

CITY OF WORCESTER

Massachusetts



Ice Skating at the Worcester Common Oval

**Comprehensive Annual Financial Report
For the Year Ended June 30, 2017**



CITY OF WORCESTER, MASSACHUSETTS

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

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, 2017

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INTRODUCTORY SECTION



CITY OF WORCESTER, MASSACHUSETTS
AUDITING DEPARTMENT

Robert V. Stearns, CPA
City Auditor

December 19, 2017

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, 2017 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, 2017 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, 2017. 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 40% 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 184,000 according to 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 116 through 123 as part of required supplementary information.

Local economy

Worcester has nearly 6,700 establishments in multiple industries of construction, manufacturing, transportation, utilities, trade and retail, information, financial, professional, education, health, hospitality and government. Employment is over 103,000 with health and higher 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 12,906 while St. Vincent Hospital employs 2,350. The school district and the City of Worcester also have a significant economic presence, employing 5,436 employees including teachers, professionals and support staff.

The unemployment rate of the City as of June 30, 2017 was 5.4% and increased from 5.0% from the year before. By comparison for the same periods the state's unemployment rate was 4.3% and 4.0%, respectively and the national average was 4.4% and 4.9%, respectively. The month of June is typically one of the highest months for unemployment and in September 2017 the local unemployment rate fell to 4.2%. Median household incomes, averaged over the five years ending 2015, within the City of Worcester were \$45,472 compared to \$68,563 for the state and \$53,889 on a national level. According to Worcester Public Schools' enrollment by social-economic status, 57% of enrolled students are considered economically disadvantaged. 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 \$12.265 billion in fiscal 2017 based on the legal assessment date of January 1, 2016. Values increased \$1.028 billion or 9.2% more than the previous year following a recent triennial revaluation. Tax-exempt real property represented 31% of the total assessed values and increased 14% over the prior year to \$5.621 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 4% in fiscal 2018.

According to a July, 2016 article in the Worcester Business Journal, Worcester was ranked third in the Northeast of the country when evaluating the return on investment for rental properties, trailing only Washington, D.C. and Boston, MA. Worcester was found to have the lowest vacancy rate in the country at 3.05 percent for residential rental properties. In addition, a recent study by Colliers International reported that as of June 30, 2017, a sample of 2.9 million square feet of office space in Worcester was 87.3% occupied compared to 81.7% 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. Nearing completion in the center of downtown is the redevelopment of an historic building into 90 residential units, the construction of a new 250 room hotel, and the construction of 365 new luxury apartments that was previously the site of abandoned retail outlets. Plans to convert the former county courthouse into units are underway.

Long-term financial planning and major initiatives

Each of the three bond rating agencies has given the City a stable outlook and ratings in the high investment grade category. In fiscal 2017, Fitch Ratings increased the City's bond rating on to AA citing Worcester's sustained improvement in its financial profile over the past several years, growth in tax base, sound operating performance and adequate reserves. Moody's and S&P have affirmed the city's ratings of Aa3 and AA-respectively and have also cited positive financial performance and strong fiscal management with good financial policies and practices.

The city continues to invest in its public safety, education and downtown infrastructure. In August 2016 the city opened a new regional emergency communication center with a new facility and equipment. Also in August 2016 the city opened a new 500 car public underground parking garage downtown with total cost of \$42 million to support the new businesses in CitySquare. Construction continued during the year on a \$45 million replacement elementary school, eighty percent funded by the state's school building program. The new school which opened in the fall for the 2017-2018 school year is LEED certified that will double the square footage while expecting to consume half the energy of the old school building. Also in 2017, a feasibility study was made to construct a replacement high school that will include district-wide amenities including track and field and a swimming pool. This high school is also expected to be substantially funded with state funding.

In 2017, the City Council updated its financial plan to increase the target of general fund reserves to 10% of budgeted revenue up from 5%; 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.

General fund revenue sources to the City during fiscal 2017 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 \$11 million in untaxed levy capacity at the end of fiscal 2017 up from \$6 million for fiscal 2016. Total combined reserves in the unassigned general fund and the debt service fund increased \$3.9 million to \$58.4 million or 9.4% 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 Center experienced a 77% increase in distributable operating income to the City that will cover DCU improvement related debt service and its 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 \$9.7 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) including the aforementioned new elementary school 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 2017 was \$24 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 \$70 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. Savings on energy including selling back electricity to the grid is expected to offset debt service.

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 2017, \$15.1 million of bonds

were refunded that generated an economic gain in excess of \$1.7 million. This follows debt refunded in fiscal 2016 of \$23 million generating an economic gain of \$2 million and debt refunded in fiscal 2015 of \$22 million generating an economic gain of \$2 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 \$467 million and is being amortized pursuant to an aggressive schedule over the next sixteen years with annual contributions increasing 6.3% after fiscal 2019. Outstanding pension obligation bonds issued in 1998 had a balance outstanding of \$130 million with full amortization in 11 years. The actuarially accrued liability for OPEB totaled \$861 million which was based on an actuarial measurement at July 1, 2015. The net OPEB liability realized under GASB 45 was \$314 million. In Fiscal 2018, the new GASB statement 75 will require the full liability to be reflected in the statement of net position. 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. The effective date of the ordinance is after the establishment of the OPEB board which is expected in fiscal 2018. 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 \$11.8 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, 2016. 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-four 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, 2017

ELECTED OFFICIALS

CITY COUNCIL

MAYOR

Joseph M. Petty

COUNCILORS-AT-LARGE

Morris A. Bergman
Michael T. Gaffney
Khrystian E. King
Konstantina B. Lukes
Kathleen M. Toomey

DISTRICT COUNCILORS

Anthony J. Economou
Candy F. Mero-Carlson
Sarai Rivera
Gary Rosen
George J. Russell

SCHOOL COMMITTEE

EX-OFFICIO CHAIRPERSON

Joseph M. Petty

COMMITTEE MEMBERS

Dianna L. Biancheria
Donna M. Colorio
John L. Foley

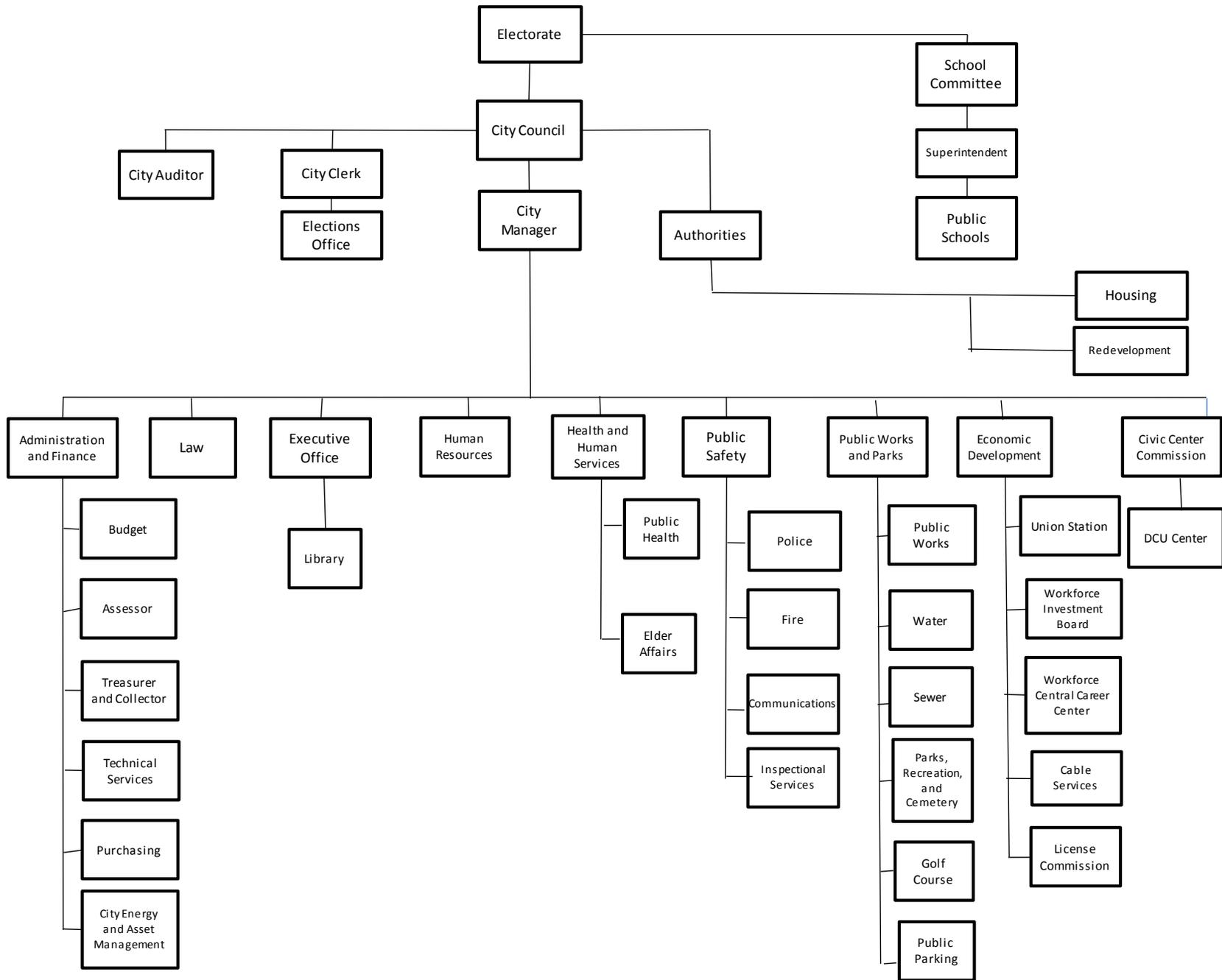
COMMITTEE MEMBERS

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
EMERGENCY COMMUNICATIONS DIRECTOR	Richard H. Fiske
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
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
ACTING TREASURER & COLLECTOR	Thomas F. Zidelis
ASSISTANT TREASURER	Geralyn M. Walsh
BUDGET DIRECTOR / ASST. TREASURER	Erin M. Arvizu
CITY ASSESSOR	William J. Ford
PURCHASING AGENT	Christopher J. Gagliastro
DIRECTOR OF TECHNICAL SERVICES	Paul R. Covello
DIRECTOR OF ENERGY & ASSET MGMT.	John W. Odell

WORCESTER CITY GOVERNMENT





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, 2016

Executive Director/CEO

FINANCIAL SECTION



CliftonLarsonAllen LLP

CLAAconnect.com

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, 2017 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the City'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 86.7%, 47.5% and 96.7%, 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.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 12 through 28) and general fund budgetary comparison and certain pension and other post-employment benefits information (located on pages 116 through 133) 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.

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 December 19, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, MA

December 19, 2017

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2017

(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, 2017 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

- The liabilities and deferred inflows of the City (primary government) exceeded its assets and deferred outflows (net position) at the close of fiscal 2017 by \$176,204.
- The City's total net position decreased by \$19,600 or 12.5% during the year.
- The net pension liability net of deferred outflows/inflows related to pensions increased to \$390,263 resulting in a decrease in net position of \$27,655 during the year.
- The OPEB payable increased to \$313,721 resulting in a decrease in net position of \$32,452 during the year.
- The City's general fund balance increased \$8,588 or 19.7% during the year to \$52,136. The unassigned general fund balance increased \$5,731 to \$40,383 and the fund restricted for OPEB increased \$2,857 to \$11,753.
- At the end of fiscal 2017, the unassigned portion of the general fund was \$40,383 or 6.5% of total general fund revenues.
- "Free Cash", certified by the state's Department of Revenue as of July 1, 2017 was \$9,208. This amount is unassigned in the general fund and available for appropriation in fiscal 2018.
- The City's total capital assets (net) increased by \$59,480 or 5.9% during fiscal 2017.
- The City's total debt decreased by \$2,044 or 0.3% during fiscal 2017.

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 2017. All changes in net position are reported as soon as the underlying event causing the change takes place.

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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.).

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

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

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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 29 through 31 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, the CitySquare fund, the debt service fund, and the rehabilitation of public buildings fund, each of which are considered major funds and can be found on pages 32 and 34. Data from the 27 other governmental funds are combined into a single aggregated presentation titled "other governmental funds". The list of these nonmajor governmental funds is provided on pages 134 through 135 and the combining balance sheet and statement of revenue and expenditures are provided on pages 136 through 147.

The City adopts an annual budget for its general fund which is included in the required supplementary information shown on pages 116 through 123. The City also adopts annual budgets for each of its enterprise funds shown in the supplementary schedules on pages 148 through 150.

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.

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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 36 through 38.

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 39 through 40.

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 41 through 114.

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 116 through 133.

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 134 through 155) and statistical section (pages 157 through 185). A glossary begins on page 187.

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 case, liabilities and deferred inflows exceeded assets and deferred outflows by \$176,204 at the close of the most recent fiscal year and are summarized as follows:

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	Net position					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 296,782	306,354	39,246	37,606	336,028	343,960
Capital assets	835,344	774,867	236,706	237,703	1,072,050	1,012,570
Total assets	<u>1,132,126</u>	<u>1,081,221</u>	<u>275,952</u>	<u>275,309</u>	<u>1,408,078</u>	<u>1,356,530</u>
Deferred outflows of resources	<u>77,973</u>	86,284	<u>5,023</u>	5,214	<u>82,996</u>	91,498
Long-term liabilities	1,273,647	1,233,653	187,993	178,422	1,461,640	1,412,075
Other liabilities	179,941	165,234	19,470	23,489	199,411	188,723
Total liabilities	<u>1,453,588</u>	<u>1,398,887</u>	<u>207,463</u>	<u>201,911</u>	<u>1,661,051</u>	<u>1,600,798</u>
Deferred inflows of resources	<u>5,308</u>	3,157	919	677	<u>6,227</u>	3,834
Net position:						
Net investment in capital assets	433,725	402,433	84,896	90,920	518,621	493,353
Restricted	61,567	56,244	-	-	61,567	56,244
Unrestricted	<u>(744,089)</u>	<u>(693,216)</u>	<u>(12,303)</u>	<u>(12,985)</u>	<u>(756,392)</u>	<u>(706,201)</u>
Total net position	\$ <u><u>(248,797)</u></u>	<u><u>(234,539)</u></u>	<u><u>72,593</u></u>	<u><u>77,935</u></u>	<u><u>(176,204)</u></u>	<u><u>(156,604)</u></u>

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 (\$756,392). However, this balance includes outstanding pension obligation bonds of \$129,565 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 \$3,893 and \$930, respectively, at year-end. Additionally, the City has a note payable of \$1,947 for improvement to neighborhood assets it does not own and also owes \$599 for the 2008 Blackstone Valley Visitors Center, which was destroyed by fire. Also on this list is \$46 debt for the airport, which is no longer owned by the City. Absent the aforementioned debt, there is a balance of (\$619,412) of unrestricted net position.

At the end of fiscal 2017, 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

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increased \$49,565 primarily as a result of an increase in the net pension liability of \$16,760 and the net OPEB liability of \$32,452.

Governmental activities had an increase in other liabilities of \$14,707 as temporary notes increased \$21,971 or 33% due to an increase in capital project costs. Business-type activities had a decrease in other liabilities of \$4,019 as temporary notes decreased \$3,463 or 19.7%.

Governmental activities capital assets net of depreciation increased by \$60,477 or 7.8% during fiscal 2017; additions to fixed assets totaled \$106,156 and depreciation totaled \$45,679. The largest acquisitions during fiscal 2017 included school construction projects \$38,887, energy improvement projects \$29,951, street and sidewalks \$19,123, parks improvements \$3,317, CitySquare \$2,868, DCU Center \$1,940, off street parking \$1,197, and the completion of the regional emergency communication center \$888. Energy projects included the installation of new LED streetlights and a solar array on a capped landfill. School construction included the continued work on the new elementary school at Nelson Place with progress costs incurred in fiscal 2017 totaling \$28,085. Nelson Place is financed with state and local funding. Several school buildings took advantage of state funded school repair grants with window and door replacements and other renovations totaling \$10,802.

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The City's total net position decreased by \$19,600, or 12.5%, summarized as follows:

	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 38,132	38,792	73,310	71,034	111,442	109,826
Operating grants and contributions	387,555	363,557	-	-	387,555	363,557
Capital grants and contributions	34,946	29,007	286	330	35,232	29,337
General revenues:						
Property taxes	275,979	271,801	-	-	275,979	271,801
Motor vehicle excise taxes	16,281	15,554	-	-	16,281	15,554
Intergovernmental	40,732	39,096	-	-	40,732	39,096
Other	16,788	11,883	-	-	16,788	11,883
Total revenues	<u>810,413</u>	<u>769,690</u>	<u>73,596</u>	<u>71,364</u>	<u>884,009</u>	<u>841,054</u>
Expenses:						
General government	32,431	29,353	-	-	32,431	29,353
Public safety	164,981	156,918	-	-	164,981	156,918
Health and human services	20,106	19,262	-	-	20,106	19,262
Education	501,273	480,201	-	-	501,273	480,201
Public works	54,483	41,955	-	-	54,483	41,955
Culture and recreation	25,478	26,351	-	-	25,478	26,351
Community development	7,028	6,562	-	-	7,028	6,562
Interest on debt	20,074	20,883	-	-	20,074	20,883
Water	-	-	30,487	26,785	30,487	26,785
Sewer	-	-	45,985	42,018	45,985	42,018
Golf course	-	-	1,443	1,386	1,443	1,386
Total expenses	<u>825,854</u>	<u>781,485</u>	<u>77,915</u>	<u>70,189</u>	<u>903,769</u>	<u>851,674</u>
Change in net position before transfers and contributions	(15,441)	(11,795)	(4,319)	1,175	(19,760)	(10,620)
Transfers	1,023	(510)	(1,023)	510	-	-
Contributions	<u>160</u>	<u>103</u>	<u>-</u>	<u>-</u>	<u>160</u>	<u>103</u>
Change in net position	(14,258)	(12,202)	(5,342)	1,685	(19,600)	(10,517)
Net position – beginning	<u>(234,539)</u>	<u>(222,337)</u>	<u>77,935</u>	<u>76,250</u>	<u>(156,604)</u>	<u>(146,087)</u>
Net position – ending	<u>\$ (248,797)</u>	<u>(234,539)</u>	<u>72,593</u>	<u>77,935</u>	<u>(176,204)</u>	<u>(156,604)</u>

Governmental activities – Governmental activities as shown in the statement of activities decreased the City's net position by \$14,258. The key elements of this decrease are as follows:

Total revenues were \$810,413, which was a \$40,723 or 5.3% increase from the previous fiscal year.

Charges for services totaled \$38,132 and represented 4.7% of total governmental activity revenues and experienced a slight decrease from the year before of 1.7%. The largest service revenues are from police auxiliary \$8,210; inspectional services \$4,284; parking fees \$4,335; trash bags \$3,272; parking and court fines

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\$2,406; DCU center operating surplus transfers \$1,601; school and city revolving programs \$3,268; and other licenses and fees \$10,756.

Operating grants and contributions totaled \$387,555 and represented 47.8% of total governmental activity revenues, increasing \$23,998 or 6.6% over the prior year. Education totaled \$353,436 including state aid for schools under Chapter 70 of \$235,402 up 1.7%, state and federal grants for school nutrition and supplementary educational programs totaled \$50,183 up 1.9%, state on-behalf of payments for teachers' net pension expense totaled \$61,177 up 37%, and other educational grants and contributions of \$6,674. In addition, the HUD community development awards totaled \$6,719 up 151% while various public safety grants totaled \$4,804 up 74%. Health and human service grants totaled \$13,143 down \$2,123 or 14% from the year before as one multi-year state grant ended during fiscal 2017.

Capital grants totaled \$34,946 and represented 4.3% of total governmental activity revenues, increasing \$5,939 or 20.5% over the prior fiscal year. Education capital grants totaled \$24,483 as the City had multiple projects approved by the state's school building replacement and repair program and increased \$7,175 or 41% over the prior year. The largest project was the continued construction of a new elementary school building which had fiscal 2017 grant revenue of \$17,297 and several schools taking advantage of window, door and boiler replacement with grants of \$7,186 received in fiscal 2017. Public works received capital grants of \$9,765 of which grants for street work totaled \$9,723 and increased 2.9% over the prior year.

Property tax revenue totaled \$275,979 and represented 34.1% of total governmental activity revenues, increasing \$4,178 or 1.5% for an increase in property taxes committed for collection. Other general revenues totaled \$73,801 and represented 9.1% of total governmental activity revenues. Included in other general revenues are motor vehicle excise taxes \$16,281 up 2.0%; intergovernmental revenue including non-educational state aid \$40,732 up 5.0%; and other general revenue including investment income, other taxes and miscellaneous which totaled \$16,788 as investment income increased \$2,299 and miscellaneous increased \$2,464.

Total expenses were \$825,854, which was a \$44,369 or 5.7% increase from the previous fiscal year.

General government expenses totaled \$32,431 representing 3.9% of total governmental activity expenses and increased \$3,078 or 10.5%. Fringe benefits including health insurance, pension expense and OPEB increased \$1,014, court settlements increased \$277, salaries increased \$194, energy and asset management ordinary maintenance increased \$409, capital outlay expenditures increased \$892 and depreciation expense increased \$214.

Public safety expenses including police, fire, inspection, and emergency communications totaled \$164,981 and represented 20.0% of the total governmental activity expenses, increasing \$8,063 or 5.1%. Fringe benefits including health insurance, pension expense and OPEB increased \$3,571, ordinary maintenance increased \$1,371, depreciation expense increased \$560, and salaries increased \$4,294 mostly due to the fire department's collective bargaining agreement that was settled.

Education expense includes basic education for grades K - 12 as well as pre-K, nutrition and grant expenses. Education expenses totaled \$501,273 and represented 60.7% of total governmental activity expenses, increasing \$21,072 or 4.4%. Fringe benefits including health insurance, pension expense and OPEB increased \$7,028 and state on-behalf of payments for teachers' net pension expense increased \$16,548.

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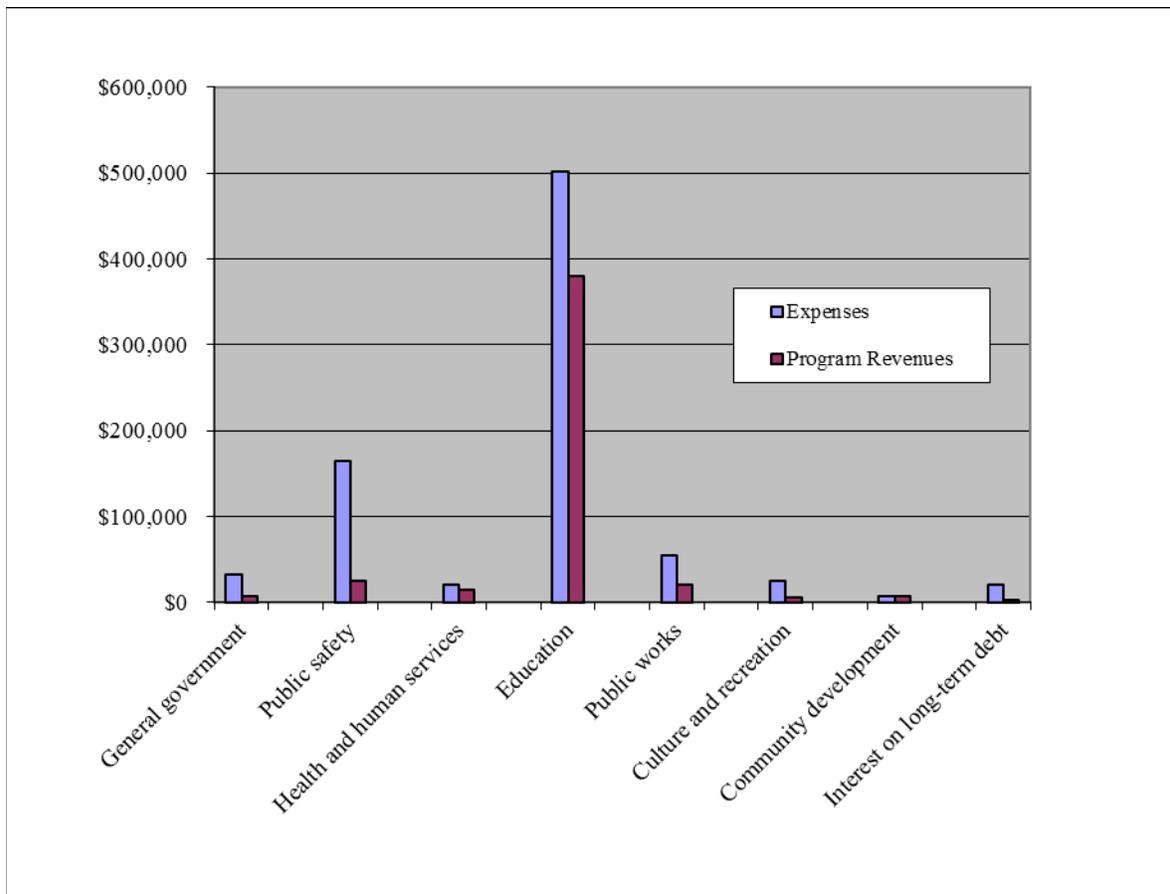
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Public works expenses totaled \$54,483 representing 6.6% of total governmental activities and increased \$12,528 or 29.9%. Snow removal costs increased \$3,817 or 128%, provision for landfill cap costs increased \$1,402, fringe benefits including health insurance, pension expense and OPEB increased \$480, salaries increased \$375 and depreciation expense increased \$4,156.

Health and human services expenses totaled \$20,106 or 2.4% of total expenses and increased \$844 or 4.4% over the prior year. Culture and recreation expenses totaled \$25,478 or 3.1% of total expenses and decreased \$873 or 3.3% from the prior year. Community development expenses totaled \$7,028 or 0.9% of total expenses and increased \$466 or 7.1%. Interest on debt totaled \$20,074 or 2.4% of total expenses and decreased \$809 or 3.9%.

FY 2017 Expenses and Program Revenues– Governmental Activities



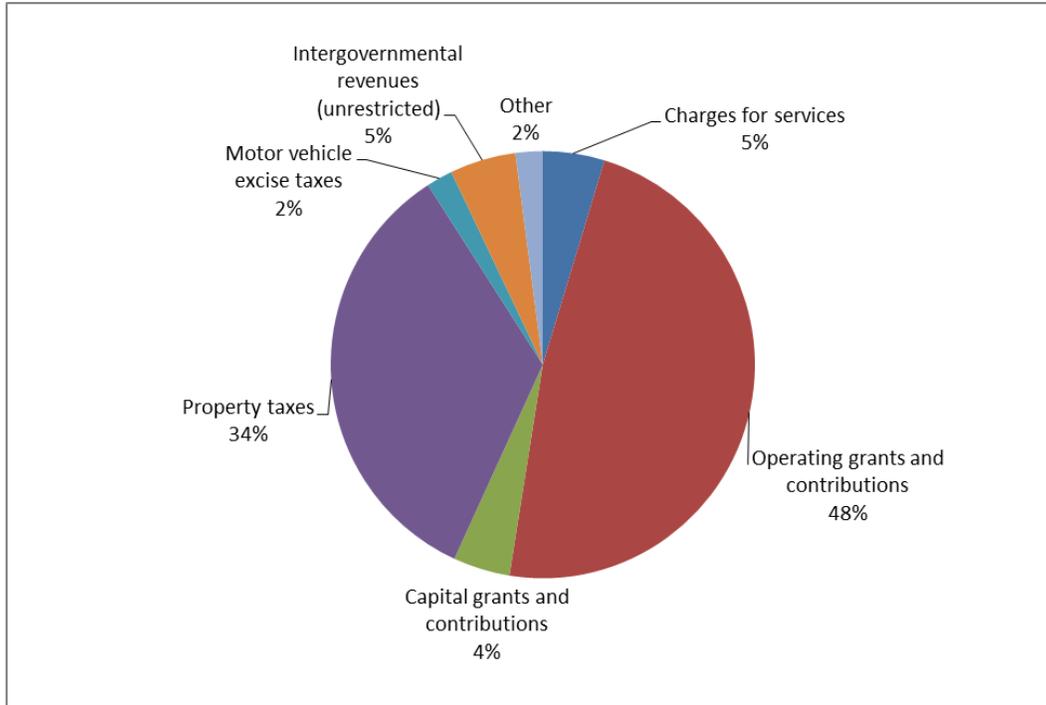
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FY 2017 Revenues by Source – Governmental Activities



Business-type activities – Business-type activities decreased the City's net position by \$5,342.

- The water fund had operating income of \$2,142 and had a decrease in net position of \$1,024. This follows the previous year's operating income of \$4,809 with a \$2,210 increase in net position. Water rates did not change from the prior year and usage fees increased \$750 or 2.6%. Salaries and fringes increased \$355. Ordinary maintenance expenses increased \$2,922 or 78% due to water purchased from the state reservoir because of drought conditions. At the end of the fiscal year the city's reservoir had recovered. The net investment in capital assets decreased \$977.
- The sewer fund had an operating loss of \$350 and had a decrease in net position of \$4,299. This follows the previous year's operating income of \$1,846 with a \$529 decrease in net position. Sewer rates increased \$0.30 per 100 cubic feet or 4.5% over the prior year resulting in an increase in usage fees of \$1,333. Salaries and fringes increased \$49 or 0.7%. Ordinary maintenance increased \$2,684 primarily because of the increase in the Upper Blackstone water treatment plant's assessment which increased \$1,572. The net investment in capital assets decreased \$5,361.
- The golf course fund (nonmajor) had an operating loss of \$282 and net position decreased by \$19. This follows the previous year's operating loss of \$123 and an increase in net position of \$5. Revenues decreased \$100 from the previous year while salaries and fringe increased \$28. The net investment in capital assets increased \$313. The General Fund subsidized the golf enterprise with transfers of \$338 in fiscal 2017, following \$204 in the prior year.

