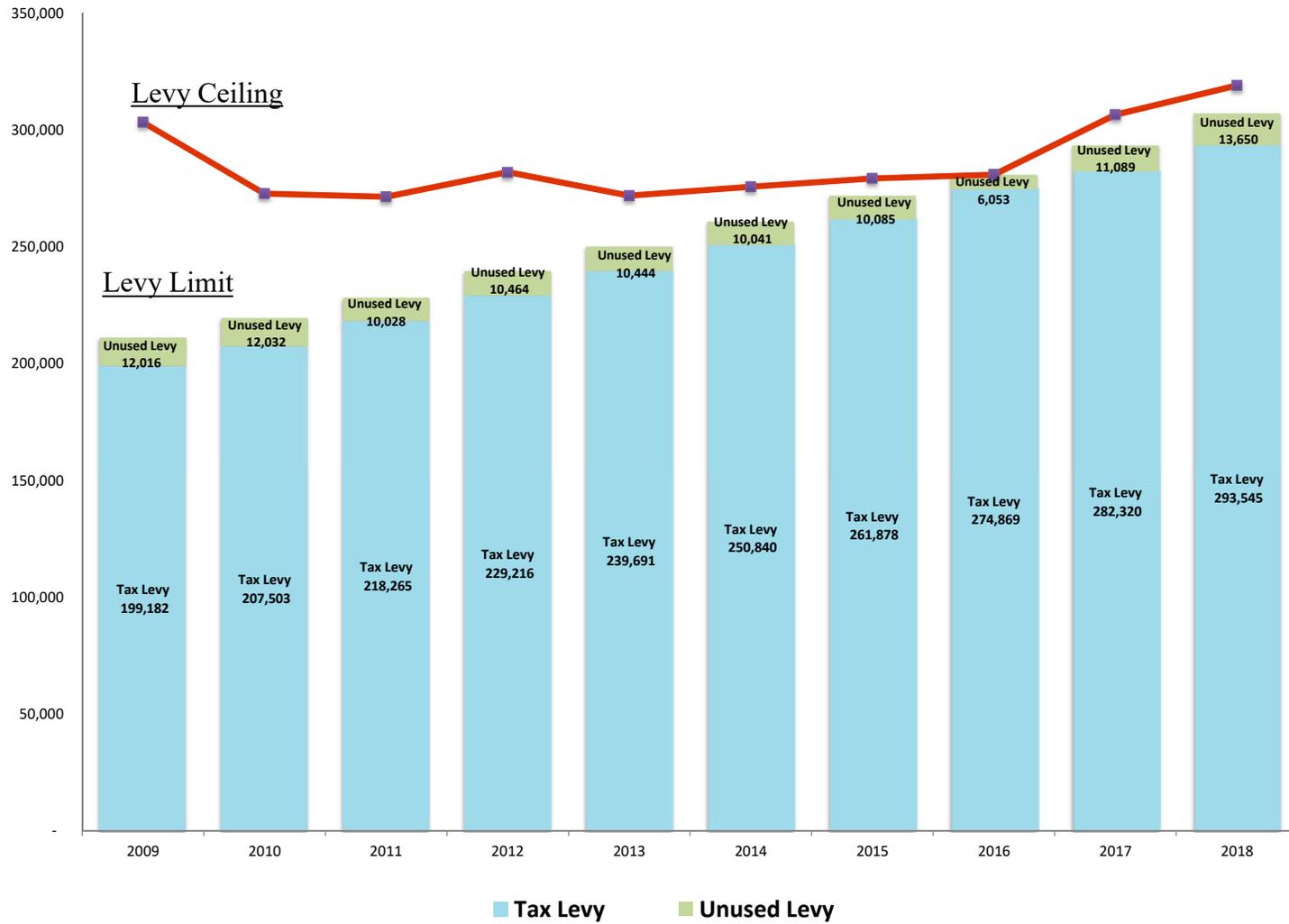
Last Ten Fiscal Years
(amounts expressed in thousands)



Proposition 2 ½ places constraints on the amount of the tax levy raised by the city. First, the city cannot levy more than 2.5 percent of the taxable assessed value (levy ceiling). Second, the city is also constrained by how much the levy can be increased from year to year (levy limit). The levy limit is limited to 2 ½ percent of the prior year levy limit plus new growth, certain exclusions and voter overrides and may not exceed the levy ceiling.

Tax Levy and Unused Levy Capacity

Last Ten Fiscal Years
(amounts expressed in *thousands*)



The amount of the levy limit above the actual tax levy is the unused levy capacity.

CITY OF WORCESTER, MASSACHUSETTS

Principal Taxpayers - Current Year and Nine Years Ago

June 30, 2018

(amounts expressed in *thousands*)

| Taxpayer | Type of business | 2018 | | | | 2009 | | | |
|--|--------------------|---------------------|------|----------------------|------------------------|--------------------|------|----------------------|------------------------|
| | | Assessed valuation | Rank | Fiscal 2018 tax bill | Percentage of tax levy | Assessed valuation | Rank | Fiscal 2009 tax bill | Percentage of tax levy |
| Massachusetts Electric Co. | Electric utility | \$ 408,336 | 1 | \$ 13,896 | 4.7 % | \$ 140,142 | 1 | \$ 4,024 | 2.0 % |
| NSTAR Gas Co. | Gas utility | 182,941 | 2 | 6,225 | 2.1 | 54,486 | 4 | 1,564 | 0.8 |
| VHS Acquisition Subsidiary (St Vincent Hospital) | Medical care | 146,514 | 3 | 4,986 | 1.7 | 42,989 | 8 | 1,235 | 0.6 |
| V3B SA LLC (Lincoln Plaza) | Shopping plaza | 64,281 | 4 | 2,187 | 0.7 | 52,952 | 5 | 1,521 | 0.8 |
| Worcester TC LLC (Abbvie) | Biotechnology park | 59,839 | 5 | 2,036 | 0.7 | 42,479 | 9 | 1,220 | 0.6 |
| Hanover Insurance Group | Insurance | 58,708 | 6 | 1,998 | 0.7 | 50,347 | 6 | 1,446 | 0.7 |
| RK Worcester Crossing LLC | Real Estate | 42,679 | 7 | 1,452 | 0.5 | N/A | N/A | N/A | N/A |
| Front Street Associates LLC | Real Estate | 42,403 | 8 | 1,443 | 0.5 | N/A | N/A | N/A | N/A |
| Verizon New England | Communications | 40,403 | 9 | 1,375 | 0.5 | 74,698 | 2 | 2,145 | 1.1 |
| S-BNK Worcester Main LLC | Real Estate | 30,687 | 10 | 1,044 | 0.4 | N/A | N/A | N/A | N/A |
| Worcester Renaissance LLC (CitySquare) | Real Estate | N/A | N/A | N/A | N/A | 40,268 | 10 | 1,156 | 0.6 |
| Greendale Mall (Mayflower Greendale LLP) | Shopping mall | N/A | N/A | N/A | N/A | 44,337 | 7 | 1,273 | 0.6 |
| Alexandria Real Estate Equities | Biotechnology park | N/A | N/A | N/A | N/A | 63,729 | 3 | 1,830 | 0.9 |
| Totals | | <u>\$ 1,076,791</u> | | <u>\$ 36,642</u> | <u>12.5 %</u> | <u>\$ 606,427</u> | | <u>\$ 17,414</u> | <u>8.7 %</u> |

N/A - not ranked in top ten during fiscal year

Source: Assessor's department

CITY OF WORCESTER, MASSACHUSETTS

Ratio of Outstanding Debt by Type

Last Ten Fiscal Years

(amounts expressed in *thousands* , except per capita)

| Fiscal Year | Governmental activities | | | Business-type activities | | Total Primary Government | Percentage of Personal Income (2) | Per Capita (3) |
|----------------|------------------------------------|------------------------|-------------------|------------------------------------|---------------|--------------------------------|---|-------------------|
| | General Obligation Bonds (1) | Section 108 Note | Capital Leases | General Obligation Bonds (1) | Sewer Note | | | |
| 2009 | \$ 476,965 | 4,706 | - | 124,627 | 863 | 607,161 | 15.19 % | \$ 3,726 |
| 2010 | 466,464 | 4,608 | - | 126,375 | 819 | 598,266 | 13.65 | 3,305 |
| 2011 | 465,688 | 4,505 | - | 125,346 | 774 | 596,313 | 13.62 | 3,313 |
| 2012 | 458,847 | 4,396 | - | 123,850 | 1,693 | 588,786 | 13.29 | 3,262 |
| 2013 | 472,522 | 4,283 | - | 135,543 | 1,645 | 613,993 | 13.83 | 3,383 |
| 2014 | 489,322 | 4,164 | 5,048 | 137,315 | 1,480 | 637,329 | 14.40 | 3,504 |
| 2015 | 490,070 | 2,216 | 3,987 | 140,743 | 1,950 | 638,966 | 14.32 | 3,501 |
| 2016 | 491,428 | 2,085 | 10,564 | 139,861 | 2,882 | 646,820 | 14.36 | 3,527 |
| 2017 | 484,176 | 1,947 | 9,198 | 145,222 | 5,309 | 645,852 | 14.34 | 3,522 |
| 2018 | 527,038 | 1,802 | 8,846 | 148,520 | 5,038 | 691,244 | 14.68 | 3,723 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

- (1) Amounts include related premiums
- (2) Source: Massachusetts Department of Revenue
- (3) Population data based on U.S. Census Bureau: American Community Survey estimates (see table 16)

CITY OF WORCESTER, MASSACHUSETTS

Ratio of General Bonded Debt Outstanding

Last Ten Fiscal Years

(amounts expressed in *thousands*, except per capita)

| Fiscal year | General Obligation Bonds (1) | Percentage of Assessed Value (2) | Total Per capita (3) |
|--------------------|---|---|---------------------------------|
| 2009 | \$ 601,592 | 4.96 % | \$ 3,692 |
| 2010 | 592,839 | 5.43 | 3,275 |
| 2011 | 591,034 | 5.44 | 3,284 |
| 2012 | 582,697 | 5.17 | 3,228 |
| 2013 | 608,065 | 5.59 | 3,351 |
| 2014 | 626,637 | 5.68 | 3,445 |
| 2015 | 630,813 | 5.65 | 3,456 |
| 2016 | 631,289 | 5.62 | 3,442 |
| 2017 | 629,398 | 5.13 | 3,427 |
| 2018 | 675,558 | 5.29 | 3,638 |

Note: Details regarding the City's outstanding debt can be found in the notes to financial statements.

- (1) Amounts include related premiums
- (2) See Table of Assessed Value and Estimated Value of Taxable Property
- (3) Population data based on U.S. Census Bureau: American Community Survey estimates (see table 16)

Table 15

CITY OF WORCESTER, MASSACHUSETTS

Legal Debt Margin

Last Ten Fiscal Years

(amounts expressed in *thousands*)

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Debt Limit | \$ 691,359 | 691,359 | 596,415 | 596,415 | 608,682 | 608,682 | 580,797 | 609,829 | 611,883 | 665,474 |
| Total net debt applicable to limit * | <u>280,473</u> | <u>263,915</u> | <u>342,654</u> | <u>320,926</u> | <u>340,605</u> | <u>447,418</u> | <u>430,622</u> | <u>473,826</u> | <u>417,579</u> | <u>461,646</u> |
| Legal debt margin | \$ <u>410,886</u> | <u>427,444</u> | <u>253,761</u> | <u>275,489</u> | <u>268,077</u> | <u>161,264</u> | <u>150,175</u> | <u>136,003</u> | <u>194,304</u> | <u>203,828</u> |
| Total net debt applicable to the limit as a percentage of debt limit | 40.57% | 38.17% | 57.45% | 53.81% | 55.96% | 73.51% | 74.14% | 77.70% | 68.24% | 69.37% |

Legal Debt Margin Calculation for Fiscal Year 2018

| | | |
|--|---------------|-------------------|
| Equalized valuation - real estate and personal property (January 1, 2018) | \$ 13,309,480 | |
| Debt limit - 5% of equalized valuation | | 665,474 |
| Total bonded debt (including authorized and unissued of \$765,810) | \$ 1,416,771 | |
| Less bonded debt not included in computation of legal debt margin as defined by Massachusetts statutes | | (434,478) |
| Less bonded debt authorized but not yet issued which is outside the debt limit | | <u>(520,647)</u> |
| Legal debt margin | | <u>\$ 203,828</u> |

* The City may authorize certain debt prescribed by statute and referred to as inside debt up to 5% of the equalized valuation.