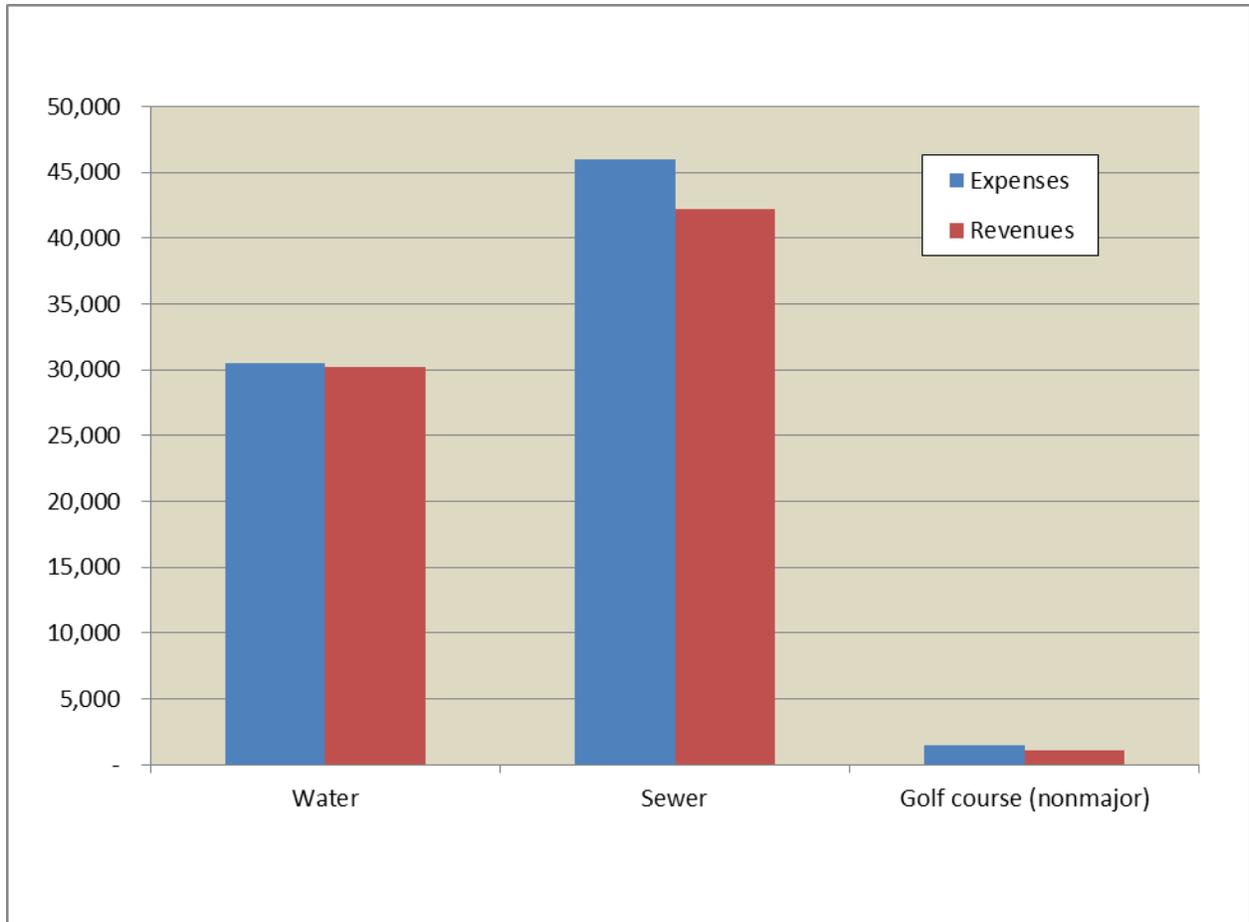
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FY 2017 Expenses and Program Revenues – Business-type Activities



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 2017, the City's governmental funds reported combined ending fund balances of \$60,738 a decrease of \$18,803 or 23.6% from fiscal 2016. Fund balance includes \$15,686 of non-spendable amounts contained in nonexpendable permanent funds and \$40,383 of unassigned general fund balance available for spending at the City's discretion. Deficits of \$32,647 in the rehabilitation of public buildings fund, \$28,301 in

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the CitySquare fund and \$22,805 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 \$50,633 restricted for specific purposes or by federal or state grants, \$18,025 of funds committed for debt service and \$19,764 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 2017, unassigned fund balance of the general fund was \$40,383 or 6.5% of total general fund revenues and a restricted fund balance of \$11,753. During fiscal 2017, the City's general fund balance increased by \$8,588 or 19.7%. Total revenues exceeded expenditures by \$15,108, while transfers out exceeded transfers in by \$8,259. The general fund also received a premium on the issuance of bonds of \$1,739.

CitySquare had a fund balance deficit of \$28,301 at the end of fiscal 2017, a \$2,868 increase to the previous year's fund balance deficit. Total expenditures in fiscal 2017 were \$2,868 including the continued construction of a new public parking garage which was put into service in early fiscal 2017. The deficit has been temporarily financed with temporary loans that totaled \$28,268. The CitySquare project is a multi-year public-private project to redevelop a closed shopping mall with parking garage and environs in downtown Worcester.

The debt service fund had a fund balance of \$18,025 at the end of fiscal 2017, a \$1,876 or 9.4% decrease from the previous year. During the year \$2,326 in local meals and hotel tax revenue was received attributable to the DCU special district which increased \$106 or 4.8% over the previous year. There were \$10,774 net transfers in from the general fund. Debt service expenditures were \$14,976. Debt paid included capital campaign fund \$8,889 which includes debt for construction on the vocational high school, library, and other school improvements; the CitySquare project \$2,276, which is self-funded debt from district improvement financing revenue; north high school debt paid \$1,335; DCU special district debt \$2,277 currently self-funded debt from special district financing revenue; and other debt \$199 paid from designated debt service funds.

Rehabilitation of public buildings had a fund balance deficit of \$32,647 at the end of fiscal 2017, a \$15,146 increase in the deficit from the previous year. Issuances of bonds and refunding bonds and related premiums totaled \$21,918. Expenditures and payments of refunded debt totaled \$36,514. Transfers to other funds totaled \$550. The deficit has been temporarily financed with temporary loans that totaled \$32,844. The largest project was for energy improvements \$32,650 with the help of an energy service company (ESCO). This was a four phase multi-year project making city buildings and schools energy efficient. The fourth phase of ESCO project was near completion at the end of fiscal 2017 and included upgrades to street lights and the installation of a large solar array atop a capped landfill.

Other governmental funds had a fund balance of \$51,525 at the end of fiscal 2017, a \$7,500 or 12.7% decrease from the previous year. Special revenue funds increased by \$1,108 as expenditures of \$99,547 and net transfers out of \$1,200 exceeded revenues of \$100,757 and premiums on issuance of bonds of \$1,098. The nonmajor capital projects funds decreased \$10,621 as expenditures of \$68,146 and payments to refunded bonds escrow agent of \$5,684 exceeded revenues of \$35,102, bond proceeds and related premiums of \$27,789 and net transfers in from other funds of \$319. Permanent funds increased \$2,012 as donations of \$160 and net investment income of \$2,131 exceeded expenditures of \$217 and net transfers out to other funds of \$62.

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.

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Net position of the enterprise funds at the end of fiscal 2017 totaled \$72,593. There was a \$5,342 decrease in net position from current year operations. The water fund had a decrease of \$1,024 while the sewer fund had a decrease of \$4,299 and the golf course fund (nonmajor) had a decrease of \$19. Unrestricted net position consisted of (\$14,006) in the water fund, \$2,606 in the sewer fund and (\$903) in the golf course fund (nonmajor). Net investment in capital assets consisted of \$55,585 in the water fund, \$29,065 in the sewer fund and \$246 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 \$1,170 higher than the original amount. The estimate for property taxes was decreased by \$493 due to a cut in the budget. Motor vehicle excise tax estimates increased \$650, licenses and permit revenue estimates increased \$638, and school-based Medicaid reimbursement estimates were increased \$600. The state local aid was decreased by \$225.

The final budget for premiums from debt issued as shown in other financial sources increased \$650 over the original budget estimate.

The final budget for transfers-in increased by \$688 over original budget estimates. There were transfers from various special revenue fund accounts; \$421 from premium on loans to cover debt issuance costs; \$59 from real estate sales to cover environmental remediation; \$116 from FEMA to cover snow; and \$34 for vehicle insurance settlements. There was also a \$58 transfer from a budgetary basis non-irrevocable trust to fund health costs of airport retirees.

The final general fund expenditure budget was \$1,273 higher than the original. Court judgements decreased \$790 due to less funds needed to settle outstanding cases. Treasury's budget increased \$379 mainly for the debt issuance costs that was funded with premiums received. Energy asset management's ordinary maintenance budget increased \$235 for HVAC work needed. HHS budget for ordinary maintenance increased \$309 mainly for an increase to the budget for veteran's benefits. The police department's payroll budget increased \$593 to fund payroll overtime while the fire department's payroll budget decreased \$632 and the communication's department payroll budget decreased \$570. Offsetting this were increases to the public safety departments' ordinary maintenance budgets by \$518 for repairs to buildings and vehicles, consulting and other operational costs. The original budget for debt service was decreased \$955 and transferred to other departments. The original budget line for contingencies was \$500 and all but \$6 was transferred to other departments. Snow and ice removal required an additional \$2,594.

The final budget for transfers-out increased from the original budget by \$2,748. Subsequent transfers included \$2,385 in additional transfers to the OPEB account; \$115 to the special revenue fund for a summer youth program; \$60 to the airport debt service account and \$188 to provide additional subsidies to the golf enterprise.

The general fund balance had a budgetary basis increase of \$6,933 during the year and was better than the budgeted deficit of \$563 by \$7,496. By comparison, the net changes in the previous three fiscal years was \$7,435, (\$2,060), and \$367. The budgeted deficit of \$563 included free cash appropriations from unassigned general fund totaling \$5,489 offset by transfers to the bond rating stabilization fund of \$4,926. The year-end unassigned fund balance on a budgetary basis totaled \$40,881. Revenues did better than estimates in the final budget by \$6,037. Other revenue accounts with collections that exceeded estimates included motor vehicle

CITY OF WORCESTER, MASSACHUSETTS

Management's Discussion and Analysis

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(In thousands of dollars)

excise \$1,096, local option for meals and hotel tax \$678, fees from inspectional services including building permits \$265, inter-governmental revenues from school based Medicaid reimbursements of \$2,211 and miscellaneous revenue \$2,293. The bottom line was also assisted from revenues from premium on loans which were \$386 over the final budget.

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, 2017 amounted to \$1,072,050. 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 \$59,480 or 5.9%. Governmental activities increased by \$60,477 or 7.8% and business-type activities decreased by \$997 or 0.4%.

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

- Streets and sidewalks were improved with capitalized costs added to infrastructure totaling \$19,551 including resurfacing projects \$9,731; private street conversions \$1,083; and other street and sidewalk projects \$8,737.
- The CitySquare project had additions to capital assets as the project neared completion. Additions to capital assets totaled \$2,868 and included work to complete the new underground parking garage that went into service in August 2016.
- Capitalized costs for parks projects totaled \$6,393 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.
- Capitalized costs for rehabilitation of public buildings totaled \$32,591 with the majority of it energy improvements for new LED streetlights and solar arrays on top of a capped landfill. The total costs incurred in fiscal 2017 for energy improvements were \$29,951. Other building costs incurred during the year included completion of the new regional emergency communications center with fiscal 2017 costs of \$888; off street parking \$1,089; and improvements to other city owned buildings \$663.
- Total capitalized costs for school construction were \$38,886 including construction in progress for the new elementary school at Nelson Place totaling \$28,085. Other school construction capitalized during the year totaled \$10,801 and included window and door replacement, energy improvements, new high school study, 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 \$24,483.
- Capitalized costs for improvements to the DCU Center totaled \$1,939 which included a light replacement project.
- Rolling equipment capitalized included two fire engines totaling \$1,058; DPW trucks \$2,054.
- Resources were allocated during the year to business-type building, infrastructure and other capital asset additions costing \$15,436. Of this amount, \$9,459 was for sewer projects; \$5,573 was for water projects; and \$404 for construction in progress costs on a new driving range and course redesign.

CITY OF WORCESTER, MASSACHUSETTS

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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	
	2017	2016	2017	2016	2017	2016
Land	\$ 22,631	22,623	7,000	6,488	29,631	29,111
Buildings	420,560	384,979	23,651	25,145	444,211	410,124
Improvements, other than buildings	131,398	132,634	-	-	131,398	132,634
Equipment and other	12,566	13,864	637	611	13,203	14,475
Rolling equipment	7,013	6,252	3,619	3,407	10,632	9,659
Infrastructure	148,982	141,108	201,395	202,052	350,377	343,160
Construction in progress	92,194	73,407	404	-	92,598	73,407
Total	\$ <u>835,344</u>	<u>774,867</u>	<u>236,706</u>	<u>237,703</u>	<u>1,072,050</u>	<u>1,012,570</u>

Additional information on the City's capital assets can be found in note 10 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 \$628,169, a decrease of \$2,044 or 0.3% from the prior fiscal year.

	Long-term debt					
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 467,273	474,846	144,442	139,835	611,715	614,681
Notes payable	1,947	2,085	5,309	2,882	7,256	4,967
Capital lease payable	9,198	10,565	-	-	9,198	10,565
Total	\$ <u>478,418</u>	<u>487,496</u>	<u>149,751</u>	<u>142,717</u>	<u>628,169</u>	<u>630,213</u>

On December 15, 2016 the City issued \$70,865 of general obligation bonds of which \$55,775 was bonds issued for current projects and \$15,090 was refunding debt. The proceeds consisted of \$47,569 for governmental activities of which \$8,892 was refunding bonds issued and \$23,296 for business-type activities of which \$6,198 was refunding bonds issued. Additionally, \$2,671 of short term notes from the Massachusetts Clean Water Trust was converted to long term for business-type activities.

In relation to the above debt the City received an upgrade in its credit rating from Fitch to AA and maintained a credit rating of Aa3 from Moody's Investors Service and AA- by Standard and Poor's. All three credit ratings affirmed stable outlooks for the City.

Massachusetts General Law subjects the City to a dual-level general debt limit: the normal debt limit and 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

CITY OF WORCESTER, MASSACHUSETTS

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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 are exempt from the debt limit but subject to other limitations.

Additional information on the City's long-term debt can be found in notes 12 and 13 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 U.S. Department of Labor, the City's unemployment rate was 5.4% at June 30, 2017, compared with a 5.0% rate that existed a year earlier. This compares with June 30, 2017 unemployment rates of 4.3% in Massachusetts and 4.4% nationally.

Taxable assessed property values including personal property increased from \$11,236,881 in fiscal 2016 to \$12,265,463, or 9.2%, in fiscal 2017 following the most recent triennial revaluation. Residential real estate totaled \$8,868,132 and increased 10.9%; commercial and industrial real estate totaled \$2,622,986 and increased 5.6%; and personal property totaled \$774,345 and increased 2.7%.

The fiscal original 2018 general fund budget anticipates total revenues of \$630,880, premium on loans of \$0 and transfers from other funds of \$2,533 compared with actual results of \$616,854, \$1,739 and \$3,997 respectively in fiscal 2017. It is anticipated that property tax revenue will increase by \$11,403 or 4.1% over the prior year by taxing new growth and increasing the tax levy allowed under the state's tax limiting law "Proposition 2½". The City also has available an unused tax levy capacity of \$11,089, 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 \$5,788 primarily because of an increase in educational aid of \$9,805 due to an increase in the foundation budget and a net increase in other local aid of \$1,896, offset by a decrease in revenue from the state for reimbursement of prior year school building projects which decreased \$5,913. Other revenue categories were budgeted at levels slightly under fiscal 2017 actuals by \$3,165; motor vehicle excise tax is budgeted under fiscal 2017 actual by \$596; other taxes are under by \$429; school based Medicaid reimbursements are under by \$1,261; and miscellaneous revenue is under by \$301.

Fiscal 2018 general fund expenditures were originally budgeted at \$617,765 with transfers out of \$15,647 compared with actual results of \$600,574 and \$15,082 in the prior year. Fiscal 2018 expenditure budgets increased over the prior year actuals by \$17,191 or 2.9% including \$8,900 or 3.4% for education, \$5,743 or 5.3% for fringe benefits, \$795 for judgements and claims, and \$688 for debt service. Additionally, the contingency account was budgeted \$1,250 at the start of the year for employee wage increases.

The original budget plan was for revenues, loan premiums and transfers in to equal expenditures and transfers out. Since then, appropriations are expected to be made from the \$9,208 of certified "Free Cash". In accordance with the City's financial plan 50% of Free Cash or \$4,604 will go to a "Bond Rating Stabilization" account, which is accounted for in the general fund and thus will preserve unassigned fund balance, \$2,762 to an OPEB reserve account, which is not irrevocable and is accounted for as restricted in the general fund, and \$1,842 for the operating budget.

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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 \$150 transfer from the general fund in order to balance its budget. The sewer fund is budgeted to receive total revenues of \$43,820, \$2,482 more than the prior year actual and water revenue is budgeted at \$26,282, \$4,232 less than the prior year actual. Sewer rates were increased by 2.3% from the prior year and water rates increased 1.9%. The golf course anticipates revenues of \$1,296, which is \$190 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, Room 102, Worcester, Massachusetts 01608.

BASIC FINANCIAL STATEMENTS

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Position

June 30, 2017

	Component units				
	Primary government			Worcester Redevelopment Authority	Upper Blackstone Water Pollution Abatement District
	Governmental activities	Business-type activities	Total		
Assets:					
Cash and cash equivalents	\$ 154,422,579	11,046,818	165,469,397	16,591	4,921,235
Restricted cash and cash equivalents	58,940,813	12,241,267	71,182,080	8,410	-
Restricted investments	31,159,214	-	31,159,214	-	7,988,836
Receivables (net of allowance for uncollectibles)	21,329,480	15,926,308	37,255,788	195,363	824,009
Intergovernmental receivables	30,929,694	31,381	30,961,075	-	1,831,192
Capital assets, not being depreciated	114,825,088	7,402,963	122,228,051	2,155,396	3,147,113
Capital assets, net of accumulated depreciation	720,519,292	229,303,374	949,822,666	24,544,570	157,303,720
Total assets	1,132,126,160	275,952,111	1,408,078,271	26,920,330	176,016,105
Deferred outflows of resources:					
Related to pensions	77,972,681	5,022,812	82,995,493	-	2,760,256
Deferred charge on refunding	-	-	-	-	506,322
Total deferred outflows of resources	77,972,681	5,022,812	82,995,493	-	3,266,578
Liabilities:					
Current liabilities:					
Accounts payable	59,335,691	3,130,638	62,466,329	359,313	2,538,395
Accrued liabilities	14,743,966	1,717,336	16,461,302	2,625,797	2,239,791
Retainage payable	5,565,555	504,915	6,070,470	-	-
Other liabilities	10,725,556	-	10,725,556	31,032	-
Temporary notes payable	89,569,666	14,117,967	103,687,633	-	-
Noncurrent liabilities due within one year	64,941,083	12,545,730	77,486,813	9,517,579	7,449,805
Total current liabilities	244,881,517	32,016,586	276,898,103	12,533,721	12,227,991
Noncurrent liabilities:					
Net pension liability	440,298,402	26,732,435	467,030,837	-	8,986,634
OPEB payable	304,670,753	9,049,514	313,720,267	-	2,807,540
Other noncurrent liabilities due in more than one year	463,737,115	139,665,086	603,402,201	637,261	142,808,949
Total noncurrent liabilities	1,208,706,270	175,447,035	1,384,153,305	637,261	154,603,123
Total liabilities	1,453,587,787	207,463,621	1,661,051,408	13,170,982	166,831,114
Deferred inflows of resources:					
Related to pensions	5,308,223	918,736	6,226,959	-	28,638
Net position:					
Net investment in capital assets	433,724,983	84,895,599	518,620,582	22,745,249	12,833,490
Restricted for:					
Nonexpendable permanent funds:					
Libraries	6,797,713	-	6,797,713	-	-
Hope Cemetery	4,314,028	-	4,314,028	-	-
Health and human services	2,794,712	-	2,794,712	-	-
Other nonexpendable permanent funds	1,779,930	-	1,779,930	-	-
Expendable permanent funds:					
Libraries	3,008,030	-	3,008,030	-	-
Hope Cemetery	272,822	-	272,822	-	-
Health and human services	357,427	-	357,427	-	-
Other nonexpendable permanent funds	589,765	-	589,765	-	-
OPEB trust fund	11,753,588	-	11,753,588	-	-
State and federal grants	9,116,599	-	9,116,599	-	-
PEG access grant	3,390,330	-	3,390,330	-	-
Culture & recreation grants	1,299,738	-	1,299,738	-	-
General government grants	2,781,394	-	2,781,394	-	-
Health and human services grants	670,971	-	670,971	-	-
Library grants	958,586	-	958,586	-	-
Public safety grants	4,851,221	-	4,851,221	-	-
Public works grants	3,236,721	-	3,236,721	-	-
Educational grants	3,592,809	-	3,592,809	-	-
Unrestricted (deficit)	(744,088,536)	(12,303,033)	(756,391,569)	(8,995,901)	(410,559)
Total net position	\$ (248,797,169)	72,592,566	(176,204,603)	13,749,348	12,422,931

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year Ended June 30, 2017

Functions/programs	Expenses	Program revenues		Net (expense)/ revenue	
		Charges for services	Operating grants and contributions		Capital grants and contributions
Primary government:					
Governmental activities:					
General government	\$ 32,431,402	3,101,394	3,931,105	10,000	(25,388,903)
Public safety	164,980,649	18,834,614	5,353,210	-	(140,792,825)
Health and human services	20,106,504	1,412,920	13,163,730	-	(5,529,854)
Education	501,272,777	1,683,274	353,436,026	24,483,111	(121,670,366)
Public works	54,483,003	10,588,114	501,286	9,765,258	(33,628,345)
Culture and recreation	25,478,145	2,196,018	1,948,386	687,760	(20,645,981)
Community development	7,028,296	315,422	6,719,030	-	6,156
Interest on debt	20,073,527	-	2,501,806	-	(17,571,721)
Total governmental activities	825,854,303	38,131,756	387,554,579	34,946,129	(365,221,839)
Business-type activities:					
Water	30,486,916	30,250,056	-	-	(236,860)
Sewer	45,985,649	41,954,384	-	285,743	(3,745,522)
Golf course (nonmajor)	1,442,898	1,105,968	-	-	(336,930)
Total business-type activities	77,915,463	73,310,408	-	285,743	(4,319,312)
Total primary government	\$ 903,769,766	111,442,164	387,554,579	35,231,872	(369,541,151)
Component units:					
Worcester Redevelopment Authority	\$ 2,565,905	508,771	-	490,788	(1,566,346)
Upper Blackstone Water Pollution Abatement District	28,123,066	27,964,363	1,007,142	30,000	878,439
Total component units	\$ 30,688,971	28,473,134	1,007,142	520,788	(687,907)

(Continued)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Activities

For the Fiscal Year Ended June 30, 2017

	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)	\$ (365,221,839)	(4,319,312)	(369,541,151)	(1,566,346)	878,439
General revenues:					
Property taxes	275,979,487	-	275,979,487	-	-
Motor vehicle excise taxes	16,281,185	-	16,281,185	-	-
Other taxes and in-lieu payments	7,047,093	-	7,047,093	-	-
Penalties and interest on taxes	2,315,905	-	2,315,905	-	-
Intergovernmental (unrestricted)	40,732,414	-	40,732,414	-	-
Investment earnings	3,228,341	-	3,228,341	224	415,309
Gain (loss) on sale of capital assets	-	-	-	-	-
Miscellaneous	4,196,764	-	4,196,764	-	-
Transfers (net)	1,022,820	(1,022,820)	-	-	-
Total general revenues and transfers (net)	350,804,009	(1,022,820)	349,781,189	224	415,309
Contributions to permanent funds	159,535	-	159,535	-	-
Sub-total	350,963,544	(1,022,820)	349,940,724	224	415,309
Change in net position	(14,258,295)	(5,342,132)	(19,600,427)	(1,566,122)	1,293,748
Net position - beginning	(234,538,874)	77,934,698	(156,604,176)	15,315,470	11,129,183
Net position - ending	\$ (248,797,169)	72,592,566	(176,204,603)	13,749,348	12,422,931

(Concluded)

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Balance Sheet
Governmental Funds
June 30, 2017

	General	CitySquare Construction	Debt Service	Rehabilitation of Public Buildings	Other governmental funds	Total governmental funds
Assets:						
Cash and cash equivalents	\$ 87,327,922	-	18,025,195	-	19,763,559	125,116,676
Restricted cash and cash equivalents	-	1,793,664	-	6,950,722	50,196,427	58,940,813
Restricted investments	11,753,588	-	-	-	19,405,626	31,159,214
Due from other funds	221,451	-	-	-	-	221,451
Receivables (net of allowance for uncollectibles)	16,881,152	-	-	-	1,360,099	18,241,251
Intergovernmental receivables	25,072,252	-	-	-	5,857,442	30,929,694
Total assets	\$ 141,256,365	1,793,664	18,025,195	6,950,722	96,583,153	264,609,099
Liabilities:						
Accounts payable	\$ 44,116,819	1,826,961	-	3,778,921	8,982,985	58,705,686
Due to general fund	-	-	-	-	221,451	221,451
Retainage payable	-	-	-	2,975,545	2,590,010	5,565,555
Temporary loans	-	28,268,000	-	32,843,665	28,458,001	89,569,666
Other liabilities	7,280,056	-	-	-	3,445,500	10,725,556
Total liabilities	51,396,875	30,094,961	-	39,598,131	43,697,947	164,787,914
Deferred inflows of resources:						
Unavailable revenue-school construction reimbursement	22,099,667	-	-	-	-	22,099,667
Unavailable revenue-property taxes	6,664,912	-	-	-	-	6,664,912
Unavailable revenue-other	8,958,690	-	-	-	1,360,099	10,318,789
Total deferred inflows of resources	37,723,269	-	-	-	1,360,099	39,083,368
Fund balances:						
Nonspendable	-	-	-	-	15,686,383	15,686,383
Restricted	11,753,588	-	-	-	38,879,662	50,633,250
Committed	-	-	18,025,195	-	19,763,559	37,788,754
Unassigned	40,382,633	(28,301,297)	-	(32,647,409)	(22,804,497)	(43,370,570)
Total fund balances	52,136,221	(28,301,297)	18,025,195	(32,647,409)	51,525,107	60,737,817
Total liabilities, deferred inflows of resources, and fund balances	\$ 141,256,365	1,793,664	18,025,195	6,950,722	96,583,153	264,609,099

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, 2017

Total governmental fund balances (Exhibit 3)	\$ 60,737,817
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore are not reported in the governmental funds.	835,344,380
Other assets are not available to pay for current period expenditures and, therefore are deferred inflows in the governmental funds.	39,083,368
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.	25,931,187
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.	(8,911,026)
Deferred outflows and inflows of resources of the pension plan are not reported in government funds.	72,664,458
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	(486,123,001)
Capital lease payable	(9,197,830)
Net pension liability	(440,298,402)
Net OPEB obligation	(304,670,753)
Judgments and claims	(13,888,454)
Compensated absences	(13,468,913)
Landfill closure costs and post closure costs	(6,000,000)
Net position of governmental activities (Exhibit 1)	\$ (248,797,169)