Table 16

CITY OF WORCESTER, MASSACHUSETTS

Demographic and Economic Statistics

Last Ten Fiscal Years

| Fiscal Year | Population | Per Capita Income | Personal Income (amounts expressed in thousands) (6) | Median Age | Public School Enrollment (9) | City's Unemployment Rate (10) |
|-------------|-------------|-------------------|--|------------|------------------------------|-------------------------------|
| 2009 | 162,953 (3) | \$ 24,535 (5) | 3,998,052 | 35.2 (8) | 23,126 | 10.2 % |
| 2010 | 181,045 (1) | 24,213 (4) | 4,383,643 | 33.4 (1) | 23,281 | 10.2 |
| 2011 | 179,994 (2) | 24,326 (4) | 4,378,534 | 34.1 (7) | 23,490 | 9.4 |
| 2012 | 180,519 (2) | 24,544 (4) | 4,430,658 | 34.3 (7) | 24,360 | 8.8 |
| 2013 | 181,473 (2) | 24,470 (4) | 4,440,644 | 34.0 (7) | 24,740 | 9.1 |
| 2014 | 181,901 (2) | 24,330 (4) | 4,425,651 | 33.6 (7) | 24,562 | 7.6 |
| 2015 | 182,511 (2) | 24,447 (4) | 4,461,846 | 33.5 (7) | 25,254 | 6.5 |
| 2016 | 183,382 (2) | 24,555 (4) | 4,502,945 | 33.8 (7) | 25,076 | 5.0 |
| 2017 | 183,677 (2) | 25,224 (4) | 4,633,069 | 34.0 (7) | 25,479 | 5.0 |
| 2018 | 185,685 (3) | 25,354 (5) | 4,707,857 | 34.2 (8) | 25,306 | 4.9 |

(1) Source: U.S. Census Bureau: 2010 census

(2) Source: U.S. Census Bureau: American Community Survey (ACS) *demographic and housing 5 yr estimates*(3) Source: U.S. Census Bureau: American Community Survey (ACS) *demographic and housing 1 yr estimate*(4) Source: ACS *per capita income in past 12 months 5 yr estimates*(5) Source: ACS *per capita income in past 12 months 1 yr estimate*

(6) (Population x per capita income / 1000)

(7) Source: ACS *median age 5 yr estimates*(8) Source: ACS *median age 1 yr estimates*

(9) Source: Massachusetts Department of Elementary and Secondary Education

(10) Source: Massachusetts Department of Labor and Workforce Development

Table 17

CITY OF WORCESTER, MASSACHUSETTS

Full Time Employees

Last Ten Fiscal Years

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| General government | 175 | 176 | 167 | 175 | 181 | 194 | 189 | 195 | 193 | 197 |
| Public safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Officers | 438 | 415 | 409 | 418 | 426 | 441 | 427 | 441 | 461 | 447 |
| Civilians | 49 | 49 | 49 | 49 | 49 | 51 | 52 | 50 | 51 | 50 |
| Fire | | | | | | | | | | |
| Officers | 384 | 385 | 399 | 413 | 393 | 407 | 386 | 391 | 404 | 403 |
| Civilians | 9 | 8 | 8 | 10 | 9 | 10 | 10 | 10 | 10 | 10 |
| Other public safety | 116 | 110 | 105 | 110 | 112 | 114 | 111 | 113 | 111 | 103 |
| Health and human services | 56 | 53 | 54 | 55 | 56 | 57 | 53 | 63 | 67 | 62 |
| Education | 3,433 | 3,446 | 3,478 | 3,456 | 3,499 | 3,552 | 3,565 | 3,637 | 3,667 | 3,727 |
| Public works | 189 | 174 | 163 | 158 | 168 | 171 | 172 | 169 | 173 | 172 |
| Culture and recreation | 129 | 125 | 117 | 115 | 122 | 130 | 135 | 134 | 141 | 140 |
| Water | 111 | 109 | 102 | 100 | 107 | 109 | 111 | 102 | 104 | 108 |
| Sewer | 58 | 59 | 52 | 50 | 51 | 53 | 51 | 47 | 52 | 52 |
| Airport | 16 | 17 | 20 | — | — | — | — | — | — | — |
| Golf course (nonmajor) | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Totals | <u>5,165</u> | <u>5,128</u> | <u>5,125</u> | <u>5,111</u> | <u>5,175</u> | <u>5,291</u> | <u>5,264</u> | <u>5,354</u> | <u>5,436</u> | <u>5,473</u> |

Source: Payroll database as of June 30th of each respective fiscal year

Table 18

CITY OF WORCESTER, MASSACHUSETTS

Principal Employers

Current year and nine years ago

| Employer | Type of business | 2018 | | | 2009 | | |
|-----------------------------------|---------------------------|-----------|------|-------------------------------------|-----------|------|-------------------------------------|
| | | Employees | Rank | Percentage of total City Employment | Employees | Rank | Percentage of total City Employment |
| UMass Memorial Health Care, Inc. | Healthcare | 13,745 | 1 | 13.22% | 14,738 | 1 | 19.10 % |
| City of Worcester | Government and education | 5,473 | 2 | 5.26 | 5,165 | 3 | 6.69 |
| Umass Medical School | Education | 4,172 | 3 | 4.01 | 5,607 | 2 | 7.27 |
| Reliant Medical Group | Healthcare | 2,680 | 4 | 2.58 | N/A | N/A | N/A |
| Saint Vincent Hospital | Healthcare | 2,450 | 5 | 2.36 | 2,210 | 4 | 2.86 |
| The Hanover Insurance Group, Inc. | Insurance | 1,800 | 6 | 1.73 | 1,951 | 6 | 2.53 |
| Saint Gobain Abrasives, Inc. | Abrasives manufacturer | 1,652 | 7 | 1.59 | 2,162 | 5 | 2.80 |
| Seven Hills Foundation, Inc. | Health and human services | 1,445 | 8 | 1.39 | N/A | N/A | N/A |
| Worcester Polytechnic School | Education | 1,283 | 9 | 1.23 | N/A | N/A | N/A |
| Community Healthlink | Health and human services | 1,200 | 10 | 1.15 | N/A | N/A | N/A |
| Quinsigamond Community College | Education | N/A | N/A | N/A | 890 | 10 | 1.15 |
| Fallon Health, Inc. | Healthcare | N/A | N/A | N/A | 1,820 | 7 | 2.36 |
| Clark University | Education | N/A | N/A | N/A | 1,496 | 8 | 1.94 |
| Polar Beverages | Bottling company | N/A | N/A | N/A | 1,452 | 9 | 1.88 |

Sources: 2018 - Worcester Business Journal - 2017 survey
 2009 - Worcester Area Chamber of Commerce

Table 19

CITY OF WORCESTER, MASSACHUSETTS

Operating Indicators by Function

Last Ten Fiscal/Calendar Years

| Function | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------|-----------|--------|--------|--------|--------|--------|--------|--------|------|
| Police (1) | | | | | | | | | | |
| Total arrests | 8,658 | 7,584 | 7,174 | 6,785 | 7,385 | 8,124 | 6,254 | 5,964 | 6,084 | N/A |
| Different individuals arrested | 6,584 | 5,837 | 5,591 | 5,204 | 5,627 | 5,935 | 4,847 | 4,439 | 4,438 | N/A |
| Arrests for selected charges | | | | | | | | | | |
| Drug-related | 2,582 | 844 (2) | 705 | 719 | 850 | 762 | 655 | 769 | 799 | N/A |
| Assault and battery | 704 | 1,465 (2) | 1,409 | 1,309 | 1,327 | 1,266 | 952 | 863 | 814 | N/A |
| Disorderly conduct, disturbing peace | 1,210 | 1,222 | 1,054 | 920 | 916 | 888 | 672 | 626 | 590 | N/A |
| Prostitution and related | 223 | 133 | 156 | 121 | 181 | 160 | 86 | 150 | 51 | N/A |
| Sexual assault, including rape | 39 | 38 | 20 | 28 | 28 | 23 | 22 | 32 | 25 | N/A |
| Armed robbery | 43 | 59 | 70 | 47 | 64 | 48 | 38 | 39 | 45 | N/A |
| Murder/manslaughter, attempted murder | 12 | 10 | 15 | 15 | 7 | 11 | 3 | 4 | 3 | N/A |
| Fire (1) (source: WFD) | | | | | | | | | | |
| Total Incidents | 29,002 | 27,605 | 27,782 | 28,348 | 28,333 | 30,099 | 31,933 | 33,373 | 33,162 | N/A |
| Selected incidents | | | | | | | | | | |
| EMS | 18,167 | 20,285 | 19,654 | 20,472 | 20,307 | 21,707 | 22,779 | 24,408 | 24,117 | N/A |
| Structure fires | 828 | 732 | 728 | 845 | 779 | 799 | 828 | 829 | 855 | N/A |
| Arson fires | 37 | 25 | 30 | 43 | 29 | 18 | 19 | 19 | 16 | N/A |
| Vehicle fires | 120 | 96 | 123 | 102 | 82 | 78 | 91 | 94 | 71 | N/A |
| Good intent | 1,665 | 1,571 | 1,621 | 1,819 | 2,137 | 2,127 | 2,165 | 1,959 | 2,190 | N/A |
| False alarm | 3,849 | 2,926 | 3,177 | 2,871 | 3,017 | 3,070 | 3,214 | 3,287 | 3,148 | N/A |
| Highways and streets (source: DPW) | | | | | | | | | | |
| Streets and resurfacing (1) | 14 | 11 | 11 | 16 | 21 | 12 | 12 | 19 | 19 | N/A |
| Potholes repaired | 12,030 | 14,932 | 12,954 | 9,392 | 9,264 | 12,320 | 18,095 | 27,706 | 12,154 | N/A |
| Sanitation | | | | | | | | | | |
| Refuse collected (tons/day) | 88.65 | 82.30 | 81.83 | 81.71 | 79.30 | 79.22 | 80.97 | 83.93 | 83.37 | N/A |
| Recyclable collected (tons/day) | 33.97 | 34.71 | 36.1 | 35.42 | 36.4 | 37.13 | 37.91 | 39.58 | 39.26 | N/A |
| Water | | | | | | | | | | |
| New connections | 188 | 48 | 95 | 104 | 97 | 98 | 109 | 103 | 121 | N/A |
| Water main breaks | 72 | 52 | 74 | 29 | 55 | 42 | 80 | 48 | 42 | N/A |
| Average daily consumption (thousands of gallons) | 22,264 | 21,225 | 22,099 | 22,539 | 22,110 | 21,700 | 22,682 | 22,945 | 21,707 | N/A |
| Wastewater | | | | | | | | | | |
| Average daily sewage treatment (thousands of gallons) | 34,600 | 31,160 | 26,550 | 33,000 | 25,200 | 22,300 | 25,060 | 25,145 | 25,145 | N/A |

Source: Various government departments. Police statistics from FBI data as reported by WPD.

(1) Based on a calendar year rather than a fiscal year.

(2) During 2010 the arrest categories were redefined, and no distinction was made between aggravated assault and simple assault, pursuant to Massachusetts General Law. Prior to 2010 only aggravated assault is shown.

N/A - data is not available

Table 20

CITY OF WORCESTER, MASSACHUSETTS

Capital Asset Statistics by Function

Last Ten Fiscal Years

| Function | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Public safety | | | | | | | | | | |
| Police stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Fire stations | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Education: | | | | | | | | | | |
| Schools | 46 | 45 | 46 | 46 | 46 | 46 | 46 | 46 | 46 | 46 |
| Libraries | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Public works | | | | | | | | | | |
| Streets: | | | | | | | | | | |
| Streets (miles) | 423 | 424 | 425 | 430 | 431 | 431 | 435 | 435 | 436 | 436 |
| Sidewalks (miles) | 487 | 487 | 489 | 488 | 488 | 487 | 487 | 488 | 488 | 488 |
| Streetlights | 13,321 | 13,759 | 13,759 | 13,759 | 13,759 | 13,763 | 13,783 | 13,783 | 13,783 | 13,579 |
| Water: | | | | | | | | | | |
| Main pipes (miles) | 584 | 585 | 586 | 585 | 585 | 597 | 597 | 625 | 625 | 631 |
| Fire hydrants | 5,680 | 5,726 | 5,748 | 5,762 | 5,770 | 5,805 | 5,827 | 5,864 | 5,864 | 5,880 |
| Reservoirs | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Reservoir gallons of capacity (in thousands) | 7,379,938 | 7,379,938 | 7,379,938 | 7,379,938 | 7,379,938 | 7,379,938 | 7,379,938 | 7,379,938 | 7,379,938 | 7,379,938 |
| Sewers: | | | | | | | | | | |
| Sanitary sewers (miles) | 396 | 396 | 397 | 397 | 398 | 398 | 398 | 399 | 399 | 399 |
| Combined sewers (miles) | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 | 61 |
| Surface sewers (miles) | 370 | 371 | 371 | 371 | 372 | 371 | 371 | 372 | 372 | 372 |
| Municipal parking garages: | | | | | | | | | | |
| Capacity - cars | | | | | | | | | | |
| Pearl Elm | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 819 | 819 | 819 |
| Federal Plaza | 511 | 511 | 511 | 511 | 511 | 511 | 511 | 511 | 511 | 511 |
| Major Taylor Boulevard | 981 | 981 | 981 | 981 | 981 | 981 | 984 | 983 | 983 | 983 |
| Union Station (1) | N/A | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| Worcester Common (1) | N/A | 500 | 500 |
| Culture and recreation | | | | | | | | | | |
| Parks | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 61 |
| Parks and playground acreage | 1,316 | 1,316 | 1,328 | 1,328 | 1,328 | 1,328 | 1,326 | 1,326 | 1,326 | 1,327 |
| Municipal cemeteries | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Lakes | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| DCU Center | | | | | | | | | | |
| Seating capacities | | | | | | | | | | |
| Center stage | 14,639 | 14,639 | 14,639 | 14,800 | 14,606 | 14,596 | 14,595 | 14,595 | 14,595 | 14,595 |
| End stage | 14,751 | 14,751 | 14,751 | 14,751 | 14,587 | 14,587 | 14,581 | 14,581 | 14,524 | 14,524 |
| Basketball | 13,500 | 13,500 | 13,500 | 13,500 | 13,342 | 13,342 | 13,347 | 13,347 | 13,270 | 13,270 |
| Hockey with open curtain | 12,239 | 12,239 | 12,239 | 12,239 | 12,118 | 12,118 | 12,118 | 12,118 | 12,108 | 12,108 |
| Hockey with closed curtain | 6,880 | 7,230 | 7,230 | 7,230 | 7,304 | 7,304 | 7,304 | 7,304 | 5,436 | 5,436 |
| Ice show | 12,297 | 12,297 | 12,297 | 12,297 | 12,198 | 12,198 | 12,198 | 12,198 | 12,194 | 12,194 |