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, 2017

	General	CitySquare Construction	Debt Service	Rehabilitation of Public Buildings	Other governmental funds	Total governmental funds
Revenues:						
Property taxes	\$ 276,746,360	-	-	-	-	276,746,360
Motor vehicle excise taxes	16,027,204	-	-	-	-	16,027,204
Other taxes and in-lieu payments	5,269,973	-	2,325,816	-	-	7,595,789
Penalties and interest on taxes	2,315,905	-	-	-	-	2,315,905
Licenses and permits	6,713,079	-	-	-	-	6,713,079
Intergovernmental	297,396,618	-	-	-	110,027,624	407,424,242
Charges for services	5,866,154	-	-	-	19,879,467	25,745,621
Fines and forfeitures	2,405,567	-	-	-	-	2,405,567
Investment earnings (losses)	1,096,958	-	-	-	2,131,383	3,228,341
Donations	-	-	-	-	4,752,654	4,752,654
Contributions to permanent funds	-	-	-	-	159,535	159,535
Miscellaneous	2,998,094	-	-	-	1,198,670	4,196,764
Total revenues	616,835,912	-	2,325,816	-	138,149,333	757,311,061
Expenditures:						
Current:						
General government	19,373,993	-	-	30,361,282	4,208,645	53,943,920
Public safety	93,296,782	-	-	966,192	15,621,869	109,884,843
Health and human services	3,652,282	-	-	-	14,702,262	18,354,544
Education	260,465,503	-	-	-	91,419,680	351,885,183
Public works	22,755,023	2,868,015	-	1,274,680	22,989,613	49,887,331
Culture and recreation	10,445,296	-	-	91,697	8,826,916	19,363,909
Fringe benefits	109,888,167	-	-	-	-	109,888,167
Community development	-	-	-	-	7,272,789	7,272,789
State and regional charges	31,102,311	-	-	-	-	31,102,311
Debt service:						
Principal	34,494,216	-	9,189,752	-	2,233,382	45,917,350
Interest	16,254,425	-	5,786,144	-	635,740	22,676,309
Total expenditures	601,727,998	2,868,015	14,975,896	32,693,851	167,910,896	820,176,656
Excess (deficiency) of revenues over expenditures	15,107,914	(2,868,015)	(12,650,080)	(32,693,851)	(29,761,563)	(62,865,595)
Other financing sources (uses):						
Transfers in	3,938,825	-	11,273,845	-	7,306,927	22,519,597
Transfers out	(12,197,572)	-	(500,000)	(550,162)	(8,249,043)	(21,496,777)
Premium on issuance of bonds and notes	1,738,615	-	-	1,460,527	1,163,402	4,362,544
Issuance of bonds	-	-	-	16,637,142	22,039,937	38,677,079
Premium on issuance of refunding bonds	-	-	-	241,824	370,346	612,170
Issuance of refunding bonds	-	-	-	3,578,000	5,314,000	8,892,000
Payment to refunded bonds escrow agent	-	-	-	(3,819,824)	(5,684,346)	(9,504,170)
Total other financing sources (uses)	(6,520,132)	-	10,773,845	17,547,507	22,261,223	44,062,443
Net change in fund balances	8,587,782	(2,868,015)	(1,876,235)	(15,146,344)	(7,500,340)	(18,803,152)
Fund balances – beginning	43,548,439	(25,433,282)	19,901,430	(17,501,065)	59,025,447	79,540,969
Fund balances – ending	\$ 52,136,221	(28,301,297)	18,025,195	(32,647,409)	51,525,107	60,737,817

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, 2017

Net change in fund balances - total governmental funds (Exhibit 5)	\$ (18,803,152)
<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	106,156,622
Depreciation	(45,678,946)
<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>	
	(7,915,190)
<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	(47,569,079)
Bond and note maturities	55,280,348
Net deferrals and amortization of bond premiums	(321,551)
<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>	
	(1,371,933)
<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>	
	3,810,634
<p>Pension expense reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
	(26,148,406)
<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>	
Net OPEB obligation	(31,632,931)
Capital lease principal payments	1,366,705
Judgments and claims	248,373
Compensated absences	(278,127)
Landfill closure and post closure care	(1,401,662)
	<u>\$ (14,258,295)</u>
Change in net position of governmental activities (Exhibit 2)	<u>\$ (14,258,295)</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Net Position

Proprietary Funds

June 30, 2017

	Business-type activities				Governmental
	Major		Nonmajor	Totals	Internal Service Fund
	Water	Sewer	Golf Course		
Assets:					
Current assets:					
Cash and cash equivalents	\$ 6,929,919	4,004,163	112,736	11,046,818	29,305,903
Restricted cash and cash equivalents	3,683,717	8,182,212	375,338	12,241,267	-
Receivables (net)	3,202,056	12,724,252	-	15,926,308	3,088,229
Total current assets	13,815,692	24,910,627	488,074	39,214,393	32,394,132
Noncurrent assets:					
Capital assets:					
Land	6,882,950	116,500	-	6,999,450	-
Construction-in-progress	-	-	403,513	403,513	-
Buildings	43,904,652	5,459,258	965,493	50,329,403	-
Infrastructure	167,311,349	227,043,235	1,709,731	396,064,315	-
Equipment and other	1,064,306	515,745	-	1,580,051	-
Rolling equipment	3,480,940	8,349,888	-	11,830,828	-
Less accumulated depreciation	(111,262,071)	(117,703,000)	(1,536,152)	(230,501,223)	-
Capital assets, net	111,382,126	123,781,626	1,542,585	236,706,337	-
Due from intergovernmental	-	31,381	-	31,381	-
Total noncurrent assets	111,382,126	123,813,007	1,542,585	236,737,718	-
Total assets	125,197,818	148,723,634	2,030,659	275,952,111	32,394,132
Deferred outflows of resources:					
Related to pensions	3,483,358	1,451,068	88,386	5,022,812	-
Liabilities:					
Current liabilities:					
Accounts payable	949,207	1,807,074	374,357	3,130,638	630,005
Accrued liabilities	669,441	1,035,033	12,862	1,717,336	5,832,940
Retainage payable	180,232	324,683	-	504,915	-
Judgments and claims	163,305	44,544	-	207,849	-
Compensated absences	404,042	177,030	10,141	591,213	-
Temporary loans	3,920,000	9,757,967	440,000	14,117,967	-
Other	41,454	63,889	464	105,807	-
Bonds and notes payable	5,703,797	5,764,573	172,491	11,640,861	-
Total current liabilities	12,031,478	18,974,793	1,010,315	32,016,586	6,462,945
Noncurrent liabilities:					
Judgments and claims	550,790	179,806	-	730,596	-
Compensated absences	98,824	39,976	11,618	150,418	-
Net pension liability	18,078,664	8,193,930	459,841	26,732,435	-
OPEB payable	5,818,377	3,008,741	222,396	9,049,514	-
Other	252,341	419,677	2,089	674,107	-
Bonds and notes payable	49,749,724	87,300,298	1,059,943	138,109,965	-
Total noncurrent liabilities	74,548,720	99,142,428	1,755,887	175,447,035	-
Total liabilities	86,580,198	118,117,221	2,766,202	207,463,621	6,462,945
Deferred inflows of resources:					
Related to pensions	522,205	386,086	10,445	918,736	-
Net position (deficit):					
Net investment in capital assets	55,584,887	29,065,224	245,488	84,895,599	-
Unrestricted	(14,006,114)	2,606,171	(903,090)	(12,303,033)	25,931,187
Total net position (deficit)	\$ 41,578,773	31,671,395	(657,602)	72,592,566	25,931,187

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, 2017

	Business-type activities			Totals	Governmental
	Major		Nonmajor		Internal
	Water	Sewer	Golf Course		Service Fund
Operating revenues:					
Charges for services	\$ 28,680,384	41,014,333	-	69,694,717	-
Employer contributions	-	-	-	-	68,113,341
Employee contributions	-	-	-	-	23,321,110
Fees	-	-	1,095,704	1,095,704	-
Miscellaneous	1,569,672	940,051	10,264	2,519,987	-
Total operating revenues	30,250,056	41,954,384	1,105,968	73,310,408	91,434,451
Operating expenses:					
Salaries and benefits	11,815,160	6,626,715	417,586	18,859,461	-
Benefit payments	-	-	-	-	87,826,743
Ordinary maintenance	6,671,481	23,089,757	821,817	30,583,055	-
Indirect costs	2,287,654	3,607,345	30,743	5,925,742	-
Depreciation	7,333,759	8,980,297	118,259	16,432,315	-
Total operating expenses	28,108,054	42,304,114	1,388,405	71,800,573	87,826,743
Operating income (loss)	2,142,002	(349,730)	(282,437)	1,509,835	3,607,708
Nonoperating revenues					
(expenses):					
Investment income	-	-	-	-	202,926
Interest expense	(2,378,862)	(3,681,535)	(54,493)	(6,114,890)	-
Total nonoperating revenues (expenses)	(2,378,862)	(3,681,535)	(54,493)	(6,114,890)	202,926
Income (loss) before capital grants and transfers	(236,860)	(4,031,265)	(336,930)	(4,605,055)	3,810,634
Capital grants and donations	-	285,743	-	285,743	-
Transfers in	-	-	338,202	338,202	-
Transfers out	(787,283)	(553,778)	(19,961)	(1,361,022)	-
Change in net position	(1,024,143)	(4,299,300)	(18,689)	(5,342,132)	3,810,634
Total net position – beginning	42,602,916	35,970,695	(638,913)	77,934,698	22,120,553
Total net position – ending	\$ 41,578,773	31,671,395	(657,602)	72,592,566	25,931,187

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	<u>Business-type activities</u>				<u>Governmental activities</u>
	<u>Major</u>		<u>Nonmajor</u>	<u>Totals</u>	<u>Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Golf Course</u>		
Cash flows from operating activities:					
Receipts from customers	\$ 30,513,832	41,338,271	1,105,968	72,958,071	91,434,451
Payments for interfund service provided	-	-	-	-	(91,749,816)
Payments to suppliers	(9,705,376)	(26,650,766)	(561,690)	(36,917,832)	-
Payments to employees	(10,333,195)	(5,946,720)	(356,257)	(16,636,172)	-
Net cash provided (used) by operating activities	<u>10,475,261</u>	<u>8,740,785</u>	<u>188,021</u>	<u>19,404,067</u>	<u>(315,365)</u>
Cash flows from noncapital financing activities:					
Transfers in	-	-	338,202	338,202	-
Transfers (out)	(787,283)	(553,778)	(19,961)	(1,361,022)	-
Net cash provided (used) by noncapital financing activities	<u>(787,283)</u>	<u>(553,778)</u>	<u>318,241</u>	<u>(1,022,820)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Intergovernmental subsidies and grants	-	200,000	-	200,000	-
Issuance of capital debt	13,625,380	26,743,366	492,785	40,861,531	-
Acquisition and construction of capital assets	(5,583,198)	(9,973,861)	(403,513)	(15,960,572)	-
Principal paid on capital debt	(16,663,796)	(19,545,498)	(219,523)	(36,428,817)	-
Interest paid on capital debt	(2,308,115)	(3,436,662)	(52,562)	(5,797,339)	-
Net cash provided (used) by capital and related financing activities	<u>(10,929,729)</u>	<u>(6,012,655)</u>	<u>(182,813)</u>	<u>(17,125,197)</u>	<u>-</u>
Cash flows from investing activities:					
Investment income	-	-	-	-	202,926
Net increase (decrease) in cash and cash equivalents	(1,241,751)	2,174,352	323,449	1,256,050	(112,439)
Cash and cash equivalents at beginning of year (includes \$6,149,547, \$5,699,749 and \$77,230 reported as restricted in the Water, Sewer and Golf Course [nonmajor] funds)	<u>11,855,387</u>	<u>10,012,023</u>	<u>164,625</u>	<u>22,032,035</u>	<u>29,418,342</u>
Cash and cash equivalents at end 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>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 2,142,002	(349,730)	(282,437)	1,509,835	3,607,708
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	7,333,759	8,980,297	118,259	16,432,315	-
Net deferred outflows	(38,771)	230,607	(705)	191,131	-
Net OPEB obligation	504,932	284,203	30,253	819,388	-
Net deferred inflows	(36,808)	278,424	(227)	241,389	-
Effect of changes in assets and liabilities requiring current expenditure of cash:					
Accounts receivable	263,776	(616,113)	-	(352,337)	(516,653)
Accounts payable	(615,916)	(73,788)	286,962	(402,742)	(1,567,028)
Accrued liabilities	-	-	-	-	(1,839,392)
Judgments and claims payable	(217,045)	81,673	-	(135,372)	-
Compensated absences payable	11,842	6,979	7,561	26,382	-
Net pension liability	1,127,490	(81,767)	28,355	1,074,078	-
Total adjustments	<u>8,333,259</u>	<u>9,090,515</u>	<u>470,458</u>	<u>17,894,232</u>	<u>(3,923,073)</u>
Net cash provided (used) by operating activities	<u>\$ 10,475,261</u>	<u>8,740,785</u>	<u>188,021</u>	<u>19,404,067</u>	<u>(315,365)</u>
Noncash investing, capital and financing activities:					
Non-cash contribution-loan forgiven by state	\$ -	85,743	-	85,743	-
Increase to notes payable for proceeds due from MA Clean Water Trust	-	(31,381)	-	(31,381)	-

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Statement of Fiduciary Net Position

June 30, 2017

	Pension Trust Fund (As of December 31, 2016)	Agency Fund
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	\$ 4,599,611	439,862
Investments, at fair value:		
Equities	11,236,496	-
Fixed income	103,086,027	-
Pooled equities	321,449,471	-
Pooled fixed income	72,242,242	-
External Investment Pool	54,496,590	-
Real estate	133,514,184	-
Alternative investments	138,391,814	-
Total investments	<u>834,416,824</u>	<u>-</u>
Receivables:		
Accrued interest and dividends	599,072	-
Due from Commonwealth of Massachusetts and other systems	712,033	-
Receivable for securities sold	594,582	-
Other receivables	160,590	-
Total receivables	<u>2,066,277</u>	<u>-</u>
Securities lending collateral	5,692,143	-
Total assets	<u>846,774,855</u>	<u>439,862</u>
Liabilities:		
Accounts payable and accrued expenses	309,549	28,163
Due to student groups	-	411,699
Due to Commonwealth of Massachusetts and other systems	3,027,024	-
Payable for securities purchased	401,428	-
Collateral held on securities lending transactions	5,692,143	-
Total liabilities	<u>9,430,144</u>	<u>439,862</u>
Net position:		
Net position restricted for pensions	\$ <u>837,344,711</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, 2017

	Pension Trust Fund (Year ended December 31, 2016)
	<u> </u>
Additions:	
Contributions from:	
Employers	\$ 44,411,990
Plan members	17,797,519
	<u> </u>
Total contributions	62,209,509
Investment earnings:	
Interest and dividends	14,730,252
Securities lending income	37,825
Net realized and unrealized gains	49,304,368
Less: management fees	(5,307,309)
Less: borrower rebates and fees under securities lending program	(27,242)
	<u> </u>
Net investment income	58,737,894
Other	1,854,736
	<u> </u>
Total additions	<u>122,802,139</u>
Deductions:	
Benefit payments to plan members and beneficiaries	77,848,021
Reimbursements to other systems	3,027,024
Refunds and transfers of plan member accounts to other systems	1,846,784
Administrative expenses	565,669
	<u> </u>
Total deductions	<u>83,287,498</u>
Net increase (decrease) in net position	39,514,641
Net position restricted for pensions – beginning	<u>797,830,070</u>
Net position restricted for pensions – ending	<u>\$ 837,344,711</u>

See accompanying notes to basic financial statements.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

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CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(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, 2017, except for the City of Worcester Contributory Retirement System (WRS), which is presented as of and for the fiscal year ended December 31, 2016.

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. 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, 2017

(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 36 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 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 2017 amounted to \$3,234,

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

which represented approximately 69.5% 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, 2017, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The implementation of GASB Statements No. 74, 78 and 80 had no reporting impact for the City.

The implementation of GASB Statement No. 82 addresses issues regarding the presentation of payroll-related measures in required supplementary information.

(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 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.

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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 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

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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.
- **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.
- **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 funding for CitySquare, North High School, Airport, DCU Improvements, and other debt service.
- **Rehabilitation of Public Buildings Fund** – The rehabilitation of public buildings fund accounts for improvements to City owned buildings.

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.

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.

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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.

(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.

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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 lien-ed 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.

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, 2017, and therefore are not reported.

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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 2017. Donated capital assets are valued at their estimated fair value at the time received. 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, 40 years for facilities and 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 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 one item that qualifies for reporting in this category. Deferred outflows

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related to pensions 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 two types of items that qualify for reporting in this category. Deferred inflows related to pensions are reported in the government-wide and proprietary funds financial statements in accordance with GASB Statement No. 68. 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 trust 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.

“PEG access grant” represents restrictions placed on assets related to public, education and government access grants.

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:

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“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 fund balance 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.

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.

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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, 2017, 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 2017 were \$247.

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.

Investment Income

Except for the permanent funds and the CitySquare fund, 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.

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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 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 2017, the original general fund expenditure budget, excluding intergovernmental charges, was increased by \$1,147. In fiscal 2017, expenditures exceeded budgetary estimates for intergovernmental expenditures by \$11.

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(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

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 to collateralize certain bank accounts. As of June 30, 2017, \$275,786 of the City's bank balance of \$297,953 was insured and collateralized with securities held by pledging financial institutions, and \$22,167 was uninsured and uncollateralized.

Investments Summary

The City's investments at June 30, 2017, are presented below. All investments are presented by investment type, with debt securities presented by maturity.

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<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</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.....	\$ 287	62	225	-	-
U.S. Agencies.....	1	-	1	-	-
Corporate bonds.....	157	-	10	68	79
Money market mutual funds.....	2,491	2,491	-	-	-
Fixed income securities.....	5,581	5,581	-	-	-
External investment pools.....	41,632	41,632	-	-	-
 Total debt securities.....	 50,149	 49,766	 236	 68	 79
<u>Other Investments:</u>					
Equity securities.....	51				
Equity mutual funds.....	13,487				
 Total other investments.....	 13,538				
 Total investments.....	 \$ 63,687				

Investments - Interest Rate Risk of Debt Securities

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

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, 2017, none of the City's investments were exposed to custodial credit risk.

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Investments - Credit Risk of Debt Securities

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, 2017, 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:

<u>Quality Ratings</u>	<u>U.S. Agencies</u>	<u>Corporate Bonds</u>	<u>Money Market Mutual Funds</u>	<u>Fixed Income Securities</u>	<u>External Investment Pools</u>	<u>Totals</u>
AA+.....	\$ 1	10	-	-	-	11
AA-.....	-	6	-	-	-	6
A.....	-	4	-	-	-	4
A-.....	-	18	-	-	-	18
BBB+.....	-	39	-	-	-	39
BBB.....	-	42	-	-	-	42
BBB-.....	-	38	-	-	-	38
Unrated.....	-	-	2,491	5,581	41,632	49,704
Total.....	\$ <u>1</u>	<u>157</u>	<u>2,491</u>	<u>5,581</u>	<u>41,632</u>	<u>49,862</u>

Investments – Fair Value Measurements

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..... \$	287	\$ 287	\$ -	\$ -
U.S. Agencies.....	1	1	-	-
Corporate bonds.....	157	157	-	-
Fixed income securities.....	5,581	5,581	-	-
Total Debt Securities.....	<u>6,026</u>	<u>6,026</u>	<u>-</u>	<u>-</u>
<u>Equity Securities:</u>				
Equity securities.....	51	51	-	-
Equity mutual funds.....	13,487	13,487	-	-
Total Equity Securities	<u>13,538</u>	<u>13,538</u>	<u>-</u>	<u>-</u>
 Total Investments by Fair Value Level \$	 <u>19,564</u>	 <u>\$ 19,564</u>	 <u>\$ -</u>	 <u>\$ -</u>
 Total Investments measured at Fair Value \$	 <u>19,564</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 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

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, 2016, the WRS's bank balance of \$566 was not exposed to custodial credit risk.

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Investments Summary

The WRS's investments at December 31, 2016 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.....	\$ 45,435	1	18,564	21,485	5,385
U.S. Agencies.....	18,638	-	1,294	-	17,344
Corporate bonds.....	24,464	504	5,853	10,674	7,433
Money market mutual funds.....	4,558	4,558	-	-	-
Securities lending short-term collateral investment pool.....	5,692	5,692	-	-	-
External investment pool.....	54,497	54,497	-	-	-
Fixed income mutual funds.....	72,242	72,242	-	-	-
Mortgage backed securities.....	8,426	-	31	-	8,395
Asset backed securities.....	6,123	-	3,785	1,192	1,146
Total debt securities.....	<u>240,075</u>	<u>137,494</u>	<u>29,527</u>	<u>33,351</u>	<u>39,703</u>
<u>Other investments:</u>					
Equity securities.....	11,237				
Equity mutual funds.....	321,449				
Real estate investments.....	133,514				
Alternative investments.....	<u>138,392</u>				
Total other investments.....	<u>604,592</u>				
Total investments.....	\$ <u>844,667</u>				

Investments - Interest Rate Risk of Debt Securities

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

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 investments are either insured and/or registered in the name of the WRS. As of December 31, 2016, the WRS was not exposed to custodial credit risk.

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Investments - Credit Risk of Debt Securities

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, 2016, 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.....	\$ 194	1,542	-	-	-	-	4,210	1,584	7,530
AA+.....	-	941	-	-	-	-	359	-	1,300
AA.....	1,464	208	-	-	-	-	-	-	1,672
AA-.....	302	3,058	-	-	-	-	-	-	3,360
A+.....	223	638	-	-	-	-	-	-	861
A.....	-	2,727	-	-	-	-	-	-	2,727
A-.....	-	3,001	-	-	-	-	-	-	3,001
BBB+.....	-	7,431	-	-	-	-	-	-	7,431
BBB.....	-	3,677	-	-	-	-	-	-	3,677
BBB-.....	-	1,241	-	-	-	-	-	-	1,241
Unrated.....	15,438	-	4,558	5,692	72,242	54,497	3,857	4,539	160,823
Total.....	\$ 17,621	24,464	4,558	5,692	72,242	54,497	8,426	6,123	193,623

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

Deposits and Investments – Foreign Currency Risk

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, 2016, the WRS had no exposure to foreign currency risk.

Investments – Concentration of Credit Risk

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, 2016, the WRS was not exposed to concentration of credit risk.

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Investments – Fair Value

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, 2016:

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..... \$	45,435	45,435	-	-
U.S. Agencies.....	18,638	18,638	-	-
Corporate bonds.....	24,464	24,464	-	-
Fixed income mutual funds.....	72,242	72,242	-	-
Mortgage backed securities.....	8,426	8,426	-	-
Asset backed securities.....	6,123	6,123	-	-
Total debt securities.....	<u>175,328</u>	<u>175,328</u>	<u>-</u>	<u>-</u>
<u>Equity Securities:</u>				
Equity securities.....	11,237	11,237	-	-
Equity mutual funds.....	261,786	261,786	-	-
Total equity securities.....	<u>273,023</u>	<u>273,023</u>	<u>-</u>	<u>-</u>
Total investments by fair value level.....	<u>448,351</u>	<u>448,351</u>	<u>-</u>	<u>-</u>
<u>Investments measured at the net asset value (NAV)</u>				
Private equities.....	70,717			
Macro allocation collective investment fund.....	47,713			
Real estate.....	133,514			
External investment pool (PRIT).....	54,497			
Pooled hedge funds (PRIT).....	19,538			
Pooled international equities fund (PRIT).....	59,663			
Other pooled funds (PRIT).....	424			
Investments measured at the net asset value (NAV).....	<u>386,066</u>			
Total investments measured at fair value..... \$	<u>834,417</u>			

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

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	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equities (1).....	70,717	50,796	N/A ⁽¹⁾	N/A ⁽¹⁾
Macro allocation collective investment fund (2).....	47,713	-	N/A ⁽²⁾	N/A ⁽²⁾
Real estate (3).....	133,514	3,937	N/A ⁽³⁾	N/A ⁽³⁾
External investment pool (PRIT) (4).....	54,497	7,339	N/A ⁽⁴⁾	N/A ⁽⁴⁾
Pooled hedge funds (PRIT) (5).....	19,538	-	N/A ⁽⁵⁾	N/A ⁽⁵⁾
Pooled international equities fund (PRIT) (6).....	59,663	-	N/A ⁽⁶⁾	N/A ⁽⁶⁾
Other pooled funds (PRIT) (7).....	424	7,051	N/A ⁽⁷⁾	N/A ⁽⁷⁾
Total investments measured at NAV.....	\$ <u>386,066</u>			

- (1) *Private equities* - This investment type includes investments in 36 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. These investments are illiquid. Distributions from each fund will be received as the underlying investments of the funds are liquidated. For approximately 38 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 with three days’ notice.
- (3) *Real estate* - This investment type includes investments in 9 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 80 percent of these investments can be redeemed on the first business day of the quarter following 45 days’ 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 hedge funds (PRIT)* – This investment type consists of pooled diversified hedge funds using strategies including fund of funds, direct funds, and separately managed mandates. 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) *Pooled international equities (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.
- (7) *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 (District)

Deposits – Custodial Credit Risk

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 invests in units in the Massachusetts Municipal Depository Trust (MMDT). At June 30, 2017, the District’s deposits with MMDT totaled \$1,917. 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.

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Investments Summary

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, 2017:

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.

	June 30, 2017	Fair Value Measurement Listing		
		Level 1	Level 2	Level 2
<u>Investments by Fair Value Level</u>				
Debt securities:				
U.S. Treasury Bill	\$ 250	250	-	-
U.S. Agency Obligations	3,198	3,198	-	-
Total Debt Securities	3,448	3,448	-	-
Equity securities:				
Industrials	635	635	-	-
Consumer discretionary	246	246	-	-
Consumer staples	1,068	1,068	-	-
Health care	1,019	1,019	-	-
Financial services	580	580	-	-
Other	263	263	-	-
Total equity securities	3,811	3,811	-	-
Total investments by fair value	7,259	7,259	-	-
Cash	730			
Total Investments	\$ 7,989			

At June 30, 2017, the District had a net unrealized gain of \$903 on its investments.

Investments - Interest Rate Risk of Debt Securities

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

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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

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, 2017. 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, 2017, none of the District’s investments were subject to custodial credit risk.

Investments - Credit Risk of Debt Securities

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, 2017, the credit quality ratings of the District’s debt securities are as follows:

<u>Quality Rating</u>	<u>U.S. Agencies</u>
Aaa	\$ 3,198

Investments – Concentration of Credit Risk

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, 2017, 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.

(d) Deposits of the WRA

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

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Deposits - Custodial Credit Risk

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, 2017, none of the WRA's bank balance of \$28 was uninsured and uncollateralized.

(e) Securities Lending

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, 2016. 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, 2016, 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, 2016 were \$5,816 and \$5,692, respectively. Borrower rebates and fees paid to the broker were \$27 for the year ended December 31, 2016.

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

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

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.

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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, 2016:

Active employees	3,342
Pensioners and beneficiaries	2,728
Inactive employees not entitled to or not receiving benefits	659
Inactive employees entitled to or receiving benefits	<u>96</u>
Total members	<u>6,825</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

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 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

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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.

(c) **Contributions**

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.

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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 \$1,153 for the fiscal year ended June 30, 2017 and, accordingly, are reported in the general fund as intergovernmental revenues and fringe benefits.

For the year ended December 31, 2016, active member contributions totaled \$17,798 and employer contributions totaled \$44,412. Contributions to WRS from the City were \$40,756 for the year ended June 30, 2017.

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

The components of the net pension liability of the WRS at December 31, 2016, were as follows:

Total pension liability	\$	1,346,266
Plan fiduciary net position		<u>(837,345)</u>
Net pension liability	\$	<u>508,921</u>
Plan fiduciary net position as a percentage of the total pension liability		62.20%

At June 30, 2017, the City reported a liability of \$467,030 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. The City's proportion of the net pension liability is the proportionate share of employer contributions to WRS for the year ended December 31, 2016, actuarially determined. At December 31, 2016, the City's proportion was 91.77 percent, which was 0.3 percent lower than the proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$68,411. At June 30, 2017, the City reported deferred outflows (inflows) of resources of \$76,768 related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Deferred outflows (inflows) of resources related to pensions		
Changes of assumptions	\$ 32,457	-
Net difference between projected and actual earnings on WRS investments	50,250	-
Change in proportion and differences between employer contributions and proportionate share of contributions	288	2,892
Differences between expected and actual experience	<u>-</u>	<u>3,335</u>
Total	<u>\$ 82,995</u>	<u>6,227</u>

The following schedule reflects the amortization of the net balance of remaining deferred outflows/ (inflows) of resources at June 30, 2017 that will be recognized in pension expense as follows:

<u>Year Ended June 30</u>		
2018	\$	25,014
2019		25,014
2020		20,066
2021		4,331
2022		<u>2,343</u>
	\$	<u>76,768</u>

(e) Actuarial Assumptions and Methods

The total pension liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Level payments on the 2002 and 2010 ERI liability; payment on the remaining unfunded liability increases 5.85% in fiscal 2018 and 6.3% per year thereafter.
Remaining amortized period (period is closed)	1 year for the 2002 ERI liability 4 years for the 2010 ERI liability 16 years for the remaining unfunded liability 16 years is the equivalent single amortization period (ESAP)

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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	7.375%, net of pension plan investment expense, including inflation.
Projected salary increases	4.50%
Rate of inflation	3.5%
Cost of living adjustments	3.0% of the first \$13 of retirement income.
Mortality rates:	Based on the RP-2000 Employee Mortality Table projected generationally using Scale BB2D from 2009. For disabled retirees, the mortality rates were based on the RP-2000 Mortality Table projected generationally using Scale BB2D from 2015.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2016 through December 31, 2016. 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 7.5% to 7.375%.

(f) Investment Policies and Rates of Return

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

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(In thousands of dollars)

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.