Source: Various government departments

(1) N/A is being reported because the Union Station and Worcester Common garages did not open until 2010 and 2017, respectively.

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Accounts Payable – Accounts payable include warrants payable for invoices and payroll, reserve for prior year encumbrances, and payroll withholdings outstanding at year-end. Accounts payable are reflected as current liabilities on the Basic Financial Statements.

Accrual Basis of Accounting – Under the accrual basis of accounting, revenues are recognized when earned and expected to be realized rather than when received or currently available. Expenses are recognized in the period they are incurred rather than when paid. The matching of expenses incurred in the same period as when revenues are earned provides a consistent measurement of the change in the net position that is not influenced solely by the timing of cash inflows or outflows (Exhibit 2 of CAFR). The measurement focus is based on economic resources which have a longer view than the current resources measurement used in the Governmental Funds Financial Statements. Consequently assets, liabilities and deferred inflows/outflows of resources are reported on the Statement of Net Position (Exhibit 1) that is not reported on the Governmental Funds Balance Sheet (Exhibit 3).

Accrued Liabilities – Accrued liabilities represent expenses incurred but not paid at year end. The adjustment of the liability and corresponding expense is a step in the accrual basis of accounting to match the expense incurred to the period being reported. The liability and expense adjustments are made to the Government-Wide Financial statements in Exhibit 1 and Exhibit 2, respectively. The accrued liabilities included in the City’s financial statement include accrued interest on debt and estimated health insurance claims incurred during the year but reported and processed after year-end.

Basic Financial Statements – The Basic Financial Statements is a series of financial statements, required by GASB, grouped as Government-Wide Financial Statements (CAFR Exhibit 1 and 2) and Fund Financial Statements (Exhibits 3 through 11) and the related footnotes (CAFR pp 46 - 126). Each statement uses a prescribed basis of accounting and measurement focus.

Budgetary Basis of Accounting – The General Fund in the City’s accounting system is accounted for using the Budgetary Basis of accounting which is essentially a modified cash basis for revenue and encumbrance system for expenses, the purpose of which is to match the expenditure with the budget period as required by state law. Revenue is reported as collected with accruals for some reimbursable state and federal funds. Expenses are matched against the budget year through warrant payables and a reserve for encumbrances. The report on the General Fund using the Budgetary Basis, a required supplementary report by GASB, is reported in the CAFR on pages 128 through 135.

Capital Assets – Capital assets are included on the Statement of Net Position in the Government-Wide Financial Statements (Exhibit 1). These are assets that provide an economic resource over a longer term, generally with a life of over two years and a cost of \$50,000 or more. Capital assets include both depreciable assets (building construction and improvements, infrastructure, equipment, trucks) and non-depreciable assets (land, construction-in-progress). These assets are generally acquired with debt and sometimes with local, state and federal funds. Assets are depreciated over their class useful life as shown in footnote 1 on page 54, “accounting policies”. Details of changes in capital assets for the year by class are reported in footnote 11 beginning on page 96.

Certificate of Achievement for Excellence in Financial Reporting - The CAFR is submitted to the GFOA for review before December 31st, unless on extension. The GFOA will issue a certificate of achievement if reporting criteria are met. The certificate for the prior year CAFR is included in the

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current year CAFR and can be found on page 8. The certificate adds to the reliability of the financial statements when used by third parties.

Comprehensive Annual Financial Report (CAFR) – The CAFR includes the Basic Financial Statements and other Required Supplementary Information and components as prescribed by GASB 34. Also included is additional information prescribed by the GFOA including supplementary statements and schedules, a section containing statistical data, a transmittal letter, and a copy of the GFOA certificate from the prior-year. The report is provided to third parties and available to the public on the City’s website.

Current Financial Resources Measurement Focus – The Governmental Funds Financial Statements (Exhibits 3 and 5) included in the Basic Financial Statements uses the current financial resources measurement focus where the reporting focuses on short-term inflows and outflows of available resources. The information may be useful in evaluating the government’s near-term financial requirements. A modified accrual basis of accounting is used in the measurement of resources. For example, the collection of property taxes 60 days after year-end are realized as available resources and included in revenue and reported as an asset on the Balance Sheet as accounts receivable. The treatment of bond proceeds in the Capital Projects Fund is such that they are considered revenue and reported in the other financial sources section because they are current inflow of resources. The related capital outlays and principal debt payments are expenditures as they are considered near-term outflows of resources.

Deferred Inflows of Resources - In addition to liabilities, the statement of net position and/or balance sheet 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 primary government has three types of items that qualify for reporting in this category. Deferred inflows related to pensions and OPEB are reported in the government-wide and proprietary funds financial statements in accordance with GASB Statement No. 68. The instances of deferred inflows related to pensions and OPEB related to actuarial gains such as gains on experience that are ratably recognized, usually averaging five years. The primary government also has deferred inflows which arise under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources; school construction reimbursement; property taxes, and other unavailable revenue. These amounts are deferred and will be recognized in the future because they are considered not currently available for recognition under the current financial resources measurement focus.