For the year ended December 31, 2016, the annual money-weighted rate of return on WRS investments, net of investment expense, was 7.87%. 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, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Long-Term Expected Real Rate of Return (%)</u>
Domestic equity	22.0	6.44
International developed markets equity	12.0	7.40
International emerging markets equity	9.0	9.42
Core fixed income	14.0	2.02
High-yield fixed income	7.0	4.43
Real estate	10.0	5.00
Commodities	7.0	4.43
Hedge fund, global tactical asset allocation, risk parity	9.0	3.75
Private equity	10.0	10.47
Cash	0.0	1.06
	<u>100.0</u>	

(g) *Discount Rate*

The discount rate used to measure the total pension liability was 7.375 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

The following presents the net pension liability of WRS calculated using the discount rate of 7.375 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 (6.375 percent) or 1-percentage-point higher (8.375 percent) than the current rate:

	1% Decrease (6.375%)	Current Discount Rate (7.375%)	1% Increase (8.375%)
System's net pension liability	\$ 657,353	\$ 508,921	\$ 383,114

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.375 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 (6.375 percent) or 1-percentage-point higher (8.375 percent) than the current rate:

	1% Decrease (6.375%)	Current Discount Rate (7.375%)	1% Increase (8.375%)
City's share of net pension liability	\$ 603,245	\$ 467,030	\$ 351,579

(i) Legally Required Reserve Accounts

The balance in WRS's legally required reserves as of December 31, 2016 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 188,911	Active members' contribution balance
Annuity Reserve Fund	63,217	Retired members' contribution account
Military Service Fund	201	Members' contribution account while on military leave
Pension Reserve Fund	579,749	Amounts appropriated to fund future retirement benefits
Pension Fund	5,267	Remaining net position
Total	<u>\$ 837,345</u>	

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

CITY OF WORCESTER, MASSACHUSETTS

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(In thousands of dollars)

(6) Massachusetts Teachers' Retirement System

(a) *Plan Description and Benefits*

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*

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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

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, 2017. The Commonwealth's net pension liability associated with the City was \$599,739.

The MTRS' net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016.

For the year ended June 30, 2017, the City recognized pension expense of \$61,177 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

(d) Actuarial assumptions

The MTRS' total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. 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 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct). Post-retirement -reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct). Disability -assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year 2014 set forward 4 years.
Other	3.5% interest rate credited to the annuity savings fund 3.0% cost of living increase per year

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(e) Investment Policies and Rates of Return

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, 2016 are summarized in the following table:

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
Global Equity	40.0	6.9
Core fixed income	13.0	1.6
Private equity	10.0	8.7
Real estate	10.0	4.6
Value Added Fixed Income	10.0	4.8
Hedge funds	9.0	4.0
Portfolio completion strategies	4.0	3.6
Timber/Natural Resources	4.0	5.4
	<u>100.0</u>	

(f) Discount rate

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.

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(In thousands of dollars)

(g) Pension plan fiduciary net position

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

(7) Pension Plan (The District)

(a) Plan Description

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

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(In thousands of dollars)

(c) Contributions

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

At June 30, 2017, the District reported a liability of \$8,987 for its proportionate share of the net pension liability. The net position was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. 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, 2016, the District's proportion was 0.06517 percent, which was an increase of 0.00280 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,314. At June 30, 2017, 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	\$ 427	-
Changes in assumptions	997	-
Net difference between projected and actual earnings on plan investments	603	-
Changes in proportionate share of contributions	314	29
District contributions subsequent to the measurement date	419	-
Total	<u>\$ 2,760</u>	<u>29</u>

The \$419 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 ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

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<u>Year Ended June 30</u>	
2018	\$ 530
2019	530
2020	754
2021	445
2022	53
	<u>\$ 2,312</u>

(e) Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. 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. Chapter 176 of the Acts of 2011 created a one-time election for eligible members of the Optional Retirement Plan (ORP) to transfer to MSERS and purchase service for the period while members of the ORP. As a result, the total pension liability of MSERS has increased by approximately \$400,000 as of June 30, 2016.
4. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2000 Employees table projected 20 years with Scale BB and a base year of 2009 (gender distinct).
 - Post-retirement – reflects RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).
 - Disability – reflects a mortality rate is assumed to be in accordance with RE-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.

CITY OF WORCESTER, MASSACHUSETTS

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(f) Long-Term Expected Rate of Return

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, 2016 are summarized in the following table:

Asset Class	Target Allocation (%)	Long-Term Expected Real Rate of Return (%)
Global Equity	40.0	6.9
Core fixed income	13.0	1.6
Hedge funds	9.0	4.0
Private equity	10.0	8.7
Real estate	10.0	4.6
Value Added Fixed Income	10.0	4.8
Timber/Natural Resources	4.0	5.4
Portfolio completion strategies	4.0	3.6
	100.0	

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.50 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>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
District's proportionate share of the net pension liability	\$ 11,710	\$ 8,987	\$ 6,677

(8) Other Postemployment Benefits (OPEB)

(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 legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2015, the latest actuarial valuation, is as follows:

Active employees	4,146
Retired employees, beneficiaries and dependents	<u>5,083</u>
Total	<u><u>9,229</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 100% towards a \$5 term life insurance premium. 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) Annual OPEB Cost and Net OPEB Obligation - City

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on

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an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the City's net OPEB obligation:

	<u>Amount</u>
Annual required contribution	\$ 53,756
Interest on net OPEB obligation	11,251
Adjustment to annual required contribution	<u>(9,376)</u>
Annual OPEB cost	55,631
Contributions made	<u>(23,179)</u>
Increase in net OPEB obligation	32,452
Net OPEB obligation at beginning of year	<u>281,269</u>
Net OPEB obligation at end of year	\$ <u>313,721</u>

Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u> <u>(AOPEBC)</u>	<u>Percentage</u> <u>of AOPEBC</u> <u>Contributed (%)</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2015	\$ 49,766	48.2 %	\$ 249,936
June 30, 2016	53,375	41.3	281,269
June 30, 2017	55,631	41.7	313,721

CITY OF WORCESTER, MASSACHUSETTS

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(In thousands of dollars)

(d) Funded Status and Funding Progress – City

The funded status of the Plan at July 1, 2015, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued		Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
		Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)			
07/01/15	\$ -	\$ 860,873	\$ 860,873	0.0%	\$ 352,401	244%

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

(e) 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 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.

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

Valuation date:	July 1, 2015
Actuarial cost method:	Projected Unit Credit
Amortization method:	Increasing at 4% over 30 years on an open amortization period for pay-as-you-go funding
Remaining amortization period:	30 years as of July 1, 2015 (open period)
Discount rate/investment rate of return:	4.0%
Inflation rate:	3.0%
Healthcare/Medical cost trend rate:	7.0% decreasing 0.5% for 4 years to an ultimate level of 5.0% per year

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

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(f) Allocation of AOPEBC - City

AOPEBC costs were allocated to the City's functions as follows:

Governmental Activities:	
General government	\$ 2,434
Public safety	13,537
Health and human services	231
Education	35,042
Public works	1,565
Culture and recreation	<u>1,257</u>
Total AOPEBC - governmental activities	<u>54,066</u>
Business-Type Activities:	
Water	1,027
Sewer	508
Golf course (nonmajor)	<u>30</u>
Total AOPEBC - business-type activities	<u>1,565</u>
Total AOPEBC	<u>\$ 55,631</u>

(g) 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, 2017, the latest actuarial valuation, is as follows:

Active employees	55
Retired employees, beneficiaries and dependents	<u>30</u>
Total	<u>85</u>

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(In thousands of dollars)

(h) 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. The District currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. In addition, the GIC began charging the District for the cost of benefits for only some of the retirees in fiscal 2017. The “on-behalf of” payment for the retirees and survivors is estimated at \$281 for fiscal 2017 and has been included in these financial statements as revenue. The costs of administering the Plan are paid by the District.

(i) Annual OPEB Cost and Net OPEB Obligation – The District

The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the District’s net OPEB obligation:

	<u>Amount</u>
Annual required contribution	\$ 517
Interest on net OPEB obligation	90
Adjustment to annual required contribution	<u>(80)</u>
Annual OPEB cost	527
Contributions made (by state and District)	<u>(302)</u>
Increase in net OPEB obligation	225
Net OPEB obligation at beginning of year	<u>2,583</u>
Net OPEB obligation at end of year	<u>\$ 2,808</u>

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Trend information regarding annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u> <u>(AOPEBC)</u>	<u>Percentage</u> <u>of AOPEBC</u> <u>Contributed (%)</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2015	\$ 368	53.7 %	\$ 2,407
June 30, 2016	399	55.9	2,583
June 30, 2017	527	57.3	2,808

(j) Funded Status and Funding Progress – The District

The funded status of the Plan at June 30, 2017, the most recent actuarial valuation, was as follows:

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(A)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>(B)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(B-A)</u>	<u>Funded</u> <u>Ratio</u> <u>(A/B)</u>	<u>Covered</u> <u>Payroll</u> <u>(C)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Payroll</u> <u>((B-A)/C)</u>
06/30/17	\$ -	\$ 10,949	\$ 10,949	0.0%	\$ 3,680	298%

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 funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(k) Methods and Assumptions – The District

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

Valuation date:	June 30, 2017
Actuarial cost method:	Projected Unit Credit
Amortization period:	30 year level percent of pay assuming 4.0% increasing, open basis
Interest discount rate:	3.5%

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Healthcare/Medical cost trend rate: 4.5% for 2017 and thereafter

Mortality rate: RP-2000 Combined Healthy Table – Project to 2015 using scale AA and for the disabled, the RP-2000 Combined Healthy Table set forward 2 years.

(9) Accounts Receivable

At June 30, 2017, 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	\$ 12,894	(8,160)	4,734
Tax liens	3,762	-	3,762
Motor vehicle excise taxes	7,211	(4,407)	2,804
Special assessments	4,045	-	4,045
Departmental and other	5,580	(2,684)	2,896
	<u>33,492</u>	<u>(15,251)</u>	<u>18,241</u>
Intergovernmental	30,930	-	30,930
Total governmental funds	<u>64,422</u>	<u>(15,251)</u>	<u>49,171</u>
Internal Service Fund			
Self-insured health plan	3,088	-	3,088
Total internal service fund	<u>3,088</u>	<u>-</u>	<u>3,088</u>
Fiduciary Fund			
Departmental and other	1,354	-	1,354
Intergovernmental	712	-	712
Total fiduciary funds	<u>2,066</u>	<u>-</u>	<u>2,066</u>
Total receivables	\$ <u>69,576</u>	<u>(15,251)</u>	<u>54,325</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

At June, 30, 2017, receivables for the enterprise funds are as follows:

	Gross	Allowance	Net
	Amount	for	Amount
	<u>Amount</u>	<u>Uncollectibles</u>	<u>Amount</u>
<u>Receivables:</u>			
Charges for services	\$ 13,132	-	13,132
Utility liens	1,666	-	1,666
Special assessments	1,128	-	1,128
	<u>15,926</u>	<u>-</u>	<u>15,926</u>
Intergovernmental	31	-	31
Total enterprise funds	\$ <u>15,957</u>	<u>-</u>	<u>15,957</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)	\$ 22,100	-	22,100
Unavailable revenue-property taxes			
Property taxes	3,263	-	3,263
Tax liens	3,402	-	3,402
	<u>6,665</u>	<u>-</u>	<u>6,665</u>
Unavailable revenue-other			
Special assessments	4,045	-	4,045
Departmental and other	1,536	1,360	2,896
Motor vehicle excise tax	1,730	-	1,730
Intergovernmental (other state)	1,647	-	1,647
	<u>8,958</u>	<u>1,360</u>	<u>10,318</u>
Total deferred inflows of resources	\$ <u>37,723</u>	<u>1,360</u>	<u>39,083</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(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 2017, \$11,575 of such assistance was received. Approximately \$26,459 will be received in future fiscal years. Of this amount, \$4,359 represents reimbursement of long-term interest costs, and \$22,100 represents reimbursement of approved construction costs. Accordingly, a \$22,100 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.

(10) Capital Assets

Capital asset activity for the year ended June 30, 2017 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	\$ 22,623	8	-	22,631
Construction in progress	73,407	69,201	50,414	92,194
Total capital assets not being depreciated	<u>96,030</u>	<u>69,209</u>	<u>50,414</u>	<u>114,825</u>
Capital assets, being depreciated:				
Buildings	666,429	57,806	-	724,235
Improvements other than buildings	152,145	6,434	-	158,579
Rolling equipment	32,205	2,370	-	34,575
Equipment and other	32,836	1,200	-	34,036
Infrastructure	282,753	19,551	-	302,304
	<u>1,166,368</u>	<u>87,361</u>	<u>-</u>	<u>1,253,729</u>
Less accumulated depreciation for:				
Buildings	281,450	22,225	-	303,675
Improvements other than buildings	19,511	7,670	-	27,181
Rolling equipment	25,953	1,609	-	27,562
Equipment and other	18,972	2,498	-	21,470
Infrastructure	141,645	11,677	-	153,322
	<u>487,531</u>	<u>45,679</u>	<u>-</u>	<u>533,210</u>
Total capital assets being depreciated, net	<u>678,837</u>	<u>41,682</u>	<u>-</u>	<u>720,519</u>
Governmental capital assets, net	\$ <u>774,867</u>	<u>110,891</u>	<u>50,414</u>	<u>835,344</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

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

Governmental activities:	
General government	\$ 455
Public safety	2,465
Health and human services	307
Education	15,186
Public works	18,676
Culture and recreation	8,547
Community development	<u>43</u>
Total depreciation expense – governmental activities	\$ <u><u>45,679</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	\$ 6,371	512	-	6,883
Total capital assets, not being depreciated	<u>6,371</u>	<u>512</u>	<u>-</u>	<u>6,883</u>
Capital assets, being depreciated:				
Buildings	43,905	-	-	43,905
Rolling equipment	3,248	305	72	3,481
Infrastructure	162,744	4,567	-	167,311
Equipment and other	875	189	-	1,064
Total capital assets, being depreciated	<u>210,772</u>	<u>5,061</u>	<u>72</u>	<u>215,761</u>
Less accumulated depreciation for:				
Buildings	22,283	1,242	-	23,525
Rolling equipment	2,397	212	72	2,537
Infrastructure	78,924	5,758	-	84,682
Equipment and other	396	122	-	518
Total accumulated depreciation	<u>104,000</u>	<u>7,334</u>	<u>72</u>	<u>111,262</u>
Total capital assets, being depreciated, net	<u>106,772</u>	<u>(2,273)</u>	<u>-</u>	<u>104,499</u>
Water capital assets, net	<u>113,143</u>	<u>(1,761)</u>	<u>-</u>	<u>111,382</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(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	7,661	688	-	8,349
Infrastructure	218,272	8,771	-	227,043
Equipment and other	516	-	-	516
Total capital assets, being depreciated	<u>231,908</u>	<u>9,459</u>	<u>-</u>	<u>241,367</u>
Less accumulated depreciation for:				
Buildings	2,498	209	-	2,707
Rolling equipment	5,105	569	-	5,674
Infrastructure	100,735	8,162	-	108,897
Equipment and other	384	41	-	425
Total accumulated depreciation	<u>108,722</u>	<u>8,981</u>	<u>-</u>	<u>117,703</u>
Total capital assets, being depreciated, net	<u>123,186</u>	<u>478</u>	<u>-</u>	<u>123,664</u>
Sewer capital assets, net	<u>123,303</u>	<u>478</u>	<u>-</u>	<u>123,781</u>
Golf course (nonmajor):				
Capital assets, not being depreciated				
Construction in progress	-	404	-	404
Total capital assets, not being depreciated	<u>-</u>	<u>404</u>	<u>-</u>	<u>404</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	404	43	-	447
Infrastructure	1,015	75	-	1,090
Total accumulated depreciation	<u>1,419</u>	<u>118</u>	<u>-</u>	<u>1,537</u>
Total capital assets, being depreciated, net	<u>1,257</u>	<u>(118)</u>	<u>-</u>	<u>1,139</u>
Golf capital assets, net	<u>1,257</u>	<u>286</u>	<u>-</u>	<u>1,543</u>
Business-type activities capital assets, net	<u>\$ 237,703</u>	<u>(997)</u>	<u>-</u>	<u>236,706</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(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	<u>2,515</u>	<u>2,749</u>	<u>2,818</u>	<u>2,446</u>
Total capital assets, not being depreciated	<u>3,217</u>	<u>2,749</u>	<u>2,818</u>	<u>3,148</u>
Capital assets, being depreciated:				
Treatment facilities	251,466	2,876	-	254,342
Equipment and other	<u>8,939</u>	<u>653</u>	<u>-</u>	<u>9,592</u>
Total capital assets, being depreciated	<u>260,405</u>	<u>3,529</u>	<u>-</u>	<u>263,934</u>
Less accumulated depreciation for:				
Treatment facilities	92,568	8,682	-	101,250
Equipment and other	<u>4,894</u>	<u>487</u>	<u>-</u>	<u>5,381</u>
Total accumulated depreciation	<u>97,462</u>	<u>9,169</u>	<u>-</u>	<u>106,631</u>
Total capital assets, being depreciated, net	<u>162,943</u>	<u>(5,640)</u>	<u>-</u>	<u>157,303</u>
The District's capital assets, net	\$ <u><u>166,160</u></u>	<u><u>(2,891)</u></u>	<u><u>2,818</u></u>	<u><u>160,451</u></u>
Discretely presented component				
units - WRA:				
Capital assets, not being depreciated				
Land	\$ 1,128	-	-	1,128
Construction in progress	<u>945</u>	<u>385</u>	<u>303</u>	<u>1,027</u>
Total capital assets, not being depreciated	<u>2,073</u>	<u>385</u>	<u>303</u>	<u>2,155</u>
Capital assets, being depreciated:				
Buildings	40,198	303	-	40,501
Equipment and other	<u>177</u>	<u>43</u>	<u>-</u>	<u>220</u>
Total capital assets, being depreciated	<u>40,375</u>	<u>346</u>	<u>-</u>	<u>40,721</u>
Less accumulated depreciation for:				
Buildings	15,002	1,038	-	16,040
Equipment and other	<u>130</u>	<u>6</u>	<u>-</u>	<u>136</u>
Total accumulated depreciation	<u>15,132</u>	<u>1,044</u>	<u>-</u>	<u>16,176</u>
Total capital assets, being depreciated, net	<u>25,243</u>	<u>(698)</u>	<u>-</u>	<u>24,545</u>
WRA capital assets, net	\$ <u><u>27,316</u></u>	<u><u>(313)</u></u>	<u><u>303</u></u>	<u><u>26,700</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Construction Commitments

The City has active construction projects as of June 30, 2017. 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, 2017</u>	<u>Remaining commitment</u>
Building improvements	\$ 54,723	15,458
Infrastructure improvements	86,354	26,694
Land improvements	13,077	5,687
Furniture and equipment	370	370
Total	<u>\$ 154,524</u>	<u>48,209</u>

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

(11) Net Investment in Capital Assets

Net investment in capital assets at June 30, 2017 is summarized as follows:

Governmental Activities

Capital assets	\$ 1,368,554
Less accumulated depreciation	(533,210)
Less outstanding long-term debt (including capital leases)	(478,418)
Less outstanding temporary debt	(89,570)
Add outstanding debt that is not capital related	136,980
Add unspent proceeds of capital related debt	<u>29,388</u>
Net investment in capital assets	<u>\$ 433,724</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	\$ 222,644	241,484	3,080	467,208
Less accumulated depreciation	(111,262)	(117,703)	(1,537)	(230,502)
Less outstanding long-term debt	(55,453)	(93,065)	(1,233)	(149,751)
Less outstanding temporary debt	(3,920)	(9,758)	(440)	(14,118)
Add unspent proceeds of capital related debt	<u>3,576</u>	<u>8,107</u>	<u>375</u>	<u>12,058</u>
Net investment in capital assets	<u>\$ 55,585</u>	<u>29,065</u>	<u>245</u>	<u>84,895</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(12) 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 \$1,683. 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, 2017, were as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ 1,209
2019	<u>604</u>
Total minimum lease payments	1,813
Less: amount representing interest	<u>(50)</u>
Present value of minimum lease payments	<u>\$ 1,763</u>

The portion of the capital lease that is due within one year is \$1,166 and amounts due in more than one year total \$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 \$6,904. 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, 2017, were as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	<u>Amount</u>
Year ending June 30:	
2018	\$ 695
2019	695
2020	695
2021	695
2022	695
2023 - 2031	<u>6,259</u>
Total minimum lease payments	9,734
Less: amount representing interest	<u>(2,299)</u>
Present value of minimum lease payments	<u>\$ 7,435</u>

The portion of the capital lease that is due within one year is \$411 and amounts due in more than one year total \$7,024.

(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 \$171 for the year ended June 30, 2017, including \$161 for the lease and \$10 for utilities. Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ <u>161</u>
Total	\$ <u><u>161</u></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 \$56 for the year ended June 30, 2017.

Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	54
2019	54
2020	<u>54</u>
Total	\$ <u><u>162</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

The City entered into a non-cancelable operating lease date May 26, 2016 to lease 10 thousand square feet of premises for use as a public school facility beginning in fiscal 2017. Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ 204
2019	<u>204</u>
Total	<u>\$ 408</u>

The City currently leases premises for use of gymnasium and parking spaces by a public school under a non-cancelable operating lease. Total costs for the lease was \$47 for the year ended June 30, 2017. Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ 47
2019	48
2020	<u>49</u>
Total	<u>\$ 144</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, 2017. Future minimum lease payments for the lease are as follows:

	<u>Amount</u>
Year ending June 30:	
2018	\$ 24
2019	24
2020	24
2021	24
2022	24
2023 - 2024	<u>72</u>
Total minimum lease payments	<u>\$ 192</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(13) 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.

	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>	<u>Due within one year</u>
General obligation bonds:					
Inside debt limit	\$ 203,754	9,481	28,206	185,029	21,685
Outside debt limit	271,092	38,088	26,936	282,244	23,912
Notes payable – HUD Sec 108	2,085	-	138	1,947	145
Capital lease payable	10,564	-	1,366	9,198	1,577
Judgments and claims	14,137	5,145	5,393	13,889	5,251
Compensated absences	13,191	8,957	8,680	13,468	8,936
Landfill closure and post closure care costs	4,598	1,649	247	6,000	-
Net pension liability	424,612	15,686	-	440,298	-
Other post employment benefits	273,038	54,066	22,433	304,671	-
Deferred amounts on bond premium	16,582	4,974	4,653	16,903	3,435
	<u>\$ 1,233,653</u>	<u>138,046</u>	<u>98,052</u>	<u>1,273,647</u>	<u>64,941</u>

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.

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.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	Outstanding beginning of year	Additions	Reductions	Outstanding end of year	Due within one year
General obligation bonds:					
Inside debt limit	\$ 10,050	1,379	1,838	9,591	1,485
Outside debt limit	129,785	21,917	16,851	134,851	9,886
MCWT notes payable	2,883	2,671	245	5,309	270
Judgments and claims	1,074	398	534	938	208
Compensated absences	715	599	572	742	591
Net pension liability	25,658	1,074	-	26,732	-
Other post employment benefits	8,231	1,565	746	9,050	-
Deferred amounts on bond premium	26	808	54	780	106
	<u>\$ 178,422</u>	<u>30,411</u>	<u>20,840</u>	<u>187,993</u>	<u>12,546</u>

On December 15, 2016 the City issued \$70,865 of general obligation bonds of which \$55,775 was bonds issued for current projects and \$15,090 was refunding debt. The proceeds consisted of \$47,569 for governmental activities of which \$8,892 was refunding bonds issued and \$23,296 for business-type activities of which \$6,198 was refunding bonds issued. Additionally, \$2,671 of notes from the Massachusetts Clean Water Trust was issued for business-type activities.

(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 25 years. General obligation bonds of the primary government outstanding at June 30, 2017 are as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Governmental Activities

Purpose/Type	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding June 30, 2017
1998 General Obligation Bonds, Pension Funding Loan	\$ 220,979	6.25%	2028	129,565
2001 General Obligation Bonds	26,685	5.25% to 5.41%	2021	1,390
2002 General Obligation Bonds, Series A	18,365	4.2% to 5.0%	2023	3,490
2002 General Obligation Bonds, Series B	8,000	4.5% to 4.625%	2021	1,495
2003 General Obligation Bonds, Series C	17,670	3.7% to 4.0%	2024	1,921
2003 General Obligation Bonds, Series D	5,965	4.25% to 5.8%	2023	1,805
2004 General Obligation Bonds	43,110	4.125% to 5.25%	2025	11,160
2005 General Obligation Refunding Bonds, Series A	34,067	4.05% to 5.0%	2021	11,984
2005 General Obligation Refunding Bonds, Series B	22,198	5.0%	2019	5,354
2005 General Obligation Bonds, Series C	46,125	4.0% to 4.125%	2026	14,244
2006 General Obligation Bonds	29,090	4.0% to 4.25%	2027	4,552
2007 General Obligation Bonds, Parking Garage	4,750	5.45%	2019	1,010
2007 General Obligation Bonds	23,110	4.0%	2028	2,477
2009 General Obligation Bonds	25,905	3.50% to 5.0%	2038	14,724
2010 General Obligation Bonds, Series A	19,850	3.0% to 4.25%	2036	9,470
2010 DCU Special Improvement District Bonds, Series B	5,050	5.75% to 6.75%	2035	4,360
2011 General Obligation School Bond	10,000	2.00%	2041	8,000
2011 General Obligation Refunding	7,585	2.5% to 3.0%	2022	2,836
2011 General Obligation Bonds, Series A	21,057	3.0% to 4.25%	2037	11,783
2011 General Obligation Bonds, Series B DCU Spec. District	1,005	4.0% to 5.0%	2029	865
2011 General Obligation Bonds, Series B Foley Stadium	961	4.0% to 5.0%	2029	475
2012 District Improvement Financing Bonds	6,845	3.0% to 5.0%	2040	6,665
2012 General Obligation Bonds	48,150	3.0% to 4.0%	2038	34,914
2013 General Obligation Refunding	3,016	4.0% to 5.0%	2024	1,923
2013 General Obligation Bonds	52,492	3.0% to 5.0%	2039	41,549
2014 General Obligation Bonds, Series A	27,609	3.0% to 5.0%	2040	22,670
2014 DCU Special Improvement District Bonds, Series B	13,979	3.125% to 4.2%	2039	13,200
2014 General Obligation Refunding Bonds, Series C	3,195	2.0% to 5.0%	2025	2,359
2014 General Obligation Refunding Bonds, Series A	4,212	3.0% to 5.0%	2040	3,346
2015 General Obligation Bonds, Series A	26,895	3.0% to 5.0%	2041	24,486
2015 General Obligation Bonds, Series B	17,386	2.95% to 5.0%	2033	17,260
2015 General Obligation Refunding Bonds, Series C	9,439	2.0% to 5.0%	2027	8,372
2016 General Obligation Bonds, Series A	38,677	3.0% to 5.0%	2042	38,677
2016 General Obligation Refunding Bonds, Series B	8,892	3.0% to 5.0%	2028	8,892
				\$ 467,273

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Business-Type Activities

Purpose/Type	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding June 30, 2017
2002 General Obligation Bonds, Series A	7,325	4.2% to 5.0%	2023	\$ 2,665
2003 General Obligation Bonds, Series C	7,945	3.7% to 4.0%	2024	14
2005 General Obligation Refunding Bonds, Series A	34,067	4.05% to 5.0%	2021	3,356
2005 General Obligation Refunding Bonds, Series B	22,198	5.0%	2019	1,331
2005 General Obligation Bonds, Series C	11,550	4.0% to 4.125%	2026	16
2006 General Obligation Bonds	17,680	4.0% to 4.25%	2027	43
2007 General Obligation Bonds	15,987	4.0%	2028	23
2009 General Obligation Bonds	12,190	3.50% to 5.0%	2038	7,567
2010 General Obligation Bonds, Series A	12,805	3.0% to 4.25%	2036	9,030
2011 General Obligation Refunding	9,170	2.5% to 3.0%	2022	1,809
2011 General Obligation Bonds, Series A	10,240	3.0% to 4.25%	2037	7,997
2012 General Obligation Bonds	23,983	3.0% to 4.0%	2038	19,651
2013 General Obligation Refunding	3,444	4.0% to 5.0%	2024	2,518
2013 General Obligation Bonds	14,995	3.0% to 5.0%	2039	13,200
2014 General Obligation Bonds, Series A	18,420	3.0% to 5.0%	2040	16,755
2014 General Obligation Refunding Bonds Series C	3,575	2.0% to 5.0%	2025	8,014
2014 General Obligation Refunding Bonds, Series A	9,248	3.0% to 5.0%	2040	2,911
2015 General Obligation Bonds, Series A	14,598	3.0% to 5.0%	2041	13,834
2015 General Obligation Refunding Bonds, Series C	11,216	2.0% to 5.0%	2027	10,412
2016 General Obligation Bonds, Series A	17,098	3.0% to 5.0%	2042	17,098
2016 General Obligation Refunding Bonds, Series B	6,198	3.0% to 5.0%	2028	6,198
				\$ <u>144,442</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(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 \$1,947. 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 \$5,309.