Deferred Outflows of Resources – A relatively new reporting term prescribed by GASB Statement No. 63. In addition to assets, the Government-Wide Statement of Net Position (Exhibit 1) and the Governmental Funds Balance Sheet (Exhibit 3) 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. For example, the City has deferred outflows related to pensions and OPEB which are reported in the government-wide and proprietary funds financial statements. This includes deferring the recognition of losses from changes of actuarial assumptions and investment earnings falling short of the expected return. Both are the result of the annual actuarial valuation which are capitalized and recognized ratably over an extended period of time; five years for

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deferred investment gains and losses and approximately five years for changes in the actuarial assumptions.

Deficit Balance – A deficit balance is the accumulation over time of expenses exceeding revenues that result in liabilities exceeding assets. A deficit in the Statement of Net Position (Exhibit 1) is when the net of Assets plus Deferred Outflows less Liabilities less Deferred Inflows is negative. In the Governmental Funds Financial Statements (Exhibit 3) it is not unusual for capital project fund types to have a negative fund balance because temporary loans in the form of bond anticipation notes (BAN) are not considered resources (i.e. revenue) until the bonds are issued in the subsequent year but as liabilities. A deficit in the Statement of Net Position (Exhibit 1) indicates that the measurement of revenue and expenses over time was in deficit. This usually occurs when there are liabilities for which there is not a corresponding asset, such as the liabilities related pensions and OPEB or the balance in the pension obligation bonds. In these cases expenses have been previously recognized but not provided for with revenue and a future obligation is recognized thereby creating a deficit net position. In analyzing a deficit balance it is important to understand the source and the impact the future obligation will have on short term resources. In the case of the pension liability, continued shortfalls in investment income or increase in benefits through low mortality rate coupled with a statutory deadline to fund unfunded liabilities may put pressure on future budgets. In the case of OPEB, increasing inflation costs in the health industry through advancement in health service coupled with low mortality rates could drive up the pay-as-you-go amounts and put pressure on future budgets.

District Improvement Financing (DIF) – Geographic zones in a municipality identified for redevelopment usually with public and private investments where new revenue streams identified from the redevelopment, most often in the form of tax increment financing agreements, are designated to finance the debt incurred by the municipality for its cost related to the redevelopment.

Economic Resources Measurement Focus – The Government-Wide set of financial statements as required by GASB, is measured on economic resources where the investment in capital is considered a resource in addition to the current resources such as labor and supplies. This includes general long-term capital debt-liabilities resulting from capital asset acquisitions that have long-term economic benefit. Other examples include long-term receivables that are reported as resources such as the long-term receivable from the MSBA which has been recognized as income when it was realized and is part of the net position. Conversely, future uses of resources in the form unfunded pension and OPEB liabilities for past service costs are recognized as liabilities and have a negative effect on the net position when using this measurement focus.

Equalized Valuation (EQV) – Equalized valuation is the determination of an estimate of the full and fair cash value of all property in the Commonwealth as of a certain taxable date. EQVs have historically been used as a variable in distributing some state aid accounts and for determining county assessments and other costs. The Commissioner of Revenue, in accordance with MGL Ch. 58 §10C, is charged with the responsibility of biannually determining an equalized valuation for each city and town in the Commonwealth.

Fiduciary Net Position / Fiduciary Accounts – Fiduciary Funds Financial Statements are required by GASB 34 in the Basic Financial Statements. Fiduciary funds are used to account for assets held in trust by the government for the benefit of individuals or other entities. The pension trust fund, created to

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provide retirement benefits for its employees, is one of two fiduciary funds being reported. The other fiduciary fund being reported are agency funds for the funds derived from student activity accounts. Fiduciary funds are not included in government-wide statements because they are not activities of the government. However, a liability owed by the government for its share of the pension liability to the trust fund is reported in the Government-Wide Financial Statements. The Fiduciary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Except for the agency fund, revenues are recorded when earned and expenses are recognized when incurred. Agency funds do not present the results of operations or have a measurement focus.

Fiscal Year – An entity’s financial performance is generally measured over a twelve month period or fiscal year. The City’s fiscal year begins July 1 and ends on June 30th. The financial statements reflect the results of operations over this twelve month period and report the assets and liabilities as of June 30th based on the accounting method and measurement focus used except the fiduciary funds financial statement of the Worcester Retirement System which is reported on a calendar year.

Free Cash – Free Cash is the amount of undesignated fund balance of the City’s General Fund, on a budgetary basis, that the Commonwealth of Massachusetts allows to be appropriated in the following fiscal year. The General Fund includes both the undesignated balance and the reserves for the Bond Rating Stabilization and Emergency Stabilization Funds. The year-end balance of the total fund is reflected on page 135 of the CAFR. The undesignated amount is adjusted by the Commonwealth before it is certified as Free Cash for appropriation. Adjustments include grant receivables received after September 30th, the reserve for abatements and exemptions (i.e. overlay), and unreconciled tax receivables. Free cash also includes the retained earnings in the Water, Sewer and Golf funds that are also available for appropriation for those enterprise funds. Amounts not appropriated remain in the accounts (e.g. undesignated fund balance, retained earnings) and become part of the following year’s Free Cash calculation.

Fund Balance – Fund balance is the term used in fund accounting to describe the unexpended balance remaining of a particular fund at a point in time. Fund accounting is the accounting system to track resources and their uses that are restricted by law or donors, such as granting agencies. Each fund is a self-balancing set of accounts with assets, liabilities, revenues and expenses. Assets less liabilities results in the fund balance. The statement of revenues and expenses reflects the change in the fund balance for the period. The fund balance may be available in future periods or may need to be returned to the source as in the case of used grant funds that have expired. GASB 54 requires that fund balances reported on the Government Funds Balance Sheet (Exhibit 3 of the CAFR) be classified as Nonspendable, Restricted, Committed, Assigned, or Unassigned.

Nonspendable — represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund). Generally the principal balance and any limitations on the income balance of the trusts are classified as nonspendable.

Restricted — represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. Most of the fund balances in the Special Revenue Fund for grants and revolving accounts are restricted funds. The positive fund balances for Capital Project Funds are also classified as

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restricted. In the General Fund, the OPEB account is currently not considered a trust fund because there is not an irrevocable trust established. Consequently the balance in OPEB account is considered a General Fund restricted fund balance.

Committed — represents amounts that can be used only for specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing City Council is the highest level of decision-making authority for the City that can, by adoption of an order prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the order remains in place until a similar action is taken (the adoption of another order) to remove or revise the limitation. The fund balances of the Receipts Reserved for Appropriation in the Special Revenue Fund and the fund balances in the Debt Service Fund are classified as committed.

Assigned — represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. The governing City Council has the authority to assign fund balance (by adoption of an order) as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated 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. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. Currently no fund accounts are classified as assigned.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund. In the General Fund the reserves for the Bond Rating Stabilization and Emergency Funds are included as unassigned as the amounts are not restricted to a specific purpose.

Fund Financial Statements - Under GASB 34 this is the second series of statements known as the Basic Financial Statements that focus on information about the government’s major governmental and enterprise funds. It also includes statements about the government’s fiduciary funds. It includes Governmental Funds, Proprietary Funds and Fiduciary Funds as shown in CAFR Exhibits 3 through 11.

General Fund – From the *Uniform Massachusetts Accounting System* manual: the General Fund is the largest and single most important fund of a local government. Most of a local government’s revenue resources are accounted for in it and substantially all of the day-to-day departmental operating expenditures are financed and accounted for in it. The General Fund should be used to account for and report all financial resources not accounted for and reported in another fund. Generally, all funds received by a governmental entity belong to the General Fund under G.L. c. 44, § 53, unless otherwise directed by Massachusetts General Laws or by Special Acts of the Massachusetts Legislature. The General Fund is considered an unrestricted operating fund. Grants must be separated as well as funds received in which the entity is acting as a trustee or agent. It is improper for a governmental entity to reserve General Fund monies in any other fund without proper authority granted by legislation or by the Director of Accounts. The principal revenue resources of the General Fund include real estate and personal property taxes (assessments for districts), motor vehicle and other excises, departmental receipts and state aid. With the exception of the portion of the annual budget which is funded through Enterprise and certain Special Revenue Funds, substantially all of the annual budget and recurring departmental expenditures are accounted for in the General Fund. The General Fund will also have transactions or transfers with other funds. The City has a target of maintaining a General Fund balance reserve that is 10.00% of budgeted revenue, except in response to a severe crisis, economic or otherwise.

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General obligation bonds – Debt backed by the full faith and credit pledge of the City and all of its available resources to repay holders of the bonds.

Current issue – bond proceeds are used to finance projects in the capital project fund.

Current Refunding – bond proceeds from current refunding bonds are used to refinance outstanding bonds subject to call by retiring the refunded bonds with the proceeds from the newly issued refunding bonds which has a lower interest rate.

Advanced Refunding – bonds proceeds from advance refunding bond sales are held in trust and make scheduled debt service payments on the refunded debt. The newly issued refunding bonds have a lower interest rate than the refunded bonds called.

Government Finance Officers Association (GFOA) - An association of government finance professionals. The GFOA provides publications, continuing education and the latest information on best practices. It also reviews and certifies the CAFR as meeting criteria for excellent reporting.

Government-Wide Financial Statements – This is the first series of financial statements in the Basic Financial Statements (CAFR Exhibits 1 and 2). The basis of accounting is the accrual basis and the measurement focus is the economic resources measurement focus. Governmental activities are reported separately from business-type activities (water, sewer, golf) and component units (WRA and UBWPAD).

Governmental Fund Financial Statements – This set of statements (CAFR's Exhibit 3 and 5) are required by GASB 34 and part of the Fund Financial Statements of the Basic Financial Statements. The governmental fund types include General Fund, Special Revenue Fund, Capital Projects Fund, Debt Service Fund, and Permanent Fund. Activities are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Those funds that meet the criteria of a major fund are reported in separate columns and nonmajor funds are aggregated into one column. The 29 nonmajor funds that are shown aggregated on Exhibits 3 and 5 are reflected in detail by fund type in the "Combining Statements" shown in Exhibits A-1 and A-2 starting on page 152. Separate accounting divisions are maintained within the Special Revenue, Capital Projects, Permanent Fund types whose names and descriptions are listed on page 148-150.

Governmental Accounting Standards Board (GASB) - An independent, private-sector organization that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP). Some of the terms used in the CAFR are from the flowing GASB statements.

GASB Statement No. 11 – Issued in 1990, *established measurement focus and basis of accounting.*

GASB Statement No. 34 – Issued in 1999, *established a new reporting model for basic financial statements and required components* issued in the following order: Management's Discussion and Analysis (MD&A); Government-Wide Financial Statements; Fund Financial Statements; Notes to Financial Statements; and Required Supplementary Information (RSI).

GASB Statement No. 54 – Issued in 2009 *clarified fund type definitions and provides clearer fund balance classifications.*

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GASB Statement No. 63 – Issued in 2011 established the guidance for reporting *deferred outflows of resources, deferred inflows of resources, and net position* in a statement of financial position.

GASB Statement No. 68. – Effective for years beginning after June 15, 2014 established new accounting and financial reporting standards for pensions.

GASB Statement No. 75. – Effective for years beginning after June 15, 2017 established new accounting and financial reporting standards for postemployment benefits other than pensions (OPEB), replacing previously issued statement No. 45 that was effective for years after June 15, 1999.

Independent Auditor’s Report – This is an opinion from an independent Certified Public Accountant that the Basic Financial Statements are fairly presented in all materially respects in accordance with Generally Accepted Accounting Principles. An unqualified opinion adds to the reliability of the financial statements when used by third parties.

Internal Service Fund (ISF) – This type of fund is used to report an activity that provides goods or services to other departments of the government. The City’s self-funded health insurance program is an ISF designed to provide quality cost-effective benefits to eligible recipients in the City’s departments. Under GASB 34, the ISF is reported in a separate column on the proprietary funds statement (CAFR Exhibits 7 through 9). The assets and net position of the ISF is included on the government-wide financial statements (Exhibit 1) and any doubling effect for the fact the expenses are also included in the government funds financial statements is eliminated when reporting expenses on Exhibit 2.

Major Fund – GASB 34 requires separate reporting of major funds in the Governmental Funds Financial Statements and Proprietary Funds Financial Statements. Nonmajor funds are consolidated but details are reported in supplementary statements and schedules. The General Fund is always considered a major fund. Other funds are classified as major funds upon passing two thresholds of the size of its total assets, liabilities, revenues or expenditures/expenses. In some cases where a fund meets the criteria of a major fund one year but not the next it will still be reported as a major fund for consistency purposes or until it is decided that its activities have diminished to nonmajor status for the foreseeable future. Any other fund may be reported as a major fund if the government’s officials believe that fund is particularly important to financial statement users.