Governmental Activities – Loans Payable HUD Section 108

2015 - A series loan	\$	2,030	2.56% to 2.85%	2025	\$	1,882
2015 - A series loan		186	0.93%	2018		<u>65</u>
					\$	<u><u>1,947</u></u>

Business-Type Activities – Loans payable MCWT

2006 clean water loan to sewer enterprise fund	\$	949	4.90%	2024	\$	464
2014 clean water loan to sewer enterprise fund		851	2.00%	2033		738
2015 clean water loan to sewer enterprise fund		561	2.00%	2035		516
2016 clean water loan to sewer enterprise fund		1,048	2.00%	2036		1,006
2017 clean water loan to sewer enterprise fund		2,671	2.00%	2037		<u>2,585</u>
					\$	<u><u>5,309</u></u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(c) Maturity of Bond Indebtedness-Primary Government

Bond indebtedness outstanding at June 30, 2017 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:						
2018	\$ 45,597	21,588	5,704	2,175	5,495	3,418
2019	43,183	19,334	4,871	1,919	5,292	3,144
2020	39,185	17,299	3,908	1,715	4,661	2,926
2021	37,279	15,434	3,729	1,549	4,769	2,718
2022	33,529	13,666	3,434	1,388	4,562	2,501
2023-2027	157,136	44,479	13,598	4,963	22,133	9,644
2028-2032	64,409	14,956	8,156	2,992	15,975	6,138
2033-2037	32,590	6,140	7,829	1,596	16,328	3,265
2038-2042	14,365	1,107	4,225	348	8,541	690
	<u>\$ 467,273</u>	<u>154,003</u>	<u>55,454</u>	<u>18,645</u>	<u>87,756</u>	<u>34,444</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:				
2018	\$ 172	46	11,371	5,639
2019	177	38	10,340	5,101
2020	179	32	8,748	4,673
2021	81	27	8,579	4,294
2022	74	23	8,070	3,912
2023-2027	355	69	36,086	14,676
2028-2032	121	22	24,252	9,152
2033-2037	50	9	24,207	4,870
2038-2042	23	1	12,789	1,039
	<u>\$ 1,232</u>	<u>267</u>	<u>144,442</u>	<u>53,356</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(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, 2017 are as follows:

	<u>Governmental activities</u>					
	<u>General fund</u>					
	<u>Principal</u>	<u>Interest</u>				
Year ending June 30:						
2018	\$ 145	48				
2019	84	47				
2020	88	46				
2021	92	44				
2022	97	42				
2023-2025	<u>1,441</u>	<u>93</u>				
	<u>\$ 1,947</u>	<u>320</u>				

	<u>Business-type activities</u>					
	<u>Sewer</u>				<u>Business-type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Anticipated subsidy</u>		<u>activities totals (net)</u>	
<u>Principal</u>			<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year ending June 30:						
2018	\$ 270	106	-	12	270	94
2019	275	111	-	11	275	100
2020	284	104	-	10	284	94
2021	289	96	1	8	288	88
2022	299	88	2	6	297	82
2023-2027	<u>1,372</u>	<u>335</u>	<u>9</u>	<u>4</u>	<u>1,363</u>	<u>331</u>
2028-2032	<u>1,364</u>	<u>201</u>	<u>-</u>	<u>-</u>	<u>1,364</u>	<u>201</u>
2033-2037	<u>1,156</u>	<u>64</u>	<u>-</u>	<u>-</u>	<u>1,156</u>	<u>64</u>
	<u>\$ 5,309</u>	<u>1,105</u>	<u>12</u>	<u>51</u>	<u>5,297</u>	<u>1,054</u>

(d) Authorized and Unissued Debt

The City 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 but subject to other limitations.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Authorized and unissued debt at June 30, 2017 is as follows:

Inside debt limit:		
Building rehabilitation	\$	71,289
School construction - Nelson Place		54,840
School and citywide building ESCO projects		44,506
Street construction		29,865
Parks improvements		20,970
Union Station garage		17,835
Departmental equipment		13,510
School construction - North High		4,504
Courthouse rehabilitation		4,000
Street signage and wayfinding improvements		3,000
Off-street parking		2,896
Major Taylor garage walkway		1,850
Sewer building rehabilitation		1,825
Sewer equipment		1,626
Water building rehabilitation		1,625
Street lights		1,175
Land acquisition		825
Open space		800
Traffic signals		740
Emergency center		710
Bridge construction		650
Urban Systems Gateway		648
Dam improvements		550
Greenhill Golf Course infrastructure		505
Sewer generator		500
Vocational School construction		410
South Worcester Industrial Park		275
Building demolition		269
Greenhill Golf Course access road		80
Guardrails		25
Total inside debt limit		<u>282,303</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Outside debt limit:	
Sewer construction	77,073
CitySquare	51,934
DCU Center building improvements	28,553
Water mains	24,350
School construction - MSBA other	14,319
Reservoir rehabilitation	9,805
Dam improvements	4,400
Water filtration	2,735
Water equipment	1,897
Surface drain construction	1,290
Water hydrants	1,250
Water meters	1,000
Greenhill Golf Course design	855
December ice storm 2008	725
Watershed land	500
Water filtration solar	384
Greenhill Golf Course facilities	195
Total outside debt limit	<u>221,265</u>
Total inside and outside debt limit	<u>\$ 503,568</u>

At June 30, 2017, in addition to debt authorized but unissued, the City may issue \$134,960 of additional general obligation debt under the normal debt limit. The City had \$417,095 of outstanding debt exempt from the debt limit.

(e) Current Refunding

On December 15, 2016, the City issued \$15,090 in current refunding bonds to redeem \$15,790 of previously issued and outstanding bonds. The current refunding included \$15,090 of refunding bonds with a true interest cost of 2.94% (inclusive of premium) to redeem \$15,790 of 2008 General Obligation Bonds with average remaining coupons of 5.09%. The net proceeds from the current 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 \$1,997 and will realize an economic gain of approximately \$1,689.

(f) Outstanding Defeased Debt

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2017, \$30,545 of bonds outstanding is considered defeased.

(g) *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.

Long-term obligations consisted of the following at June 30, 2017:

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.	\$	205
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.		125
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.		33,465
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.		4,453
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.		19,415
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%.		2,515
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.		9,277
2008 General Obligation Bonds payable in varying annual installments at an average coupon rate of 5.0% with a final payment due May 1, 2028.		375
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.		18,478
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.		18,621
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.		6,207
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.		16,567

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

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.	3,220
2016 General Obligation refunding Bonds payable in varying principal amounts starting March 15, 2017 until March 15, 2023 with interest at 5.00%.	3,875
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%.	<u>4,785</u>
Total bonds payable	146,573
Interim loan payable - MCWT, gross available \$25,000, interest at 0%, matures December 31, 2018. Funds drawn as of June 30, 2017 \$1,485.	1,485
Unamortized bond premiums	1,869
Net pension liability	8,987
OPEB net obligation	2,808
Accrued sick leave	<u>331</u>
Total long-term obligations	162,053
Less portion due within one year	<u>(7,450)</u>
Amount due in more than one year	<u>\$ 154,603</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, 2017 in the amount of \$1,007; with subsidies of principal totaling \$302 and interest subsidies totaling \$705.

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

	<u>Gross payments</u>			<u>Anticipated subsidy</u>	<u>Net payments</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
Year ending June 30:					
2018	\$ 7,164	4,314	11,478	695	10,783
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
2023-2027	35,478	13,359	48,837	2,619	46,218
2028-2032	37,441	7,629	45,070	2,049	43,021
2033-2037	29,478	2,416	31,894	997	30,897
2038-2041	<u>7,862</u>	<u>311</u>	<u>8,173</u>	<u>-</u>	<u>8,173</u>
	<u>\$ 146,573</u>	<u>42,857</u>	<u>189,430</u>	<u>8,875</u>	<u>180,555</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

In a prior year, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2017, \$4,835 of bonds outstanding is considered defeased.

(h) 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, 2018 through June 30, 2019).

Details related to notes payable to the City at June 30, 2017, are as follows:

Project	Outstanding at June 30, 2016	Additions	Reductions	Outstanding at June 30, 2017
Union Station - Building Fit Out	\$ 3,471	-	-	3,471
Union Station - Operating	5,234	518	-	5,752
Union Station - Bus Ports	484	-	-	484
General and Administrative	79	-	-	79
Urban renewal	225	24	-	249
Total	\$ 9,493	542	-	10,035

Debt service requirements in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 9,518	2,766	12,284
2019	517	20	537
Total	\$ 10,035	2,786	12,821

In addition to notes payable of \$10,035, the WRA also has accrued interest payable due in fiscal year 2019 of \$120 and total noncurrent liabilities of \$10,155.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(14) Temporary Borrowings

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, 2017 in the general fund, debt service fund, nonmajor governmental funds, and enterprise funds were \$1,263.

At June 30, 2017, BANS totaling \$103,688 with interest rates of 2.00% to 5.00% and maturing January 23, 2018 were outstanding. The following is a summary of changes in temporary loans:

	Outstanding as of <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	Outstanding as of <u>June 30, 2017</u>
Bond anticipation notes payable:				
General	\$ 67,599	89,570	67,599	89,570
Water	6,793	3,920	6,793	3,920
Sewer	10,788	9,758	10,788	9,758
Golf	-	440	-	440
Total	\$ <u>85,180</u>	<u>103,688</u>	<u>85,180</u>	<u>103,688</u>

(15) Interfund Receivables, Payables and Transfers

At June 30, 2017, there was a receivable and payable between the general fund and nonmajor governmental funds, respectively, in the amount of \$221 for a temporary cash advance.

Transfers and their purposes during the year ended June 30, 2017 were as follows:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

	Governmental Funds				Proprietary Funds		
	General Fund	Debt Service Fund	Rehabilitation of Public Buildings	Other Gov'tal Funds	Water Fund	Sewer Fund	Golf Fund (Nonmajor)
Original budget							
General fund - to fund debt payments	\$ (11,214)	11,214	-	-	-	-	-
Debt service fund - to promote tourism	500	(500)	-	-	-	-	-
General fund - transfer to fund DCU obligations	(470)	-	-	470	-	-	-
Chapter 90 - to fund DPW engineering and street ops.	518	-	-	(518)	-	-	-
General fund - tax levy subsidy of golf fund	(150)	-	-	-	-	-	150
Sewer connection fees - to fund DPW engineering	118	-	-	(118)	-	-	-
Trust fund to general fund for cemetery debt service	62	-	-	(62)	-	-	-
Premium on loans - to fund debt service costs	750	-	-	(750)	-	-	-
Golf fund - to fund pension obligation bonds	20	-	-	-	-	-	(20)
Sewer fund - to fund pension obligation bonds	554	-	-	-	-	(554)	-
Water fund - to fund pension obligation bonds	787	-	-	-	(787)	-	-
Sub-total	(8,525)	10,714	-	(978)	(787)	(554)	130
Subsequent transfers:							
Special revenue FEMA - transfer to general fund	115	-	-	(115)	-	-	-
General fund - to fund debt payments	(60)	60	-	-	-	-	-
General fund - to special revenue recreation summer	(115)	-	-	115	-	-	-
General fund - to fund golf operations	(188)	-	-	-	-	-	188
Insurance settlement fund - fire and park vehicles	34	-	-	(34)	-	-	-
Insurance settlement fund - schools	-	-	-	29	-	-	-
Insurance settlement fund - schools	-	-	-	(29)	-	-	-
Premium on loans to fund bond issuance costs	421	-	-	(421)	-	-	-
Special revenue land sales to economic development	59	-	-	(59)	-	-	-
Insurance settlement fund - DCU Center Construction	-	-	-	199	-	-	-
Insurance settlement fund - DCU Center Construction	-	-	-	(199)	-	-	-
Transfer between capital project funds	-	-	(550)	550	-	-	-
Parking receipts to fund off-street parking	-	-	-	4,143	-	-	-
Parking receipts to fund off-street parking	-	-	-	(4,143)	-	-	-
Transfer among capital project nonmajor funds	-	-	-	762	-	-	-
Transfer among capital project nonmajor funds	-	-	-	(762)	-	-	-
Greenwood St reserve-for historic building façade	-	-	-	75	-	-	-
Greenwood St reserve-for historic building façade	-	-	-	(75)	-	-	-
Greenwood St reserve-for WPS equipment	-	-	-	13	-	-	-
Greenwood St reserve-for WPS equipment	-	-	-	(13)	-	-	-
Greenwood St reserve-environmental monitoring	-	-	-	200	-	-	-
Greenwood St reserve-environmental monitoring	-	-	-	(200)	-	-	-
Home program income transferred to city grants	-	-	-	259	-	-	-
Home program income transferred to city grants	-	-	-	(259)	-	-	-
Transfer from spendable trust funds for expenditures	-	-	-	175	-	-	-
Transfer from spendable trust funds for expenditures	-	-	-	(175)	-	-	-
Special revenue PEG fund to educational access fund	-	-	-	318	-	-	-
Special revenue PEG fund to educational access fund	-	-	-	(318)	-	-	-
Total transfers, net	\$ (8,259)	10,774	(550)	(942)	(787)	(554)	318

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(16) 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. The District proposed modifications in fiscal 2017 that were accepted by EPA. The revised schedule recognizes a three-phase Nutrient Upgrade project for compliance with NPDES limits for all dry weather flows extending to 2027 as well as assessment of the AOC schedule as part of the overall City of Worcester Integrated Water Resource Management Plan. The Nutrient Facilities Plan completed during fiscal year 2016 recommended phasing the estimated \$140,000 to \$160,000 nutrient project to allow for additional pilot testing. Pilot testing was included in the modified AOC schedule and completed in fiscal 2017. The outcome of the integrated planning should include proposed projects, associated costs and a prioritized schedule for implementation based on environmental benefit and ratepayer affordability.

(17) 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 provides \$5 of term life insurance benefits to its employees. 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.

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,

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

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, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Health claims, beginning of year	\$ 7,672	7,621
Incurred claims	87,452	82,803
Payments of claims attributable to events of the current and prior fiscal years	<u>(89,291)</u>	<u>(82,752)</u>
Health claims, end of year	<u>\$ 5,833</u>	<u>7,672</u>

Changes in judgments and claims liability for the years ended June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Judgments and claims, beginning of year	\$ 15,211	16,680
Additions to estimated claims liability	5,543	5,899
Payments of claims attributable to events of the current and prior fiscal years, and reductions to previous estimated liabilities:		
Court judgments and legal settlements	(2,390)	(2,483)
Workers' compensation	<u>(3,537)</u>	<u>(4,885)</u>
Judgments and claims, end of year	<u>\$ 14,827</u>	<u>15,211</u>

Judgments and claims consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Workers' compensation	\$ 10,877	11,096
Court judgments and legal settlements	<u>3,950</u>	<u>4,115</u>
	<u>\$ 14,827</u>	<u>15,211</u>

The fiscal 2017 liability for judgments and claims consist of governmental and business-type activities in the amount of \$13,889 and \$938, 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%.

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

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.

(18) 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>CitySquare Construction</u>	<u>Debt Service Fund</u>	<u>Rehabilitation of Public Buildings</u>	<u>Other governmental funds</u>	<u>Total Governmental Funds</u>
Nonspendable:						
Permanent fund principal.....	\$ -	-	-	-	15,686	15,686
Restricted:						
OPEB.....	11,753	-	-	-	-	11,753
DCU Center operations.....	-	-	-	-	519	519
School lunch.....	-	-	-	-	879	879
Off-street parking.....	-	-	-	-	1,257	1,257
City revolving funds.....	-	-	-	-	5,630	5,630
School grants.....	-	-	-	-	5,846	5,846
School revolving funds.....	-	-	-	-	2,114	2,114
Community development.....	-	-	-	-	55	55
Workforce Central.....	-	-	-	-	1,070	1,070
City grants.....	-	-	-	-	12,529	12,529
Capital.....	-	-	-	-	4,753	4,753
Permanent fund expendable.....	-	-	-	-	4,228	4,228
Sub-total - Restricted.....	<u>11,753</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,880</u>	<u>50,633</u>
Committed:						
Debt service.....	-	-	18,025	-	-	18,025
Receipts reserved.....	-	-	-	-	19,764	19,764
Sub-total - Committed....	<u>-</u>	<u>-</u>	<u>18,025</u>	<u>-</u>	<u>19,764</u>	<u>37,789</u>
Unassigned.....	<u>40,383</u>	<u>(28,301)</u>	<u>-</u>	<u>(32,647)</u>	<u>(22,805)</u>	<u>(43,370)</u>
Total fund balances.....	\$ <u>52,136</u>	<u>(28,301)</u>	<u>18,025</u>	<u>(32,647)</u>	<u>51,525</u>	<u>60,738</u>

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

(19) Prior Period Reclassifications

The beginning fund balances of the DCU Center construction fund and nonmajor governmental funds have been restated from (\$1,154) and \$60,179, respectively, to zero and \$59,025, respectively, to reflect the reclassification of the DCU Center construction fund from a major governmental fund to a nonmajor fund.

(20) Fund Deficits

The following funds had deficits at June 30, 2017:

<u>Major Funds</u>		<u>Nonmajor Funds</u>	
		Capital Projects Funds:	
CitySquare Construction	\$ 28,301	DCU Center Construction	\$ 1,453
Rehabilitation of Public Buildings	32,647	Street and Sidewalk	1,514
		Capital Equipment	2,782
		School Construction	16,854
		Special Revenue Funds:	
		Police Auxiliary	202
		Proprietary Funds:	
		Golf Course Enterprise	658

These deficits will be funded in future fiscal years via long-term bond issues, charges for services and intergovernmental revenues.

(21) 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, 2017, Worcester had tax abatement agreements with twenty-two entities with thirteen of those entities receiving abatements in fiscal year 2017 and nine entities whose abatement will begin after fiscal year 2017 upon completion of the projects. The City's policy is to disclose individual tax abatement agreements in which the amount abated in fiscal year 2017 exceeded 10% of the total abatements made by the City in fiscal year 2017. In fiscal year 2017, Worcester abated property taxes totaling \$2,600. Detailed below are the tax abatement agreements that each exceed 10% of the total amount abated:

CITY OF WORCESTER, MASSACHUSETTS

Notes to the Basic Financial Statements

June 30, 2017

(In thousands of dollars)

- 1 Mercantile St – an 86% 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 \$859, which accounts for 33% of total abatements in fiscal year 2017. 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).
- 50 Prescott Street – a 64% property tax abatement given to a company constructing a 92,000 square foot office and laboratory building and creating 20 new permanent full-time jobs. The abatement totals \$404, which accounts for 16% of total abatements in fiscal year 2017. 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 45% 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 \$397, which accounts for 15% of total abatements in fiscal 2017. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's EACC.
- 1 Eaton Place – a 56% property tax abatement to a for-profit hospital for constructing a 66,000 square foot cancer and wellness center and creating 22 new permanent jobs and retaining 26 full-time permanent jobs. The abatement totals \$285, which accounts for 11% of total abatements in fiscal year 2017. The agreement is governed by the EDIP and the recipient meets the criteria as the site is within the City's EACC. In the event the hospital fails to meet its jobs requirement the City has the right to revoke the agreement.

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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, 2017

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	\$ 279,443,884	278,951,378	278,130,047	(821,331)
Motor vehicle excise taxes	14,100,000	14,750,000	15,845,641	1,095,641
Penalties and interest on taxes:				
Property taxes	881,500	881,500	1,124,903	243,403
Tax titles	61,800	61,800	98,323	36,523
Motor vehicle excise	989,000	989,000	946,798	(42,202)
Special assessments	180,000	180,000	145,881	(34,119)
	<u>2,112,300</u>	<u>2,112,300</u>	<u>2,315,905</u>	<u>203,605</u>
Other taxes and in-lieu payments:				
In lieu of taxes	815,000	815,000	733,972	(81,028)
Special assessments	600,000	600,000	548,696	(51,304)
Meals tax	2,510,000	2,510,000	2,855,564	345,564
Hotel/motel tax	800,000	800,000	1,131,741	331,741
	<u>4,725,000</u>	<u>4,725,000</u>	<u>5,269,973</u>	<u>544,973</u>
Licenses and permits:				
Clerk	184,600	259,600	252,814	(6,786)
Inspectional Services	3,456,100	4,018,632	4,284,002	265,370
Fire	213,250	213,250	228,815	15,565
Health	614,800	614,800	670,618	55,818
License Commission:				
Liquor & common victualer	804,350	804,350	816,422	12,072
Other	65,000	65,000	73,301	8,301
Police	93,700	93,700	103,616	9,916
Public Works	253,500	253,500	283,491	29,991
	<u>5,685,300</u>	<u>6,322,832</u>	<u>6,713,079</u>	<u>390,247</u>
Intergovernmental:				
State local aid	279,668,290	279,443,499	279,349,968	(93,531)
State school construction aid	11,575,058	11,575,058	11,575,067	9
State school busing assistance	-	-	159,197	159,197
School based Federal Medicaid	1,300,000	1,900,000	4,110,607	2,210,607
Federal indirect cost reimbursements	1,450,000	1,450,000	1,047,830	(402,170)
	<u>293,993,348</u>	<u>294,368,557</u>	<u>296,242,669</u>	<u>1,874,112</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

General Fund

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

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Fines and forfeitures:				
Parking fines	\$ 1,699,000	1,699,000	1,589,425	(109,575)
Court fines	1,158,000	1,158,000	816,142	(341,858)
	<u>2,857,000</u>	<u>2,857,000</u>	<u>2,405,567</u>	<u>(451,433)</u>
Investment earnings	479,000	479,000	1,067,129	588,129
Charges for services:				
Airport land lease	80,000	80,000	100,000	20,000
Assessor	6,000	6,000	6,401	401
Cable TV	22,000	22,000	-	(22,000)
Clerk	557,300	557,300	496,109	(61,191)
Communications	500	500	546	46
Elder Affairs	75,000	75,000	76,771	1,771
Fire	281,200	281,200	302,838	21,638
Health	23,600	23,600	18,073	(5,527)
Hope Cemetery	304,000	304,000	324,447	20,447
Library	32,000	32,000	62,056	30,056
Energy & Asset Management	-	-	-	-
Parks	60,600	60,600	66,478	5,878
Planning	72,000	72,000	121,357	49,357
Police	708,200	708,200	717,322	9,122
Public Works	21,000	21,000	4,613	(16,387)
Contracted towing revenue	175,000	175,000	281,738	106,738
Schools	10,000	10,000	10,430	430
Trailer coach park	4,000	4,000	3,888	(112)
Trash bags	3,100,000	3,100,000	3,271,553	171,553
Treasurer	14,000	14,000	1,534	(12,466)
	<u>5,546,400</u>	<u>5,546,400</u>	<u>5,866,154</u>	<u>319,754</u>
Miscellaneous	705,000	705,000	2,998,094	2,293,094
Total revenues	<u>609,647,232</u>	<u>610,817,467</u>	<u>616,854,258</u>	<u>6,036,791</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

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	339,091	339,088	3
Ordinary maintenance	26,867	26,867	11,848	15,019
	<u>365,958</u>	<u>365,958</u>	<u>350,936</u>	<u>15,022</u>
Mayor's staff:				
Salaries	119,827	121,590	121,590	-
Ordinary maintenance	7,777	7,777	7,447	330
	<u>127,604</u>	<u>129,367</u>	<u>129,037</u>	<u>330</u>
City Manager:				
Salaries	921,306	961,306	959,281	2,025
Ordinary maintenance	165,483	165,483	113,057	52,426
	<u>1,086,789</u>	<u>1,126,789</u>	<u>1,072,338</u>	<u>54,451</u>
Economic Development:				
Salaries	1,568,123	1,446,123	1,432,728	13,395
Ordinary maintenance	150,090	150,315	137,784	12,531
Capital outlay	-	159,000	107,252	51,748
	<u>1,718,213</u>	<u>1,755,438</u>	<u>1,677,764</u>	<u>77,674</u>
Promotion of Tourism:				
Ordinary maintenance	500,000	500,000	500,000	-
Capital outlay	-	-	-	-
	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>-</u>
Auditor:				
Salaries and overtime	529,509	496,337	465,589	30,748
Ordinary maintenance	92,472	92,472	87,973	4,499
	<u>621,981</u>	<u>588,809</u>	<u>553,562</u>	<u>35,247</u>
Administration & Finance:				
Salaries	396,569	414,569	403,697	10,872
Ordinary maintenance	68,745	68,745	37,559	31,186
	<u>465,314</u>	<u>483,314</u>	<u>441,256</u>	<u>42,058</u>
Treasurer and Collector:				
Salaries and overtime	1,191,908	1,149,908	1,119,355	30,553
Ordinary maintenance	691,676	1,112,818	1,101,724	11,094
	<u>1,883,584</u>	<u>2,262,726</u>	<u>2,221,079</u>	<u>41,647</u>
Assessor:				
Salaries and overtime	591,481	591,481	572,960	18,521
Ordinary maintenance	167,500	167,500	115,166	52,334
	<u>758,981</u>	<u>758,981</u>	<u>688,126</u>	<u>70,855</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

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	798	402
	1,200	1,200	798	402
Law:				
Salaries	871,815	871,815	867,707	4,108
Ordinary maintenance	151,222	151,222	151,059	163
Casualty insurance	119,948	119,948	117,185	2,763
Court judgments	3,500,000	2,710,000	2,704,804	5,196
	4,642,985	3,852,985	3,840,755	12,230
City Clerk:				
Salaries and overtime	569,723	569,723	568,241	1,482
Ordinary maintenance	36,024	36,024	34,755	1,269
	605,747	605,747	602,996	2,751
Energy & Asset Management:				
Salaries and overtime	284,701	307,701	304,544	3,157
Ordinary maintenance	955,920	1,190,920	1,190,583	337
	1,240,621	1,498,621	1,495,127	3,494
Election Commission:				
Salaries and overtime	570,571	592,805	589,711	3,094
Ordinary maintenance	116,285	133,285	125,717	7,568
	686,856	726,090	715,428	10,662
Purchasing:				
Salaries	182,888	210,888	210,817	71
Ordinary maintenance	14,595	14,595	10,342	4,253
	197,483	225,483	221,159	4,324
Technical services:				
Salaries and overtime	2,146,798	2,146,798	2,116,327	30,471
Ordinary maintenance	1,355,976	1,355,976	1,335,510	20,466
	3,502,774	3,502,774	3,451,837	50,937
Human Resources:				
Salaries and overtime	957,976	961,576	960,351	1,225
Ordinary maintenance	351,556	486,556	451,444	35,112
	1,309,532	1,448,132	1,411,795	36,337
Total general government	19,715,622	19,832,414	19,373,993	458,421

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

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	\$ 44,467,656	45,060,656	45,060,252	404
Ordinary maintenance	2,526,150	2,549,894	2,539,609	10,285
Capital outlay	30,000	120,000	114,974	5,026
	<u>47,023,806</u>	<u>47,730,550</u>	<u>47,714,835</u>	<u>15,715</u>
Fire:				
Salaries and overtime	38,171,636	37,539,736	37,538,870	866
Ordinary maintenance	1,257,982	1,568,621	1,568,222	399
Capital outlay	25,000	5,000	2,529	2,471
	<u>39,454,618</u>	<u>39,113,357</u>	<u>39,109,621</u>	<u>3,736</u>
Inspectional services:				
Salaries and overtime	3,407,779	3,372,879	3,366,731	6,148
Ordinary maintenance	311,887	309,897	308,170	1,727
Capital outlay	-	1,990	1,990	-
	<u>3,719,666</u>	<u>3,684,766</u>	<u>3,676,891</u>	<u>7,875</u>
Communications:				
Salaries and overtime	2,113,041	1,543,291	1,533,946	9,345
Ordinary maintenance	1,079,394	1,265,144	1,261,489	3,655
	<u>3,192,435</u>	<u>2,808,435</u>	<u>2,795,435</u>	<u>13,000</u>
Total public safety	<u>93,390,525</u>	<u>93,337,108</u>	<u>93,296,782</u>	<u>40,326</u>
Health and human services:				
Public Health				
Salaries and overtime	257,371	345,371	298,933	46,438
Ordinary maintenance	64,500	72,000	71,830	170
	<u>321,871</u>	<u>417,371</u>	<u>370,763</u>	<u>46,608</u>
Health and Human Services				
Salaries	457,694	457,694	445,620	12,074
Ordinary maintenance	1,935,100	2,243,900	2,243,259	641
Capital outlay	-	6,200	6,200	-
	<u>2,392,794</u>	<u>2,707,794</u>	<u>2,695,079</u>	<u>12,715</u>
Elder Affairs:				
Salaries	359,147	359,147	353,560	5,587
Ordinary maintenance	138,841	138,841	132,880	5,961
	<u>497,988</u>	<u>497,988</u>	<u>486,440</u>	<u>11,548</u>
Workforce Development Board:				
Salaries	50,000	50,400	50,000	400
Ordinary maintenance	50,000	50,000	50,000	-
	<u>100,000</u>	<u>100,400</u>	<u>100,000</u>	<u>400</u>
Total health and human services	<u>3,312,653</u>	<u>3,723,553</u>	<u>3,652,282</u>	<u>71,271</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

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	\$ 205,514,173	205,976,883	205,973,390	3,493
Ordinary maintenance	35,696,837	35,152,761	35,152,761	-
Capital outlay	250,000	200,980	200,980	-
	<u>241,461,010</u>	<u>241,330,624</u>	<u>241,327,131</u>	<u>3,493</u>
Public Schools, Non Net School Spending (excluding fringe benefits):				
Salaries and overtime	3,797,499	3,592,783	3,592,783	-
Ordinary maintenance	15,342,651	15,545,589	15,545,589	-
	<u>19,140,150</u>	<u>19,138,372</u>	<u>19,138,372</u>	<u>-</u>
Total education (excluding fringes)	<u>260,601,160</u>	<u>260,468,996</u>	<u>260,465,503</u>	<u>3,493</u>
Public works:				
Department of Public Works:				
Salaries and overtime	5,904,803	6,134,803	6,131,941	2,862
Ordinary maintenance	7,279,076	6,799,076	6,773,896	25,180
Capital outlay	-	120,000	118,676	1,324
Snow and ice removal	4,200,000	6,794,150	6,794,145	5
Street lighting	2,352,828	2,419,828	2,419,088	740
	<u>19,736,707</u>	<u>22,267,857</u>	<u>22,237,746</u>	<u>30,111</u>
Union Station (WRA):				
Ordinary maintenance	649,702	519,702	517,277	2,425
Total public works	<u>20,386,409</u>	<u>22,787,559</u>	<u>22,755,023</u>	<u>32,536</u>
Culture and recreation:				
Parks and Cemetery:				
Salaries and overtime	3,400,550	3,411,317	3,410,538	779
Ordinary maintenance	1,364,691	1,499,691	1,486,804	12,887
Capital outlay	-	10,710	10,704	6
	<u>4,765,241</u>	<u>4,921,718</u>	<u>4,908,046</u>	<u>13,672</u>
Public Library:				
Salaries and overtime	3,839,099	3,839,099	3,719,008	120,091
Ordinary maintenance	1,723,174	1,723,174	1,723,174	-
	<u>5,562,273</u>	<u>5,562,273</u>	<u>5,442,182</u>	<u>120,091</u>
Auditorium:				
Ordinary maintenance	121,506	110,796	95,068	15,728
Total culture and recreation	<u>10,449,020</u>	<u>10,594,787</u>	<u>10,445,296</u>	<u>149,491</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