Measurement Focus - What is expressed in reporting an entity's financial performance and position. A particular measurement focus is accomplished by considering which resources are measured (e.g. capital assets, debt) and when the effects of transactions and events involving those resources are recognized (e.g. depreciation, amortization of debt service).

Modified Accrual Basis of Accounting – The Governmental Funds Financial Statements (Exhibits 3 through 5) of the Basic Financial Statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. The focus is on short-term inflows and outflows of available resources. The City’s accounting system uses a Budgetary Basis of Accounting. Adjustments are made to revenues for certain accruals where they are considered measurable and available. Property taxes and motor vehicle excise taxes collected within 60 days of year end are considered measurable and available and are therefore accrued at year end. Changes to the allowance for

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doubtful accounts also affect revenue as they are considered not available. Other revenue, such as prepaid taxes, not considered available is recorded as deferred outflows of resources.

Net Position / Total Net Position – It is the residual amount of assets plus deferred outflows of resources less liabilities and deferred inflows resources reported on the Government-Wide Financial Statements (e.g. Exhibit 1) using the economic resources measurement focus. It is similar to equity in private sector reporting. It was previously reported as net assets (i.e. assets less liabilities) and now changed to net position under GASB 63 to account for the effect of deferred resources. Net position is further displayed in three components; net investment in capital assets; restricted net position and unrestricted net position. Over time increases or decreases in net position may serve as a useful indicator of the financial health of the City.

Net Investment in Capital Assets - This is the net position related to amounts spent on capital assets. The basic calculation is the gross investment in capital assets net of accumulated depreciation less outstanding debt attributable to the acquisition of the assets, excluding unspent short-term debt.

Restricted Net Position – The residual amounts of assets less liabilities that are restricted by outside parties for a specific future use such as grants and trusts. The Restricted Net Position cannot have a negative balance.

Unrestricted Net Position - It is the amount of Net Position not reported as Investment in Capital Assets or Restricted Net Position. A negative amount or deficit balance reflects liabilities and deferred inflows of resources that exceed the assets and deferred outflows of resources. A growing deficit balance may indicate a deterioration of financial health which may affect the budget process at some point when short-term outflows outpace or exceed short-term inflows requiring cuts in other areas.

OPEB – Other Postemployment Benefits (OPEB) are the other benefits besides pension payments that a retiree and spouse are entitled to receive at the start of retirement and continue usually until death. The City offers health insurance coverage until death and also a \$5,000 life insurance policy up until age 70. The City's contribution to the health premium cost is 75% and the life insurance is 50%. If a retiree enrolled in health insurance is eligible for Medicare then must enroll. The City offers several Medicare supplementary plans and is responsible for any Medicare Part B penalty assessed by the federal government on the individual. Currently the city is funding OPEB on a pay-as-you-go basis and making additional contributions to a designated OPEB account.

OPEB – the total OPEB liability – GASB 75 requires that the present value of the future benefits of retirees, spouses and active employees be determined on an actuarial basis called the Actuarial Accrued Liability. The total OPEB liability is recognized on the employer's accrual basis financial statements for plans that are not administered through an irrevocable trust.

OPEB – the net OPEB liability – For plans administered through an irrevocable trust, the total OPEB liability is offset by the net position of the plan's fiduciary net position.

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Payroll Warrants - Amounts owed to employees for a payroll period that have been reviewed, approved for payment and entered on a disbursement warrant but that have not yet been disbursed. The warrant is disbursed on the scheduled pay date. The payroll warrant payable at year-end includes the pay period ending at year-end and for teachers it includes the amount remaining for the school year. Teachers are paid over a twelve month cycle for the school year and the amounts paid in July and August that relate to the prior school year are included in payroll warrants payable. Payroll warrants payable at year-end are grouped with accounts payable.

Permanent Fund - Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

Prior Year Encumbrances – The City uses an encumbrance system to control the budget for the General and Enterprise Funds. Commitments in the form of purchase orders are approved and charged to the budget prior to the order of supplies or services. At year-end, open purchase orders are reserved and expensed thereby matching it with the budget. Prior year encumbrances are grouped with accounts payable on the Basic Financial Statements.

Required Supplementary Information – The statement of reporting as required by GASB includes Required Supplementary Information (RSI) in addition to the Basic Financial Statements. This includes the Management, Discussion and Analysis, a report on the General Fund under the legal level of control of the budgetary basis, certain prescribed schedules related to pension liability and expense, and schedules related to OPEB.

Tax Increment Finance (TIF) – An agreement between the municipality and property owner through tax exemptions for a period not to exceed 30 years in exchange for development and jobs creation or retention. Tax exemptions are provided on the incremental increase in property value. At the end of the TIF term the municipality will realize the benefit of increased tax revenue.

Total Assessed Valuation (TAV) - The full and fair cash value of taxable real and personal property in the community are included on the annual property tax assessment roll prepared by the city assessor which includes all taxable real and personal property, its ownership, fair market value, and usage classification as of January 1 in order to assess taxes. Assessors must classify each real estate parcel as residential, open space, commercial or industrial as of January 1, based on definitions found in the tax classification law.

Tax Levy - The property tax levy is the revenue a community raises through real and personal property taxes each fiscal year when it sets its tax rate. The property tax levy is usually the largest source of revenue cities and towns have to fund their annual budgets. The levy limit is the maximum dollar amount a city or town can levy in a given fiscal year. It defines the maximum amount of property tax revenue a community will ordinarily have to support its annual budget and is the primary limitation established by Proposition 2½. The levy ceiling is the maximum amount the levy limit may be in a given fiscal year. It is a constraint on the size of the annual levy limit and is a secondary limitation established by Proposition 2½. The property tax levy cannot exceed the levy limit for the fiscal year which is the prior year levy plus a 2 ½ percent increase plus new growth. The levy limit cannot exceed the levy ceiling for the fiscal year which is 2 ½ percent of the total assessed valuation.

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Uniform Massachusetts Accounting System (UMAS) – Massachusetts General Laws (G.L.) c. 44, § 38 requires the Director of Accounts in the Department of Revenue to *prescribe uniform accounting systems for local governmental entities*. A three tier account classification system is used including Fund, Account Type and Subcategory.

Warrants Payable - Amounts owed for goods and services received that have been reviewed, approved for payment and entered on a disbursement warrant but that have not yet been disbursed.