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	\$ 3,145	3,145	3,145	-
Regional planning	48,144	48,145	48,145	-
Regional Transit Authority	3,058,453	3,058,453	3,058,453	-
Air pollution control	42,831	42,831	42,831	-
Charter Schools	24,536,136	24,542,124	24,539,164	2,960
School choice	2,686,481	2,767,477	2,768,449	(972)
Special education - Chapter 766	147,618	187,025	249,164	(62,139)
Registry parking ticket surcharge	441,660	441,660	392,960	48,700
Total intergovernmental	30,964,468	31,090,860	31,102,311	(11,451)
Debt service:				
Principal	26,722,727	26,454,216	26,454,216	-
Interest	8,345,389	7,658,522	7,654,113	4,409
Pension obligation bond:				
Municipal departments (P&I)	10,300,316	10,300,316	10,300,316	-
Enterprise funds (P&I)	1,361,022	1,361,022	1,361,022	-
Public schools (P&I)	4,978,974	4,978,974	4,978,974	-
Total debt service	51,708,428	50,753,050	50,748,641	4,409
Fringe benefits:				
Retirement:				
Contributory pensions:				
Municipal departments	24,707,126	24,702,153	24,629,878	72,275
Public Schools	11,712,706	12,536,509	12,536,509	-
Noncontributory pensions:				
Municipal departments	103,524	103,524	59,440	44,084
Public Schools	60,000	32,232	32,232	-
	<u>36,583,356</u>	<u>37,374,418</u>	<u>37,258,059</u>	<u>116,359</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

For the Fiscal Year Ended June 30, 2017

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	\$ 1,369,289	1,404,290	1,338,714	65,576
Public Schools	393,700	326,305	326,305	-
Public safety injured on duty	510,133	610,133	604,592	5,541
Unemployment compensation:				
Municipal departments	100,000	185,000	125,532	59,468
Public Schools	318,226	349,894	349,894	-
	<u>2,691,348</u>	<u>2,875,622</u>	<u>2,745,037</u>	<u>130,585</u>
Group insurance:				
Municipal departments	25,239,735	24,529,343	24,458,230	71,113
Public Schools	44,831,037	44,272,892	44,272,892	-
	<u>70,070,772</u>	<u>68,802,235</u>	<u>68,731,122</u>	<u>71,113</u>
Total fringe benefits	<u>109,345,476</u>	<u>109,052,275</u>	<u>108,734,218</u>	<u>318,057</u>
Contingency	500,000	6,339	-	6,339
Total expenditures	<u>600,373,761</u>	<u>601,646,941</u>	<u>600,574,049</u>	<u>1,072,892</u>
Excess of revenues over expenditures	<u>9,273,471</u>	<u>9,170,526</u>	<u>16,280,209</u>	<u>7,109,683</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	3,308,541	3,996,833	3,996,833	-
Transfers out	(12,334,507)	(15,082,948)	(15,082,948)	-
Premium on loans	702,495	1,352,495	1,738,615	386,120
Total other financing sources (uses)	<u>(8,323,471)</u>	<u>(9,733,620)</u>	<u>(9,347,500)</u>	<u>386,120</u>
Net changes in fund balance	950,000	(563,094)	6,932,709	7,495,803
Budgetary fund balance - beginning	33,948,530	33,948,530	33,948,530	-
Budgetary fund balance - ending	<u>\$ 34,898,530</u>	<u>33,385,436</u>	<u>40,881,239</u>	<u>7,495,803</u>

(Concluded)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

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)*

	2017	2016	2015
<u>Total pension liability</u>			
Service cost	\$ 27,155,573	26,309,138	24,977,553
Interest	95,556,357	92,787,477	89,852,374
Differences between expected and actual experience	(2,523,911)	(1,619,304)	(901,542)
Changes of assumptions	19,119,320	16,825,451	16,436,189
Benefit payments, including refunds of member contributions	<u>(79,940,830)</u>	<u>(75,957,945)</u>	<u>(72,435,430)</u>
Net change in total pension liability	59,366,509	58,344,817	57,929,144
Total pension liability - beginning	<u>1,286,899,596</u>	<u>1,228,554,779</u>	<u>1,170,625,635</u>
Total pension liability - ending (a)	<u>\$ 1,346,266,105</u>	<u>1,286,899,596</u>	<u>1,228,554,779</u>
<u>Plan fiduciary net position</u>			
Contributions - employer	\$ 44,411,990	42,703,837	41,200,578
Contributions - member	17,797,519	17,409,182	16,320,772
Net investment income	58,737,894	(10,490,024)	34,950,210
Benefit payments, including refunds of member contributions	(79,940,830)	(75,957,945)	(72,435,430)
Administrative expense	(565,669)	(572,743)	(587,157)
Other	<u>(926,263)</u>	<u>(895,410)</u>	<u>(806,081)</u>
Net change in plan fiduciary net position	39,514,641	(27,803,103)	18,642,892
Plan fiduciary net position - beginning	<u>797,830,070</u>	<u>825,633,173</u>	<u>806,990,281</u>
Plan fiduciary net position - ending (b)	<u>\$ 837,344,711</u>	<u>797,830,070</u>	<u>825,633,173</u>
WRS's net pension liability - ending (a) - (b)	<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	62.20%	62.00%	67.20%
Covered-employee payroll	\$ 175,910,160	173,759,691	168,856,039
Net pension liability as a percentage of covered-employee payroll	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, 2017

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily determined contribution	\$ 44,411,990	42,703,837	41,200,578	38,148,683	35,409,140
Contributions in relation to the statutorily determined contribution	<u>44,411,990</u>	<u>42,703,837</u>	<u>41,200,578</u>	<u>38,148,683</u>	<u>35,409,140</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 175,910,160	173,759,691	168,856,039	166,094,906	159,669,859
Contributions as a percentage of covered-employee payroll	25.25%	24.58%	24.40%	22.97%	22.18%
					(continued)
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statutorily determined contribution	\$ 32,706,347	29,770,499	28,505,066	24,947,158	24,166,318
Contributions in relation to the statutorily determined contribution	<u>32,706,347</u>	<u>30,196,904</u>	<u>28,505,066</u>	<u>24,947,158</u>	<u>24,166,318</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>(426,405)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 157,720,871	166,392,075	166,050,095	156,585,326	152,838,201
Contributions as a percentage of covered-employee payroll	20.74%	18.15%	17.17%	15.93%	15.81%
					(concluded)

Schedule of Investment Returns (WRS) *

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	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.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

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) *			
	2017**	2016**	2015**
	<u> </u>	<u> </u>	<u> </u>
City's proportion of the net pension liability	91.768757%	92.066769%	92.730893%
City's proportionate share of the net pension liability	\$ 467,030,837	450,270,511	373,632,802
City's covered-employee payroll	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	289.31%	281.46%	238.62%
Plan fiduciary net position as a percentage of the total pension liability	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, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily determined contribution	\$ 40,756,331	39,316,043	38,205,664	35,084,000	32,246,000
Contributions in relation to the statutorily determined contribution	<u>40,756,331</u>	<u>39,316,043</u>	<u>38,205,664</u>	<u>35,084,000</u>	<u>32,246,000</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 161,430,567	159,974,933	156,581,713	154,955,555	148,961,412
Contributions as a percentage of covered-employee payroll	25.25%	24.58%	24.40%	22.64%	21.65%
					(continued)
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statutorily determined contribution	\$ 29,720,000	27,277,000	26,117,000	22,742,000	22,089,000
Contributions in relation to the statutorily determined contribution	<u>29,720,000</u>	<u>27,703,405</u>	<u>26,117,000</u>	<u>22,742,000</u>	<u>22,089,000</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>(426,405)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 147,143,135	155,232,794	154,913,750	146,083,747	142,587,927
Contributions as a percentage of covered-employee payroll	20.20%	17.85%	16.86%	15.57%	15.49%
					(concluded)

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

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) *

	<u>2017**</u>	<u>2016**</u>	<u>2015**</u>
City's proportion of the net pension liability	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	<u>599,739,073</u>	<u>550,242,570</u>	<u>435,996,868</u>
Total	\$ <u>599,739,073</u>	<u>550,242,570</u>	<u>435,996,868</u>
City's covered-employee payroll	\$ 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
Plan fiduciary net position as a percentage of the total pension liability	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, 2016, 2015 and 2014.

Schedule of City's Contributions (MTRS) *

	<u>2017**</u>	<u>2016**</u>	<u>2015**</u>
Contractually required contribution	\$ -	-	-
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 178,781,000	176,442,000	172,700,000
Contributions as a percentage of covered-employee payroll	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, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

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*

	2017**	2016**	2015**
District's proportion of the net pension liability	0.06517%	0.06237%	0.06291%
District's proportionate share of the net pension liability	\$ 8,986,634	7,099,775	4,670,154
District's covered-employee payroll	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	247.56%	207.98%	143.88%
Plan fiduciary net position as a percentage of the total pension liability	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, 2016, 2015 and 2014.

Schedule of District's Contributions*

	2017**	2016**	2015**
Contractually required contribution	\$ 413,831	389,158	370,024
Contributions in relation to the contractually required contribution	413,831	389,158	370,024
Contribution deficiency (excess)	\$ -	-	-
District's covered-employee payroll	\$ 3,630,096	3,413,667	3,245,825
Contributions as a percentage of covered-employee payroll	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, 2016, 2015 and 2014.

CITY OF WORCESTER, MASSACHUSETTS

Required Supplementary Information

June 30, 2017

OPEB Schedule

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

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/11	-	\$ 636,335,089	636,335,089	0.0%	313,752,801	203%
07/01/13	-	727,823,149	727,823,149	0.0%	334,069,964	218%
07/01/15	-	860,873,100	860,873,100	0.0%	352,400,810	244%

The significant changes to the methods and assumptions used in the actuarial valuations identified above that impacted trends in the schedules of funding progress are as follows:

- The 07/01/11 valuation reflects the City’s favorable claims experience during the periods between the valuations.
- The 07/01/13 valuation reflects changes in assumptions including implicit subsidy, excise tax, mortality tables, and inflationary trend rates for health care costs.
- The 07/01/15 valuation reflects changes in assumptions including mortality tables, participation rates and spousal coverage. Updates were made to the excise tax under the Patient Protection and Affordable Care Act.

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2017

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 2017, the original general fund expenditure budget, excluding intergovernmental charges, was increased by \$1,147. In fiscal 2017, revenues and other financial sources exceeded estimates by \$6,423 and expenditures were less than budgetary estimates by \$1,073.

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, 2017:

	<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	\$ 616,854	600,574	(9,347)	6,933
Reclassify OPEB reserve transactions	30	-	2,827	2,857
COLA on-behalf payments	1,154	1,154	-	-
Adjustment of revenues to a modified basis	<u>(1,202)</u>	<u>-</u>	<u>-</u>	<u>(1,202)</u>
As reported on a GAAP basis	<u>\$ 616,836</u>	<u>601,728</u>	<u>(6,520)</u>	<u>8,588</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, 2017

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%.

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, 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.

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.

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 forward for males.

CITY OF WORCESTER, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 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 (2007-2016):	Entry Age Normal
Amortization method (2007, 2009 - 2014):	Payment increases 4.00% per year
Amortization method (2008):	Payment increases 4.50% 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
Remaining amortization period (2007):	11 years
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):	16 years
Asset valuation method (2007):	Market value
Asset valuation method (2008-2016):	5-year smoothed fair value
Inflation (2007-2009):	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 (2015-2016):	2.50% for the next year; 3.50% thereafter
Salary increases (2007, 2009):	5.00%
Salary increases (2008):	3.00% for the next 2 years; 5.00% thereafter
Salary increases (2010-2011):	4.75%
Salary increases (2012):	4.50%
Salary increases (2013 - 2016):	3.50% for the next year; 4.50% thereafter
Investment rate of return (2007-2009):	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%

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2017

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.

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

CITY OF WORCESTER, MASSACHUSETTS

Supplementary Statements and Schedules

June 30, 2017

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.

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.

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.

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2017

	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	3,977,649	1,055,906	-	1,269,262	5,632,290
Restricted investments	-	-	-	-	-
Receivables, net	-	-	1,139,903	-	105,532
Intergovernmental receivables	-	-	-	-	-
Total assets	\$ 3,977,649	1,055,906	1,139,903	1,269,262	5,737,822
Liabilities:					
Accounts payable	\$ 13,455	176,758	-	12,069	2,384
Due to general fund	-	-	202,094	-	-
Retainage payable	-	-	-	-	-
Temporary loans	-	-	-	-	-
Other liabilities	3,445,500	-	-	-	-
Total liabilities	3,458,955	176,758	202,094	12,069	2,384
Deferred inflows of resources:					
Unavailable revenue-other	-	-	1,139,903	-	105,532
Total deferred inflows of resources	-	-	1,139,903	-	105,532
Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	518,694	879,148	-	1,257,193	5,629,906
Committed	-	-	-	-	-
Unassigned	-	-	(202,094)	-	-
Total fund balances	518,694	879,148	(202,094)	1,257,193	5,629,906
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,977,649	1,055,906	1,139,903	1,269,262	5,737,822

Special Revenue Funds

<u>School Grants</u>	<u>School Revolving</u>	<u>Receipts Reserved</u>	<u>Community Development</u>	<u>Workforce Central</u>	<u>City Grants</u>	<u>Subtotal</u>
-	-	19,763,559	-	-	-	19,763,559
5,156,576	2,102,555	-	-	1,056,946	12,610,680	32,861,864
-	-	-	-	-	-	-
-	-	114,664	-	-	-	1,360,099
818,553	14,332	-	74,699	13,448	744,745	1,665,777
<u>5,975,129</u>	<u>2,116,887</u>	<u>19,878,223</u>	<u>74,699</u>	<u>1,070,394</u>	<u>13,355,425</u>	<u>55,651,299</u>
129,521	3,564	-	-	-	826,664	1,164,415
-	-	-	19,357	-	-	221,451
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	3,445,500
<u>129,521</u>	<u>3,564</u>	<u>-</u>	<u>19,357</u>	<u>-</u>	<u>826,664</u>	<u>4,831,366</u>
-	-	114,664	-	-	-	1,360,099
-	-	114,664	-	-	-	1,360,099
-	-	-	-	-	-	-
5,845,608	2,113,323	-	55,342	1,070,394	12,528,761	29,898,369
-	-	19,763,559	-	-	-	19,763,559
-	-	-	-	-	-	(202,094)
<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>5,975,129</u>	<u>2,116,887</u>	<u>19,878,223</u>	<u>74,699</u>	<u>1,070,394</u>	<u>13,355,425</u>	<u>55,651,299</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2017

	Capital Projects Funds			
	DCU Center Construction	Street and Sidewalk	Capital Equipment	School Construction
Assets:				
Cash and cash equivalents	\$ -	-	-	-
Restricted cash and cash equivalents	1,443,282	5,381,416	858,818	50,323
Restricted investments	-	-	-	-
Receivables, net	-	-	-	-
Intergovernmental receivables	-	2,003,031	-	2,026,335
Total assets	\$ 1,443,282	7,384,447	858,818	2,076,658
Liabilities:				
Accounts payable	\$ 1,215,357	733,933	746,554	4,514,650
Due to general fund	-	-	-	-
Retainage payable	5,000	414,163	-	2,035,798
Temporary loans	1,675,500	7,750,000	2,894,653	12,380,000
Other liabilities	-	-	-	-
Total liabilities	2,895,857	8,898,096	3,641,207	18,930,448
Deferred inflows of resources:				
Unavailable revenue-other	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund balances:				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Unassigned	(1,452,575)	(1,513,649)	(2,782,389)	(16,853,790)
Total fund balances	(1,452,575)	(1,513,649)	(2,782,389)	(16,853,790)
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,443,282	7,384,447	858,818	2,076,658

Capital Projects Funds

Parks Improvements	Union Station Garage	Other	Subtotal
-	-	-	-
6,125,559	542,195	2,423,569	16,825,162
-	-	-	-
-	-	-	-
162,299	-	-	4,191,665
<u>6,287,858</u>	<u>542,195</u>	<u>2,423,569</u>	<u>21,016,827</u>
180,842	-	426,634	7,817,970
-	-	-	-
135,049	-	-	2,590,010
3,335,000	-	422,848	28,458,001
-	-	-	-
<u>3,650,891</u>	<u>-</u>	<u>849,482</u>	<u>38,865,981</u>
-	-	-	-
-	-	-	-
-	-	-	-
2,636,967	542,195	1,574,087	4,753,249
-	-	-	-
-	-	-	(22,602,403)
<u>2,636,967</u>	<u>542,195</u>	<u>1,574,087</u>	<u>(17,849,154)</u>
<u>6,287,858</u>	<u>542,195</u>	<u>2,423,569</u>	<u>21,016,827</u>

(Continued)

CITY OF WORCESTER, MASSACHUSETTS

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2017

	Permanent Funds				
	Hope Cemetery	Health Department	Libraries	Schools	Parks
Assets:					
Cash and cash equivalents	\$ -	-	-	-	-
Restricted cash and cash equivalents	79,329	97,304	106,494	64,386	56,096
Restricted investments	4,507,521	3,054,835	9,699,249	809,740	512,820
Receivables, net	-	-	-	-	-
Intergovernmental receivables	-	-	-	-	-
Total assets	\$ 4,586,850	3,152,139	9,805,743	874,126	568,916
Liabilities:					
Accounts payable	\$ -	-	-	600	-
Due to general fund	-	-	-	-	-
Retainage payable	-	-	-	-	-
Temporary loans	-	-	-	-	-
Other liabilities	-	-	-	-	-
Total liabilities	-	-	-	600	-
Deferred inflows of resources:					
Unavailable revenue-other	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-
Fund balances:					
Nonspendable	4,314,028	2,794,712	6,797,713	687,666	459,090
Restricted	272,822	357,427	3,008,030	185,860	109,826
Committed	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	4,586,850	3,152,139	9,805,743	873,526	568,916
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,586,850	3,152,139	9,805,743	874,126	568,916

Permanent Funds					Total Nonmajor Governmental Funds
Police	Public Works	Memorial	Welfare	Subtotal	
-	-	-	-	-	19,763,559
-	56	103,748	1,988	509,401	50,196,427
11,558	441,094	362,791	6,018	19,405,626	19,405,626
-	-	-	-	-	1,360,099
-	-	-	-	-	5,857,442
<u>11,558</u>	<u>441,150</u>	<u>466,539</u>	<u>8,006</u>	<u>19,915,027</u>	<u>96,583,153</u>
-	-	-	-	600	8,982,985
-	-	-	-	-	221,451
-	-	-	-	-	2,590,010
-	-	-	-	-	28,458,001
-	-	-	-	-	3,445,500
-	-	-	-	600	43,697,947
-	-	-	-	-	1,360,099
-	-	-	-	-	1,360,099
5,164	393,843	229,933	4,234	15,686,383	15,686,383
6,394	47,307	236,606	3,772	4,228,044	38,879,662
-	-	-	-	-	19,763,559
-	-	-	-	-	(22,804,497)
<u>11,558</u>	<u>441,150</u>	<u>466,539</u>	<u>8,006</u>	<u>19,914,427</u>	<u>51,525,107</u>
<u>11,558</u>	<u>441,150</u>	<u>466,539</u>	<u>8,006</u>	<u>19,915,027</u>	<u>96,583,153</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, 2017

	Special Revenue Funds				
	DCU Center Operations	School Lunch	Police Auxiliary	Off-Street Parking	City Revolving
Revenues:					
Intergovernmental	\$ -	12,978,371	-	-	62,000
Investment earnings	-	-	-	-	-
Charges for services	1,600,617	32,900	8,776,547	17,249	2,043,852
Donations	-	-	-	-	-
Contributions to permanent fund	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	1,600,617	13,011,271	8,776,547	17,249	2,105,852
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	8,978,641	-	940,228
Health and human services	-	-	-	-	445,639
Education	-	12,312,011	-	-	-
Public works	-	-	-	1,882,570	217,308
Culture and recreation	918,686	-	-	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	407,109	-	-	1,295,753	-
Interest	109,872	-	-	376,487	-
Total expenditures	1,435,667	12,312,011	8,978,641	3,554,810	1,603,175
Excess (deficiency) of revenues over expenditures	164,950	699,260	(202,094)	(3,537,561)	502,677
Other financing sources (uses):					
Transfers in	470,494	-	-	4,143,304	-
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)	470,494	-	-	4,143,304	-
Net change in fund balances	635,444	699,260	(202,094)	605,743	502,677
Fund balances – beginning	(116,750)	179,888	-	651,450	5,127,229
Fund balances – ending	\$ 518,694	879,148	(202,094)	1,257,193	5,629,906

Special Revenue Funds

School Grants	School Revolving	Receipts Reserved	Community Development	Workforce Central	City Grants	Subtotal
36,698,964	505,677	-	6,719,030	5,109,735	13,007,718	75,081,495
-	-	-	-	-	-	-
416,393	1,223,551	5,498,453	256,777	13,128	-	19,879,467
215,735	-	-	-	-	4,536,919	4,752,654
-	-	-	-	-	-	-
-	-	443,554	-	-	599,641	1,043,195
<u>37,331,092</u>	<u>1,729,228</u>	<u>5,942,007</u>	<u>6,975,807</u>	<u>5,122,863</u>	<u>18,144,278</u>	<u>100,756,811</u>
-	-	-	-	-	3,632,393	3,632,393
-	-	-	-	-	4,407,888	14,326,757
-	-	-	-	6,212,949	8,028,639	14,687,227
38,104,845	1,707,152	-	-	-	-	52,124,008
-	-	-	-	-	499,763	2,599,641
-	-	-	-	-	1,592,784	2,511,470
-	-	-	6,796,491	-	-	6,796,491
-	-	-	138,000	-	392,520	2,233,382
-	-	-	49,401	-	99,980	635,740
<u>38,104,845</u>	<u>1,707,152</u>	<u>-</u>	<u>6,983,892</u>	<u>6,212,949</u>	<u>18,653,967</u>	<u>99,547,109</u>
<u>(773,753)</u>	<u>22,076</u>	<u>5,942,007</u>	<u>(8,085)</u>	<u>(1,090,086)</u>	<u>(509,689)</u>	<u>1,209,702</u>
317,609	28,660	-	-	-	573,588	5,533,655
-	-	(6,299,826)	-	-	(433,387)	(6,733,213)
-	-	1,098,289	-	-	-	1,098,289
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>317,609</u>	<u>28,660</u>	<u>(5,201,537)</u>	<u>-</u>	<u>-</u>	<u>140,201</u>	<u>(101,269)</u>
<u>(456,144)</u>	<u>50,736</u>	<u>740,470</u>	<u>(8,085)</u>	<u>(1,090,086)</u>	<u>(369,488)</u>	<u>1,108,433</u>
<u>6,301,752</u>	<u>2,062,587</u>	<u>19,023,089</u>	<u>63,427</u>	<u>2,160,480</u>	<u>12,898,249</u>	<u>48,351,401</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>

(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, 2017

	Capital Projects Funds			
	DCU Center Construction	Street and Sidewalk	Capital Equipment	School Construction
Revenues:				
Intergovernmental	\$ -	9,723,341	10,000	24,483,111
Investment earnings	-	-	-	-
Charges for services	-	-	-	-
Donations	-	-	-	-
Contributions to permanent fund	-	-	-	-
Miscellaneous	155,475	-	-	-
Total revenues	155,475	9,723,341	10,000	24,483,111
Expenditures:				
Current:				
General government	-	-	576,252	-
Public safety	-	-	1,295,112	-
Health and human services	-	-	-	-
Education	-	-	298,000	38,985,097
Public works	-	19,267,386	980,412	-
Culture and recreation	2,099,968	-	543,838	-
Community development	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	2,099,968	19,267,386	3,693,614	38,985,097
Excess (deficiency) of revenues over expenditures	(1,944,493)	(9,544,045)	(3,683,614)	(14,501,986)
Other financing sources (uses):				
Transfers in	198,869	290,096	27,993	-
Transfers out	-	(518,000)	-	(274,842)
Premium on issuance of bonds and notes	21,196	-	43,917	-
Issuance of bonds	1,425,554	8,095,000	2,494,383	4,760,000
Premium on issuance of refunding bonds	26,448	-	-	212,576
Issuance of refunding bonds	477,000	-	-	2,934,000
Payment to refunded bonds escrow agent	(503,448)	-	-	(3,146,576)
Total other financing sources (uses)	1,645,619	7,867,096	2,566,293	4,485,158
Net change in fund balances	(298,874)	(1,676,949)	(1,117,321)	(10,016,828)
Fund balances – beginning	(1,153,701)	163,300	(1,665,068)	(6,836,962)
Fund balances – ending	\$ (1,452,575)	(1,513,649)	(2,782,389)	(16,853,790)

Capital Projects Funds

Parks Improvements	Union Station Garage	Other	Subtotal
687,760	-	41,917	34,946,129
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	155,475
<u>687,760</u>	<u>-</u>	<u>41,917</u>	<u>35,101,604</u>
-	-	-	576,252
-	-	-	1,295,112
-	-	-	-
-	-	-	39,283,097
-	-	136,933	20,384,731
3,472,298	-	14,895	6,130,999
-	-	476,298	476,298
-	-	-	-
-	-	-	-
<u>3,472,298</u>	<u>-</u>	<u>628,126</u>	<u>68,146,489</u>
<u>(2,784,538)</u>	<u>-</u>	<u>(586,209)</u>	<u>(33,044,885)</u>
921,427	-	160,187	1,598,572
-	(486,699)	-	(1,279,541)
-	-	-	65,113
5,165,000	-	100,000	22,039,937
21,687	105,671	3,964	370,346
357,000	1,485,000	61,000	5,314,000
(378,687)	(1,590,671)	(64,964)	(5,684,346)
<u>6,086,427</u>	<u>(486,699)</u>	<u>260,187</u>	<u>22,424,081</u>
3,301,889	(486,699)	(326,022)	(10,620,804)
<u>(664,922)</u>	<u>1,028,894</u>	<u>1,900,109</u>	<u>(7,228,350)</u>
<u>2,636,967</u>	<u>542,195</u>	<u>1,574,087</u>	<u>(17,849,154)</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, 2017

	Permanent Funds				
	Hope Cemetery	Health Department	Library	Schools	Parks
Revenues:					
Intergovernmental	\$ -	-	-	-	-
Investment earnings (losses)	671,263	461,753	698,060	118,558	80,700
Charges for services	-	-	-	-	-
Donations	-	-	-	-	-
Contributions to permanent fund	70,155	4,948	80,894	3,538	-
Miscellaneous	-	-	-	-	-
Total revenues	741,418	466,701	778,954	122,096	80,700
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Health and human services	-	14,535	-	-	-
Education	-	-	-	12,575	-
Public works	-	-	-	-	-
Culture and recreation	-	-	112,523	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	-	14,535	112,523	12,575	-
Excess (deficiency) of revenues over expenditures	741,418	452,166	666,431	109,521	80,700
Other financing sources (uses):					
Transfers in	-	500	155,125	18,575	-
Transfers out	(61,589)	(500)	(155,125)	(18,575)	-
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)	(61,589)	-	-	-	-
Net change in fund balances	679,829	452,166	666,431	109,521	80,700
Fund balances – beginning	3,907,021	2,699,973	9,139,312	764,005	488,216
Fund balances – ending	\$ 4,586,850	3,152,139	9,805,743	873,526	568,916

Permanent Funds

Police	Public Works	Memorial	Welfare	Subtotal	Total Nonmajor Governmental Funds
-	-	-	-	-	110,027,624
1,369	51,443	47,389	848	2,131,383	2,131,383
-	-	-	-	-	19,879,467
-	-	-	-	-	4,752,654
-	-	-	-	159,535	159,535
-	-	-	-	-	1,198,670
<u>1,369</u>	<u>51,443</u>	<u>47,389</u>	<u>848</u>	<u>2,290,918</u>	<u>138,149,333</u>
-	-	-	-	-	4,208,645
-	-	-	-	-	15,621,869
-	-	-	500	15,035	14,702,262
-	-	-	-	12,575	91,419,680
-	5,241	-	-	5,241	22,989,613
-	-	71,924	-	184,447	8,826,916
-	-	-	-	-	7,272,789
-	-	-	-	-	2,233,382
-	-	-	-	-	635,740
<u>-</u>	<u>5,241</u>	<u>71,924</u>	<u>500</u>	<u>217,298</u>	<u>167,910,896</u>
<u>1,369</u>	<u>46,202</u>	<u>(24,535)</u>	<u>348</u>	<u>2,073,620</u>	<u>(29,761,563)</u>
-	-	-	500	174,700	7,306,927
-	-	-	(500)	(236,289)	(8,249,043)
-	-	-	-	-	1,163,402
-	-	-	-	-	22,039,937
-	-	-	-	-	370,346
-	-	-	-	-	5,314,000
-	-	-	-	-	(5,684,346)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,589)</u>	<u>22,261,223</u>
<u>1,369</u>	<u>46,202</u>	<u>(24,535)</u>	<u>348</u>	<u>2,012,031</u>	<u>(7,500,340)</u>
<u>10,189</u>	<u>394,948</u>	<u>491,074</u>	<u>7,658</u>	<u>17,902,396</u>	<u>59,025,447</u>
<u>11,558</u>	<u>441,150</u>	<u>466,539</u>	<u>8,006</u>	<u>19,914,427</u>	<u>51,525,107</u>

(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, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Fees	\$ 1,295,374	1,295,374	1,095,704	(199,670)
Miscellaneous	14,500	14,500	10,264	(4,236)
Total revenues	<u>1,309,874</u>	<u>1,309,874</u>	<u>1,105,968</u>	<u>(203,906)</u>
Expenditures:				
Salaries and benefits	341,707	352,507	352,349	158
Ordinary maintenance	847,513	836,713	821,817	14,896
Debt service	219,950	219,950	219,300	650
Indirect costs	30,743	30,743	30,743	-
Total expenditures	<u>1,439,913</u>	<u>1,439,913</u>	<u>1,424,209</u>	<u>15,704</u>
Excess (deficiency) of revenues over expenditures	<u>(130,039)</u>	<u>(130,039)</u>	<u>(318,241)</u>	<u>(188,202)</u>
Other financing sources (uses):				
Transfers in	150,000	150,000	338,202	188,202
Transfers (out) for pension bond assessment	<u>(19,961)</u>	<u>(19,961)</u>	<u>(19,961)</u>	<u>-</u>
Total other financing sources (uses)	<u>130,039</u>	<u>130,039</u>	<u>318,241</u>	<u>188,202</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	\$ 1,424,209	318,241	-
Net change in net pension liability	27,423	-	(27,423)
Net change in OPEB liability	30,253	-	(30,253)
Net change in compensated absences	7,561	-	(7,561)
Debt service principal	(167,523)	-	167,523
Interest paid on refunded debt	785	-	(785)
Amortization of premium interest	(232)	-	232
Net change in accrued interest	2,163	-	(2,163)
Depreciation	<u>118,259</u>	<u>-</u>	<u>(118,259)</u>
As reported on a GAAP basis	<u>1,442,898</u>	<u>318,241</u>	<u>(18,689)</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, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Charges for services	\$ 42,060,075	42,060,075	40,398,220	(1,661,855)
Miscellaneous	671,000	671,000	940,051	269,051
Total revenues	<u>42,731,075</u>	<u>42,731,075</u>	<u>41,338,271</u>	<u>(1,392,804)</u>
Expenditures:				
Salaries and benefits	6,192,542	6,404,542	5,908,269	496,273
Ordinary maintenance	23,440,189	23,228,189	22,715,276	512,913
Capital	24,500	24,500	9,998	14,502
Debt service	8,912,721	8,912,721	8,636,201	276,520
Indirect costs	3,607,345	3,607,345	3,607,345	-
Total expenditures	<u>42,177,297</u>	<u>42,177,297</u>	<u>40,877,089</u>	<u>1,300,208</u>
Excess of revenues over expenditures	<u>553,778</u>	<u>553,778</u>	<u>461,182</u>	<u>(92,596)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers (out) for pension bond assessment	<u>(553,778)</u>	<u>(553,778)</u>	<u>(553,778)</u>	<u>-</u>
Total other financing sources (uses)	<u>(553,778)</u>	<u>(553,778)</u>	<u>(553,778)</u>	<u>-</u>
Net changes in fund balance	<u>-</u>	<u>-</u>	<u>(92,596)</u>	<u>(92,596)</u>
Budgetary fund balance – beginning	<u>3,568,117</u>	<u>3,568,117</u>	<u>3,568,117</u>	<u>-</u>
Budgetary fund balance – ending	<u>\$ 3,568,117</u>	<u>3,568,117</u>	<u>3,475,521</u>	<u>(92,596)</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	41,338,271	40,877,089	(553,778)	(92,596)
Net change in accrued receivables	616,113	-	-	616,113
Net change in net pension liability	-	427,264	-	(427,264)
Net change in OPEB liability	-	284,203	-	(284,203)
Net change in compensated absences	-	6,979	-	(6,979)
Net change in claims and judgments	-	81,673	-	(81,673)
Capital grants	-	-	285,743	285,743
Capital projects expenses	-	282,810	-	(282,810)
Debt service principal	-	(5,252,105)	-	5,252,105
Interest paid on refunded debt	-	52,566	-	(52,566)
Amortization of premium interest	-	(33,592)	-	33,592
Net change in accrued interest	-	278,465	-	(278,465)
Depreciation	<u>-</u>	<u>8,980,297</u>	<u>-</u>	<u>(8,980,297)</u>
As reported on a GAAP basis	<u>41,954,384</u>	<u>45,985,649</u>	<u>(268,035)</u>	<u>(4,299,300)</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, 2017

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Charges for services	\$ 26,341,872	26,341,872	28,944,160	2,602,288
Miscellaneous	1,307,600	1,307,600	1,569,672	262,072
Total revenues	<u>27,649,472</u>	<u>27,649,472</u>	<u>30,513,832</u>	<u>2,864,360</u>
Expenditures:				
Salaries and benefits	11,412,528	11,412,528	10,246,475	1,166,053
Ordinary maintenance	3,706,023	6,792,615	6,564,920	227,695
Capital	25,000	25,000	20,538	4,462
Debt service	9,430,984	9,430,984	9,266,530	164,454
Indirect costs	2,287,654	2,287,654	2,287,654	-
Total expenditures	<u>26,862,189</u>	<u>29,948,781</u>	<u>28,386,117</u>	<u>1,562,664</u>
Excess of revenues over expenditures	<u>787,283</u>	<u>(2,299,309)</u>	<u>2,127,715</u>	<u>4,427,024</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers (out) for pension bond assessment	<u>(787,283)</u>	<u>(787,283)</u>	<u>(787,283)</u>	<u>-</u>
Total other financing sources (uses)	<u>(787,283)</u>	<u>(787,283)</u>	<u>(787,283)</u>	<u>-</u>
Net changes in fund balance	-	(3,086,592)	1,340,432	4,427,024
Budgetary fund balance – beginning	<u>5,079,506</u>	<u>5,079,506</u>	<u>5,079,506</u>	<u>-</u>
Budgetary fund balance – ending	<u>\$ 5,079,506</u>	<u>1,992,914</u>	<u>6,419,938</u>	<u>4,427,024</u>

Reconciliation to GAAP-basis:

	<u>Revenues</u>	<u>Expenses</u>	<u>Transfers (Net)</u>	Net Change in Fund Balance/ Net Position
As reported on a budgetary basis	30,513,832	28,386,117	(787,283)	1,340,432
Net change in accrued receivables	(263,776)	-	-	(263,776)
Net change in net pension liability	-	1,051,911	-	(1,051,911)
Net change in OPEB liability	-	504,932	-	(504,932)
Net change in compensated absences	-	11,842	-	(11,842)
Net change in claims and judgments	-	(217,045)	-	217,045
Capital projects expenses	-	303,068	-	(303,068)
Debt service principal	-	(7,001,439)	-	7,001,439
Interest paid on refunded debt	-	43,024	-	(43,024)
Amortization of premium interest	-	(20,782)	-	20,782
Net change in accrued interest	-	91,529	-	(91,529)
Depreciation	-	7,333,759	-	(7,333,759)
As reported on a GAAP basis	<u>30,250,056</u>	<u>30,486,916</u>	<u>(787,283)</u>	<u>(1,024,143)</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, 2017

<u>Function and activity</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements other than buildings</u>
General government:			
Manager	\$ 7,813,131	4,296,009	-
Elections	-	-	-
Technical Services	-	1,581,112	-
Total general government	<u>7,813,131</u>	<u>5,877,121</u>	<u>-</u>
Public safety:			
Police	514,500	1,718,761	170,815
Fire	1,074,600	11,024,262	-
Inspectional Services	209,905	555,700	-
Communications	-	5,212,950	-
Total public safety	<u>1,799,005</u>	<u>18,511,673</u>	<u>170,815</u>
Health and human services:			
Health	-	47,290	-
Workforce investment board	-	-	-
Elder Affairs	-	1,713,706	18,715
Total health and human services	<u>-</u>	<u>1,760,996</u>	<u>18,715</u>
Public works	<u>3,489,339</u>	<u>76,143,190</u>	<u>78,010,762</u>
Education	<u>3,358,537</u>	<u>245,214,394</u>	<u>5,958,266</u>
Community development	<u>-</u>	<u>99,565</u>	<u>280,071</u>
Culture and recreation:			
Library	305,000	12,670,181	-
Auditorium	150,000	1,081,279	-
DCU Center	263,000	53,667,643	-
Hope Cemetery	290,000	1,120,184	-
Parks	5,162,756	4,413,614	46,958,893
Total culture and recreation	<u>6,170,756</u>	<u>72,952,901</u>	<u>46,958,893</u>
Total governmental activities capital assets	<u>\$ 22,630,768</u>	<u>420,559,840</u>	<u>131,397,522</u>

Rolling equipment	Equipment and other	Infrastructure	Construction in progress	Total
-	58,634	-	40,900,384	53,068,158
-	194,124	-	-	194,124
-	568,791	-	-	2,149,903
-	821,549	-	40,900,384	55,412,185
9,000	153,065	-	-	2,566,141
3,671,736	249,185	610,086	-	16,629,869
-	-	-	-	765,605
-	7,378,959	-	-	12,591,909
3,680,736	7,781,209	610,086	-	32,553,524
-	-	-	-	47,290
-	94,200	-	-	94,200
-	38,920	-	-	1,771,341
-	133,120	-	-	1,912,831
2,211,767	588,261	146,857,573	797,855	308,098,747
409,870	2,247,040	-	50,456,885	307,644,992
-	105,685	-	-	485,321
-	397,285	-	39,196	13,411,662
-	-	-	-	1,231,279
-	345,144	-	-	54,275,787
-	-	-	-	1,410,184
711,476	147,452	1,513,677	-	58,907,868
711,476	889,881	1,513,677	39,196	129,236,780
7,013,849	12,566,745	148,981,336	92,194,320	835,344,380

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, 2017

<u>Function and activity</u>	<u>Governmental activities capital assets July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental activities capital assets June 30, 2017</u>
General government:				
Manager	\$ 27,157,842	30,107,984	4,197,668	53,068,158
Elections	249,588	-	55,464	194,124
Information Services	1,924,975	379,363	154,435	2,149,903
Total general government	<u>29,332,405</u>	<u>30,487,347</u>	<u>4,407,567</u>	<u>55,412,185</u>
Public safety:				
Police	2,738,750	199,921	372,530	2,566,141
Fire	16,649,737	1,351,188	1,371,056	16,629,869
Inspectional Services	806,927	-	41,322	765,605
Communications	12,059,376	5,770,994	5,238,461	12,591,909
Total public safety	<u>32,254,790</u>	<u>7,322,103</u>	<u>7,023,369</u>	<u>32,553,524</u>
Health and human services:				
Health	49,846	-	2,556	47,290
Workforce investment board	121,114	-	26,914	94,200
Elder Affairs	1,699,953	349,144	277,756	1,771,341
Total health and human svc	<u>1,870,913</u>	<u>349,144</u>	<u>307,226</u>	<u>1,912,831</u>
Public works	302,336,085	66,341,840	60,579,178	308,098,747
Education	279,419,524	43,411,899	15,186,431	307,644,992
Community development	240,828	287,252	42,759	485,321
Culture and recreation:				
Library	14,002,537	39,196	630,071	13,411,662
Auditorium	1,431,833	-	200,554	1,231,279
DCU Center	56,343,001	1,939,539	4,006,753	54,275,787
Hope Cemetery	1,462,514	-	52,330	1,410,184
Parks	56,172,274	6,392,685	3,657,091	58,907,868
Total culture and recreation	<u>129,412,159</u>	<u>8,371,420</u>	<u>8,546,799</u>	<u>129,236,780</u>
Total governmental activities capital assets	<u>\$ 774,866,704</u>	<u>156,571,005</u>	<u>96,093,329</u>	<u>835,344,380</u>

CITY OF WORCESTER, MASSACHUSETTS
 Agency Fund
 Statement of Changes in Assets and Liabilities
 For the Fiscal Year Ended June 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
ASSETS				
Cash and cash equivalents	\$ 423,527	471,811	(455,476)	439,862
LIABILITIES				
Accounts payable and accrued expenses	\$ 5,989	28,163	(5,989)	28,163
Due to student groups	417,538	471,811	(477,650)	411,699
Total liabilities	\$ 423,527	499,974	(483,639)	439,862

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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.

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Financial Trends	159
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	172
These tables contain information to help the reader assess the City’s most significant local revenue source, the property tax.	
Debt Capacity	178
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	181
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	184
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.

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CITY OF WORCESTER, MASSACHUSETTS

Net Position by Component (1)

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014 (2)	2015	2016	2017
Governmental activities:										
Net investment in capital assets (1)	\$ 187,454	201,247	236,864	280,669	288,776	310,299	333,718	361,677	402,433	433,725
Restricted	65,072	42,371	29,804	42,290	40,376	43,534	54,995	56,178	56,244	61,567
Unrestricted	(163,105)	(175,323)	(208,915)	(230,791)	(232,785)	(254,054)	(608,267)	(640,192)	(693,216)	(744,089)
Total governmental activities net position	\$ 89,421	68,295	57,753	92,168	96,367	99,779	(219,554)	(222,337)	(234,539)	(248,797)
Business-type activities:										
Net investment in capital assets (1)	\$ 110,861	121,480	120,990	87,708	87,856	86,123	86,648	88,675	90,920	84,896
Restricted	-	-	-	1,601	-	-	-	-	-	-
Unrestricted	11,716	10,026	7,978	8,344	10,776	11,024	(10,304)	(12,425)	(12,985)	(12,303)
Total business-type net position	\$ 122,577	131,506	128,968	97,653	98,632	97,147	76,344	76,250	77,935	72,593
Primary government:										
Net investment in capital assets (1)	\$ 298,315	322,727	357,854	368,377	376,632	396,422	420,366	450,352	493,353	518,621
Restricted	65,072	42,371	29,804	43,891	40,376	43,534	54,995	56,178	56,244	61,567
Unrestricted	(151,389)	(165,297)	(200,937)	(222,447)	(222,009)	(243,030)	(618,571)	(652,617)	(706,201)	(756,392)
Total primary government net position	\$ 211,998	199,801	186,721	189,821	194,999	196,926	(143,210)	(146,087)	(156,604)	(176,204)

(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.

Table 2

CITY OF WORCESTER, MASSACHUSETTS

Changes in Net Position (1)

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	2008 (2)	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016	2017
Expenses										
Governmental activities:										
General government	\$ 22,268	23,416	20,862	21,026	21,552	24,652	49,096	23,721	29,353	32,431
Public safety	132,411	130,554	126,546	123,114	126,488	129,490	302,717	160,408	156,918	164,981
Health and human services	23,366	21,229	23,994	25,033	20,597	18,396	32,756	16,650	19,262	20,107
Education	406,208	421,160	425,765	432,824	435,526	451,582	548,011	424,350	480,201	501,273
Public works	34,727	41,457	33,387	37,435	39,584	40,387	57,769	47,280	41,955	54,483
Culture and recreation	19,895	16,475	20,018	17,528	21,535	21,756	35,211	27,461	26,351	25,478
Community development	4,764	4,942	6,118	7,926	4,399	1,820	4,256	4,063	6,562	7,028
Redevelopment	-	-	-	-	-	-	-	-	-	-
Interest on debt	25,366	24,534	25,351	22,573	23,968	25,873	26,555	21,806	20,883	20,074
Total governmental activities expenses	669,005	683,767	682,041	687,459	693,649	713,956	1,056,371	725,739	781,485	825,855
Business-type activities:										
Water	25,213	25,669	25,638	24,911	24,388	25,734	39,096	27,391	26,785	30,486
Sewer	29,258	31,134	32,742	33,737	35,284	37,991	45,563	39,972	42,018	45,986
Airport	4,703	5,082	5,047	1,417	-	-	-	-	-	-
Golf course (nonmajor)	1,227	1,148	1,122	1,238	1,246	1,293	1,713	1,429	1,386	1,443
Total business-type expenses	60,401	63,033	64,549	61,303	60,918	65,018	86,372	68,792	70,189	77,915
Total primary government expenses	\$ 729,406	746,800	746,590	748,762	754,567	778,974	1,142,743	794,531	851,674	903,770
Program Revenues										
Governmental activities:										
Charges for services:										
Public safety	\$ 13,580	11,813	13,536	13,775	15,935	14,969	16,118	17,444	20,844	18,835
Public works	9,160	11,078	10,970	10,986	11,917	9,920	11,356	8,823	9,369	10,588
Other activities	7,641	7,383	8,443	9,738	8,823	8,752	8,770	8,623	8,579	8,709
Operating grants and contributions	326,260	345,103	348,563	368,157	363,538	365,227	374,157	342,932	363,557	387,555
Capital grants and contributions	28,979	23,187	28,084	32,916	10,691	23,252	15,562	24,528	29,007	34,946
Total governmental activities program revenues	385,620	398,564	409,596	435,572	410,904	422,120	425,963	402,350	431,356	460,633
Business-type activities:										
Charges for services:										
Water	24,251	24,993	24,102	25,946	27,002	26,838	28,243	28,360	29,278	30,250
Sewer	26,928	28,939	29,247	31,320	34,443	34,066	36,262	38,951	40,550	41,954
Airport	802	862	1,015	152	-	-	-	-	-	-
Golf course (nonmajor)	1,127	1,048	987	1,035	1,127	1,058	1,096	1,090	1,206	1,106
Operating grants and contributions	1,174	1,395	1,413	1,282	-	385	-	-	-	-
Capital grants and contributions	4,226	14,821	3,514	641	2,691	2,106	386	-	330	286
Total business-type activities program revenues	58,508	72,058	60,278	60,376	65,263	64,453	65,987	68,401	71,364	73,596
Total primary government program revenues	\$ 444,128	470,622	469,874	495,948	476,167	486,573	491,950	470,751	502,720	534,229

(continued)

Table 2

CITY OF WORCESTER, MASSACHUSETTS

Changes in Net Position (1)

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	2008 (2)	2009	2010	2011	2012	2013	2014 (3)	2015 (4)	2016	2017
Net (expense)/revenue										
Governmental activities	\$ (283,385)	(285,203)	(272,445)	(251,887)	(282,745)	(291,836)	(630,408)	(323,389)	(350,129)	(365,222)
Business-type activities	(1,893)	9,025	(4,271)	(927)	4,345	(565)	(20,385)	(391)	1,175	(4,319)
Total primary government net (expense)/ revenue	\$ (285,278)	(276,178)	(276,716)	(252,814)	(278,400)	(292,401)	(650,793)	(323,780)	(348,954)	(369,541)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Property taxes	\$ 188,930	197,472	205,558	215,511	225,460	233,206	247,313	257,423	271,801	275,979
Motor vehicle excise taxes	12,932	11,393	11,050	11,519	11,866	12,720	13,075	14,305	15,554	16,281
Intergovernmental	54,561	48,493	37,476	36,220	36,298	36,039	36,974	37,844	39,096	40,732
Other	9,000	6,269	9,505	12,809	9,886	11,730	13,227	11,244	11,883	16,789
Transfers (net)	(540)	96	(1,733)	13,250	3,366	920	418	(297)	(510)	1,023
Gain on sale of capital assets	622	296	-	-	-	564	-	-	-	-
Donations	291	58	47	48	68	69	68	87	103	160
Extraordinary item - transfer of airport debt to governmental activities	-	-	-	(3,055)	-	-	-	-	-	-
Total governmental activities	265,796	264,077	261,903	286,302	286,944	295,248	311,075	320,606	337,927	350,964
Business-type activities										
Transfers (net)	540	(96)	1,733	(13,250)	(3,366)	(920)	(418)	297	510	(1,023)
Loss on airport disposal	-	-	-	(20,193)	-	-	-	-	-	-
Extraordinary item - transfer of airport debt to governmental activities	-	-	-	3,055	-	-	-	-	-	-
Total business-type activities	540	(96)	1,733	(30,388)	(3,366)	(920)	(418)	297	510	(1,023)
Total primary government	\$ 266,336	263,981	263,636	255,914	283,578	294,328	310,657	320,903	338,437	349,941
Changes in Net Position										
Governmental activities	\$ (17,589)	(21,126)	(10,542)	34,415	4,199	3,412	(319,333)	(2,783)	(12,202)	(14,258)
Business-type activities	(1,353)	8,929	(2,538)	(31,315)	979	(1,485)	(20,803)	(94)	1,685	(5,342)
Total primary government	\$ (18,942)	(12,197)	(13,080)	3,100	5,178	1,927	(340,136)	(2,877)	(10,517)	(19,600)

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

(2) OPEB liability was recognized in the financial statements starting in fiscal 2008.

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

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

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

(concluded)

Table 3

CITY OF WORCESTER, MASSACHUSETTS
 Governmental Activities Tax Revenues by Source
 Last Ten Fiscal Years
 (accrual basis of accounting)
 (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
2008	\$ 188,930	12,932	1,104	198	20	-	203,184
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

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

Table 4

CITY OF WORCESTER, MASSACHUSETTS

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

	2008	2009	2010	2011 (2)	2012	2013	2014	2015	2016	2017
General fund:										
Reserved	\$ -	-	-	-	-	-	-	-	-	-
Unreserved	11,906	6,107	12,029	-	-	-	-	-	-	-
Restricted	-	-	-	1,070	1,444	2,652	7,020	8,425	8,896	11,753
Unassigned	-	-	-	17,758	25,520	27,869	27,870	26,823	34,652	40,383
Total general fund	\$ 11,906	6,107	12,029	18,828	26,964	30,521	34,890	35,248	43,548	52,136
All other governmental funds:										
Reserved	\$ 30,418	34,077	24,963	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	13,438	17,974	18,098	-	-	-	-	-	-	-
Capital projects funds (1)	34,529	8,215	4,752	-	-	-	-	-	-	-
Permanent funds	125	79	89	-	-	-	-	-	-	-
Nonspendable	-	-	-	14,215	13,918	15,579	11,961	12,935	13,062	15,686
Restricted	-	-	-	37,287	31,849	32,228	38,863	39,153	37,378	38,880
Committed	-	-	-	22,673	29,057	35,896	39,734	40,025	38,925	37,788
Unassigned	-	-	-	(11,518)	(35,686)	(38,492)	(41,479)	(36,088)	(53,372)	(83,752)
Total all other governmental funds	\$ 78,510	60,345	47,902	62,657	39,138	45,211	49,079	56,025	35,993	8,602

(1) Unreserved fund balance in capital projects funds increased when temporary debt outstanding at year end was repaid with permanent debt before the audit reporting date in fiscal 2008.

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

Table 5

CITY OF WORCESTER, MASSACHUSETTS
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
REVENUES										
Property taxes	\$ 189,419	197,777	204,832	216,370	225,501	233,327	246,742	256,652	271,977	276,746
Motor vehicle excise taxes	12,677	11,370	11,551	11,311	11,888	12,843	13,281	14,265	15,346	16,027
Other taxes and in-lieu payments	3,684	4,941	5,539	6,365	6,015	6,064	6,559	6,872	7,303	7,596
Penalties and interest on taxes	2,414	2,605	2,272	2,285	2,872	2,532	2,440	2,107	2,530	2,315
Licenses and permits	4,726	4,402	4,890	4,865	5,210	4,992	5,274	5,795	6,388	6,713
Intergovernmental (2)	405,755	411,424	423,208	445,106	417,838	425,047	434,696	380,721	392,272	407,424
Charges for services	21,107	21,055	22,847	23,539	24,988	24,106	24,123	24,137	28,418	25,746
Fines and forfeitures	3,308	3,137	3,190	2,806	2,845	2,594	3,151	3,097	2,584	2,406
Investment earnings (losses)	2,766	(929)	1,598	2,543	(35)	2,116	3,107	567	930	3,228
Donations	4,951	2,468	3,633	5,528	4,677	11,396	5,997	5,059	5,120	4,753
Contributions to permanent funds	291	58	47	48	68	69	69	87	103	160
Miscellaneous	1,013	1,246	1,621	89	1,723	1,452	1,845	2,259	1,733	4,197
Total revenues	652,111	659,554	685,228	720,855	703,590	726,538	747,284	701,618	734,704	757,311
EXPENDITURES										
General government	17,957	16,644	15,308	15,936	28,650	31,911	25,559	24,574	39,609	53,943
Public safety (3)	93,942	92,323	89,308	90,395	94,006	93,314	96,604	97,773	114,414	109,885
Health and human services	19,649	18,172	21,118	22,499	17,788	15,547	14,872	13,619	15,810	18,355
Education (1)	261,869	285,359	297,701	302,392	299,134	296,957	316,669	313,239	337,664	351,885
Public works	49,363	39,126	39,087	53,773	55,072	61,137	53,607	61,059	62,248	49,887
Culture and recreation	14,766	16,753	20,952	17,402	16,758	26,590	35,534	22,027	19,826	19,364
Fringe benefits (2)	136,213	124,318	138,899	147,319	143,722	148,073	157,319	103,581	105,732	109,888
Community development	4,764	4,942	6,118	7,926	4,399	1,820	4,256	4,064	7,153	7,273
State & regional charges	23,914	26,102	26,865	28,255	29,526	31,243	30,627	30,659	31,166	31,102
Debt service:										
Principal	32,774	34,761	36,637	38,813	36,747	36,746	37,922	54,979	46,974	45,917
Interest	25,829	26,098	24,827	24,023	26,890	27,269	27,964	23,825	23,583	22,677
Total expenditures	681,040	684,598	716,820	748,733	752,692	770,607	800,933	749,399	804,179	820,176
Excess of revenues (under) expenditures	(28,929)	(25,044)	(31,592)	(27,878)	(49,102)	(44,069)	(53,649)	(47,781)	(69,475)	(62,865)

(continued)

Table 5

CITY OF WORCESTER, MASSACHUSETTS
 Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (amounts expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
OTHER FINANCING SOURCES (USES)										
Transfers in	\$ 21,296	23,452	21,954	51,549	27,305	27,117	25,473	33,917	41,360	22,520
Transfers (out)	(20,713)	(23,356)	(23,686)	(38,299)	(23,832)	(26,197)	(25,055)	(34,215)	(41,870)	(21,497)
Premium on issuance of bonds and notes	423	651	820	804	479	3,789	3,366	4,081	3,988	4,362
Sale of capital assets	1,366	325	29	478	-	840	-	-	-	-
Premium from issuance of refunding bonds	-	-	-	-	-	300	-	2,305	2,314	612
Issuance of refunding bonds	-	542	-	-	7,422	3,015	-	7,407	9,439	8,892
Issuance of bonds and notes	50,067	-	25,955	34,900	29,867	48,150	52,492	41,589	44,280	38,677
Payment to refunded bond escrow agent	-	(535)	-	-	(7,521)	(3,315)	-	-	(9,439)	(9,504)
Capital lease	-	-	-	-	-	-	5,609	-	7,671	-
Total other financing sources (uses), net	<u>52,439</u>	<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>
Net change in fund balances	<u>\$ 23,510</u>	<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>
Debt service as a percentage of noncapital expenditures	9.2%	9.3%	9.3%	9.2%	9.2%	9.1%	9.1%	11.4%	10.1%	9.6%

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

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

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

(concluded)

Table 6

CITY OF WORCESTER, MASSACHUSETTS
 Governmental Funds Tax Revenues by Source
 Last Ten Fiscal Years
 (modified accrual basis of accounting)
 (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
2008	\$189,419	12,677	1,104	198	20	-	-	203,200
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

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

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CITY OF WORCESTER, MASSACHUSETTS
General Fund Expenditures – Modified Accrual Basis of Accounting
Year ended June 30, 2017

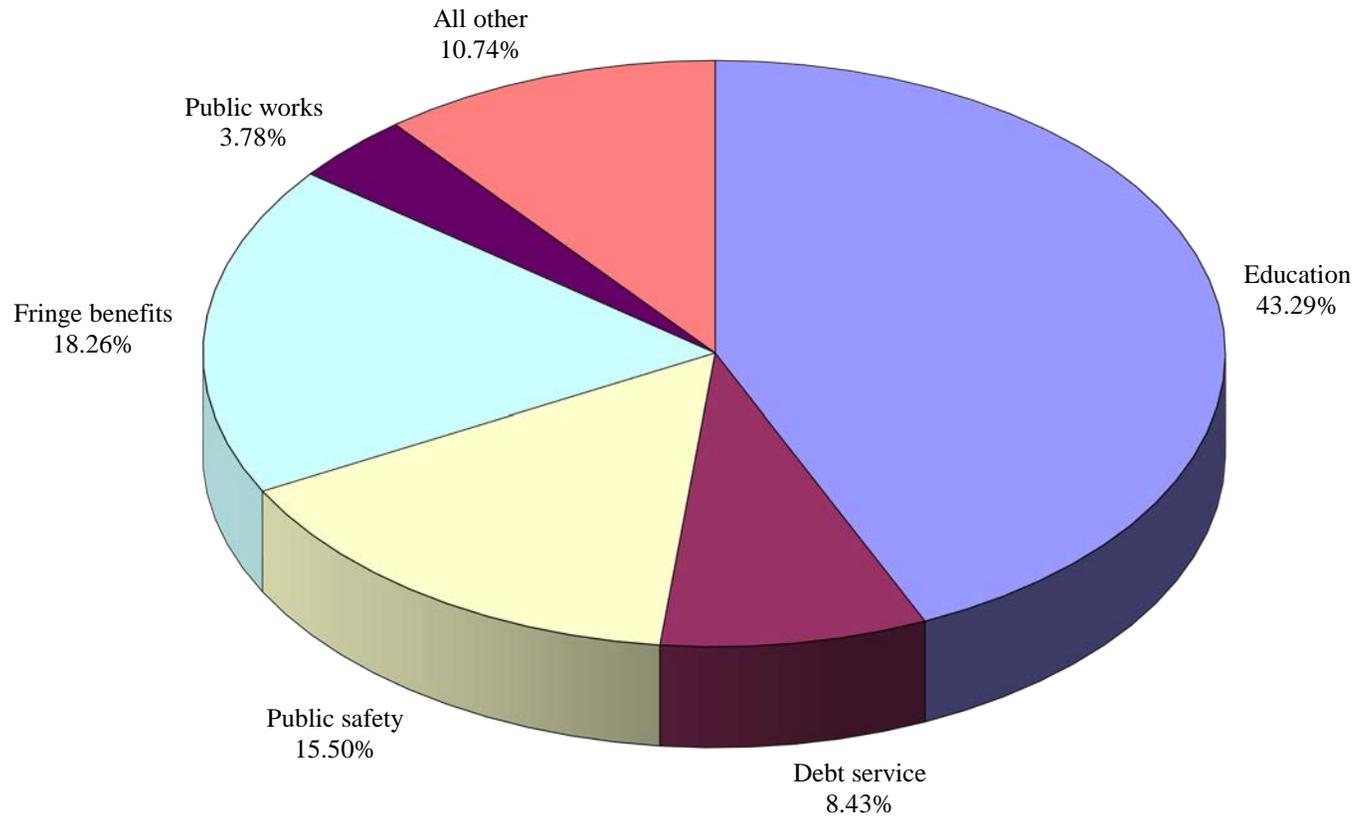


Table 7

CITY OF WORCESTER, MASSACHUSETTS
 General Fund Expenditures – Modified Accrual Basis of Accounting
 Last Ten Fiscal Years
 (Amounts expressed in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General government	\$ 13,785	13,981	12,749	13,730	14,598	15,570	16,809	17,930	18,396	19,374
Public safety (1)	78,576	79,656	76,689	74,931	77,812	80,413	82,546	83,930	95,321	93,297
Health and human services (2)	3,776	2,639	575	675	764	926	730	860	3,196	3,652
Education	197,241	199,840	198,001	205,918	222,923	235,106	250,819	247,223	259,527	260,466
Public works	20,121	22,491	18,096	18,255	18,030	18,995	19,740	20,758	18,673	22,755
Culture and recreation	8,400	9,016	7,955	7,807	8,123	8,467	8,951	9,385	9,714	10,445
Fringe benefits (3)	136,213	124,318	138,899	147,319	143,722	148,073	157,319	103,581	105,732	109,888
State and regional charges	23,914	26,102	26,865	28,254	29,526	31,243	30,627	30,659	31,166	31,102
Debt service	<u>45,328</u>	<u>45,523</u>	<u>46,853</u>	<u>47,095</u>	<u>47,067</u>	<u>47,510</u>	<u>48,996</u>	<u>52,677</u>	<u>52,672</u>	<u>50,749</u>
Totals	\$ <u>527,354</u>	<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>

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

CITY OF WORCESTER, MASSACHUSETTS
General Fund Revenues – Modified Accrual Basis of Accounting
Year ended June 30, 2017

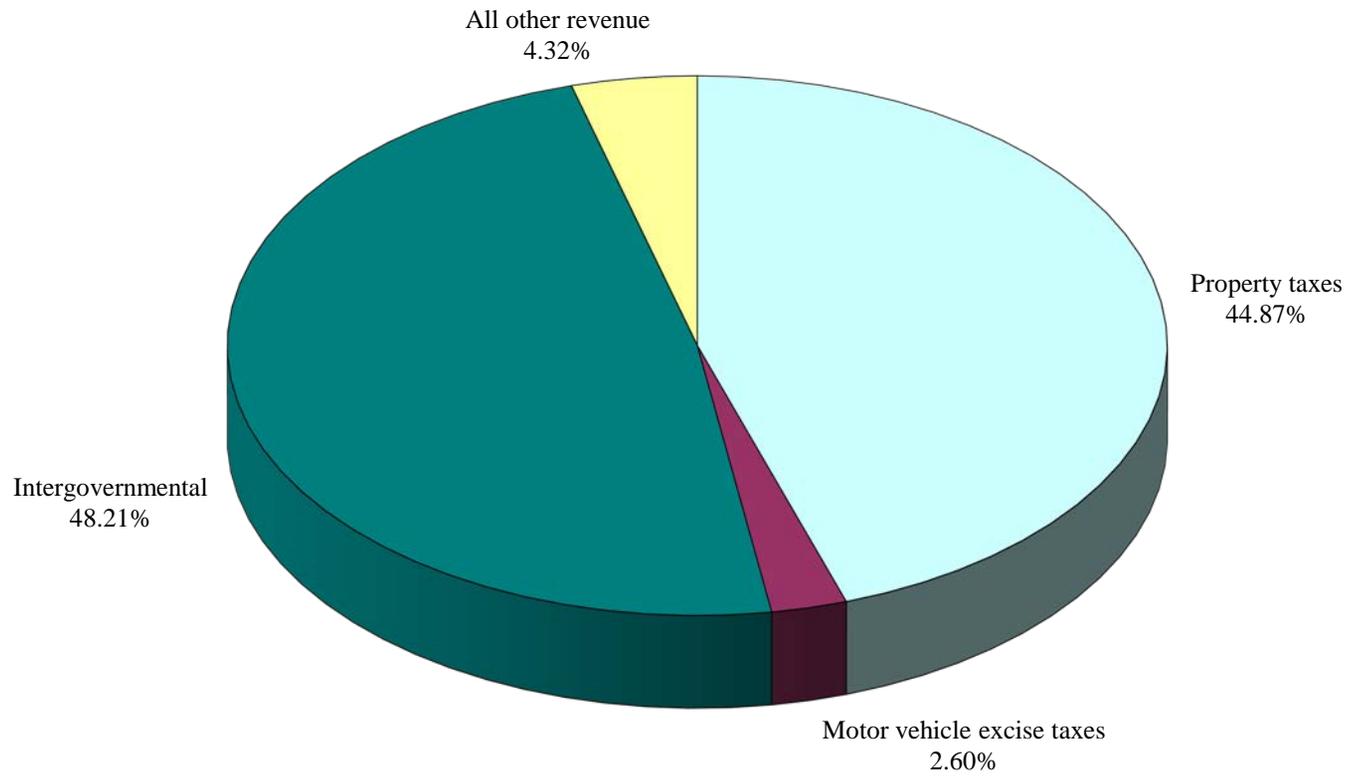


Table 8

CITY OF WORCESTER, MASSACHUSETTS

General Fund Revenues – Modified Accrual Basis of Accounting

Last Ten Fiscal Years

(Amounts expressed in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Property taxes	\$ 189,419	197,777	204,832	216,370	225,501	233,328	246,742	256,652	271,977	276,746
Motor vehicle excise taxes	12,677	11,370	11,550	11,311	11,888	12,843	13,281	14,265	15,346	16,027
Other taxes and in-lieu payments	2,556	2,529	3,208	4,934	4,440	4,413	4,804	4,777	5,083	5,270
Penalties and interest on taxes	2,414	2,605	2,272	2,285	2,872	2,532	2,440	2,107	2,530	2,316
Licenses and permits	4,726	4,402	4,890	4,865	5,210	4,992	5,274	5,795	6,388	6,713
Intergovernmental (1)	311,475	295,327	303,512	306,267	321,719	332,726	342,950	278,742	291,662	297,397
Charges for services	6,232	5,918	5,909	5,939	5,814	5,746	5,683	5,566	5,800	5,866
Fines and forfeitures	3,308	3,137	3,190	2,806	2,845	2,594	3,151	3,097	2,584	2,406
Investment earnings	1,806	462	105	68	100	318	484	554	1,005	1,097
Miscellaneous	773	790	1,438	1,429	1,318	1,112	1,246	1,727	1,368	2,998
Totals	\$ <u>535,386</u>	<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>

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

CITY OF WORCESTER, MASSACHUSETTS
Taxable Assessed Valuations
Last Ten Fiscal Years
(Amounts expressed in millions)

Graph 3



CITY OF WORCESTER, MASSACHUSETTS
Tax Levy, Unused Levy Capacity and Ceiling
Last Ten Fiscal Years
(Amounts expressed in thousands)

Graph 4

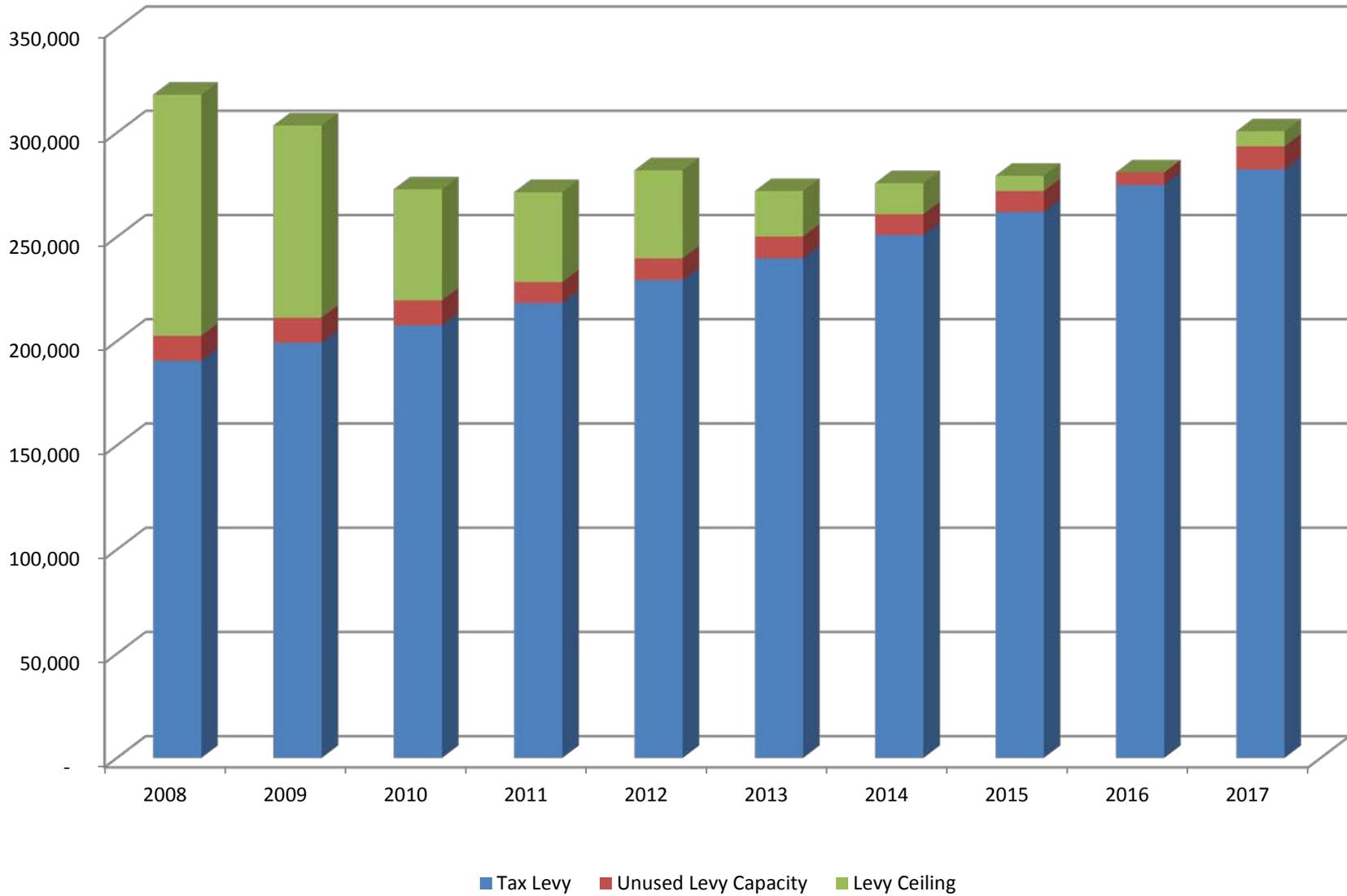


Table 9

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						
2008	\$ 10,462,845	1,915,408	348,741	12,726,994	14.97	13,827,180	100.57	\$ 2,890,917	15,617,911	18.51 %
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

(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)
2008	\$ 12.54	26.20	26.20	14.97
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

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. 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
 Principal Taxpayers - Current Year and Nine Years Ago
 June 30, 2017
 (Amounts expressed in thousands)

Taxpayer	Type of business	2017				2008			
		Assessed valuation	Rank	Fiscal 2017 tax bill	Percentage of tax levy	Assessed valuation	Rank	Fiscal 2008 tax bill	Percentage of tax levy
Massachusetts Electric Co.	Electric utility	\$ 361,221	1	\$ 11,895	4.2 %	\$ 131,630	1	\$ 3,448	1.8 %
NSTAR Gas Co.	Gas utility	168,048	2	5,534	2.0	52,724	4	1,381	0.7
VHS Acquisition Subsidiary (St Vincent Hospital)	Medical care	158,245	3	5,211	1.8	41,796	9	1,095	0.6
New England Power Co.	Electric utility	71,501	4	2,336	0.8	N/A	N/A	N/A	N/A
V3B SA LLC (Lincoln Plaza)	Shopping plaza	64,281	5	2,117	0.7	52,952	3	1,387	0.7
440 Lincoln Street Holding (Hanover/Allmerica)	Insurance	58,708	6	1,933	0.7	50,347	6	1,319	0.7
Verizon New England	Communications	46,176	7	1,520	0.5	50,752	5	1,330	0.7
St. Gobain Abrasives Inc. (Norton Company)	Abrasives manufacturer	45,139	8	1,486	0.5	N/A	N/A	N/A	N/A
HCRI Massachusetts Properties Trust	Real Estate	47,102	9	1,140	0.4	N/A	N/A	N/A	N/A
Worcester Renaissance LLC (CitySquare)	Real Estate	34,524	10	1,137	0.4	35,331	10	926	0.5
Worcester TC LLC (Abbott Bioresearch)	Biotechnology park	N/A	N/A	N/A	N/A	42,479	8	1,113	0.6
Greendale Mall (Mayflower Greendale LLP)	Shopping mall	N/A	N/A	N/A	N/A	44,340	7	1,162	0.6
Alexandria Real Estate Equities	Biotechnology park	N/A	N/A	N/A	N/A	54,144	2	1,419	0.7
Totals		<u>\$ 1,054,945</u>		<u>\$ 34,309</u>	<u>12.0 %</u>	<u>\$ 556,495</u>		<u>\$ 14,580</u>	<u>7.6 %</u>

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

Source: Assessor's department

Table 12

CITY OF WORCESTER, MASSACHUSETTS

Property Tax Levies and Collections

Last Ten Fiscal Years

(Amounts expressed in thousands)

Fiscal Year	Total net tax levy for fiscal year	Collected within the Fiscal year of the levy		Collections in Subsequent Years	Total collections to date	
		Amount	Percentage of levy		Amount	Percentage of levy
2008	\$ 188,627	182,941	96.99 %	\$ 5,686	188,627	100.00%
2009	196,858	191,590	97.32	5,268	196,858	100.00
2010	205,160	199,535	97.26	5,625	205,160	100.00
2011	215,790	210,277	97.45	5,390	215,667	99.94
2012	223,929	220,352	98.40	2,752	223,104	99.63
2013	236,754	230,540	97.38	4,638	235,178	99.33
2014	247,010	241,606	97.81	3,903	245,509	99.39
2015	258,087	252,256	97.74	4,784	257,040	99.59
2016	273,185	267,287	97.84	4,030	271,317	99.32
2017	280,200	273,712	97.68	-	273,712	97.68

Table 13

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			
2008	\$ 510,634	5,800	-	133,996	906	651,336	16.90%	\$ 3,996
2009	476,965	4,706	-	124,627	863	607,161	15.16	3,320
2010	466,464	4,608	-	126,375	819	598,266	14.95	3,305
2011	465,688	4,505	-	125,346	774	596,313	14.80	3,283
2012	458,847	4,396	-	123,850	1,693	588,786	14.67	3,223
2013	472,522	4,283	-	135,543	1,645	613,993	14.96	3,364
2014	489,322	4,164	5,048	137,315	1,480	637,329	15.78	3,482
2015	490,070	2,216	3,987	140,743	1,950	638,966	14.52	3,457
2016	491,428	2,085	10,564	139,861	2,882	646,820	13.64	3,506
2017	484,176	1,947	9,198	145,222	5,309	645,852	13.62	3,500

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)

Table 14**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)
2008	\$ 644,630	5.07%	\$ 3,955
2009	601,592	4.96	3,289
2010	592,839	5.43	3,275
2011	591,034	5.44	3,254
2012	582,697	5.17	3,190
2013	608,065	5.59	3,331
2014	626,637	5.68	3,424
2015	630,813	5.65	3,413
2016	631,289	5.62	3,421
2017	629,398	5.13	3,411

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)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt Limit	\$ 632,729	691,359	691,359	596,415	596,415	608,682	608,682	580,797	609,829	611,883
Total net debt applicable to limit	<u>268,621</u>	<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>537,007</u>	<u>579,686</u>	<u>476,923</u>
Legal debt margin	\$ <u>364,108</u>	<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>43,790</u>	<u>30,143</u>	<u>134,960</u>
Total net debt applicable to the limit as a percentage of debt limit	42.45%	40.57%	38.17%	57.45%	53.81%	55.96%	73.51%	92.46%	95.06%	77.94%

Legal Debt Margin Calculation for Fiscal Year 2017

Equalized valuation - real estate and personal property (January 1, 2016)	\$ 12,237,662	
Debt limit - 5% of equalized valuation		611,883
Total bonded debt (including authorized and unissued of \$503,568)	\$ 1,115,283	
Less bonded debt not included in computation of legal debt margin as defined by Massachusetts statutes	(417,095)	
Less bonded debt authorized but not yet issued which is outside the debt limit	<u>(221,265)</u>	<u>476,923</u>
Legal debt margin		\$ <u>134,960</u>

Table 16

CITY OF WORCESTER, MASSACHUSETTS
 Demographic and Economic Statistics
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Personal Income (amounts expressed in thousands) (2)</u>	<u>Per Capita Personal Income</u>	<u>Median Age (1)</u>	<u>Public School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
2008	163,006	\$ 3,853,888	23,643	35.1	22,844	7.0%
2009	182,892	4,005,468	21,901	33.6	23,126	10.2
2010	181,045 (3)	4,001,567	22,103	33.4 (3)	23,281	10.2
2011	181,641	4,029,111	22,182	33.8	23,490	9.4
2012	182,680	4,013,313	21,969	32.7	24,360	8.8
2013	182,538	4,103,841	22,482	32.7	24,740	9.1
2014	183,033	4,039,704	22,071	33.0	24,562	7.6
2015	184,806	4,401,590	23,817	34.9	25,254	6.5
2016	184,509	4,741,130	25,696	34.9	25,076	5.0
2017	184,509 (6)	4,741,130 (6)	25,696 (6)	34.9 (6)	25,479	5.4

- (1) Source: U.S. Census Bureau: American Community Survey estimates
- (2) Source: US Census; American Community Survey: (total households x mean income)
- (3) US Census Bureau: 2010 census
- (4) Source: Massachusetts Department of Elementary and Secondary Education
- (5) Source: Massachusetts Department of Labor and Workforce Development
- (6) Data is not available, prior year data is used

Table 17

CITY OF WORCESTER, MASSACHUSETTS

Full Time Employees

Last Ten Fiscal Years

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General government	201	175	176	167	175	181	194	189	195	193
Public safety										
Police										
Officers	448	438	415	409	418	426	441	427	441	461
Civilians	51	49	49	49	49	49	51	52	50	51
Fire										
Officers	403	384	385	399	413	393	407	386	391	404
Civilians	11	9	8	8	10	9	10	10	10	10
Other public safety	97	116	110	105	110	112	114	111	113	111
Health and human services	94	56	53	54	55	56	57	53	63	67
Education	3,384	3,433	3,446	3,478	3,456	3,499	3,552	3,565	3,637	3,667
Public works	189	189	174	163	158	168	171	172	169	173
Culture and recreation	135	129	125	117	115	122	130	135	134	141
Water	105	111	109	102	100	107	109	111	102	104
Sewer	54	58	59	52	50	51	53	51	47	52
Airport	16	16	17	20	—	—	—	—	—	—
Golf course (nonmajor)	2	2	2	2	2	2	2	2	2	2
Totals	<u>5,190</u>	<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>

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	2017			2008		
		Employees	Rank	Percentage of total City Employment	Employees	Rank	Percentage of total City Employment
UMass Memorial Health Care, Inc.	Healthcare	12,906	1	12.45%	13,672	1	17.51%
City of Worcester	Government and education	5,436	2	5.24	5,249	2	6.72
Umass Medical School	Education	4,445	3	4.29	N/A	N/A	N/A
Reliant Medical Group	Healthcare	2,500	4	2.41	N/A	N/A	N/A
Saint Vincent Hospital	Healthcare	2,350	5	2.27	1,954	3	2.50
The Hanover Insurance Group, Inc.	Insurance	1,950	6	1.88	1,804	4	2.31
Saint Gobain Abrasives, Inc.	Abrasives manufacturer	1,572	7	1.52	1,432	6	1.83
Seven Hills Foundation, Inc.	Health and human services	1,236	8	1.19	N/A	N/A	N/A
Worcester Polytechnic School	Education	1,150	9	1.11	814	10	1.04
Quinnisamond College	Education	1,088	10	1.05	N/A	N/A	N/A
Fallon Health, Inc.	Healthcare	N/A	N/A	N/A	1,564	5	2.00
College of the Holy Cross	Education	N/A	N/A	N/A	1,146	7	1.47
Clark University	Education	N/A	N/A	N/A	969	8	1.24
Polar Beverages	Bottling company	N/A	N/A	N/A	922	9	1.18

Sources: 2017 - Worcester Business Journal
2008 - Worcester Area Chamber of Commerce

Table 19

CITY OF WORCESTER, MASSACHUSETTS

Operating Indicators by Function
Last Ten Fiscal/Calendar Years

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Police (1)										
Total arrests	9,360	8,658	7,584	7,174	6,785	7,385	8,124	6,254	5,964	N/A
Different individuals arrested	7,082	6,584	5,837	5,591	5,204	5,627	5,935	4,847	4,439	N/A
Arrests for selected charges										
Drug-related	2,574	2,582	844 (2)	705	719	850	762	655	769	N/A
Assault and battery	679	704	1,465 (2)	1,409	1,309	1,327	1,266	952	863	N/A
Disorderly conduct, disturbing peace	1,291	1,210	1,222	1,054	920	916	888	672	626	N/A
Prostitution and related	214	223	133	156	121	181	160	86	150	N/A
Sexual assault, including rape	41	39	38	20	28	28	23	22	32	N/A
Armed robbery	70	43	59	70	47	64	48	38	39	N/A
Murder/manslaughter, attempted murder	6	12	10	15	15	7	11	3	4	N/A
Fire (1) (source: WFD)										
Total Incidents	24,735	29,002	27,605	27,782	28,348	28,333	30,099	31,933	33,373	N/A
Selected incidents										
EMS	15,086	18,167	20,285	19,654	20,472	20,307	21,707	22,779	24,408	N/A
Structure fires	663	828	732	728	845	779	799	828	829	N/A
Arson fires	29	37	25	30	43	29	18	19	19	N/A
Vehicle fires	132	120	96	123	102	82	78	91	94	N/A
Good intent	1,452	1,665	1,571	1,621	1,819	2,137	2,127	2,165	1,959	N/A
False alarm	3,134	3,849	2,926	3,177	2,871	3,017	3,070	3,214	3,287	N/A
Highways and streets (source: DPW)										
Streets and resurfacing (1)	15	14	11	11	16	21	12	12	19	19
Potholes repaired	13,088	12,030	14,932	12,954	9,392	9,264	12,320	18,095	27,706	12,154
Sanitation										
Refuse collected (tons/day)	91.06	88.65	82.30	81.83	81.71	79.30	79.22	80.97	83.93	83.37
Recyclable collected (tons/day)	36.07	33.97	34.71	36.1	35.42	36.4	37.13	37.91	39.58	39.26
Water										
New connections	239	188	48	95	104	97	98	109	103	121
Water main breaks	55	72	52	74	29	55	42	80	48	42
Average daily consumption (thousands of gallons)	22,960	22,264	21,225	22,099	22,539	22,110	21,700	22,682	22,945	21,707
Wastewater										
Average daily sewage treatment (thousands of gallons)	31,700	34,600	31,160	26,550	33,000	25,200	22,300	25,060	25,145	25,145

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 for calendar year 2016

Table 20

CITY OF WORCESTER, MASSACHUSETTS

Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	11	10	10	10	10	10	10	10	10	10
Education:										
Schools	46	46	45	46	46	46	46	46	46	46
Libraries	3	3	3	3	4	4	4	4	4	4
Public works										
Streets:										
Streets (miles)	420	423	424	425	430	431	431	435	435	436
Sidewalks (miles)	483	487	487	489	488	488	487	487	488	488
Streetlights	13,321	13,321	13,759	13,759	13,759	13,759	13,763	13,783	13,783	13,783
Water:										
Main pipes (miles)	582	584	585	586	585	585	597	597	625	625
Fire hydrants	5,675	5,680	5,726	5,748	5,762	5,770	5,805	5,827	5,864	5,864
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)	393	396	396	397	397	398	398	398	399	399
Combined sewers (miles)	61	61	61	61	61	61	61	61	61	61
Surface sewers (miles)	368	370	371	371	371	372	371	371	372	372
Municipal parking garages:										
Capacity - cars										
Pearl Elm	800	800	800	800	800	800	800	800	819	819
Federal Plaza	511	511	511	511	511	511	511	511	511	511
Major Taylor Boulevard	981	981	981	981	981	981	981	984	983	983
Union Station (1)	N/A	N/A	500	500	500	500	500	500	500	500
Worcester Common (1)	N/A	500								
Culture and recreation										
Parks	60	60	60	60	60	60	60	60	60	60
Parks and playground acreage	1,316	1,316	1,316	1,328	1,328	1,328	1,328	1,326	1,326	1,326
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	14,639	14,800	14,606	14,596	14,595	14,595	14,595
End stage	14,751	14,751	14,751	14,751	14,751	14,587	14,587	14,581	14,581	14,524
Basketball	13,500	13,500	13,500	13,500	13,500	13,342	13,342	13,347	13,347	13,270
Hockey with open curtain	12,239	12,239	12,239	12,239	12,239	12,118	12,118	12,118	12,118	12,108
Hockey with closed curtain	6,880	6,880	7,230	7,230	7,230	7,304	7,304	7,304	7,304	5,436
Ice show	12,297	12,297	12,297	12,297	12,297	12,198	12,198	12,198	12,198	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 are 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 41 - 114). 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 prior year encumbrances. The report on the General Fund using the Budgetary Basis, a required supplementary report by GASB, is reported in the CAFR on pages 116 through 123.

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 49, “accounting policies”. Details of changes in capital assets for the year by class are reported in footnote 10 on page 88.

Certificate of Achievement for Excellence in Financial Reporting - The CAFR is submitted to the GFOA for review before December 31st. The GFOA will issue a certificate of achievement if reporting criteria are met. The certificate for the prior year CAFR is included in the current year CAFR and can be

GLOSSARY

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 two types of items that qualify for reporting in this category. Deferred inflows related to pensions 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 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 #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 which are reported in the government-wide and proprietary funds financial statements. This includes deferring the recognition of pension 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 net pension liability, the balance in the pension obligation bonds or the OPEB payable. 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.

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 liabilities for past service costs are recognized as liabilities and have a negative effect on the net position when using this measurement focus.

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 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

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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.

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 123 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 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.

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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.

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

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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 27 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 136. Separate accounting divisions are maintained within the Special Revenue, Capital Projects, Permanent Fund types whose names and descriptions are listed on page 134-135.

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 following 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.*

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.

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

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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 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 Post-Employment 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.

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The City's contribution to the health premium cost is 75%. If a retiree is eligible for Medicare then they 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 Payable – GASB 45 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. GASB 45 allowed for the gradual phase-in of the liability over a 30 year open ended amortization where the difference between the annual required payment and the pay-as-you-go payment was recorded as an accrued liability. This is reflected on the Statement of Position (Exhibit 1) as a noncurrent liability. Beginning with fiscal year 2018, GASB 75 will require the full recognition of the Actuarial Accrued Liability or Total OPEB Liability.

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.

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.